THE STA
SECURITIES TRANSFER ASSOCIATION, INC.

February 14, 2014

John A. Sebert
Executive Director
Uniform Law Commission
111 N. Wabash Ave.
Suite 1010
Chicago IL 60602

RE: Initiative to Draft Uniform Law

Dear Mr. Sebert:

The Securities Transfer Association, ("STA"), would like to take this opportunity to share some thoughts about issues that will be important to address, while drafting a new unclaimed property Uniform Law. The STA is an organization of professional recordkeepers that interact daily with both issuers of securities and their investors. Founded in 1911, the STA's membership is comprised of over 150 large and small transfer agents in the United States maintaining records of more than 100 million registered shareholders on behalf of more than 15,000 issuers (from the largest public companies to small privately held companies). Because of our involvement with both the issuer community and investors on a daily basis, we can offer insight into some of the situations that a new Uniform Law should address. Although we are unable to attend the upcoming drafting meetings at this time, we wanted you to be aware of our thoughts. Also, it is our understanding that some of our member organizations will be present at the meetings and can clarify any of the points below, if you wish.

The following is a list of the specific issues that we would like to see addressed in the new Uniform Law. They are specific to the escheatment of securities and payments related to securities (e.g., dividends).

Considerations for the Uniform Unclaimed Property Act – Rewrite (Securities specific)

- ✓ Specified Holding Period for Securities property (intangible interests in business associations). The primary purpose of the Unclaimed Property statutes is to protect the owner's interest and to attempt to re-unite those owners with their property. Current state rules that allow for states to liquidate securities either immediately or based on a discretionary rule, are not in the best interest of the property owner.
    - ➢ Updated legislation should contain a provision that any securities property (or other asset that may be converted to cash) should be held by the states for a minimum period to reduce any potential value change that ultimately affects the owner.
    - ➢ Suggested minimum holding period should be 24 months.
- ✓ Restricted Securities**:** The term restricted securities refers to stock of a company that is not fully transferable or able to be sold until certain conditions have been met. Upon satisfaction of those conditions, the stock may be transferred or sold by the person holding the shares. Restricted stock is often used as a form of employee compensation, in which case it typically becomes transferrable ("vests") upon the satisfaction of certain conditions, such as continued employment for a period of time and sometimes the achievement of particular earnings per share goals or other financial targets. Restricted stock also includes securities not registered under the Securities Act of 1933 or held by affiliates (as set forth in Rule 144), which also cannot be transferred or sold until certain requirements are met. The STA has seen considerable confusion among certain states with how these restricted securities should be handled. In addition, some states require positive contact with the investor, who would have no reason for contacting the issuer in these matters until the shares becomes unrestricted. This puts the investors' assets in position to be escheated to the states.
    - ➢ Updated legislation should clearly specify treatment of Restricted Securities, including securities with contractual restrictions as well as under Rule 144.
    - ➢ Securities which have not met specified holding periods or are contingent on other conditions being met should not be considered unclaimed property.
    - ➢ If securities cannot be made available to or cannot be sold or transferred by the owner they should not be made available to the states.
- ✓ Conflicts with SEC Regulation. Certain state statutes, that impose a shortened dormancy period before assets are escheated, may conflict with Federal requirements. SEC Rule 17Ad-17 requires transfer agents to perform two database searches to locate shareholders before an account can be considered abandoned. The mandatory database searches must be conducted between three and twelve

months from the time the holder is deemed "lost" (i.e., the later of (1) the date upon which a correspondence is returned as undeliverable, or, (2) if a returned correspondence is re-sent within one month from the date it was returned and is again returned as undeliverable, the date on which the re-sent item is returned as undeliverable).The second required database search must be performed between six and twelve months after the first search.

- Conflicts between state statutes and SEC Regulations should be cleared (particularly now that SEC Rule 17-Ad-17 has been extended to include broker dealers).
- States should recognize obligations of record keepers to meet SEC requirements and not require escheatment until such obligations are met.

✓ Shareholder Activity (Contact) Rules: More and more states are using lack of shareholder contact to define abandonment of an account.

- Contact rules should be clearly defined and not left open to interpretation.
- New legislation must recognize the current technology and operating environment and the methods of contact that it allows for (e.g. validated IVR/WEB contact, other electronic communications, ACH credits or wires for payments similar to checks, etc.).

✓ Passive investments

- Treatment of non-dividend paying securities should be clearly defined.
  - Certain investment types are designed to be held long term without the need for the owner to perform any positive acts to manage the investment
  - Activity only states are putting this form of investment at risk.
  - Legislation should clearly identify the need for "location of the owner to be unknown" before these assets can be deemed dormant.
- Treatment of dividend re-investment and other plan securities should be clearly defined. With dividend reinvestment and certain other plan accounts, the shareholder has signed a document that allows his dividends to be automatically reinvested by the issuer or transfer agent, without the shareholder being required to take any other action. To be more specific, the shareholder has no need, and is not expected to, contact the issuer or agent. When states define lack of contact as abandonment, the investor's assets may be escheated and sold without their knowledge or consent. This is clearly unfair to the investor. While a number of states clearly define the requirements for assets held within re-investment plans, there is still inconsistency in treatment in many states.

- New legislation should recognize this type of investment and clearly protect the owner. Owners of such passive investments are not knowledgeable about escheat laws and would not know that they need to take affirmative steps to contact the issuer to avoid having their shares escheated and potentially sold.
- These types of investments should require that the location of the owner be unknown before they can be deemed to be dormant.

✓ Employee Share Plans

- Employee shares held through an employer sponsored plan should not be able to be deemed abandoned while the participant in the plan remains employed with the securities issuer.

✓ Foreign ownership of securities should be addressed.

- Legislation should contain clear language on the treatment of securities held by non-US residents (Currently a very broad interpretation of a legal decision is used by many states to apply escheat laws to non-US investors).
- If escheat laws apply to non-US residents, the treatment of such foreign accounts should be no different than treatment of US resident accounts. (E.g. non returned mailing of IRS Tax Form 1099 is acceptable for domestic accounts as proof that the account is not abandoned, but a non-returned IRS Tax Form 1042 is not acceptable for foreign accounts. This is inconsistent and unfair to foreign investors).

✓ Audit powers

- Legislative audit language should be specific to unclaimed property within the state performing the audit and clearly define what information needs to be retained and made available in relation to any audit. Audits should only be able to be performed for the time period records are required to be retained. Currently states take the position that the state's audit rights are not limited by record retention time periods under escheat laws. This puts transfer agents and other recordkeepers in an unfair position as they may no longer have the records necessary to evidence compliance with state escheat laws.
- Record retention requirements should also be uniform across all states.
- External audit firms performing audits on behalf of states should be required to adhere to generally acceptable auditing standards.

While we cannot attend the upcoming meetings in February, we would be happy to discuss these issues with you or other Uniform Law Commission representatives. Please feel free to contact the undersigned, (651) 450-4054, or Paul Griffith, the Co-Chair of the STA

Unclaimed Property Committee, (781) 575-2825, for further information and insight into these matters.

Sincerely,

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