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About the E.A.C

At AST, we strive to propel our industry forward. In 2011, we responded to the demand for a neutral group that could exchange and discuss industry-wide challenges and ideas by forming the Executive Advisory Council (EAC). Comprised of executives from leading organizations in North America, the EAC works to further our industry.

The EAC meets on a regular basis to provide a forum for leadership and constructive feedback, to share best practices and insights on industry trends, to address issues and concerns that various stakeholders may have, and to shape the future of the industry. The EAC also launched an in-depth Industry Study of leading issuer executives across North America. The study is intended to provide meaningful insights into what investors and corporations need across the broad spectrum of issuer and shareholder services. While the EAC is sponsored by AST, it works independently for the benefit of the industry as a unified whole.

For more information, please visit the Executive Advisory Council webpage.

If you have questions or comments, please email EAC@astfinancial.com.
T+2 and Dematerialization

T+2 Background

The U.S. T+2 Industry Steering Committee, organized by the Depository Trust and Clearing Corporation (DTCC) and co-chaired by the Securities Industry and Financial Markets Association (SIFMA) and the Investment Company Institute (ICI), announced the industry target date of September 5, 2017 for the U.S. move from a T+3 to a T+2 settlement cycle.

As an initial step in the migration to T+2, the U.S. financial services industry formed an Industry Steering Committee (ISC), Industry Working Group (IWG), and Sub-Working Groups (SWGs). The ISC and IWG included representatives from asset managers, broker-dealers, transfer agents, exchanges, the DTCC and issuers. A shortened settlement timeframe will involve process, technology, behavioral (business and client), and regulatory changes.

On June 29, 2015 the U.S. Securities & Exchange Commission issued a news release expressing its agreement with and support for the initiative and committed to working with the industry group to implement T+2 “as soon as possible.”

In recent years, the Fast Automated Securities Transfer (FAST) operated by the DTCC and the Direct Registration System (DRS) operated jointly by transfer agents and the DTCC were approved by regulators and implemented to further the objectives for dematerialization and immobilization of physical certificates.

Also, during this time, DRS eligibility has become a prerequisite for DTCC membership and for listing on the major stock exchanges. Although the initiative for a shortened settlement cycle can and will move forward for a 3rd quarter 2017 implementation, it cannot be all-inclusive unless there is a parallel movement toward further dematerialization and immobilization.

T+2 Current News

Washington D.C., March 22, 2017—
The Securities and Exchange Commission today adopted an amendment to shorten by one business day the standard settlement cycle for most broker-dealer securities transactions. Currently, the standard settlement cycle for these transactions is three business days, known as T+3. The amended rule shortens the settlement cycle to two business days, T+2.

The amended rule is designed to enhance efficiency, reduce risk, and ensure a coordinated and expeditious transition by market participants to a shortened standard settlement cycle.

“As technology improves, new products emerge, and trading volumes grow, it is increasingly obvious that the outdated T+3 settlement cycle is no longer serving the best interests of the American people,” said SEC Acting Chairman Michael Piwowar. “The SEC remains committed to ensuring that U.S. securities regulation is reflective of modern times, and in shortening the settlement cycle by one day we aim to increase efficiency and reduce risk for market participants.”

Broker-dealers will be required to comply with the amended rule beginning on Sept. 5, 2017.

To assist broker-dealers, other securities professionals and the investing public in their preparation for the implementation of a T+2 settlement cycle, the Commission has established an e-mail address – T2settlement@sec.gov – for the submission of inquiries to SEC staff.

What are the Three Alternatives to Physical Certificates?

Currently, there are three (3) alternatives to holding physical securities:

1. Hold in street name (held in a FAST custody book-entry at the DTCC)
2. Book-entry only (equity and debt securities, municipals, governments, options)
3. Direct Registration System (DRS)

The Direct Registration System (DRS) is the SEC-approved transfer agent-operated book-entry registration system. Investors who choose to participate in a direct registration system can have their securities registered in book-entry form directly on the books of the issuer and receive a statement of ownership in lieu of a securities certificate.

Dematerialization Benefits

There are many varied benefits in dematerialization for both Issuers and Investors:

- Anticipatory: to stay ahead of the curve of regulatory mandates and further acceleration of the trade settlement cycle
- Cost and Risk Reduction: reduce costs and risks associated with issuance, transfer and delivery of physical certificates as well as replacement of lost or stolen certificates
- Service Improvement: facilitate faster transaction processing and research

What are Some Practical T+2 and Dematerialization Tips for Issuers?

Communication is key with internal players, including:

- Board of Directors and Governance and Compensation Committees
- Senior Management
- Legal and Internal Audit
- Human Resources and Stock Plan Administrators
- Treasury, Disbursements and Accounts Payable - Individuals responsible for approval/signatures on instructions for wire transfers or to a transfer agent or captive broker

Potential action items for preparation:

- If stock certificate and/or settlement timing is referenced, review and update the following as needed:
  - Bylaws
  - SOX compliance process and procedures
  - Mission Statements, Core Beliefs and/or Sustainability Statements
  - Equity compensation plans
  - All physical or digital educational materials pertaining to equity compensation
  - Any relevant internal reference guide and/or department manual
  - Company IR site, if Direct Stock Purchase Plan (DSPP) is referenced
  - The following will be updated by the Transfer Agent
    - DSPP materials (if using a bank-sponsored plan)
    - Call Center Scripts (if/as applicable for shareholder interaction)
  - Transaction Forms
  - Dematerialization campaign encouraging shareholders to dematerialize
    - Call Campaign
    - Recommendation by Customer Service Representative (CSR)
    - Mail Insert
Proxy Season 2017: Areas of Focus

Board

In recent years the focus in governance has shifted; investors are increasingly focused on the level of boardroom diversity. Boardroom diversity encompasses diversity in skills, backgrounds, and age as well as gender.

• For example, State Street Global Advisors (SSGA) recently updated their policy guidelines to take into account the level of gender diversity on boards. It will vote against board members charged with nominating new directors at boards without female directors; SSGA plans to give most firms about a year to enact changes before voting against board members on this basis. SSGA has stated that a firm that does not have women board members would have to prove it attempted to cast a wider net and set diversity goals.

Skills matrices detailing board expertise and diversity are becoming more prevalent in proxy filing disclosure to reflect this.

Compensation

Because most companies have not held a frequency vote since 2011, the upcoming proxy season will include thousands of say-on-frequency proposals. Most shareholders support annual votes, although some support a triennial frequency. Of the Russell 1000 companies, approximately 90% have adopted annual votes, 10% triennial, and 2 companies biennial.

A notable amendment to equity plan terms began to emerge during 2016, and requests the inclusion of equity award limits for directors. We believe this is a result of recent shareholder lawsuits claiming that certain directors have awarded themselves an excessive amount of compensation.

Shareholder Rights

Since 2015, proxy access has dominated the governance focus in the U.S. market. Because over half the S&P 500 have now adopted proxy access, attention has turned to the periphery terms of proxy access provisions; shareholder proposals focusing on these periphery terms by seeking line-item changes to previously adopted proxy access provisions are also known as “Fix-it” proposals.

Investor patience is declining for companies that have adopted unfriendly governance provisions prior to an IPO, as well as for companies that restrict shareholder ability to amend bylaws. These sentiments have been reinforced by recently updated voting guidelines issued by Institutional Shareholder Services Inc. (ISS).

Regulatory

The SEC recently voted in October to propose amendments requiring parties in a contested election to use a universal proxy card. The reasoning behind the rule, as stated by the SEC, is to reform the voting process in such a way that “reflects as closely as possible the choice that could be made by voting in person at a shareholder meeting.”

• A universal ballot makes it easier for all shareholders to elect directors from a combination of management and dissident nominees by including all nominees on a single proxy card, rather than having to choose between competing cards.

• However, in light of the leadership changes at the SEC (including the departure of SEC Chair Mary Jo White), many believe that it is possible that the SEC may not adopt final universal proxy rules at all.

• The universal proxy rules were approved by a vote of 2-1 by the SEC commissioners, with former Chair White and Kara Stein voting for the proposal. Commissioner Michael Piwowar, who is now the Acting Chairman, voted against the proposal.
New Solution for Medallion Signature Guarantees

Introduction

In order to perform certain transfers of ownership of securities, transfer agents are required to obtain a Medallion Signature Guarantee (see SEC Rule 17ad-15). Medallion guarantees are customarily obtained by shareholders at banks or brokers with whom they have an account.

Although many verticals within the business arena have seen significant technical developments to improve the efficiency of security transactions, this has not been the case for shareholders trying to obtain a medallion. In fact, it has become increasingly difficult for an individual, entity, trustee or executor to obtain a medallion signature guarantee since both large commercial banks and smaller community banks have elected to stop offering medallion guarantees.

eSignature Guarantee Group, LLC, a member of the Securities Transfer Association (STA), Shareholder Services Association (SSA) and the Securities Transfer Agent Medallion Program (STAMP), now offers a unique web-based solution for shareholders in need of obtaining a medallion signature guarantee.

How it Works & How it Helps Shareholders

eSignature Guarantee’s advanced identification verification technology is part of an online platform that allows shareholders to obtain a medallion signature guarantee for the transfer of securities. The service is currently available for domestic individuals and corporate entities and was designed to accommodate physical certificates, book entry holdings, 401(k) rollovers, annuities and other forms of securities holdings.

In under 90 seconds, the portal:

- Integrates knowledge-based identification verification questions using dual factor authentication technology
- Runs the data provided through multiple watch lists and Office of Foreign Assets Control (OFAC) checklists
- Allows access to over 10,000 resources and more than 33 billion records that represent 400 million domestic individuals

Once authenticated, users are then given the option to either FedEx the stock power or transfer document that requires a signature guarantee or, alternatively, provide an electronic signature via upload on which a physical medallion stamp will be provided. This solution allows a shareholder to obtain a medallion signature guarantee for the transfer of securities in a fast, secure and efficient manner.

For more information please visit www.esignatureguarantee.com.

Please note that AST and the EAC are not affiliated with any of the entities that provide medallion guarantees and participate in this program.
What’s Relevant?