



STOCK TRANSFER AGENT

GUIDE TO SELECTING A STOCK TRANSFER AGENT

Courtesy of ClearTrust, LLC



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Additional resources, including videos, case studies and testimonials, are available

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The importance of transfer agents

The stock transfer agent is one of the most important service partners a public or private company has. Their significance stems from their function: managing the company's shareholder database. Essentially, every record of corporate ownership, and every exercise of rights associated with corporate ownership (including a shareholder's right to vote) is managed and documented by the transfer agent.

The transfer agent keeps the definitive record of registered owners of a company, evidences each investment in a company through the issuance of stock certificates or book entry shares, and facilitates the movement of a company's securities both in the primary and secondary markets. Poor recordkeeping or failures on the part of the transfer agent can paralyze a company's ability to raise capital and prevent investors from being able to liquidate their investment. ***Selecting the right transfer agent is crucial.***

The problem with transfer agents

Unlike other service providers in the financial industry, such as brokers, investment bankers, auditors, and attorneys, the transfer agent does not have to be certified or licensed. Under SEC Rule 17Ac2-1, opening a transfer agency takes little more than completing an online form. There have been bizarre cases of agencies run out of garages and living rooms, and exotic pets defecating on live stock certificates. Simply put, a transfer agent's mere existence means nothing in terms of expertise or competency.

In addition to lacking any meaningful entry standards, the transfer agent world also lacks the transparency typically created from online rating or feedback forums. A traveler can explore new restaurants or hotels with confidence, courtesy of TripAdvisor, Google, and other online rating and review systems that allow customers to leave open and honest feedback about their experiences. The transfer agent industry offers no such transparency to its clientele. Aside from referrals, conferring directly with other issuer clients, or engaging a paid consultant for a custom evaluation (which is seldom unbiased), there are precious few ways to glean candid insight about a transfer agent's quality of service.

Exacerbating this problem is that most transfer agents make it extremely difficult and expensive for an issuer to change agents by constructing binding multi-year agreements, high termination fees and other creative exit penalties.

It is key that a company make a wise partnership selection in the first instance.

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The trade-off

Most transfer agents fall into one of two categories: large or small. Issuers have traditionally had to choose between a difficult tradeoff: the expertise of a large agent at the expense of tailored service, or the personalized service of a small agent at the expense of trade expertise.

Large transfer agents typically have in-house counsel and compliance specialists, offering industry knowledge, solid internal controls, and robust technology. Service costs are typically higher, and the unique needs of smaller companies and their investors often cannot be met at a large shop. Smaller companies are not a large agent's target market, and can feel like a small fish in a very large pond.

Small transfer agents have strived to fill the custom service void left by the large agents, and focus almost exclusively on serving smaller issuers at competitive rates. However, they typically do not have the luxury of in-house specialists and usually fall behind large agents in terms of technology and industry expertise, leaving issuers exposed to an uncomfortable level of risk.

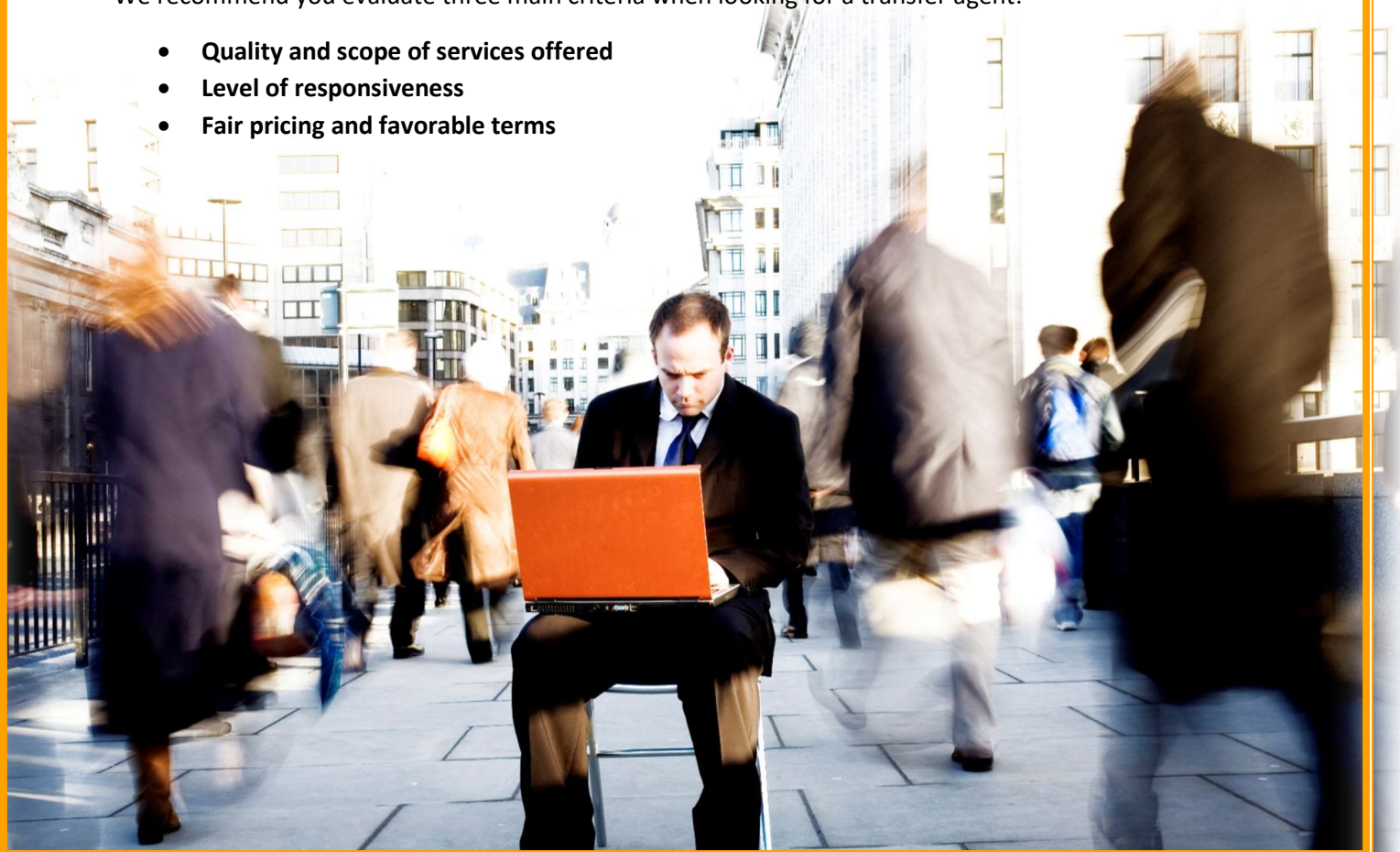
Hence, the historical tradeoff: large agent expertise or small agent service. But growing companies in today's regulatory environment need both, and shouldn't have to choose.

ClearTrust is positioned to offer issuers the best of both worlds. We are small enough to know you by name and personalize your shareholders' experience, and our team is comprised of experienced professionals with specialized industry knowledge to give you confidence in our work.

The homework

We recommend you evaluate three main criteria when looking for a transfer agent:

- **Quality and scope of services offered**
- **Level of responsiveness**
- **Fair pricing and favorable terms**



QUALITY AND SCOPE OF SERVICES OFFERED

Transfer agency work is *service*, and quality service begins with *people*. *People* are the driving force behind your stock being delivered on time, your records being managed accurately, and your shareholders' votes being counted. *People* are the face of your company to your investors. *People* are what makes your transfer agent an asset or a burden to your business.

Quality service will stem from a motivated team of people united by a common goal: Acting as an ally to your business and serving as liaison to your shareholders. The transfer agent is an agent acting on your behalf; the organization has to reflect your corporate culture and values to your investors.

It is essential, therefore, that you are not treated as just a number, just an account, just an issuer. Your transfer agent should understand your business and your future goals. They should know any challenges with shareholders that are cause for extra monitoring, and they should know what type of activity you'd like to be notified about. They should be an extension of your company, an agent seamlessly acting on your behalf. This is impossible if you are just a number. When looking for a transfer agent, look for one with a competent team of people who take the time to know you.

The core record-keeping services of the transfer agent should reflect a commitment to efficient, accurate processing. Records should be kept in indexed, scanned format for easy, on-demand retrieval. Checks and balances should be in place to ensure the accurate posting of issuances, transfers, and cash allocations. A continuing education program should be in place to ensure staff is up to date on the latest regulatory trends. Disaster recovery, cyber security, and fraud prevention programs should also be in place to give you added protection and peace of mind.

Further, your transfer agent should be able to demonstrate to you their active involvement in the industry. Do they contribute comment letters to the SEC on matters of importance to the industry? Are they an active member of the Securities Transfer Association? Look for evidence that the agent is engaged in the industry and contributing to its advancement and refinement.

The scope of services offered is often a reflection of the level of interest a transfer agent takes in your success. Look for a transfer agent that can do more than the archaic, SEC-prescribed basic record-keeping function. Your transfer agent should offer strategic, value added services that make your job easier.

- **Online capabilities.** You and your shareholders should have online account access, and an easy-to-navigate website with forms, instructions, and tips.
- **Broker deposit assistance.** Your shareholders will eventually desire to deposit shares into a brokerage account for secondary market trading. Due to the ever-tightening regulatory

Ask about the people.

1. What experience do they have managing accounts like yours?
2. Will you have a single point of contact or various departments to work with?
3. Will you have direct access to upper management?
4. Specifically how have they helped other companies overcome obstacles or attain greater success?
5. Is working at this transfer agency a job or a career to its employees?

environment, brokerage deposits can be burdensome, time-consuming, and costly. Your transfer agent should be able to assist your investors through the entire process of depositing shares.

- **Paying agent services.** If you pay cash dividends, or intend to at some point in the future, your transfer agent should be able to serve as paying agent, along with managing the requisite tax reporting.
- **Shareholder meeting services.** Your transfer agent should be able to serve as a single point of contact to coordinate the entire meeting process, streamlining the project and producing cost savings where possible. Look for virtual meeting capabilities, printing and mailing services, online voting capabilities, and service as Inspector of Elections.
- **Compliance guidance.** Compliance is by far the most burdensome aspect of being a public company. SEC crackdowns in the past few years has kept compliance in the limelight. Your transfer agent should be able to help you navigate these rules *without overburdening you or your shareholders.*
- **DWAC, FAST, DRS Eligibility.** These three services allow shares to be deposited into brokerage accounts electronically. Even if you don't use these services now, you will probably want them as your business grows. Make sure your transfer agent can offer them.
- **DTC Eligibility.** DTC only accepts eligibility applications from DTC participants. While this is not a service that a transfer agent can perform directly, it is something they should be able to help you with. A quality transfer agent can handle the DTC eligibility application for you, through relationships with quality DTC participants, *without charging you extra fees for doing this.*
- **Unclaimed property reporting and escheatment prevention services.** Escheatment has become a favored revenue stream for many states, resulting in aggressive compliance campaigns launched against non-compliant issuers. While the responsibility to escheat unclaimed property is technically the issuer's (along with state penalties for failure to do so properly), a quality transfer agent will offer proactive escheatment prevention services as well as streamlined unclaimed property reporting and escheatment processing.
- **Cyber security and fraud prevention.** Advances in technology and globalization have opened doors for identity theft and fraud in creative new ways across the globe. It is imperative your

Independence matters.

Beware of transfer agents with shared ownership or interrelations with broker dealers that offer "package deals". These types of business schemes often seek to circumvent FINRA's rule 5250 that prevents a market maker from accepting payment for filing an issuer's 15c2-11. By charging a high setup fee or consulting fee on the transfer agent side, they are able to take in payment for filing a 15c2-11. Not only does this scheme evade securities laws, but it also places you in the compromising position of having a *single organization* manage your stock transfers, market making, and brokerage deposits. This is a perfect storm for market manipulation, and worse.

transfer agent keep your shareholders' confidential information secured from theft or cyberattacks, monitor and mitigate risks, and have a robust fraud prevention plan in place.

- **Disaster recovery and business continuity.** Though not a “service” issuers typically think of when evaluating transfer agents, this is a crucial element. Stock issuances and transfers are time-sensitive, and your transfer agent should have a plan in place to ensure your services are not disrupted in the event of a major storm or disaster.

In addition, your transfer agent should proactively keep you abreast of industry changes, particularly given the recent onslaught of new regulations and heightened issuer/agent liability. Industry education is where an agent can become a powerful asset to your business. They should offer multiple information channels for your benefit, such as newsletters, articles, white papers, webinars, conferences, round tables, videos, and website resources.

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LEVEL OF RESPONSIVENESS

A transfer agent's failure to issue shares on time can cost you potential business or investor support. ***You need a transfer agent that's responsive.***

The SEC's outdated transfer agent regulations afford little guarantee that a transfer agent will be responsive. Rule 17Ad-2 requires transfer agents to turn around only 90% of routine transfers within 3 business days. Non-routine transfers, which includes everything from legend removals to legal transfers, have no specific turnaround requirement, and must only receive "diligent attention." Other types of requests such as issuances and retirements are not covered by the turnaround rule.

Not surprisingly, lack of responsiveness is the number one complaint issuers have about transfer agents. Since quick service is not required by rule, you must look for a transfer agent that *chooses* to be responsive.

An agent whose turnaround time is 3 days is doing only the minimally acceptable work necessary to stay SEC-compliant. This is indicative that their concern is not for you or your shareholders. Their concern is satisfying minimal SEC directives. This same attitude will carry over into customer service, compliance, billing, and every other aspect of their business. Asking a transfer agent about their response times will give you a pulse on the agency's work ethic and overall commitment to meeting your needs.



Ask about response times.

1. What are operating hours?
2. How long would it take to process a single new issuance request?
3. How long would it take to process a routine transfer?
4. If an item is presented for transfer and is missing paperwork, will the presenter be contacted to provide the missing information, or will the item be rejected back to the presenter?
5. Is same-day turnaround available? With or without a rush fee?
6. Has the transfer agent ever been required to file a report under 17Ad-3 for failure to turn around 90% of routine transfers on time?
7. How long does it take for a missed call to be returned?

FAIR PRICING & FAVORABLE TERMS

Transfer agents are the Hotel California of finance: “You can check out any time you want, but you can never leave.” They are notorious for complicated, binding agreements and nickel-and-dime pricing structures. To downplay this, they may offer promotional gimmicks or free services, sometimes with very aggressive sales tactics.

Simple fees. The fee structure should be simple, straight forward, and easy to understand. A fee schedule shouldn't be more than a page or two page long. Some agents offer all-inclusive flat rate fees, and some offer à la carte menus – both have their advantages depending on the scope of your needs. Do an apples to apples comparison of a few different agencies using various monthly activity scenarios to determine which pricing structure is the best fit for your business.

Termination clause. One of the greatest injustices in the transfer agent industry is the cost of moving to another agent. Look for two traps and demand a satisfactory explanation from the agent for the inclusion of either one (or both) in their agreement:

1. Termination fee. (Can range from \$500-\$15,000+)
2. Binding terms. (Can range from 1 to 10 years, with costly penalties for early termination)

An agent with any form of exit penalty will likely defend their position by encouraging you not to look at these terms as penalties per se, but rather as fair compensation for the significant work that is required to move an account to another agent. Let's take a look behind the curtains and examine the work involved:

1. Prepare final shareholder lists.
2. Send an electronic notice to DTC.
3. Package and ship records.
4. Direct shareholder inquiries to successor agent.

Would you be willing to accept that this is worth levying a \$10,000 fee? We wouldn't either.

Rate increases. Some agents raise their rates *annually*. It should come as no surprise that these same agents have high termination fees. You should accept fee increases only if the cost or scope of their services changes drastically, such as if your shareholder base increases ten-fold or a costly new regulation is passed that requires additional work. Be direct in asking how often the agent increases their rates and demand a defense of their policy if they increase rates regularly.

Ask about fees.

1. What is the termination fee?
2. Are there contract terms and penalties for terminating early?
3. How often are rates increased?
4. Are out of pocket expenses billed at cost?
5. Is there a fee for lists and reports?
6. What services are included in the monthly fee, if any?
7. Do fees increase based on the size of the shareholder base?

The traps

“Smart people learn from their mistakes. Geniuses learn from others’.”

The following scenarios illustrate the importance of seeing past promotions to vet an agent for quality, responsiveness, and fair pricing. Many issuers have signed on with an agency based on the promise of free or special services, or even recommendations from colleagues, only to be disappointed – and held captive-- later. Learn from their mistakes, and save yourself the headache and expense of choosing the wrong agent.

One transfer agent offers free ancillary services as a promotional gimmick to attract new customers. What they don't disclose is their termination fee – currently \$12,500 – which they have increased consistently over the years. They also won't mention to you their practice of raising rates annually. This would perhaps be tolerable if their service was so superior to other agents that you'd never *want* to leave. Unfortunately, it isn't. Beware the extreme termination process clients must endure once they've had enough. If a client wishes to terminate and can swallow at least \$12,500 in fees, it must complete special forms and allow the agent to hold their records for a minimum of thirty days *after* payment in full is received. The agent will literally hold the records hostage, without processing any transfers, for thirty full days post-termination for no reason other than to penalize you for seeking better service elsewhere. If you were to ask one of their clients what transfer agent they use, you won't hear “I'm with XYZ.” Instead, you will inevitably hear, “I'm *stuck* with XYZ.”

Another agent employs aggressive sales strategies and pays hefty finder's fees to induce other professionals to refer them business. They advertise heavily that they can help with certain ancillary services and push you to sign up with a single page summary agreement. They hope you won't read the fine print – mainly that they charge several fees not disclosed on the single page sign-up form, their actual agreement is set on a 3-year auto renewal, and they have penalties for terminating early that can exceed \$20,000. Ironically, they assure prospective clients they have no termination fee. Further investigation would also reveal that they are not actively involved in the industry trade association, lack sufficient recordkeeping and gatekeeping controls, and are slow to respond to issuer or shareholder requests. By creating an easy sign up process and employing aggressive sales tactics, they take advantage of issuers who don't stop to read the fine print and ask the pertinent questions.

It is important to be aware of these tactics and avoid them.

Dig deeper.

Transfer agents must publicly disclose important business information on EDGAR. Review these filings for red flags.

TA-1: Filed at inception, and amended if any information changes or becomes inaccurate. Discloses ownership and control, office locations, scope of services, regulatory history.

TA-2: Filed annually. Discloses the size and scope of the business, and certain regulatory problems including mandatory buy-ins and turnaround time failure.

The next step

Selecting the right transfer agent is a crucial endeavor. Additional resources, including tough questions you should be asking any transfer agent, are available [here](#).

To request customized assistance in evaluating your options, please contact us:



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Streamlined Offering

ClearTrust offers streamlined, efficient issuance services for issuers conducting an initial public offering.

At closing: Initial Issuance





STOCK TRANSFER AGENT

About ClearTrust, LLC

ClearTrust is an SEC-registered, award-winning stock transfer agent serving public and private companies and community banks. ClearTrust is an ally to growing companies, offering robust compliance support and proactive shareholder services with a focus on bringing executive management greater peace of mind. ClearTrust guarantees the quality of its work – it is the only transfer agent in the country with a NO STRINGS ATTACHED service agreement. Services include shareholder recordkeeping, FAST, DWAC and DRS processing, paying agent and dividend reinvestment plans, shareholder meeting administration, and virtual meeting management.

The company is located just north of Tampa, Florida, and is SOC1 (“SSAE 16”) audited. They are active members of the Securities Transfer Association.

For more information, visit www.cleartrustonline.com.



About the Author

Kara Kennedy is Executive Director of ClearTrust. She specializes in creating compliance solutions for growing companies, and helping business leaders and their shareholders navigate the increasingly complex regulatory environment. She applies over 15 years of experience in the financial markets to serve companies, and also consults for transfer agents, businesses, and government agencies in matters related to industry best practices and regulatory compliance. She serves on the board of directors of the Securities Transfer Association and the C.S. Lewis Society.

Kara graduated Summa Cum Laude from the University of South Florida with a Bachelor of Arts degree in Finance and International Business and is a member of business honor society Beta Gamma Sigma. She is currently completing graduate work at Harvard University Extension School. Kara is a published author and speaker. She and her family reside in Tampa.

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