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Mr. Jonathan G. Katz, Secretary  
United States Securities and  
Exchange Commission  
450 Fifth Street NW  
Washington DC 20549-0609

RE: RELEASE NO. 33-8398; 34-49405; 1C-26384; FILE NO. S7-13-04

Dear Sir/Madam:

This letter is submitted on behalf of Continental Stock Transfer & Trust Company ("CST") in response to the above-referenced concept releases. CST represents more than 1000 issues nationwide and maintains in the aggregate more than 1.5 million registered shareholder accounts. We very much appreciate the opportunity to present our views to the Commission.

With regard to the Commission's initial questions relative to the possible implementation of a settlement cycle shorter than T + 3, it is CST's position that the costs and risks associated with shortening the current cycle vastly outweigh the benefits. Even the SIA, which had long advocated a shorter settlement cycle, was compelled to back away from that position once the enormous costs of such a change were quantified. Those costs, the SIA concluded, outweighed the projected benefits. In this regard CST feels constrained to point out that the costs to transfer agents, issuers and other custodians would likewise be enormous, and there would be no offsetting benefit at all to this class of affected entities. Moreover, it is unlikely that transfer agents could pass on to either their issuer clients or shareholders the costs of a shift to T + 1 or T + 2, thereby seriously undermining our business model.

While there are, as noted by the Commission in its release, certain additional efficiencies which could enhance the T + 3 cycle, CST believes that the current settlement cycle strikes the proper balance between risk and efficiency on the one side, and cost on the other.

With regard to the Commission's release pertaining to the immobilization and dematerialization of equity securities certificates, CST endorses and supports the Commission's longstanding position that the securities markets should move toward increased dematerialization, while at the same time protecting the individual investor's rights to be directly registered on the books of the issuer, and to request a certificate if they so desire.

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CST agrees that utilization of certificates may not be the most efficient method for processing the vast majority of equity securities transactions, and that certificates generally result in increased costs for both the brokerage industry and for custodians.\* Nevertheless, we feel constrained to note that there are certain instances where certificates, as an option, make sense:

1. Where the investor insists on physical custody of his holdings;
2. Where the investor holds restricted securities, and
3. Where the investor needs to pledge or otherwise hypothecate shares; e.g., place them in escrow in accordance with the prevailing laws in the 50 states and the Uniform Commercial Code.

While these examples represent a small fraction of securities processed, each is significant in its own right as a reason to require certificate ownership as an investor option. The brokerage industry, represented by both the SIA and DTC, would have the Commission believe that certificates serve no purpose and are both inefficient and expensive. While the CST believes that the vast majority of securities transactions can, are and should ultimately be processed in an uncertificated environment, it is simply unwise, indeed impossible, under current legal constraints to eradicate certificates altogether.\*

The SIA and DTC, each representing the brokerage community, are anxious to eradicate certificates, both to reduce costs and, more fundamentally, as a mechanism to move away from direct ownership by investors on the issuer's books. Quite simply, the brokerage community seeks more assets under their management and control. This prospect is anathema to transfer agents, custodians and to their issuer clients. In this regard, it is instructive to note that while the brokerage industry has time and again been found to have engaged in unlawful and abusive practices vis-à-vis the investing public -- subjecting investors to billions of dollars in losses -- the same is not true of transfer agents and custodians. They act as a neutral intermediary and as a recordkeeper -- they do not, at the same time, make investment decisions or recommendations for the investor. We urge the Commission not to lose sight of this salient consideration.\*\*

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\* The SIA and the Commission emphasize the costs associated with lost certificates. However, those costs diminish dramatically each year as dematerialization increases, and it is the individual investor who pays this cost. Accordingly, the cost properly rests with the party who finds benefit in having possession of a certificate. Moreover, both the SIA and the concept release ignore the increased costs of dematerialization relating to the costs of sending statements to shareholders (annual rather than only upon issuance), unnecessary escheatment (increased risk due to address changes coupled with lack of a certificate) and identity theft (significantly more of a problem without certificates).

\*\* Additionally, when brokerage firms have failed or have been shut down by regulators, investors have been without access to their securities for prolonged periods, and have sustained mammoth losses. The fact the SIPC has stepped in has been a savior for investors, but the costs and inconvenience associated with SIPC's assumption of these obligations have been staggering. On the other hand, there have been virtually no investor losses associated with the failure or closure of registered transfer agents or custodians.

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CST firmly believes that there are benefits to be derived from dematerializing equity securities in the United States. Efficiency, portability, ease of negotiation, and certainty in execution of corporate actions, are among the many attributes a book-entry environment will support. However, CST further believes that the concept of direct ownership of securities must continue to be fully supported in the proposed dematerialized environment, and that direct ownership need not be synonymous with holding securities in certificated form. Direct ownership must be preserved and "in the system" must include both holdings at brokerage firms and those at custodians, and the Commission should mandate that they be afforded equal weight and treatment.

In terms of moving forward with increased dematerialization, the CST believes that the Direct Registration System ("DRS") is a useful but incomplete model. CST favors expansion of DRS, but we note that DRS is an inefficient model for total dematerialization, because DRS is not constructed to deal with restricted securities, escrowed securities and pledged securities. Under current states' laws and the UCC, physical certificates, not DRS, are mandated for such transactions. Moreover, as we have noted in our quarterly meetings with the Commission, while DRS is a usable model, it's implementation has been underwhelming. In the first instance, we note that while the brokerage industry and the SIA championed DRS, they have not been able to implement DRS by adequately educating primary brokers, clearing brokers or investors. In reality and in practice, the number of brokerage personnel who understand and can implement a DRS transaction is miniscule. Until this is changed drastically, talking about increased dematerialization is just talking.

We urge the Commission to require more DRS training and education for clearing brokers and primary brokers alike; and we urge the Commission to mandate that brokers distribute to their clients an education pamphlet cleared by the Commission which sets out in a neutral fashion the advantages and disadvantages in DRS of holding shares directly on the issuer's books or, in the alternative, in street name.\*

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\* Unless and until the brokerage community can execute DRS transactions properly and explain the system to their own customers, the costs to transfer agents in processing DRS transactions far outstrip the costs of handling certificated transactions. This is particularly true for small and medium sized agents.

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Additionally, we note that DRS implementation and expansion have been hamstrung by the fact that those issuers not presently participating in DRS have little or no incentive to subscribe to DRS in the absence of a split, stock dividend or other corporate action resulting in distribution of shares to a substantial percentage of the shareholder base. While issuers may agree in concept with dematerialization, our current DRS experience shows that the number of certificates issued in daily processing does not diminish after adoption of the system. In order to change this, securities exchanges need to make DRS a condition of listing and DTC's WT (withdrawal) transactions need to default to DRS shares where the security being withdrawn is DRS-eligible.

The expansion and refinement of DRS might serve other purposes in addition to facilitating dematerialization. Given the communication mechanisms contemplated in ongoing NFE\* discussions, DRS could be the vehicle that would allow transfer agents to hold in custody those directly registered positions currently under control of broker-dealers in physical form. Further, for those issuers seeking greater transparency of ownership and for those investors who hold securities in brokerage but who have a desire to stay directly connected to the issuer, a perfected DRS could be the vehicle that allows beneficially held positions to be placed on the issuer's register, while maintaining broker-dealer control. Similarly, DRS could support periodic transfers of broker-dealer stock records to the issuer for various and sundry purposes including, but not limited to, annual meeting relating communication/solicitation.

CST believes strongly that the current proxy voting and distribution rules totally obstruct effective communication between issuers and their shareholders. An effective DRS system and true transparency are, we believe, essential. The current distribution system is simply broken -- it results in a compromised voting structure where over-votes are the norm, and the costs to issuers are astronomical and artificially inflated.\*\*

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\* Recent conversations between the STA and DTC relative to NFE have been very productive; and we believe that NFE is, in all likelihood, the most effective vehicle for true, large scale dematerialization. However, the costs to transfer agents and custodians for implementing NFE are enormous, and we need to explore together with DTC the economics and fees to be charged under such a system.

\*\* In this regard, we note that having the NYSE, a conglomerate of brokerage firms, setting fees for their own members to charge issuers through ADP is problematic.

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Therefore, CST urges the Commission to conduct a thorough review of the current shareholder communications system and to consider rule changes to facilitate communications by issuers with their shareholders. We join the Business Roundtable in recommending that the Commission consider requiring brokers and banks to provide issuers with contact information for all beneficial owners and to permit issuers to mail proxy materials directly to all beneficial owners. We believe this is an important step in improving communications between issuers and all their shareholders, a critical component in the Commission's stated goal of enhancing security holders' ability to participate meaningfully in the proxy process.

Thank you for considering our position on these important issues.

Very truly yours,

Continental Stock Transfer &  
Trust Company

By: \_\_\_\_\_

Steve G. Nelson  
President and  
Chairman of the Board

SGN/ecs

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From: STEVEN G. NELSON

Date: June 15, 2004

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US AT (212) 509-4000, EXT. 201.