"MR. CUSIP" DIES AT 94

Joseph Siegel, "the Dean of S&P" and "the father of the CUSIP System" passed away on Feb. 25th at age 94. His death was announced by **McGraw-Hill** Chairman and CEO **Terry McGraw**, who detailed Joe's amazing 75-year long career, dating from 1928, when he started as a messenger for **Standard Statistics** at age 14. By 1944, when Standard Statistics merged with **Poor's Publishing**, he'd risen to controller, and he served on the **S&P** Board until 1966 when McGraw-Hill acquired the company.

In 1968 Siegel was appointed V.P. of Administrative Services and V.P. of the CUSIP Service Bureau, where, as McGraw described, "he was instrumental in promoting the CUSIP numbering system, tirelessly advocating its implementation industry-wide as the standard identifier for all securities."

These days, most people haven't a clue how CUSIP got its name, much less a recollection of the crisis that created such an urgent need for the CUSIP system - much less a sense of how hard it was to get the mostly-nay-saying securities industry on board for the needed fixes. So here, for our ongoing History series, are the facts:

For starters…are you ready for this? CUSIP stands for the Committee on Uniform Securities Imprinting and Processing. The Committee was formed at the very height of the "Paperwork Crisis in the Securities Industry" – a crisis that arose from the monster bull-market of the late 1960s. The industry was literally drowning in paperwork - and several prominent Wall Street firms literally went down for the third and final time because of their inability to keep their books in balance. (Your editor was a first-hand witness to and participant in this ungodly mess, first as a bookkeeper in the shareholder recordkeeping department of a major transfer agent, where 11 hour days and six and sometimes seven-day workweeks had become the norm - until, oh happy day, he was 'loaned out' by his bank employer as a staffer/gofer to the Banking and Securities Industry Committee (BASIC), which was formed to solve the crisis).

One of our first go-fer projects revealed that the average security was passed around from hand to hand – endorsed and re-endorsed "in blank", which made it a "bearer instrument" - ***nine times*** before it was presented for re-registration in the name of the then-current owner. If a dividend or interest payment came due along the way, the 'holders' on the record date would rush to dump all the relevant stocks they'd been holding, or hoarding, or 'waiting to get to' on the transfer agent's doorstep, all at once. Many times they were quite literally dumped by the truckload, since most stock certificates then were in small denominations, so banks and brokers could easily "make change" in order to settle sales because, back then, *all sales* had to be settled by making an actual delivery of actual stock certificates.

Our study of *this process* revealed that the average stock certificate would be processed about 3.5 times before the players ultimately got it right. Typically, it would be rejected by the transfer agent as being 'deficient' in some manner, which usually it was. Then, after being resubmitted with whatever additional paperwork was required, the odds were high that it would be rejected yet again, as *still* being deficient. If not, the odds were about 50-50 that the transfer agent would make a typo, or leave something out, or return it to the wrong party, so the broker would have to resubmit yet again…And often, this started yet another cycle.

Very often, the bank or broker, or the real owner, would "miss the window" to get the transfer done by the record date. Then they would have to go back to the holder of record on the record date in order to claim the dividends that were due (if they had time, that is, which many firms did not) – and furnish *more paperwork* to prove that the dividend was due to *them*. (Many firms just figured it would all even-out in the end, but others, when forced to pay out a lot more than they'd actually collected, or were able to collect, went bust.)

Enter Mr. CUSIP & company: Quite aside from the problems described above – like crushing volumes, war-wearied workers, sloppy submissions followed by equally sloppy execution, in an era where automation was almost totally lacking – it soon became apparent that the near-total lack of *uniformity* was adding to the paper pileup. Every bank and broker had its own transfer form, and its own delivery form, and every transfer agent had its own 'rejection form'…and no two looked much alike. So the poor clerks had to rifle through the documents, hunting around for the data they needed, and sometimes not finding it at all.

Another big, and related problem, arose from the fact that in many cases it was hard to tell one security from another just by looking. An even bigger problem, most back offices would refer to stocks - and bonds too - by their ticker-symbol, or by what they *thought* was the right ticker symbol. So preferred stock holders would often get common stock in error, or American Express holders might get back AMAX (American Metal Climax) for their AMEX, or get American Electric, or American Home Products, or American Waterworks by mistake. Or maybe some AMEX and some AMAX would get mixed together at the bank or broker, in which case, the luck of the draw would determine what they got back. Thus, the need for a Committee on Uniform

Securities Processing and Imprinting soon became apparent.

The CUSIP agenda had four main objectives: The first objective was to develop a *universal numbering system*, one that would give a unique number to every class of security still in circulation, and to every new security going forward. The second was to require that the CUSIP number be *imprinted* on all new stock certificates – and ideally, on all as yet unissued securities in T-A and banknote company vaults. The third objective - the "*uniform*" part of CUSIP - was to assure that the numbers would be imprinted in basically the same *area* of the stock and bond certificates, and in bold enough type, so clerks could find them readily. And very soon, the CUSIP Task Force realized that the forms that carried the key info that banks, brokers and TAs needed – needed to be "uniform" too. And, finally, even though computers were just then coming into commerce, the Committee soon realized that the CUSIP numbers – and the forms themselves – and ideally the certificates too – ought to be "machine readable" – at least in theory…so they could be more readily "processable". But that's another chapter altogether.

Suffice it to say that a battle-royal raged through the industry. Most of the old guard believed that an adequate numbering system could never be devised. No one even knew how many securities issues were out there, although, for sure, they were in the high hundreds of thousands. And even if it could be done, who'd maintain such a directory? since, they thought, there'd be no money in it. Here, of course, is where Standard & Poors, and Mr. Cusip, really stepped up to the plate, and ultimately saved the game.

The nay-sayers were far from done however: Who'd pay to re-design those elaborately engraved and *intentionally crowded* stock certificates to make them more "uniform" – and to make room for the CUSIP number? Who'd pay to imprint CUSIP numbers on all those certificates still in inventory? How do we know that CUSIP numbers would ever *be* machine readable? Should we require OCR or MICR fonts? Or require that the CUSIP number be imprinted in bar-code too? Should we consider chucking the old-style engraved certificates altogether, and substitute "machine-readable" "punch cards"? And wouldn't the introduction of any or all of these relatively new technologies run the risk of creating more mistakes than ever?

Today, of course, we take "uniform forms", "machine readable forms" and stock certificates that are "mostly machine readable" (even while they're fast disappearing from the scene) very much for granted, so it's hard to fully appreciate the great work and the great legacy that Joe Siegel - "Mr. Cusip" - and his colleagues on the CUSIP Task Force created for us, all in a relatively short span of time.

A brief P.S. The amazing Joe Siegel was an avid skier and skater until his 87th birthday, McGraw's memo told us, and he exercised daily, into his 90s. He was also "a key driver in pioneering [S&P's] efforts to license the S&P 500 index for use as the basis for financial investments" …where today, we'd note, over one trillion dollars of securities are so indexed. His advice on "what it takes to be successful" is also this issue's Quote of the Quarter. We'd all do well to take it to heart.

QUOTE OF THE QUARTER…

"I think the whole idea is to look for good ideas, be innovative. I was interested in things even if I didn't have much to do with them. When I had a job to do, an assignment, I did things with it. I built a fire under it."

Joe Siegel, "Mr. Cusip", on "What it takes to be successful"