

of certificates being destroyed is small. Even a small transfer agent, for example, can designate a person to destroy certificates under specific procedures. We also believe that these limited burdens are justified by the rule's value as an antifraud measure. We do not think it is prudent, with recordkeeping rules that are linked to antifraud rules, to establish different standards based on the number of certificates processed, the number of transfers made, or the number of issuers serviced. We believe that the requirements of Rule 17Ad-19 are appropriate for all transfer agents that process certificates, regardless of their size or volume.

## 2. Cancelled-in-Error Notations

We requested comments in the Proposing Release on whether we should prohibit the use of "cancelled-in-error" notations,<sup>50</sup> as some members of the securities industry previously had suggested. PFPC Inc. commented that such notations should be permitted provided they are used with a medallion signature guarantee.<sup>51</sup> PFPC Inc. observed that cancelled-in-error notations can be useful when a certificate is mistakenly cancelled, especially when quick processing is essential or where resubmission is impossible because the endorsing party has died or is otherwise unable to act. U.S. Bank, however, recommended that transfer agents be prohibited from using cancelled-in-error stamps for registered certificates but be permitted to use them for bearer certificates, especially bearer bonds with coupons attached, because such certificates are not usually available in transfer agents' inventories. Inasmuch as these comment letters have specified uses for the practice that were not previously identified, the Commission has decided not to adopt any rule amendments with respect to prohibiting the use of "cancelled-in-error" notations until there is further study of the matter.

## 3. Data Retention

CTA and PFPC Inc. commented that transfer agents should be given leeway concerning the data that they choose to

maintain for the purpose of identifying securities certificates. CTA noted that instead of CUSIP numbers some transfer agents may prefer to use, for example, issuer identification numbers. We believe, however, that the use of CUSIP numbers, which is currently the most widely-used securities issue identification system, provides for uniformity and that it substantially aids the Commission, LSSP, and law enforcement programs. We also note that since 1979, Rule 17f-1(c)(6) has expressly required the inclusion of CUSIP numbers for purposes of securities certificate identification when making a report to LSSP.

## 4. Consideration of Additional Reporting Obligations

Raymond James & Associates recommended that Rule 17f-1 be amended to include the additional reporting category of escheated securities (in addition to lost, stolen, missing, and counterfeit securities). The commenter also recommended that the reporting time frames under paragraph (c) of Rule 17f-1 be shortened.

We note that Section 17(f)(1) expressly addresses only lost, stolen, missing, and counterfeit securities. From time to time, we have received recommendations to add to the reporting categories of Rule 17f-1, including among others: Securities certificates that have escheated, have been called for redemption, are restricted, are the subject of litigation, or whose issuers are in bankruptcy. The subject of adding reporting categories to Rule 17f-1 has been studied periodically by securities industry groups, but no clear consensus has developed concerning either the scope of or the support for such a rule proposal. Therefore, at this time we are not expanding the number of reporting categories. However, there is nothing to prevent voluntary reporting of more categories if individual reporting companies choose to do so.<sup>52</sup> Regarding the recommendation to shorten the reporting time frames in paragraph (c) of Rule 17f-1, the Commission believes that this issue requires further study.

## 5. Perforations and the Word "Cancelled"

Regarding Rule 17Ad-19(b)(2), which requires that cancelled certificates be marked "cancelled" by stamp or perforation, PFPC Inc. recommended that the Commission specifically set forth the dimensions for the word "cancelled" and where it should be

placed on a certificate. EquiServe questioned the Commission's criticism in the Proposing Release of the use of pin-hole sized perforation markings, which were previously used to indicate cancelled status, and asked "the what type of perforation" would be deemed sufficient.<sup>53</sup> At least for the present, we are leaving to securities industry practices,<sup>54</sup> rather than to Commission action, the details of size of the word "cancelled" and how it should be marked on securities certificates (e.g., by stamp or by perforation). For the present, we believe it is sufficient to state that the term "cancelled" should be "clear and conspicuous." But if it should appear at a later time that further rulemaking or interpretations are necessary or appropriate to clarify these matters, we will provide them.

## 6. Maintaining Certificates as Collectors' Items

The Proposing Release requested comments on whether the Commission should mandate the destruction of cancelled certificates within thirty days of their cancellation. Three commenters, a finance professor, a non-public corporation, and the president of a securities certificate collectors' organization,<sup>55</sup> argued against destroying old securities certificates because of their importance to financial history, their aesthetic merits, and their value to collectors in a field known as scripophily.

We are sensitive to these interests. We believe that the adoption of sound

<sup>53</sup> The cancellation pinholes, as used by some major transfer agents, usually spelled out a certificate's cancellation date and the transfer agent's initials in a small circle. Such markings were intended to indicate that the certificates no longer had value as a security while preserving the certificates' form as a record. Except for the small circle of pinholes, the certificates usually appeared entirely presentable. The pinholes, however, often were not noticed by subsequent recipients of the certificates and, if noticed, their meaning was not necessarily clear.

<sup>54</sup> Some transfer agents have advised that they currently are stamping or perforating certificates with an abbreviation of the word "cancelled." This is because they use older equipment that lacks the necessary space for nine letters. Typically, in these cases, one or two apostrophes or similar characters are used in place of up to four letters. To avoid the need for immediate purchase of new equipment, the Commission will interpret the use of such abbreviations as consistent with the requirement in Rule 17Ad-12(c) that written procedures shall "[r]equire that each cancelled certificate be marked with the word 'cancelled' \* \* \*." However, this interpretation shall apply only until a transfer agent using such older equipment acquires new equipment by purchase or other means that replaces the older equipment in question. Thereafter, the transfer agent must use all nine letters of the word "cancelled" in cancelling securities certificates.

<sup>55</sup> James J. Angel, Ph.D., Georgetown Univ.; Frank Hammelbacher, Norrico Inc.; and Robert A. Kerstein, President, Scripology, Inc.

<sup>50</sup> This refers to an industry practice of using hand stamps that state "cancelled in error" or similar language to avoid the time and expense of replacing certificates that are marked "cancelled" by mistake.

<sup>51</sup> The use of a medallion signature guarantee would mean that the "cancelled-in-error" notation is guaranteed by a guarantor financial institution under a signature guarantee program pursuant to Exchange Act Rule 17Ad-15, 17 CFR 240.17Ad-15. Accordingly, the financial risk of the cancelled-in-error procedure would not be imposed on the transfer agent but on the guarantor or the surety for the guarantor.

<sup>52</sup> See paragraph (e) of 17 CFR 240.17f-1, which permits "permissive reports and inquiries."