INVESTMENT COMPANY INSTITUTE

MEMO# 3288

November 22, 1991

ICI COMMENTS ON SEC PROPOSAL REGARDING ACCEPTANCE OF SIGNATURE GUARANTEES

- 1 - November 22, 1991 TO: SEC RULES COMMITTEE NO. 68-91 OPERATIONS COMMITTEE NO. 36-91 TRANSFER AGENT ADVISORY COMMITTEE NO. 56-91 RE: ICI COMMENTS ON SEC PROPOSAL REGARDING ACCEPTANCE OF SIGNATURE GUARANTEES ____ As we previously informed you, the SEC proposed a rule that would require transfer agents to establish written standards and procedures for the acceptance of signature guarantees from "eligible guarantor institutions" (as defined in the rule to generally include banks, brokers, dealers, exchanges, credit unions and savings associations). The rule would prohibit a transfer agent's standards and procedures, as written or applied, from treating different classes of eligible guarantor institutions inequitably or resulting in the rejection of a guarantee from an eligible guarantor institution solely because the institution is of a particular type. (See Memorandum to SEC Rules Committee No. 57-91, Operations Committee No. 28-91 and Transfer Agent Advisory Committee No. 43-91.) The proposed rule would permit a transfer agent to comply with the written standards and procedures requirements if its standards and procedures provide for the acceptance of guarantees from eligible guarantor institutions who are participants in a "signature guarantee program" (as defined in the rule). The proposed rule would also require every registered transfer agent to maintain for three years a record of each transaction rejected including the reason for the rejection, who the guarantor was and whether the guarantor failed to meet the transfer agent's written standards. In the attached ICI comment letter, the Institute objects to the proposal on a number of grounds. First, due to the unique nature of mutual funds compared to other issuers, the proposal would be extremely burdensome to mutual fund transfer agent processing staff, would add significantly to processing time and would create significant delays in the completion of transactions. Second, because the proposal would have the effect - 2 - of forcing transfer agents to establish and maintain ongoing creditworthiness review operations, it would add substantial ongoing costs to the transfer agent function for mutual funds. Third, the impact of the proposal's costs may be felt disproportionately adversely by shareholders of funds using transfer agents that serve a limited client base. Finally, while a signature guarantee program, as contemplated by the proposal, has been developed (the "STAMP" program), it is not yet operational and the Institute's review of preliminary materials describing STAMP raise a number of significant concerns about its appropriateness for mutual fund transfer agents. We will keep you informed of developments. Donald J. Boteler Assistant Vice President - Operations Attachment