This past May, Delaware joined a growing number of states in helping to modernize the financial services industry by eliminating the requirement for public companies incorporated there to issue paper stock certificates.

Physical securities, as they are known on Wall Street, are largely a thing of the past — a vestige of a bygone era when messengers in knickers carried satchels of securities and checks from one brokerage house to another to settle trades. Issuing, storing and replacing physical securities — which are expensive to process and easy to steal or forge — cost investors and the financial services industry an estimated $250 million per year.

The preferred alternative, of course, is electronic book entry, which is how people purchase mutual funds, certificates of deposit, and U.S. Treasury notes and bonds. No one would ever think of asking for physical shares of a mutual fund, but some investors still are attached to the idea of holding paper certificates when it comes to owning equities.

Not only is the handling of paper certificates costly, but the potential for losing these documents can hurt investors trying to sell their stock ownership. Last year alone, nearly 1.4 million securities were reported lost, stolen or destroyed. The process to get a replacement is lengthy, burdensome and expensive. As with other financial instruments, electronic records are easy to maintain.

The change in Delaware’s law was significant because Delaware is the legal home to more than 50 percent of all U.S. publicly traded companies. Louisiana just passed a law eliminating the requirement for paper stock certificates and a similar bill is awaiting approval in Missouri.

That leaves just Arizona and Puerto Rico as the only jurisdictions with laws that prevent public companies from moving to a completely electronic environment.

Before information technology evolved to its current state, physical securities were the only way to own shares of public corporations.

In the 1960s, when average daily volume on the New York Stock Exchange more than tripled, paper transactions choked the system. Stock exchanges had to close early every day and entirely on Wednesdays just to process the burgeoning volume of paper.

Midway through the ’60s, mainframe computer technology arrived on the scene, but even that wasn’t enough. So the NYSE, National Association of Securities Dealers, and a number of major brokerage firms and banks created a central industry depository. Its goal: to immobilize securities in a single location and make ownership changes by electronic book-entry accounting. Today, that organization, and several other subsidiaries, have evolved into The Depository Trust & Clearing Corp., or DTCC.

Over the years, as IT has advanced, one of the securities industry’s goals has been to encourage investors to replace the paper stock certificates grandma gave them for their birthday or bar mitzvah with electronic forms of securities ownership. Today, investors can own securities electronically — either in “street name” with their stockbroker or through direct registration on the books of the stock issuer or transfer agent.

For individual investors, paper certificates are risky to own. Shareholders spent $50 million replacing lost certificates last year. Electronic ownership, on the other hand, offers numerous advantages:

• Safety: Even if they’re stored in a vault, paper securities can be lost or destroyed. In many Western states, including Arizona, periodic wildfires threaten the safety of paper stock certificates that investors keep at home. Last year, 315 primary residences were lost to wildfires in the U.S., according to the National Interagency Fire Center.

• Cost: Replacing lost certificates is not inexpensive. In addition to having to pay processing fees to obtain new certificates, investors must post a surety bond of 2 percent to 3 percent of the securities’ market value to cover any fraudulent transactions that may arise if the missing certificates fall into the wrong hands. Electronic stock ownership eliminates all these costs.

• Convenience: If you’ve ever made a trade involving paper stock certificates, you know most brokers won’t execute your trade until the physical security has been delivered to their offices and verified. In a fast-moving market, that delay can cost hundreds or even thousands of dollars. By holding stock electronically, investors face no such problems.

One day, there will be no more paper stock certificates; it’s only a matter of time before they disappear completely from the economic landscape. We’re hopeful Arizona will consider joining the other states that are abolishing the requirement for paper stock certificates so that public companies here also may “go electronic.”

Janet Wynn is a managing director of The Depository Trust & Clearing Corp. Through its subsidiaries, DTCC provides clearance, settlement and information services for equities, corporate and municipal bonds, government and mortgage-backed securities, and over-the-counter credit and equity derivatives.

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