




# Why Companies Need A Transfer Agent





## Over 130 transfer agents in the U.S. and Canada keep records

for more than 15,000 issuers of securities, representing the investments of over 100 million registered shareholders.

– Securities Transfer Association



# What is a transfer agent?

In simplest terms, a transfer agent is an outsourced provider of recordkeeping and shareholder service for companies that issue stock and other types of securities. To simplify things, the focus will be on stocks in this paper.

A company that issues stock is required by law to:

## 01

Maintain records of how many shares are issued, outstanding and reserved to avoid an inadvertent over issuance.

## 02

Abide by all laws, rules and regulations pertaining to the issuance, purchase and transfer of stock.

## 03

Fulfill requests from shareholders to buy, sell and transfer shares.

## 04

Keep track of who owns each share.

While the first three requirements are relatively simple, the last requirement places so much onus on public companies that most cannot handle this function in-house. They outsource the work to specialists, known as transfer agents.

# Registered vs. beneficial shareholders?

In addition to keeping track of how many total shares have been issued, transfer agents keep track of the ownership records for all registered shareholders. It's important to understand that not all shareholders are "registered." In fact, most aren't.

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## Registered shareholders

- Purchase stock directly from the company
- Are listed by name on the company's official register
- Must maintain updated contact information with the company or its transfer agent
- Receive communications directly from the company or its transfer agent

## Beneficial shareholders

- Purchase stock through a broker or bank
- Are listed and held in the company's official registry in a "street name," not as the individual shareholder's name
- Must maintain updated contact information with the broker or bank where shares were purchased
- Receive communications regarding the company through their broker or an intermediary
- Brokers collect votes on proxy items from the shareholders who purchased through them, and submit on their behalf

Registered shareholders are those who obtained their shares directly from the company, rather than through a bank or broker. Their shares are held directly with the company and registered in the actual owner's name on the official register – hence the name, registered shareholders.

If the shares were purchased indirectly, that is through a broker-dealer or bank, the title is held by the broker, and the shareholder is said to be a beneficial owner – that is, they get all the benefits of owning the stock, such as earnings and voting rights, even though the broker or bank holds the title. The vast majority of U.S. investors are beneficial owners. The banks and brokers keep track of ownership records for all beneficial owners.

Mutual funds and other large institutional owners invest in hundreds of companies on behalf of their members (those who've purchased shares of the fund). The fund is the beneficial owner of the shares, not its members. The fund manager holds the right to vote all the shares owned by the fund.





# Critical tasks managed by transfer agents

## 01

### **Recordkeeping**

The transfer agent acts as the company's "registrar," maintaining an official registry of the number of shares issued and outstanding, as well as names and contact information for the registered shareholders and the number of shares they own.

## 02

### **Issuance, transfer & cancellation of shares**

Whenever new shares are issued (such as during a merger or acquisition) and whenever existing shares are exchanged or canceled, the transfer agent handles the transaction and updates the official register. Transfer agents must also provide a secure and simple way for registered shareholders to transfer shares to a new owner.

The transfer agent determines the authenticity of the paper certificate or electronic (book-entry) shares, and makes sure there are no restrictions on the transfer. Transfer agents may also provide ways for shareholders to purchase shares directly from the company.

## 03

### **Dividend payment**

When the company declares a dividend, the transfer agent pays the registered shareholders on behalf of the company. Payments may be made in cash or additional shares of stock. The transfer agent distributes the cash or issues shares directly to all qualified registered shareholders. In addition, the transfer agent funds Depository Trust & Clearing Corporation (DTCC), that in turn allocates funds to the broker-dealers for beneficial shareholders.



## **04**

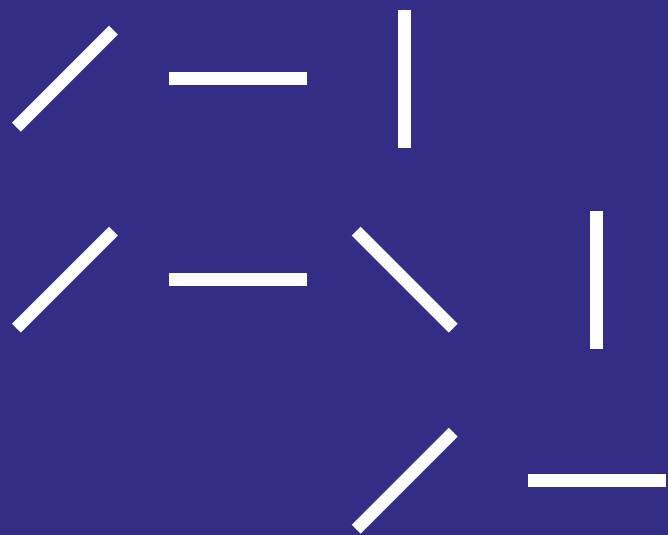
### **Shareholder engagement**

Transfer agents handle all registered shareholder-related inquiries from the company and stock-related inquiries from registered shareholders. Not all transfer agents are created equal. Some have dedicated relationship managers for company requests; others take a team approach.

As intermediaries between issuers and their shareholders, transfer agents are in a unique position to strengthen the relationship between the two. An engaged shareholder base provides solid support for corporate initiatives and against dissident activists. It also helps prevent escheatment and minimizes expenses.

Services for shareholders can include automated phone services, live call centers, website, online chatbots and walk-in service centers that provide quick answers. They may also feature expanded hours and extra help during tax time or corporate actions. It's important to choose a transfer agent that treats you and your shareholders with a high level of service. This minimizes headaches for the company and increases shareholder engagement with:

- Quick response to inquiries
- Timely resolution of issues
- Knowledgeable call center representatives
- User-friendly website for shareholders
- Easy access to reporting tools for clients



## 05

### Reporting, compliance and data security

On behalf of the companies they serve, transfer agents handle a multitude of reporting functions that are required by the IRS, the SEC and state regulations to keep companies compliant.

#### Shareholder & IRS reporting

- Proxy material preparation and distribution
- Transaction statements
- Year-end tax forms
- Annual report data
- Cost-basis reporting
- Internal audit reports
- Reports to the exchange

As experts hired to manage anything and everything having to do with securities, transfer agents vigilantly monitor and help ensure compliance with any legislative changes that affect publicly traded companies or their shareholders. They may also advocate for or against proposed legislation that affects either group.

#### Data security

Transfer agents are subject to regulations designed to prevent fraud, as it relates to missing, lost, counterfeit and stolen securities, as well as state laws and European Union laws pertaining to data privacy.

#### Transfer agent regulations

Transfer agents are subject to SEC regulations that govern the way they handle stock transactions and sensitive shareholder data.

These requirements ensure that transactions are handled accurately and in a timely manner, even during high-volume trading periods.

These regulations govern:

- Turnaround times for processing
- Prompt responses to inquiries
- Accuracy of recordkeeping
- Retention of records
- Safeguarding of funds and securities
- Evaluation of internal accounting controls
- Searches for lost shareholders
- Notifications to “unresponsive payees”
- Posting, transportation and destruction of certificates





## 06

### **Lost and dormant shareholders**

Escheatment is the process by which a state takes possession of abandoned property. The process requires companies to identify lost or dormant shareholders on an annual basis and, in accordance with state laws regarding time, turn their abandoned assets over to the state listed as the shareholder's last known residence. Transfer agents handle this process on behalf of the company. Ultimately, however, it is the company's responsibility. If the state requirements aren't met, the company faces potential penalties and may be audited at any time.

A shareholder may be considered lost as soon as two pieces of correspondence have been returned as undeliverable. They are considered dormant if there's been no contact for three to five years, depending on the state.

The criteria for triggering escheatment varies by state, as do the reporting requirements and deadlines, and the laws governing how and when eligible assets should be delivered. What's more, these laws can change at any time, often requiring significant changes in process and investments in technology before the next reporting cycle.



# Additional services

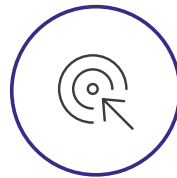
In addition to the transfer agent services previously listed, public companies may require the services of a transfer agent to be tailored for a specific event, transaction or need.



Annual Meeting Services



Asset Reunification



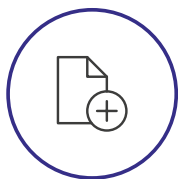
Corporate Actions



Direct Stock Purchase Plans



Annual Meeting Services



Asset Reunification



Corporate Actions



Direct Stock Purchase Plans

# Trusted advisors

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Since the shareholder service industry is under high regulation, there is an emphasis on accuracy and compliance. A transfer agency goes beyond simply keeping records and executing transactions -- we provide expertise and guidance in an ever-changing, high-stakes, and complex environment.

## What to look for in a transfer agent

- Experience
- Responsiveness
- Consultative approach
- Accuracy and reliability
- Innovative problem solving
- Client and shareholder satisfaction ratings

In this complex regulatory environment, it's important to choose a transfer agent that can grow with your company and provide expert guidance as you need it. They should have a reputation for accuracy and reliability, and have disciplined processes in place that protect your company from risk.

As experts when it comes to equities, transfer agents are the gatekeepers to the public market for their corporate clients. They must adapt quickly to change and proactively develop solutions for the future.

The more they know about the issues their clients are facing, the more they can help. Constant communication is key.

Most importantly, your transfer agent should respond quickly to your needs and treat your shareholders the way you would treat them. A reputation for outstanding service and high satisfaction ratings in independent surveys should be taken into account.

Ultimately, your transfer agent becomes the face of your company to your shareholders. Now that you know what's at stake, you can make an informed decision.



[Click here to talk to our EQ team to learn more.](#)





# Industry resources

## [Securities Transfer Association \(STA\)](#)

represents more than 100 commercial stock transfer agents, bond agents, mutual fund agents and related service providers within the United States and Canada.

## [Shareholder Services Association \(SSA\)](#)

represents hundreds of public companies and provides support regarding compliance and shareholder services.

STA and SSA members are directly or indirectly responsible for the recordkeeping and maintenance of the securities investments of at least one-third of the population of the United States. For many of these shareholders, these investments in securities represent their life savings.

## [National Investor Relations Institute \(NIRI\)](#)

is a professional association for investor relations (IR) professionals. Through its collaborative community, NIRI advances engagement in the capital markets and drives best practices in corporate disclosures, governance and informed investing.

## [Society of Corporate Governance](#)

is an association of corporate secretaries and governance professionals, providing its members with the knowledge, skills and tools to promote effective governance for the benefit of boards, management and shareholders.

## [Corporate Secretary Magazine](#)

## [IR Magazine](#)

## [Group Five](#)

is an independently funded benchmark research study measuring corporate clients' satisfaction with their equity compensation plan administrators and transfer agents.

## ABOUT EQ

EQ are specialists in helping you better understand and manage the ownership of your company through critical events across the corporate lifecycle. As trusted advisors, we provide strategic insight and operations expertise through our core business units in Private Company Services, Transfer Agent Services, Employee Plan Solutions, Proxy Services, and Bankruptcy. Globally we serve 6,700 clients (47% of the FTSE 100 UK and 35% of the S&P 500), with over 30 million shareholders, through 6,500 employees in 5 markets around the world.

## REACH OUT

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