

14. *Organization and Operations on CSDS.*

Preliminary discussions within BASIC on this important topic have taken place, and will be accelerated after the legal and statistical studies referred to above are further along. A principal objective will be to obtain agreement among groups within the financial community on organization and operation, and the relationships of depositing groups to CSDS and to each other.

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The initial six months of staff operations by BASIC, although devoted primarily to the several projects reported here, are directed toward broader solutions to the inter-related problems of reducing or eliminating the difficulties associated with the movement of certificates and related documents. As an inter-industry organization, BASIC provides the focus for joint efforts. It will require, in order to succeed, the kind of wholehearted cooperation from all organizations that the BASIC Committee has received to date. We take this opportunity to express our appreciation to all those whose cooperation has been so important.

YEAR-END REPORT

Basic

*Banking and Securities
Industry Committee*

Basic

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BANKING AND SECURITIES INDUSTRY COMMITTEE

Committee

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HERMAN W. BEVIS <i>Executive Director</i>	Retired Senior Partner, Price Waterhouse & Co.
ROBERT W. HAACK	President, New York Stock Exchange
GORDON S. MACKLIN	President, National Association of Securities Dealers
WILLIAM H. MOORE	Chairman, Bankers Trust Company
RALPH S. SAUL	President, American Stock Exchange
WALTER B. WRISTON	Chairman, First National City Bank

Task Force

<i>Name</i>	<i>On leave from</i>
PETER C. CAMPBELL	Price Waterhouse & Co.
ARNOLD FLEISIG	New York Stock Exchange (formerly with Bache & Co.)
DAVID FUCHS	New York Stock Exchange
CARL T. HAGBERG	Manufacturers Hanover Trust Company
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MILAN S. SOLTIS	Chase Manhattan Bank

THE BANKING AND SECURITIES INDUSTRY COMMITTEE, formed in March, 1970, started operations on June 1, 1970, following recruitment of a Task Force to pursue specific problem areas which the Committee had designated earlier. By forming BASIC, the banking and securities industries were positioned for the first time to address, through a single organization, common problems involved in the processing of securities.

Establishing a Comprehensive Securities Depository System was identified as the most effective way of reducing future movements of stock certificates. Additional areas were established for joint study and action by BASIC and the Task Force. The objectives of these projects were to:

- Accelerate bank entry into the present New York Stock Exchange Central Certificate Service depository for delivery and receipt of securities by banks to and from brokers.
- Adopt a common system for machine-readable certificates and related documents.
- Develop uniformity in identification systems, documents and procedures.

During its initial six months of operation, BASIC has conducted studies in each of these areas. The scope of the subjects studied was broadened where research indicated the need for going beyond initial objectives.

In some instances, important decisions and action have resulted. The BASIC Task Force has received important assistance from individuals in associations, broker/dealer organizations, exchanges, banks, and government agencies in conducting its assignments.

During the second half of 1970, the BASIC Task Force worked on 14 projects aimed at resolving inter-industry problems and developing longer-range improvements in operating systems. The projects and their status are as follows:

- 1. Bank-Broker and Broker-Bank Deliveries through the Central Certificate Service.***
Following evaluation of a successful test conducted by First National City Bank with CCS deliveries, BASIC recommended to the New York Clearing House Association that all ten Clearing House banks participate in CCS for

completion of securities transactions. Most of the banks now participate and others are scheduled to enter the system.

2. CUSIP Numbers on Security Certificates.

BASIC recommended to the banking and securities industries that the CUSIP numbering system, developed over a period of years by the American Bankers Association and designed to provide a universal numbering system for processing securities, be adopted for their internal systems. A schedule was established for imprinting CUSIP numbers on stock certificates. This involved requiring that CUSIP numbers be shown on all stock certificates ordered after June 1, 1970; on all stock certificates delivered by banknote companies to transfer agents after October 1, 1970; and on all stock certificates issued by transfer agents after January 1, 1971. In February, 1971, at BASIC's suggestion, the banking and securities industry organizations represented on the Committee agreed that the use of the CUSIP system by their members would be mandatory after April 1, 1972. Thus, the necessary conversion will be undertaken and the CUSIP program be made operational over the next 14 months.

3. Uniform Documents. The pervasive problem of developing uniform documents for comparison, reclamation, delivery billing, and transfer instructions to replace the hundreds of individual forms in use throughout the banking and securities industries, is being addressed. Using comparison and transfer forms originally drafted by the Securities Imprinting and Processing (SIP) Committee of the ABA, the BASIC staff is developing, in consultation with operations executives, appropriate forms which will be recommended in the next several months. These forms will also provide for the CUSIP number, thus providing the means for linking the stock certificate to the documents that accompany it.

4. FINS Numbering System. A description of the Uniform Financial Industry Numbering System developed by the SIP Committee of the ABA was circulated for comment. Replies received by BASIC supported the concept of a uniform system and indicated suggestions for modifications, which are being studied. How-

ever, further development of this project will not be scheduled until the proposals for uniform documents, described above, have been approved, and the need for the FINS system reviewed in the light of these developments.

5. Uniform Transfer Requirements. Effective January 1, 1971, the ten New York Clearing House Banks adopted new uniform requirements for processing legal transfers. This program was the result of joint efforts by the Stock Transfer Association, the Transfer Problems Committee of the Joint Industry Control Group, and the Clearing House Banks. BASIC has assumed responsibility for urging similar steps by Clearing House associations and stock exchanges in other regions of the U.S. This effort is under way with the cooperation of the Stock Transfer Association. The new standards will assure faster transfers, fewer rejects and errors, and reduce confusion that resulted from differing and often contradictory requirements of various transfer agents across the country.

6. Machine-Readable Stock Certificates.

Exploring the development of a machine-readable certificate is one of the more important undertakings of BASIC. The Task Force staff has explored, in detail, alternative types of machine-readable certificates and, with the cooperation of equipment manufacturers and banknote companies, has made extensive tests of equipment to read and handle such certificates. BASIC has also analyzed the costs, benefits, possible conversion schedules and other problems associated with various approaches. It will continue to review technological developments that may be commercially available for processing stock certificates by machine.

7. DK's of COD Deliveries. Some 1,200 copies of a Discussion Paper proposing a program to reduce the number of rejected COD deliveries between banks and brokers, as well as suggested enforcement procedures, were circulated in December. The COD DK problem arises principally when brokers and banks do not have available, on a timely basis, information from customers that is necessary to process and pay for the transaction. The Paper notes the COD DK's run into hundreds of millions of dollars a

year, and give rise to interest charges at the rate of tens of millions of dollars. The proposal, while encouraging customers to control settlement of their transactions by specific instructions to agent banks, would have the long-range objective of settling any remaining COD transactions on the basis of standing instructions to agent banks to receive securities against payment on the basis of confirmations from brokers specified by the customer. Responses to the proposal are being evaluated, after which a further report and recommendations will be made.

8. *The Independent Registrar.* The question of whether or not over-all processing time would be saved by combining registrar and transfer functions within the same organization was studied in a Position Paper circulated in November. The Paper concluded that separate registrar and transfer functions do not delay completion of the transfer process to the extent that a forced union is warranted.

9. *Liaison with Financial Communities.* Liaison, on a regular basis, has been established with the financial communities in Boston, California, and Chicago, whose representatives now participate in monthly meetings with the BASIC Task Force. Information and ideas are also exchanged with the Canadian Depository for Securities. These liaison efforts will continue and be expanded to other interested communities.

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The Comprehensive Securities Depository System has been identified by the Banking and Securities Industry Committee as its most significant goal. At its year-end meeting, BASIC confirmed this objective as the most effective way to reduce future movement of stock certificates and other securities.

Achieving this goal will require formal determination of the depository's characteristics; the passage of enabling legislation; the creation of an acceptable corporate structure and management; and commitments to finance the considerable costs involved in preparation of plans for the design, programming and housing of highly sophisticated equipment, and development of programs.

The Task Force has been working on projects directed toward achieving these objectives, with the hopeful expectation that a comprehensive depository could be realized in a period of from four to five years. Specific projects initiated in 1970 include:

10. *Legal Problems for CSDS.* Eight law firms have virtually completed a survey of the laws of 50 states to inventory the legal obstacles that exist to the placing of securities held by banks and other financial institutions in a depository. When the survey is completed, proposed legislation will be drafted for review and legislative consideration.

11. *Controls, Safeguards, and Principal Procedures.* Extensive studies of the NYSE Central Certificate Service, as a model for a CSDS, were made in order to develop, in written form, the principal control and safeguard procedures necessary for a Comprehensive Securities Depository System.

12. *Single Depository vs. "Two Module" System.* A comparison of procedural differences between a single depository system and a "two module" system was prepared and circulated to several exchanges. Conferences were held to compare advantages of the first format, which would hold all depositors' security balances, and the second, in which brokers' balances would be in a broker module, which has its own account with a central depository.

The advantages of both these approaches are being evaluated in light of present experience and technological developments.

13. *Quantitative Data on Securities Movement.* Plans have been developed for securing from the N.Y. Clearing House banks and brokerage organizations data on securities movements and transfers that would be eliminated by a CSDS, and the quantities of securities that would be deposited. This data should be available during the first quarter of 1971, and will be used to estimate costs and benefits to prospective depositors and to estimate an order of magnitude of CSDS operations.