TFS Capital

January 12, 2018

Ms. Ann Shuman
General Counsel
DTCC
570 Washington Blvd
Jersey City, NJ 07310

RE: Worthless Securities

Dear Ms. Shuman,

I am one of the founding partners of TFS Capital LLC, a registered investment adviser from 1997-2017 that managed mutual funds and hedge funds. In the fall of 2017, we announced the orderly liquidation of our funds and the wind-down of our business. In the course of liquidating our funds, a concerning industry practice that harms retail investors came to light that I believe warrants DTCC's immediate attention.

DTCC maintains securities in its records indefinitely that are worthless and illiquid; these securities have not been "taken down" by DTCC despite the fact they have been deregistered by the SEC, delisted by the exchanges, have no existing business location, operations, management or employees and their registration is not in good standing in their state of incorporation. We have been advised by DTCC that only a written request from either the issuer or their corresponding agent will provoke DTCC to initiate its "take down" procedure.

While an investor in a long position in any of these worthless securities may be able to walk away from her positions or write them off through the PREM function, an investor with a short position in these securities has no such recourse. DTCC's failure to remove these securities from its records can trap investors with short positions in illiquid securities for an indefinite number of years. Brokers holding these short positions in client accounts require the investor to maintain very onerous margin requirements, as well as pay stock lending fees.

The timeline of the stock of China-Biotics, Inc. ("CHBT") is illustrative of this issue. On Friday, November 1, 2013, CHBT's common stock traded in amounts consistent with the average daily volume of the previous months and closed at $2.60 per share (a 1.9% increase from the prior day's close of $2.55). The company's market capitalization was $58 million on this day. There was nothing to indicate to an investor that orderly markets would never exist again for this security. However, prior to the open on Monday, November 4, 2013, all trading was halted on the stock and it has not traded since that date on any exchange. The SEC issued an Order dated November 4, 2013 revoking China-Biotics, Inc.'s registration. On July 30, 2014, American Stock Transfer terminated its services to the company. At present, TFS cannot find anyone in any capacity to represent the company.

Basically, China Biotics does not exist and hasn't existed for a long time. However, this chain of events made it so that the TFS Market Neutral Fund, a mutual fund managed by TFS Capital, was unable to close out its short positions. Since CHBT's delisting, the mutual fund has paid hundreds of thousands of dollars in stock lending fees and remains subject to the $2.50/share margin requirements imposed by DTCC's members, registered broker-dealers.

As TFS learned, an operating mutual fund that is short these positions incurs expenses associated with DTCC's practice. Moreover, in the face of liquidation and dissolution, mutual fund shareholders could be forced to accept interest in a liquidating trust with a long and indefinite lifetime in place of a portion of such shareholder's interest in the mutual fund. This is particularly troublesome because the investor's interest in that liquidating trust will erode over time as the stock lending fees and necessary operating expenses of the trust are incurred.

In our attempt to resolve these situations with the brokers holding our mutual fund's short positions, we have come to understand that the brokerage industry is very aware of this issue. For example, we have been advised SIFMA's Worthless Securities Working Group and the FINRA 4210 committee exist to consider this issue, among others. However, DTCC member firms evaluate this issue in the face of a glaring conflict of interest. This situation benefits brokers that continue to hold collateral for short positions in these securities and collect stock lending fees, as well as fees on the posted collateral. Sadly, this situation ultimately harms investors, including retail investors in public mutual funds.

I am contacting various organizations and regulators in an effort to effect change within the industry on behalf of investors. In particular, I believe it doesn't make sense that DTCC's members and others are financially incentivized to maintain this broken system. I suggest the industry eliminate these incentives by (1) prohibiting stock lending fees on securities that are not trading due to a regulatory halt and (2) removing the ability of brokers to collect revenue on collateral posted for these positions. I also believe the brokers' collateral requirements for delisted positions should be changed to more reasonably reflect the risks inherit in the positions.

I urge DTCC to change its procedures as well with the goal of providing for the timely and orderly removal of the delisted securities. I suggest these securities be removed after a certain, defined period of time – such as one year from the date of delisting. If there is any ambiguity as to the value of these securities at that point in time, the onus should be on the issuer to periodically make representations, produce material, and pay costs that would encourage DTCC to maintain the listing.

For the foreseeable future, I plan to engage DTCC and the industry overall to effect change that benefits investors. I appreciate your time and look forward to hearing DTCC's thoughts on this matter. I can be reached at the mailing address below, by email at rgates@tfscapital.com or by phone at 610-719-8362.

Sincerely,

Richard Gates

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