



August 20, 2007

Dear SIFMA Member Firms:

There are 250 million reasons to eliminate physical certificates! Based on an industry survey, the costs to maintain, process, provide safekeeping, and mail physical certificates amount to over \$250 million annually. Approximately \$49 million of this total cost relates to lost and stolen certificates, and is primarily borne by individual investors. Many other participants in our industry have taken steps to stop using physical certificates, including our stock exchanges and several broker-dealers. It is now time for the entire broker-dealer community to step up to the plate and help achieve the goal of eliminating physical certificates.

With this letter, we are asking all SIFMA<sup>1</sup> member firms to decide to discontinue providing physical certificates for Direct Registration System ("DRS") eligible securities by January 1, 2008. This date is consistent with that set by the primary exchanges in recent rule changes requiring that all exchange-listed issues be eligible for DRS by January 1, 2008.

The overall costs and risks associated with holding physical certificates make it imperative to utilize viable alternatives for evidencing securities ownership. The primary alternatives that are available include the DRS for customers that choose to be registered on the books and records of the company, or for customers to hold their positions at a bank custodian or broker-dealer ("street name").

The DRS, which was developed by DTC and transfer agents in the late 1990s, offers automated linkages between the record keeping systems maintained by transfer agents for corporate issuers and those recordkeeping systems maintained by broker-dealers and banks for their customers. DRS thereby enables a shareholder or their registered representative, for example, to electronically direct the movement of a position in a security from an issuer's transfer agent to the shareholder's account at a broker-dealer of their choice and eliminates the negotiability document requirement for our customers. In addition, firms can easily choose DRS as a default setting within their vendor systems (i.e. Broadridge, Sungard, Thomson, etc.)

Unfortunately, even though DRS is available for many securities, many DTC participants either are not aware of it or have chosen not to use it; instead, they continue to provide physical certificates to customers. This practice results in unnecessary costs and risks for investors. For example, from 2004 to 2006, the total cost to member firms for obtaining physical certificates through DTC – despite DRS being available – was \$25.9 million. In 2007, we are looking at adding another \$10 million to that total, and DTC has advised its member firms that these fees will increase still further in 2008. In addition, today almost 75% of physical certificates deposited by broker-dealers and bank custodians at DTC were issued within the last six months

of the deposit date. What this means is that we are providing physical certificates to our customers only to have them returned in a short period of time. This doesn't make sense and just results in unnecessary expense and added risk.

It is critical that we all get the word out regarding the benefits of using DRS or holding positions in street name. SIFMA plans to help do so through an extensive education program for investors, sales representatives, operations management, transfer agents and related vendors. Hopefully, this program will assist SIFMA member firms in meeting the recommended January 1, 2008 date for using DRS for eligible securities.

We all know that the goal of the securities industry is to provide our customers with products and services for asset growth and to meet their financial needs. However, we strongly believe that a parallel goal should be to not perpetuate the use of physical certificates, as it has no bearing on investors' account performance and just adds unnecessary expenses and risks for these individuals. As such, we urge you to discontinue providing physical certificates for DRS eligible securities by January 1, 2008 and discuss this important step with your sales representatives and operations managers.

Thank you for your consideration of this request, and we look forward to hearing from you on this matter. If you have any questions or require additional information, please do not hesitate to contact John Panchery, SIFMA Managing Director, at: 212-618-0559 or [jpanchery@sifma.org](mailto:jpanchery@sifma.org).

In addition, you can also view more information on this subject by visiting SIFMA's Paperless Web Page at: <http://www.sifma.org/services/techops/stp/html/paperless.shtml>.

Sincerely,  
Noland Cheng  
SIFMA Operations Committee Chair

Lawrence Morillo  
SIFMA Operations Legal & Regulatory  
Sub-Committee Chair

---

<sup>i</sup> The Securities Industry and Financial Markets Association brings together the shared interests of more than 650 securities firms, banks and asset managers. SIFMA's mission is to promote policies and practices that work to expand and perfect markets, foster the development of new products and services and create efficiencies for member firms, while preserving and enhancing the public's trust and confidence in the markets and the industry. SIFMA works to represent its members' interests locally and globally. It has offices in New York, Washington D.C., and London and its associated firm, the Asia Securities Industry and Financial Markets Association, is based in Hong Kong.