

The Depository Trust Company

IMPORTANT

PAPERLESS LEGAL PILOT PROGRAM

B#: 6931

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TO: All Participants

CATEGORY: Operations

FROM: Joe Trezza

ATTENTION: Officers/Cashiers/Operations Management

SUBJECT: Paperless Legal Transfer Pilot Program

Working jointly towards a shared objective, the Securities Transfer Association (STA) and the Securities Industry Association (SIA), with the assistance of DTC, have finalized plans to eliminate the processing of certain documentary forms that accompany non-routine securities transfer transactions, commonly called "legal transfers".

Through the support of the STA and SIA, a working group was formed in February 2004. This joint industry group's objectives were to explore and recommend processing rules for eliminating paper documents from transfer processing. The working group's recommendations have led to the development of the upcoming pilot plan.

Pilot

On October 12, 2004, DTCC's depository will commence a pilot that eliminates the need for pilot participants to forward certain legal documents to transfer agents. This change in procedure is being referred to as the **Paperless Legal program**.

The pilot firms are made-up of STA and SIA members, with the pilot expected to run for approximately 45 to 60 days, ending in November 2004, at which time, if successful, the pilot status will be lifted and the Paperless Legal program will be open to all transfer agents and all MSP (New York Stock Exchange) medallion users. In January 2005, the Paperless Legal program is expected to be expanded to include all STAMP and SEMP member users.

The following is a brief overview of Paperless Legal program, along with expected changes to the depository's Deposit services.

Paperless Legal – Concept

The Paperless Legal concept is based on the specific and simple representations made by the Signature Guaranty process. By affixing a Signature Guaranty (medallion), the guarantor warrants that:

- The signature is genuine
- The signer is an appropriate person to endorse or originate the instruction, or if the signature is by the agent, the agent has actual authority to act on behalf of the appropriate person, and
- The signer has legal capacity to sign.

Benefits of the Paperless Legal Program Include

- Reduction of legal transfer rejects (most often attributed to lack of standardization in transfer rules)
- Improved transfer turnaround for investors thus reducing risks
- Elimination of duplicated paper retention processes
- Achieving an additional milestone on the road to dematerialization.
- Reduction in cost to investors and the industry due to the current requirement of securing multiple copies of legal documents, such as death certificates

Pilot Program and Rollout

The pilot will commence on October 12, 2004, which will include 12 participants and eight (8) transfer agents. For the pilot, only transfer transactions presented through the depository will be eligible for the Paperless Legal program. **Corporate action transfers, including redemptions, ADRs, and transfer transactions presented through the depository's Restricted Deposit Service (RDS) or Custody service will not be included in the pilot¹.** There will be a future announcement about the timing of adding the RDS and Custody transfer transactions to the program. Throughout the pilot period, participating pilot members will monitor the pilot's progress and measure its success. The pilot is expected to end in November 2004.

After the announcement that the pilot has successfully concluded, Paperless Legal transfer processing will be expanded to include all NYSEMSP medallion users, and open to all transfer agents. For a transfer agent to join the program, the TA must notify the depository, in writing, either through hard-copy letter or e-mail,

¹ These transaction types are currently being evaluated for future participation in the Paperless Legal program.

with the specific TA account numbers noted. On notification of a transfer agent's request to enter the program, the depository will work with the agent to establish a start date, which is expected to be within 10 to 15 days of the "formal" (hard-copy or e-mail) request.

Participants wishing to join the Paperless Legal program can contact their relationship manager.

Transfer Agent Information

In a summary document presented to the Securities and Exchange Commission (SEC), the **STA** suggested these guidelines and information:

- For TAs in the program, all issuers/CUSIPs for that agent's transfer account number will participate in the program. Specific issuers or listings of issuers for a TA account number cannot be excluded if the agent agrees to participate in the program. (It is important to note that the TA account number and **not** the transfer agent entity name drives the Paperless Legal process. For example, Bank of New York equity processing TA account numbers will be part of the Paperless pilot. Bank of New York debt account numbers will not be part of the pilot at this time, but could join the program at some later date.)
- TAs will accept, and not reject, any transfer transaction presented with legal documents during and after the pilot.
- The pilot is only for transfer transactions presentations through DTC. After the pilot, broker/dealers can, at their option, process Paperless Legal transfers either by going through DTC or by going directly to the TA.
- The STA Guidelines will be updated to reflect the paperless legal processes.
- The STA will mail an Informational Letter about the pilot and program to all their members.
- The Informational Letter will be made available to the CTA and the ABA Corporate Trust groups, for possible mailing to their users and/or posting on their web sites.
- TAs will need to review their written procedures and possibly modify those procedures prior to beginning the program. The STA General Counsel expects to provide some guidance to TAs on this matter.
- On expanding the Paperless Legal program to include STAMP and SEMP users:
 - The STA will provide an Informational Letter for distribution through various media, possibly including the DTC Important Notice web site.
 - The Informational Letter will be available on the STAMP website and at all STAMP Guarantor workshops.
 - For non-DTC STAMP and SEMP users, Kemark will mail the Informational letter to users on their database.
 - Kemark will be responsible for controlling and tracking the start dates, as well as providing user information to the transfer agents for any STAMP or SEMP user that is not a DTC participant.
- The STA and the individual pilot agents will take the lead in expanding the number of TA users in the program.

Participant Information

In a summary document presented to the Securities and Exchange Commission (SEC), the **SIA** suggested these guidelines:

- Participants will obtain the documentation necessary to support the subject transfer according to current procedures. The participant will retain those documents in accordance with the relevant regulations.

IMPORTANT – While the transfer agent no longer requires these documents, the guarantor is still responsible in obtaining and retaining documentation.

- Brokers unsure of any legal transfer requirement can: a) review the STA Transfer Guidelines; b) contact the agent; c) contact DTC's Deposit area.
- On verifying that all requirements have been met for transfer, the participant will affix the medallion to the back of each certificate to be transferred, as is currently the practice.
- The participant will submit the transfer to DTC, for forwarding to the agent, or (after the pilot), at the option of the broker, can submit paperless legal transfers directly to the agent.
- If applicable for the specific type of securities transfer transaction, the transfer agent will continue to require stock powers.

Pilot Members

The following is a listing of members:

Participants

<u>Participant Name</u>	<u>Account Number</u>
- AG Edwards	201
- Merrill Lynch	5198 & 161
- Bear Stearns	352
- Citigroup	418
- ED Jones	057
- First Clearing Corp.	141
- NFS	226
- Morgan Stanley Dean Witter	050 & 015
- Pershing	443
- Charles Schwab	164
- UBS	221
- Wells Fargo	733

Transfer Agents

- Bank of New York
 - o Account Numbers: 901 & 9011
- Computershare, Denver and Chicago
 - o Account Numbers: 2003, 2530, 9959 & 50108
- Wells Fargo Shareholder Services
 - o Account Numbers: 2420 & 2665
- Equiserve
 - o Account Numbers: 128, 1281, 1934, 2985, 9232, 9900, 24012, 28504, 50041, 50098, 9976, 50120, 32373, 923, 8070, 8063

- Mellon Shareholders Services
 - o Account Numbers: 135, 179, 192, 1179, 2082, 2234, 2442, 9234, 9919, 9944, 9955, 9966, 9987, 28552, 29355, 30776, 31948, 50050, & 50102
- Continental Stock Transfer
 - o Account Numbers: 214, 9519, 9920, 9926, 9979, 50017 & 50095
- National City Bank of Cleveland
 - o 743 & 9957
- Registrar and Transfer
 - o Account Numbers: 130, 201 & 2783

Paperless Legal Program

In the Paperless Legal program, specific paper documents no longer will be required to accompany the securities certificate transfer to the transfer agent. The most common examples of these documents include²

- Death Certificates
- Affidavits of Domicile
- Corporate Resolutions
- Trust Agreements
- Birth Certificates
- One and Same

Inheritance Tax Waiver

The STA has determined that the Inheritance Tax Waiver **will be** a required document for estate transfers. A new stamp has been developed for those estate transfers that **do not** require an Inheritance Tax Waiver. For those estate transfer transactions that do not require an Inheritance Tax Waiver, you **must** affix a stamp impression with the below wording. (You can purchase such a rubber stamp independently.)

**WE CERTIFY THAT THE DECEDENT
IN THIS TRANSACTION, RESIDED
IN A STATE WHICH DOES NOT
REQUIRE AN INHERITANCE TAX WAIVER**

**(YOUR FIRM NAME)
MEMBER NYSE MSP PROGRAM**

(The type should be 10 point and be affixed in black ink for the best reproduction quality. The stamp requires no signatures or additional medallion imprints.)

DTCC Deposit Services

Initially, not all transfer agents will be participating in the Paperless Legal program. To assist participants in identifying those agents that are part of the program, DTC has made various programming changes and enhancements. Commencing with the pilot kick-off on October 12, the DTC **DAMP** (Deposit Automation

² For a complete list of documents and legal transfer types, please refer to the STA Rule Book. You can find more information about the STA Rule Book by visiting the STA web site at www.stai.org

Management - Participant) function will be enhanced to print “**PLA**”, for Paperless Legal Agent, on all DAMP created Deposit tickets where the securities being deposited are for a transfer agent participating in the Paperless Legal program.

DTC has also created a report on SMART/Search (“STP PAPERLESS AGENT CUSIP REPORT”), which lists all participating transfer agent names and TA account numbers. Additionally, on October 11, a new Master-File report, “PLAQSP” will be available on the ELISA files (Eligible Corporate Securities File) to provide the eligible Paperless Legal TA/CUSIP information.

For **DAM** (Deposit Automation Management) participants submitting transfers without legal documents, and as a “regular” deposit, the DAM deposit fee of \$2.15 per transfer transaction would apply. Participants using the “regular” DAM deposit process will not be able to use the Legal Tracking function for these deposits. For **Full Service Legal DAM** Deposits, DTC will examine the paperwork, as we do today, forwarding the securities and the paperwork to the transfer agent. Those Full Service Legal deposits deemed to have missing or incomplete legal documents would be handled in the same manner as current processing procedures. For those transfers submitted with legal documents, and as a Full Service Legal DAM Deposit, the DAM Legal transaction fee of \$6.25 will apply.

For **Branch Deposit Service (BDS)** customers, DTC will continue to handle transactions as usual. As is the current procedure, for those participants that use BDS and submit a legal deposit with paperwork, DTC will: a) receive the accompanying legal documents for review; b) examine those documents; and c) in some cases, affix the broker’s medallion onto the certificates. On completing the examination process, DTC will forward the transaction to the agent for transfer. The BDS Legal deposit fee of \$7.80 will apply for these transfer transactions.

For BDS users, DTC could, at the direction of the participant; “strip-off” documents and return the documents to the participant’s operations areas. (It is expected that DTC will implement a cost recovery fee for the stripping, storing, maintaining and mailing the legal paperwork back to the participant’s operations area.) In discussions with the BDS participants, DTC has made it known that it expects brokers to migrate to retaining such legal documents prior to submitting the transfer transaction to DTC. There is no current time frame for such a transition, though the general consensus is that all BDS users will make this migration at some future date.

Other

As new information becomes available, DTC will provide Important Notice updates. During and after the pilot, DTC will publish the Transfer Agent name and corresponding TA account numbers, as well as the participant names and account numbers, on its Important Notice web site. DTC will be publishing a newsletter article about the Paperless Legal program soon after the kick-off of the pilot.

Participant Contact Information

At the end of the pilot, DTC participants can contact their relationship manager to enter the Paperless Legal program.

Agent Contact Info

Transfer agents wishing to enter the program should contact their TA Services representative:

Robert Merritt or Sharon Pope
DTCC – TA Services
55 Water Street
New York, NY, 10041
rmerritt@dtcc.com or spope@dtcc.com

Additional information relating to the Paperless Legal program can be obtained from your representatives at either the STA or the SIA.