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### An Overview:

In 1994, the Securities Exchange Commission (SEC) requested the securities industry to explore the means for providing investors with an additional approach to holding securities in certificateless form.

With this objective in mind, a joint industry working committee was formed, with participation from various industry members, including:

- The New York Stock Exchange ([www.nyse.com](http://www.nyse.com))
- The Securities Transfer Agent Association ([www.STAI.org](http://www.STAI.org))
- The Securities Industry Association ([www.sia.com](http://www.sia.com))
- The Corporate Transfer Agent Association ([www.corpta.org](http://www.corpta.org))
- The Depository Trust Company
- The SEC ([www.sec.gov](http://www.sec.gov))

Under direct registration book-entry positions, investors electing to have their ownership of securities registered directly on the issuer's records would have the option of a direct registration book-entry position recorded on the books of the transfer agent. (Uncertificated book-entry registration has been widely used in the mutual fund industry for many years.)

With the implementation of direct registration, investors have three securities ownership options:

- **Physical Certificates:** Certificates are registered and issued in the investor's name. The investor will receive all mailings directly from the issuer or its transfer agent, including dividend or interest payments, annual reports, and proxies.
- **Street Name Registration:** Securities are registered in the street name of the investor's broker-dealer. While no physical certificate will be issued to the investor, the broker-dealer will issue, at least quarterly, account statements of the investor's holdings. The broker-dealer will pay dividends or interest to the investor, as well as provide the investor with mailing material from the issuer or transfer agent.
- **Direct Registration:** This option allows the investor to be registered directly on the books of the transfer agent without the need of a physical certificate to evidence the security ownership. While the investor will not receive a physical certificate, he or she will receive a statement of ownership and periodic (at least yearly) account statements. Dividend or interest payments, proxy materials, annual reports, etc., will be mailed from the issuer or its transfer agent.

In 1996, through the efforts of the joint industry working committee, the Direct Registration System (DRS) was implemented by DTC. DRS enables participants and qualifying transfer agents, known as limited participants, to electronically move an investor's security positions between street-name ownership and direct registration book-entry position. DRS uses similar processing as DTC's Delivery Order (DO) functions to move positions, with specific reason codes to identify the transaction as a DRS transaction

To support the industry's move to direct registration, the NYSE modified its listing criteria to permit listed companies to issue book-entry statements ("transaction advices") in lieu of certificates for corporate action distributions, e.g., spin-offs and stock splits. Since then, there has been a steady growth in issuers offering direct registration, with over 300 issuers currently eligible for DTC's DRS service. When DRS was introduced, investors electing to initiate the transfer of their securities ownership from one form of ownership to another would have to submit the paper transaction advice to the transfer agent (limited participant), or to their broker-dealer. If submitted to the broker/dealer, the broker/dealer would forward the paper transaction advice to the limited participant. The investor's signature on the transaction advice would require a medallion guarantee. In essence, in the early stages of DRS, the industry exchanged one form of paper transaction, the physical certificate, for another form of paper, the transaction advice.

### Profile Modification System:

In May 2000, the Profile Modification System (Profile) was implemented by DTC to electronically convey an investor's request to move from one form of securities ownership to another. Profile takes the place of the paper transaction advice for electronic movement of securities positions between street-name positions and direct registration book-entry positions. Profile includes all the data fields listed on the paper transaction advice, including the investor's broker-dealer account number, investor's DRS account number, Tax I.D./Social Security number, full registration, and CUSIP.

Profile is an electronic communication medium between participants and limited participants that conveys the investor's instructions. The actual movement of positions from one form of securities ownership to another takes place in the DRS.

In April 2000, the SEC approved DTC's rule filing which incorporated a **screen-based indemnification** to accommodate those issuers wanting to process securities in DRS pursuant to a Profile request. The screen-based indemnification provides that:

### For participants entering a transaction:

1) Participant represents that it has the actual authority and consent for the request appearing on the following screen from either to either (A) the registered owner or owners on the participant's records or (B) a third party who has actual authority and legal capacity to act on the behalf of the registered owner or owners on the participant's records, and that all information shown is accurate and complete, except

that, with respect to the tax payer identification number included in such information, to the to the best knowledge of the participant, such information is accurate and complete;

**2)** Participant indemnifies the issuers, its transfer agent and its officers, directors, shareholders, employees, agents, representatives, subsidiaries, parents, affiliates, successors and assigns against any losses, expenses, liabilities, or judgments (including but not limited to fees and expenses of counsel) arising from a breach of such representations in connection with the transaction that is the subject of such request.

**For transfer agents entering a transaction:**

**1)** Transfer agent represents that it has the actual authority and consent for the request appearing on the following screen from either to either (A) the registered owner or owners on the transfer agent's records or (B) a third party who has actual authority and legal capacity to act on the behalf of the registered owner or owners on the transfer agents' records, and that all information shown is accurate and complete, except that, with respect to the tax payer identification number included in such information, to the to the best knowledge of the transfer agent, such information is accurate and complete;

**2)** Transfer agent indemnifies the participant its officers, directors, shareholders, employees, agents, representatives, subsidiaries, parents, affiliates, successors and assigns against any losses, expenses, liabilities, or judgments (including but not limited to fees and expenses of counsel) arising from a breach of such representations in connection with the transaction that is the subject of such request.

(For more information on the screen-based indemnification, please refer to SEC Release No. 34-43125 and DTC's filings on form 19b-4, Files Nos. SR-DTC-00-09 and 65 FR24242 File No. SR-DTC-00-04.)

With the SEC approval of this capability, coupled with the Profile Surety Program referenced below, Profile now offers the electronic equivalent of a medallion guarantee, providing comparable security to the transfer agent and the issuer that they previously had received through the signature guarantee on the paper transaction advice.

**Profile Surety Program:**

In February of 2001, DTC introduced the Profile Surety Program (PSP). PSP provides for a surety bond to back the representations a party makes under the screen-based indemnity, providing an additional layer of protection and mitigating any risk for industry members using DRS and Profile. Based on the concept of the medallion guarantee programs for paper based transactions, PSP is an electronic medallion program only available to DTC's participants and limited participants (transfer agents) participating in DRS and Profile.

To facilitate the purchase of surety coverage for DTC's participants and limited participants, DTC arranged for St. Paul Fire and Marine Insurance Company (St. Paul) to provide such coverage. Participants and limited participants may elect to use a different surety provider other than St. Paul so long as the Surety provider meets prescribed standards.

On acceptance to the PSP, participants and limited participants are issued a unique identification number, called a PSP number, that is electronically associated with their DTC system sign-ons and passwords. Since May 4, 2001, all Profile electronic instructions have required the initiating entity, whether participant or limited participant, to input a valid PSP number. Applications to join PSP are still being accepted.

The surety bond requirements, as of January 1, 2002, are in amounts of \$3,000,000 for any one transaction, with an aggregate of \$6,000,000 over the life of the bond per guarantor. (Click to view: Important Notice [B#1058](#) dated March 21, 2001 and [B#1922](#) dated May 3, 2001 for further information of PSP and for the application forms for joining the program.)

**Transfer Agent Eligibility:**

The following criteria must be met by a transfer agent (whether commercial transfer agent or an issuer-own agent) to be eligible to process transactions in DRS/Profile:

- Become a limited participant of DTC
- Participate in DTC's Fast Automated Transfer Program (FAST) program
- Provide a Direct Mail by Agent (DMA) function
- Have electronic communication links with DTC
- Receive training on DRS and Profile
- Participate in a Surety program to initiate Profile transactions.

(Limited participant applications and additional information about these transfer agent programs and functions are available by contacting your agent liaison relationship manager, or by calling 212-855-4431.)

**Issue Eligibility:**

The following criteria must be met by a securities issuer to be eligible for DRS/Profile:

- Participate in FAST program
- Participate in Profile
- Mail DRS Book-Entry Statements to registered owners at least once a year.

**Participant Eligibility:**

The following criteria must be met by a participant to be eligible to process transactions in DRS/Profile:

- Participate in a Surety program to initiate Profile transactions.
- Default all WT requests to "S" for statement unless specifically requested otherwise by the investor.

**FAQ:**

- **How can I find if an issue is DRS/Profile eligible?**

As issues are made DRS eligible, the depository publishes Important Notices announcing the addition. Also, DTC periodically publishes a listing of all the eligible DRS and Profile eligible securities issues. The DRS/Profile eligibility listings and the DRS Important Notices announcements are posted on the DTC web site as part of the Important Notice section of the web page. To view the listings, log onto [www.DTC.org](http://www.DTC.org). Access the Important Notices section, and search by the key word **DRS**. Also, DRS securities issues are identified with a DRS indicator on the Eligible Corporate Securities File (ELISC) on CCF and the Eligible Securities Inquiry function (CONI) on PTS.

- **I have questions about the PSP and how to complete the PSP application forms. Who can I contact?**

You can contact one of the PSP administrators with any questions on PSP and assistance in completing the application forms at 212-855-4431.

Or email us at [pspadmin@dtcc.com](mailto:pspadmin@dtcc.com) or [drsadmin@dtcc.com](mailto:drsadmin@dtcc.com)

Or you may fax forms to: 212-855-4809 or 212-855-4404

- **I'm a transfer agent (commercial transfer agent or issuer/own agent) who would like to become DRS eligible. How do I go about it?**

You must meet the agent criteria referenced above. Transfer agents must become DTC limited participants by completing an application, submitting the application to the DRS Program Administration area and be issued a DTC limit participant account number. To receive an application and for any questions on completing the application, refer to the PSP Administration contacts referenced above. It usually takes about two weeks to process limited participant applications and provide the needed training to process DRS transactions. Other programming changes and the establishing of the required electronic communication links will vary.

- **I am an issuer that uses a commercial transfer agent for record keeping and transfer processing. I want to have my securities issue eligible for the DRS program. How do I go about it?**

If you meet the issuer eligibility criteria mentioned above, your transfer agent can request the addition of your securities issue to the DRS program. DTC must receive the requests in writing; at least 10 (ten)-business days prior to the securities issue "going live" for DRS processing. Of course, your transfer agent must also meet the agent criteria mentioned above. If your transfer agent is not already DRS eligible, it can take longer to add your securities issue to the DRS program.

- **As a participant of DTC, I have a client who received a DRS book-entry position for some increased shares after a corporate action by the company. My client would like to combine his street holdings with his DRS book-entry position held at the transfer agent. How do I move his street holdings to a DRS position?**

The securities issue must be DRS eligible at the depository and the client's holdings must be held as part of your DTC holdings. To move your client's street holdings to a DRS position simply submit a withdrawal-by-transfer (WT) in statement form commonly called an "S" transaction. To properly perform this process, the client will need to provide you with specific account information from his DRS account statement received from the issuer/transfer agent, including: DRS account number, agent's registration, and tax payer ID number as it appears on the agent's statement. For questions about processing WT transactions, please contact your DTC account relationship manager.

- **My client would like me to move her DRS book-entry position from the transfer agent's account to the client's broker account. How do I request the position from the agent?**

In order to move a DRS book-entry position to your DTC holdings for a client you must process a transaction request through Profile. Only users that have PSP coverage and have been issued a PSP identification number by the depository can process transactions through Profile. Profile is a PTS function that is easily navigated. To request a transfer of your client's DRS book-entry position, you will need the exact DRS account number and registration from the client's statement, which was received directly from the issuer or transfer agent. You will also need to include the client's broker account information on the Profile request. After you have submitted the Profile request, the transfer agent will review it and process it accordingly. When the transfer agent approves your Profile requests, the agent will then deliver the shares to your DTC account through the Delivery Order (DO) function, with the customer's broker account information as part of the DO. You can use the account information to match the DO to your files for the client.

For more information on DRS, Profile and PSP, please contact your account relationship manager or agent liaison.

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