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The Direct Registration System: Getting Rid of Paper and Risk (And the Expense)



*The Depository Trust &
Clearing Corporation*





“There are 300 million reasons to eliminate physical certificates,”

“It’s been a 30 year-discussion.”

That’s how one government official described the move from the immobilization to the dematerialization of stock certificates in the United States. She might have added: “You’ve come a long way, folks.”

In the U.S. market, the push for dematerialization – getting rid of paper certificates altogether – began in the late 1960s with the Wall Street “paperwork crisis.” That was when hundreds of messengers scurried about Wall Street with portfolios filled with checks and paper certificates that brokers exchanged to buy and sell stocks. The crisis got so bad that the exchanges closed every Wednesday and shortened trading hours on other days in order to manage the paper backlog.

Fast forward to 2008. Today all exchange-listed issues – more than 7,300 – are eligible for a direct registration system, enabling investors to have their assets held on the records of their transfer agent or issuer in statement form. This allows for assets to be electronically transferred to and from the transfer agent and The Depository Trust Company (DTC) customer. And in place of paper certificates, a statement of ownership is issued to the investor.

Going paperless

Some companies such as Intel Corporation, Chevron, Nuveen Investments and more than 300 others have gone completely “certificateless” and eliminated paper certificates

entirely, using the Direct Registration System (DRS) of DTC, a DTCC subsidiary, to register shareholders electronically. Other companies such as Pershing LLC, Citigroup, Nationwide Financial Services Inc. and others default to DRS when investors request to be registered directly on the books of DRS eligible issuers. The ownership of these assets is registered electronically in DRS statement form.

“DTCC, working with organizations like SIFMA, continues to work toward the elimination of paper certificates. The goal has always been to reduce the cost to both the industry and the investor, as well as reduce the risk of lost or stolen paper certificates,” said Joseph Trezza, DTCC vice president of Operations, who heads the corporation’s dematerialization efforts.

300 million reasons

SIFMA has urged its member firms to stop issuing paper certificates and start participating in DRS. “There are 300 million reasons to eliminate physical certificates,” a SIFMA member stated last year, pointing out that the annual cost to issue, process, and maintain physical certificates was just that – \$300 million. This includes an estimated \$49 million to replace lost or stolen certificates each year.

DRS is having an impact on other areas as well. Withdrawals-by-transfer (WTs) of securities from DTC have also been moving away from physical certificate withdrawals to DRS withdrawals.

“We’ve set the stage by adding over 7,300 exchange listed issuers to DRS and gaining the industry’s voluntary compliance to default to statement WTs for DRS eligible issues. Presently, more than 90% of WTs requested are for DRS eligible issues. It just makes sense to eliminate the option for a certificate for DRS eligible issues to be withdrawn from DTC,” says Trezza. “It’s DTC’s goal to eliminate the issuances of these certificates by year-end 2008. If an investor insists on receiving a certificate, and if the issuer still offers certificate ownership, the investor or his or her broker/dealer can contact the transfer agent directly to transfer the DRS statement to a certificate.”

DTCC continues to work to bring greater efficiency to overall processing of all securities and will work toward the ultimate goal of the elimination of paper certificates. And while the U.S. equities markets still lags behind the more than two dozens countries that have gone completely paperless, it still fair to say: “You’ve come a long way, folks.”

Now, let’s take that final step.

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