

GUIDE TO SELECTING A STOCK TRANSFER AGENT

Courtesy of ClearTrust, LLC



STOCK TRANSFER AGENT

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. The transfer agent evidences each investment in a company through the issuance of stock certificates or book entry shares. And the transfer agent 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.



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 absolutely 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 Trip Advisor, Google, and other online rating systems that allow customers to leave open and honest feedback about their experiences. The transfer agent industry offers no such luxury to its clientele. Aside from word of mouth, there is virtually no way to glean insight from existing customers or shareholders 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 agreements and high termination fees. Simply stated, a transfer agent should not add insult to injury by imposing exit fees on top of delivering sub-par service, and yet most of them do.

Having nowhere independent to turn for comprehensive transfer agent comparisons, all of the homework required in choosing the right transfer agent is left squarely on the shoulders of company management.

Doing 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: Helping you grow your business and serving your shareholders. The transfer agent is an agent acting on your behalf; the organization has to be all about *you* for the relationship to work.

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 know your biggest shareholders and your most cantankerous ones. 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 and transfers. A continuing education program should be in place to ensure staff is up to date on the latest regulatory trends.

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.

Ask about the people.

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

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.
- **EDGAR & XBRL Filing.** As an SEC-reporting company, you are required to file regular reports both in EDGAR and XBRL formats. While you don't have to use your transfer agent for filing, it is helpful if they have this capability as a sign of their robust service offerings.
- **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 printing and mailing services, online voting capabilities, and service as Inspector of Elections.
- **Networking.** A transfer agent should be able to network you with other quality securities professionals such as attorneys, market makers, financial printers, and public relations specialists.
- **Compliance guidance.** Compliance is by far the most burdensome aspect of being a public company. SEC crackdowns in the past three 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.*

Independence matters.

Beware of transfer agents with shared ownership or interrelations with broker dealers that offer "package deals". These types of business schemes seek to circumvent FINRA's rule 5250 that prevents a market maker from accepting payment for filing an issuer's 15-c211. By charging a high setup fee or consulting fee on the transfer agent side, they are able to take in payment for filing a 15-c211. 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.

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.



INDUSTRY EDUCATION IS WHERE AN
AGENT CAN BECOME A POWERFUL ASSET
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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 doing the least possible work they have to and still "pass". 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. How long would it take to process a single new issuance request?
2. How long would it take to process a routine transfer?
3. 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?
4. Is same-day turnaround available? With or without a rush fee?
5. 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?
6. How long does it take for a missed call to be returned?

FAIR PRICING & FAVORABLE TERMS

Transfer agents are notorious for complicated, binding agreements and nickel-and-dime pricing structures. To distract you from this, they may offer promotional gimmicks or free services, sometimes with very aggressive sales tactics. You are wiser than Hansel and Gretel; don't become tempted by the candy house.

Simple fees. The fee structure should be simple, straight forward, and easy to understand. A fee schedule shouldn't be more than two pages long. Some agents offer all-inclusive flat rate fees, and some offer a 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. A sample price comparison worksheet is included in this guide (see Resource B).

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 in their agreement:

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

An agent with termination fees or unfavorable terms will likely defend their position by encouraging you not to look at these terms as penalties, 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 thousands of dollars? 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 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

“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 been lured into 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 \$7,500 – which they have increased consistently over the years. They also won't mention to you their practice of raising rates annually, or their disregard of the fees you agreed to - the fees listed in the agreement you signed. This would perhaps be tolerable if their service were 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 \$7,500 in fees, it must complete special forms (which the agent is slow in providing) and allow the agent to hold their records for a minimum of thirty days *after* payment in full of all fees 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 -----.” Instead, you will inevitably hear, “I'm *stuck* with -----.”

Another agent employs aggressive sales strategies reminiscent of mafia pressure. They advertise heavily that they can help with certain ancillary services (which, ironically, they themselves do not perform) and push you to sign a single page agreement, waiving any setup fees. They hope you won't read the fine print – mainly that they charge several fees not disclosed on the single page sign-up form, they have a termination fee, in addition to contract terms and penalties for terminating early in excess of \$7000. They also hope you won't stop and notice that they are not actively involved in any industry trade association, lack sufficient gatekeeping controls, and are notoriously slow to respond to any 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.

Next steps

Selecting the right transfer agent is a crucial endeavor. Included in this guide are several resources to help you through the process. If you have any questions or desire customized assistance in evaluating your options, please contact us:



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Resource A: Top Ten Questions You Should Be Asking

This guide poses several key questions to ask your existing or prospective transfer agent. Below please find ten of the most important.

1. How can you help me beyond record-keeping? Can you network me with market makers, counsel, and other industry professionals?
2. What is your standard turnaround time on issuances and transfers?
3. What is your termination fee? On that note, why do you have a termination fee?
4. How often do you raise your rates?
5. Do you charge for standard shareholder lists and reports?
6. What clients did you lose last year, and why?
7. Do you offer online account access?
8. What types of client education events do you offer? How do you communicate changes in regulations to your clients?
9. Is your firm involved in industry trade associations, and to what extent?
10. Will I have direct communication lines with management?

For more information, visit

www.cleartrustonline.com/looking-for-a-transfer-agent/

Resource B: Fee Comparison Worksheet

Fee structures differ across agents, and it is important to perform an apples to apples comparison across agents based on varying monthly activities. Below is a sample worksheet containing suggested scenarios.

ClearTrust offers customized, complimentary, interactive fee comparisons in Excel format. Contact us at 813-235-4490 for assistance.

	Transfer Agent 1	Transfer Agent 2	Transfer Agent 3
Month 1			
Monthly Fee			
Issue 5 Restricted Stock Certificates			
Courier 5 Certificates			
Request 1 shareholder list			
Month 2			
Monthly Fee			
Stock Split			
Issue 10 Unrestricted Stock Certificates			
Mail 10 Unrestricted Certificates			
Month 3			
Monthly Fee			
Request 1 Transfer Journal			
Complete Auditor Report for 10-Q			
Total Fees			

Resource C: How to Change Transfer Agents

Once you've performed due diligence and selected the right transfer agent to fit your needs, it's time to move forward.

1. Obtain board approval terminating prior agent (if applicable) and appointing new agent.
2. Sign transfer agent agreement and deliver completed package to new agent.
3. Deliver notice of termination to prior agent and settle outstanding balance (if applicable).
4. Your new transfer agent should take it over from here, importing your shareholder records and giving proper notification to DTC and market participants of the agent change.

For more information and an instructional video, visit

www.cleartrustonline.com/how-to-switch/

About ClearTrust, LLC

ClearTrust was founded on the idea that issuers deserve more from their transfer agent. ClearTrust is a full service stock transfer agent that applies its experience and expertise to craft a comprehensive service solution specific to each client. A complete service package includes online account access, same-day transfer turnaround, hundreds of free reports, assistance with DTC eligibility, corporate governance consulting, paying agent services, proxy administration, and tax processing and reporting. We guarantee our services, and are the only transfer agent in the country without a termination fee or binding contract terms.

The company is located just north of Tampa, Florida, and is one of the only SOC1 (“SSAE 16”) audited transfer agents in the country. Serving public and private companies both nationally and internationally, ClearTrust is registered with the Securities Exchange Commission. They are active members of the Securities Transfer Association and the Society for Corporate Secretaries and Governance Professionals.

For more information, visit www.cleartrustonline.com.

About the Author

Kara Kennedy is Executive Director and Founder of ClearTrust. She specializes in creating compliance solutions for small to mid-cap companies, and helping business leaders and their shareholders navigate the increasingly complex regulatory environment. She applies over a decade of experience in the financial markets to serve companies, and also consults for transfer agents in matters related to industry best practices, development of policies and procedures, and employee training. She is an active member of the Securities Transfer Association and the Society of Corporate Secretaries & Governance Professionals.

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.

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