

Six weeks of certainty: Converting to a new transfer agent

A Q&A with Philip Iacono, PMP Senior Director of Operations Corporate Issuer Solutions at Broadridge

Due to consolidation of the transfer agent industry, 2012 and 2013 will be big years for conversions to new transfer agent relationships. In this Q&A, Philip Iacono addresses questions that public company executives are asking about how to make the conversion process smooth, uneventful, cost-effective and shareholder-focused.

Q. Why is there high turnover in transfer agent relationships?

A. The transfer agent industry has continued to consolidate, mainly through acquisitions. Currently, the industry has been reduced to just four major participants plus several smaller firms.

Q. How long does the conversion process typically last, from start to finish?

A. About six weeks. Choosing the *right* six weeks is important because ideally, you don't want to convert during a corporate event such as a proxy solicitation or dividend payment. The conversion period can be a time of stress and uncertainty for public companies and their executives, but it doesn't have to be. It should be a time of certainty – because the transfer agent's conversion process is predictable and proven.

Q. What creates a “best-practice” conversion process?

A. Many things, but there are two in particular: 1) open communication with the client company and its key people throughout the conversion; and 2) a consistent, repeatable process for handling all conversions.

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Q. Let's start with open client communications. What's the industry benchmark?

A. I think it emphasizes consistency from client to client. We start the conversion process with a discovery document. From that document, we build a client profile and operational handbook for our people to use throughout the conversion process, and also in providing ongoing client service. During conversions, the transfer agent should meet with clients frequently, including various key operating areas such as Client Service and Call Center management. Before the conversion "goes live," transfer agents should make sure employees on the client's side know how to operate systems for accessing registered shareholder records.

Q. You emphasize a consistent, repeatable conversion process. Doesn't every conversion have unique requirements?

A. Yes, each conversion has its own challenges. However, there are many advantages in offering a standard, reusable, auditable conversion process that is both flexible and scalable. By "flexible," I'm talking about refining and improving the process based on each conversion experience. Every future client should get the benefit of the transfer agent's learning curve in all prior assignments. As one example of process consistency, we always conduct a full test file conversion with analytics several weeks before the actual "going-live" conversion.

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Q. Why is a test file important?

A. We want to be confident that we can interpret and translate the data and identify any problems before the production roll. We want the right edits, controls and reconciliations in place to make sure data is brought over to our system and works correctly. If we encounter problems with the test file, this gives us three or four weeks to work with the client (and prior agent) to resolve them before the actual conversion.

Q. What is an example of an edit, control or reconciliation that is critical during conversion?

A. Start by understanding that there are no agreed-upon standards for registered shareholder data files and formats. Standards vary across service providers and can even vary among files of a single issuer. For example, bank routing numbers on shareholder accounts can be entered as text fields or numeric fields, and the difference is significant. In a numeric field, a leading integer of zero will be dropped when converting the data to a text field. The data comes to us in whatever form the current record-keeper provides, and each record-keeper uses a different layout.

We have a better understanding of how to standardize data input than most other transfer agents, and we do it faster by using standard business logic and rules. We can't control the formats people give us, but we can control how it goes into our system. Whether we are converting a file with 300 shareholders or 300,000, our inputs are in the same formats every time.

Q. What's the advantage of a one-stop shop for transfer agency services?

A. Many transfer agents outsource a variety of services, so their Relationship Manager (RM) must go back to their vendors to address clients' questions and issues. We only outsource one transfer agent service – escheating – and that is deliberate, because we don't want to make money by taking shareholders' property. Everything a transfer agent does should be shareholder-focused and completely transparent to the issuer and their shareholders.

A transfer agent's RMs should be a single point of contact for all client communications, and they should be trained to work with all clients according to clients' preferred means. Clients also appreciate full transparency. If they want to do their own searches of registered shareholders, they should have direct access to the system without having a transfer agent in the middle.

Q. What are examples of conversion services in which a shareholder-focused attitude works?

A. The RM should make sure all client-service areas are coordinated, so that the transfer agent's employees are prepared to process any and all shareholder needs from day one of the conversion. That includes providing a dedicated 800 number for shareholders to call for help and sending welcome letters to the registered shareholder base. If offered by the company, the transfer agent should be willing to create certificates for those shareholders who still want to have physical proof of share ownership.

Q. Should clients expect to pay for the conversion process?

A. Broadridge doesn't believe so, and, for the most part, neither does the industry as a whole. What sets us apart is that we don't charge for de-conversions. Some transfer agents have contractual terms that make terminating the relationship painful and costly.

Q. How else are Broadridge's transfer agent services different from competitors?

A. We serve public companies by keeping track of their shareholders on the beneficial side as well as on the registered side, and we help companies reduce their overall shareholder servicing costs – year after year. With registered shareholder bases getting smaller over time –through sales, liquidations or movement from registered status to a brokerage account – we believe the expenses borne by the company should be reduced as well. If not, the company should ask, “How much will the last registered shareholder cost us?” The answer might be surprising.

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