

ESCHEAT POLICY EXAMPLE FOR SECURITIES COMPANY

Unclaimed Customer Accounts

The Operations Controller has oversight responsibility for compliance with the escheatment laws of the various states in which the Company does business. The states require that returns be filed either in the spring or fall and each has a statutory dormancy requirement. Filing and dormancy requirements for the states are updated annually from information published on the National Association of Unclaimed Property Administrators' (NAUPA) website. The Ops Research Specialist identifies the new dormancy and filing requirements by state by type of property and forwards this information to the Operations Controller, who then informs the IT group for setup in the system.

Depending on whether the return is being prepared for a spring or fall filing requirement, a query is run by the IT Dept. on all customer accounts based on the dormancy parameters setup and the Unclaimed Property Escheatment Report is produced. The Ops Research Specialist will pull The Escheatment Report from Report Distribution at either the beginning of January, for the Spring filing or the beginning of July, for the Fall filing.

The Operations Controller verifies that the correct dormancy period has been applied for each state for all accounts identified on the Escheatment Report (produced by IT). In addition, monthly, the IT dept will produce the Correspondent Escheatment Notification Report. This report identifies all accounts that are closed with either the returned mail or inactive restriction, and are not already coded abandoned. Each office maintains their own policies and procedures for when to close an account as inactive or for returned mail. They notify us to have the appropriate restriction placed on the account. This report will be available in CSS Report Distribution to appropriate Ops personnel and to Correspondent Offices. This report shows how many days are left in the required dormancy period for each account based on the returned mail restriction date. Once the days left are zero, and if the broker has not removed an account from the list, an automated program will run to code all these accounts abandoned so that they will be captured on the next Escheatment Report.

Due diligence letters are automatically produced from the Escheatment Report for each of the accounts listed. This letter attempts to notify the account holder that [company name] considers the account abandoned and will escheat the property to the state if not contacted in thirty days.

Should a response be received, the Ops Research Specialist will take whatever action is appropriate and remove the account from the escheat list.

After the thirty-day notification period has ended, all escheatable cash and stock positions are moved from the customer's account to the appropriate state's account (each state is set up with its own account). At this point the Ops Research Specialist Operations Controller enters all the escheatable items in the HRS Pro or UPEXchange Reporting System that generates standardized Owner Reports (using the NAUPA approved format) that will be filed with each State.

The Stock Transfer Department will re-register all physical positions to be escheated in the nominee name of the relevant state. Since the re-registration process can take several months, the Ops Research Specialist tries to get the stock transfer list to the Stock Transfer Department at least sixty days prior to

the filing due date. A list is maintained by the Ops Research Specialist to ensure that all of the certificates are returned.

In addition, the Dealers Dept will deliver all DTC eligible positions to the appropriate State's DTC account.

Once all physical certificates have been received and all DTC eligible positions have been delivered for a specific state, the Owner Reports are printed from the reporting system listing the details of the property to be sent.

If there is a case where a certificate is still outstanding by the filing deadline (because re-registration is still in progress) the item will still be included on the Owner Report, with a special note attached, and the report will be filed with the State by the due date. Then the certificate will be forwarded to the State once it is received from the transfer agent.

Certain positions cannot be transferred to a new owner. This may be because the organization is going through bankruptcy, a name change, stock split or any number of other reasons. The Ops Research Specialist will establish transferability by contacting the Depository Trust Company. [The Depository Trust Company \(DTC\)](#) is a member of the U.S. Federal Reserve System and a registered clearing agency with the Securities and Exchange Commission. The depository retains custody of securities issues, storing them as electronic files rather than as stock certificates. The depository also provides the services necessary for the maintenance of the securities it has in custody.

Non-transferable positions meeting the escheatment requirements are moved to a segregated account for each state since ownership cannot be transferred to the State. The Company may be required to continue to hold this property on the State's behalf indefinitely. Since non-transferable status can be temporary, these positions are checked annually. If the status has changed, it will be sent to the appropriate State.

"Negative Reports" are filed for every applicable State when no property is being escheated.

State standards and due dates are updated annually from information obtained from the NAUPA website. (Please note that Fall 2004 was the first time [company name] prepared its own Owner Reports for each State and sent property directly to the State. Prior to this, [company name] used third party vendors to file each State's Owner Report. All property was sent directly to the vendor, who then prepared the owner report from data provided to them and forwarded the property to the State on the Company's behalf.)

Before the reports and related property are sent, the stock certificates are imaged. A check request is prepared by the Ops Research Specialist and sent to the Receipts and Disbursements Department. When the Ops Research Specialist has received all of this, the package is sent to the state and stock movement entries are made (also by the Ops Research Specialist) to deliver off all positions. Documentation is retained for ten years--statutory.

Cash Reconciliations

The cash reconciliations process also gives rise to escheatable items. As reconciliations are performed certain drafts not clearing the account are identified and monitored so that appropriate action can be taken when they have reached the statutory period.

The escheatment process for reconciliations is initiated by Operations Controller. Twice annually, the Operations Controller notifies the Reconciliations Supervisor by e-mail that it is time to begin the reporting and escheatment process. This e-mail lists the states for which escheatment is due and the dormancy period for each state. The reconciliations department will apply this information to the listing of outstanding drafts and prepare the escheatment report for each state. The department will also send

out “due diligence” letters to notify the payee that the amount originally due them is in the process of being escheated to the state. Payees have thirty days to respond to the letter.

The reconciliations department has a fairly high rate of response. Where the response is positive, the reconciliations department cancels the previous draft and notifies Receipts and Disbursements to reissue a replacement. Appropriate adjustments are made to clear the outstanding item off the reconciliation.

Where no response has been received after the deadline period has expired, the reconciliations department will cancel the previous draft and journal (credit) the remittance amount back to the customer’s account. Then the Ops Research Specialist will move the funds to the appropriate state account and these funds will then be included in the process noted above for customer accounts.

The reconciliations department will send a spreadsheet that lists the escheatable items to the Operations Controller then the Ops Research Specialist will input the information into the HRS Pro or UP Exchange Property Reporting System.

Also used in the escheatment process is the Uncashed Checks Report produced by CSS. This Report is available monthly and lists all outstanding drafts to our brokerage offices and correspondents over 3 months old by office/rep. This allows for a proactive approach to resolving these before they become due for escheatment. However, any outstanding drafts not resolved from this report that reach the dormancy requirement will still be handled in the same manner as explained above.

Unclaimed Dividends

The escheatment of unclaimed dividends follows the same process as that for unclaimed customer accounts and cash reconciliations discussed above. The Operations Controller will send a list of the escheatment requirements to the Dividend Supervisor and all other Operations supervisors who will prepare a spreadsheet of qualifying unclaimed dividends or customer funds/securities and send it to the Ops Controller for escheatment. As is the case with cash reconciliations, the dividend will either be moved to a clearing account against which the dividend payments to the states are posted, or will be moved back to the customer’s account, if appropriate. If this is the case, then the Ops Research Specialist will move the funds to the appropriate state account and follow the normal procedure from there.

Third Party Administrators

All Third Party Administrators (TPA’s) used throughout the Firm that issue checks on our behalf, need to be identified and their escheat policies should be reviewed and confirmed annually.

The Operations Controller will send out a firm-wide email annually to remind all areas to be aware of any new TPA’s and to have them review escheat policies for new and current TPA’s. This will include confirmation that proper Unclaimed Property Filings were completed by the TPA, if applicable.

This review and confirmation is the responsibility of each area that uses the TPA and they must provide this information to the Operations Controller each year. This information will be filed along with the annual Unclaimed Property filings for that particular year for [company name].