

An Industry Update to the Investment Industry Regulatory Organization of Canada - Financial Administrators Section

NAME – Bob Mackenzie, Vice-President

DATE – September 2008

CERTAINTY | INGENUITY | ADVANTAGE

 **Computershare**

Agenda

- › Dematerialization in the United States
- › Dematerialization in Canada
- › National Instrument 54-101
- › Notice and Access Rule
- › Rule 452
- › Registered / Trust Services
- › Questions

Dematerialization in the United States

- › New exchange rules effective March 2008 require ALL listed companies to offer DRS
- › All new listings must also offer DRS
- › 7,500 companies now issue stock via DRS
- › Several hundred offer DRS only

Dematerialization in the United States

- › Major dealers will not obtain a stock certificate for customers
- › SIFMA is recommending that all its members stop providing certificates
- › Estimated annual savings to the securities industry:
\$250 million USD

Dematerialization in the United States – Next Steps

- › Currently 85% of all withdrawal-by-transfer (WT) requests are for DRS-eligible issues
- › DTC has filed a rule change with the SEC to eliminate the option of obtaining a physical certificate on a WT and will default the request to DRS
- › **1980** - WT volumes: 27,000 per day
- › **2008** - WT volumes: 1,200 per day -41% into DRS
- › **Effective January 2009:**
 - › DTC will default all WTs for DRS-eligible and participating issues to DRS
- › **Effective July 2009:**
 - › All WTs will default to DRS

Dematerialization in the United States – Next Steps

- › **Q4 2009:** DTC will eliminate its Direct Mail program and will no longer mail certificates to investors or third parties
- › Direct Mail by Agent will still be available through transfer agents for DRS statements or certificates issued out of a DRS position

Dematerialization in Canada

- › To date, only Canadian issues listed in the U.S. have been affected and only to a minimal degree
- › 95% of these issues are DRS-eligible and participating
- › Some issuers have utilized DRS in the U.S. to facilitate corporate actions
- › Some Canadian issuers are asking if DRS can be used for distributions, spin-offs, etc. rather than to issue certificates

Dematerialization in Canada – Next Steps

- › Computershare plans to speak with its clients who are already affected by DRS about extending DRS to its Canadian shareholders
- › Presentation made to CDS on July 22
- › Presentation to Ontario Securities Commission planned for September 25
- › DRS will be a voluntary product offering but we expect that the take-up by U.S. listed companies will be fairly high starting this Fall

Dematerialization in Canada – Next Steps

- › DRS will be marketed as a voluntary product offering to the balance of our clients and to new clients
- › Take-up not expected to be high initially and since withdrawal into DRS is a dealer-driven option, enrollment will probably be low
- › DRS was a voluntary product in the U.S. for 10 years before rule changes made it mandatory

National Instrument 54-101

- Are changes around the corner?

- › CSA meetings: STAC, CSCS, CIRI, PDAC RiskMetrics, Georgeson, Broadridge, etc.
- › CSCS White Paper
- › STAC presentation to the CSA and the Alberta Securities Commission

CSCS Recommendations

- › Recognize and formalize the role of the Proxy Agent
- › Reconsider selection process for OBO/NOBO status to ensure clarity
- › Regulate the fees proxy agents can charge
- › Reinforce the controls around record dates for voting and reconciliation of beneficial positions to eliminate over-voting

CSCS Recommendations

- › Allow issuers to recognize beneficial holders and treat them as registered holders
- › Provide regulatory oversight and approval of fees charged by proxy agents

STAC Recommendations

- › Allow selective NOBO file delivery
- › Eliminate the legal proxy concept
- › Implement the use of the Omnibus legal proxy to achieve equal treatment
- › Eliminate increased OBO delivery charges when issuers deliver directly to NOBOs
- › Eliminate financial penalties for issuers who utilize abridging provisions of the Instrument

Notice and Access Rule – a season snapshot

- › 56 clients participated
- › 4.8 million notices sent
- › Fulfillment requests averaged 1%
- › Overall significant decrease in retail voting
- › Negligible quorum impact
- › Main issues – shareholder confusion
- › Cost savings – up to \$1.8 million, mainly driven by reduced print costs

Notice and Access Rule

- Overall decrease in shareholder voting

- › **<5,000 holders:** 10.6% voted (21.5% in '07)
- › **5,001-50,000 holders:** 7.4% voted (18.0% in '07)
- › **>50,000 holders:** 7.6% voted (16.0% in '07)

Notice and Access Rule - Quorum Impact

- › **<5,000 holders:** 89% (no change over '07)
- › **5,001-50,000:** holders 85.6% (86.9% in '07)
- › **>50,000 holders:** 79.9% (80.8% in '07)
- › The reason – **NYSE Rule 452**

Notice and Access Rule - Key Success Factors

- › Company-wide commitment
- › Ability to adopt earlier planning timelines for record dates, approvals, material conversion
- › Desire to provide a more user-friendly experience for shareholders
- › Ability to adapt to new processes, changing rules and tight timelines

Notice and Access Rule - Reasons for adoption

- › Potential costs savings
- › No concern with quorum or shareholder proposals
- › Good corporate fit – environmental compatibility, lower costs, and sustainability

Notice and Access Rule - Reasons for non-adoption

- › Unable to achieve 40-day timelines
- › Skepticism about savings – want to see other issuer's experiences
- › Concern about vote capture
- › Challenges in obtaining senior management approval

Recommendations to the SEC

- › Make hosted material available within 72 hours of mail date, not on mail date
- › Change 40-day mail requirement to 30 days
- › Make the Notice more investor-friendly:
 - › Provide more information
 - › Include a voting phone number
 - › Allow e-delivery of information
- › Provide a FAQ from SEC staff to help clarify issues and rules

Rule 452 – where is it?

- › Basically in limbo
- › This rule change was sent by the NYSE to the SEC in 2007. It is still there.
- › Rule 452 was supposed to be effective January 2008. At present, its effective date remains unknown
- › **Issues:**
 - › Three new commissioners
 - › Many proxy issues are under consideration
 - › Recent implementation of Notice and Access

Rule 452 – current status

- › Brokers are still providing “10-day” vote on all routine matters in favour of management
- › Election of directors is still considered “routine” under the Rule
- › We are starting to see “mirror” or proportional voting where dealers vote uninstructed shares in the same proportion as how instructed shares were voted. This is becoming more prevalent as issuers continue their shift towards stricter corporate governance.
- › When will Rule 452 change? Unknown at present time.

Registered / Trust Services

- ›Computershare has been in the registered plan trustee business since 1980.
- › More than \$20 billion of registered plan assets under administration.
- › One of the largest providers of registered trust services to independent brokerage firms and mutual fund companies.
- › Provided feedback to the Canada Revenue Agency during the development of Tax-Free Savings Accounts (TFSA) procedures and is ready to offer TFSA accounts.

Registered / Trust Services

›Computershare acts as trustee for the following registered products:

- › Tax-Free Savings Accounts (TFSA) - recently unveiled
- › Self-directed Retirement Savings Plans (RRSP)
- › Self-directed Retirement Income Funds (RRIF)
- › Locked-in RRSPs (LIRSP)
- › Locked-in Retirement Accounts (LIRA)
- › Life Income Funds (LIF)
- › Locked-in Retirement Income Funds (LRIF)
- › Prescribed Retirement Income Funds (PRIF)
- › Registered Education Savings Plans (RESP)
- › Group Retirement Savings Plans (Group RSP)

Registered / Trust Services

› Broker Benefits

- › **Brokers are able to offer registered plans to their clientele**
 - › Provides a competitive advantage.
- › **Uninvested cash is held by the trustee**
 - › Although required by securities policy and legislation, brokers benefit from specially-negotiated interest returns to their clients.
- › **Trustee bears ultimate responsibility for registered products**
 - › Brokers are able to refer to the trustee for administrative and legislative guidance.
- › **Saves you money**
 - › Computershare provides updated documentation and guidance following legislation amendments. These value-added services are included in our standard fees which saves your firm additional legal costs

Registered / Trust Services

› **Tax-Free Savings Accounts (TFSA)**

- › Computershare has been involved in active discussions with the Canadian Revenue Agency (CRA) and is ready to issue TFSA accounts.
- › Computershare has received comments from CRA on documentation. This documentation is now available for clients.
- › We have been active with CRA in the development of TFSAs and are available to assist with the implementation of these accounts and provide guidance on the administration of plans that include TFSA accounts.

Questions?

› Questions or concerns?