



A CHECKLIST OF "BEST PRACTICES" IN SELECTING A TRANSFER AGENT

This year and next, a record number of publicly traded companies are expected to "shop" for a possible new transfer agent.

Unlike most of the shoppers in the '90s however, who were largely motivated by dissatisfaction with TA performance, most of this year's crop - and next year's too - are being forced to shop...simply because they haven't done so in five years or more, while they were grappling with far more pressing priorities.

But quite aside from the standard corporate mandates to evaluate all one's vendors periodically, most overburdened corporate citizens are also looking to move as much busywork as possible off their own desks these days, and to deflect as many shareholder calls and letters as they possibly can, and to use technology more effectively. And most shoppers - once they begin to review their TA bills with a bit more care - realize they need to get a much better handle on the out-of-pocket expenses related to shareholder servicing - which are often two or three times greater than the fees - and where rates - for paper, printing and postage - have been rising steadily.

In addition, in today's environment, where suddenly dividends are "in," many companies are also taking a second look at dividend reinvestment and direct stock purchase plans...and at initiating or increasing cash dividends. And, if we can judge by the calls we get, many companies are looking at the fre-

quency of their dividend payments, with an eye to *conserving* and *saving* hard cash and, as a bonus, maybe reducing the number of dividend-related inquiries that cross their desks. Thus, it *makes sense* to shop around - not just to compare prices, but to see how new technologies, new ways of doing things and potential *new services* might impact the bottom line.

A very important factor behind the upsurge in TA shopping is the simple fact that the "widget-pushing" aspects of stock transfer work have gone down dramatically over the past five years - and, for that matter, over the past 10 or 15. This, as we noted in our last issue, has created considerable "excess capacity" in the industry and thus, a very eager crowd of sellers.

Accordingly, we thought it would be a particularly opportune time to collect all the best-practice tips we've offered on TA-searches over the years, add a few new items and insights...and highlight some of the worst-practices too.

PLANNING THE SEARCH:

• **Step-one in our book is to think long and hard about the kinds of things that are *most important to you* - and to *your company* - when it comes to your dealings with the transfer agent:** A "high-tech company" might put "cutting-edge technology" highest on its list. Companies that follow the "six-sigma process" may place the highest emphasis on quality control programs - although one such company, very shrewdly

we think, awarded most points for the programs agents had in place to attract, retain and reward excellent staff. Some companies place their highest emphasis on "personal service," or on where they will "rank" relative to other TA clients.

• **Be sure to talk with all the areas that interface with the TA**

- Corporate Secretary and General Counsel, IR, Treasury, HR, Corporate Communications/Public Affairs - to inventory all requirements, and to focus on any special requirements, expectations or "issues" they may have. Companies that have stock option plans, restricted shares, 423(b) or other employee ownership plans, will want to pay particular attention to the capabilities of each agent and their ability to interface smoothly with related service providers like brokers, plan trustees and record keepers, as well as your own company's payroll, tax and accounting departments.

• **Ask yourself - and your colleagues - if there are likely to be any *new services* coming down the pike where your TA will be a key player** - like a "global option plan," a new restricted-share program, an ESOP or a DSPP for example.

• **Rank your list of current and potential requirements in order of importance...**but keep your options open. Sometimes your original priorities change dramatically after you survey the field.

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• **Develop a *short* RFP; one that requires respondents to focus intensively on your top-ten or fifteen concerns:** Regular readers of the *OPTIMIZER* know how much we dislike those "canned RFPs" that have been making the rounds like chain letters. Aside from their unwieldy length, and the questionable relevance of many of the questions that have crept in over time, the major problem is that agents respond with even lengthier "canned answers," straight from their word processing systems. Plan to award points for brevity, and for staying on-task with answers to your top issues, we say...and to *subtract points* for "canned responses." Subtract even more points for any of your top-ten concerns that are not adequately addressed, we say, since you really want an agent that *pays attention* – and that is *responsive* – and, ideally, is *proactive when it comes to your needs*.

• **Be sure to include a section that asks respondents to spell out ALL the out-of-pocket expenses they will expect you to absorb,** organized by category (related, for example to dividends, tax reporting, the annual meeting, the DRP or DSPP, to shareholder communications, insurance, etc.) along with unit prices and estimated totals. (Some agents, as we've reported before, are either incredibly bad shoppers for basic supplies, or are treating the expenses they lay out for you as a "profit center".) Pay particular attention to efforts to reduce postage expense through presorting and bar-coding – and whether such efforts are included in the fee, or will be billed as "extras," or whether the savings are "shared" in some manner.

• **Attach a list of all the activities your current agent performs for you and all the pertinent unit-volumes:** Pay special attention to services where the TA

needs to interface with other third-party providers, so respondents will know exactly what they're bidding on – and so there are no unpleasant "surprises" later.

• **The RFP process also presents a very good opportunity to look ahead – and to ask for and compare pricing information on any services you may wish to implement** (like DSPPs, ESOPS or odd-lot buyback/roundup programs) or you may need in the future, such as stock splits, dividends and merger processing services. Sometimes, in our experience, the "least expensive agent" proves to be the most expensive by far when "unusual" or unplanned for situations arise.

• **Get help if you think you'll need it:** There are several firms (including our own) that can and do help companies through this process, which can become quite a time consuming one. It's also a process where understanding and buttoning-down all the "fine details" usually makes a world of difference. If you are not an "expert" on such matters, it will *literally pay you* to hire one.

• **Buckle-down for a fairly lengthy process:** Typically, it takes at least three weeks to canvass your colleagues and get your RFP and your game-plan together; another three weeks to receive responses; at least a month to evaluate them. And don't forget that it usually takes at least 45 days more to notify the many people that will need to know – and to convert the shareholder records in a smooth and orderly fashion – should you ultimately decide to change agents.

SELECTING RECIPIENTS OF YOUR RFP:

• **Make a list of companies that seem to be a lot like your own – in terms of things like their**

industry, the size of their registered shareholder base, the kinds of services they buy from transfer agents and, most important perhaps, in terms of their overall philosophy and approach where individual investors are concerned, and list the agents they use.

• **Winnow-down the list of agents you decide to seek proposals from:** If you have done a good job of identifying, and doing a bit of networking with companies that are like your own in terms of their needs, and their "style," the best candidates will likely "fall out" from this exercise. (Virtually all of the "major players" are represented, we should note, in our November 2003 Special Supplement).

• **Don't fail to include any of your company's "line banks" if they offer transfer agency services...but don't – whether you're a public company or a TA – overplay the "bank card."** All too often, we've seen a great transfer agency relationship go up for grabs, to mutual dismay, because the parent-org turned down a loan, or exited banking altogether after promising "synergies." And don't ignore some of the "smaller-seeming," privately owned TAs – several of which are among the most hands-on and entrepreneurial.

EVALUATING RESPONSES:

• **Start with the fees:** Even though we tell our clients that this is the least important of the issues (once you've decided on the agent that's really right for you, the money will always work out, we find) it is important to list each and every one of the required services, and to enter the fee that each agent is proposing to charge – if any – because these days, most agents tend to offer a "bundled" fee for

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"basic services". You will probably be surprised by the number of times it will be not at all clear that a given service is included in the "bundle."

- **Create a similar matrix for the out-of-pocket expenses.** This will help you determine that all such expenses are accounted for by each agent, and are on an "apples-to-apples" basis. Wide variances, which are common in our experience, will also help you identify missing items, "bad shoppers," excessive markups – or, perhaps, that the quality of such things as checks, envelopes, etc. may be in excess of what you really need – or may not be up to your company's standards. Big variances may also indicate that the bidder is proceeding under faulty assumptions...or simply made a mathematical mistake.

- **Next, create a matrix that will list each of your 10 or 15 top issues and allow your team to enter notes on their qualitative evaluation of each agent.** While some of the data – and often many of the demerits too – can be entered after reading the responses, the most important points, in our experience, need to be evaluated first-hand. (See the sidebar for your editor's top-five decision points)

- **Schedule a site visit with each "finalist":** This is the only way, in our opinion, to get at the qualitative issues. Complete your evaluations as soon as possible after each visit. Since all of the agents on your short-list are clearly capable of performing all the usual functions in a creditable fashion, the "scores" are likely to be very close. Thus, we find it helpful to assign numerical weights to each of your most important decision points, and to multiply by the numerical scores – in order to sharpen and conclude the analysis.

- **Network with and obtain ref-**

erences from clients of each finalist who have needs, philosophies and styles that are like your own: Although each agent will provide you with a list of references, and recent wins and losses, do some digging on your own. Sometimes, the "references" you've been given will surprise you.

- **Do not place a lot of reliance on those so-called "transfer agent quality" surveys:** As the *OPTIMIZER* has noted on many prior occasions, they have a variety of flaws, too numerous to mention here. But *the bottom line is that they have little or no statistical validity and only modest "directional validity."* **You need to be benchmarking against companies like yours; not against an unknown universe of respondents whose needs and expectations are equally unknown to you.**

AWARDING THE CONTRACT:

- **Most transfer agents have a fairly standard "contract" that spells out their responsibilities to you and you shareholders – and your obligations to the agent – in considerable detail. Be sure to review this contract with care – and to involve your legal counsel too – before awarding the business.**

- **Pay particular attention to the notification, indemnification, termination, renewal and "assignment" provisions. Regular readers will recall, we hope, some of our "horror stories" about such things as one-sided indemnification provisions, unrealistic "limits" on the agent's liability, automatic renewals if a company fails to give early notice and shareholder records "held hostage" during disputes over termination fees. Some of these prob-**

lems, we were astonished to note, arose at "major agents."

- **The fee and service proposal – with any and all amendments that may have been made during the evaluation and negotiation process – plus any and all commitments the agent may have made with respect to performance – should, of course, be incorporated as part of the contract.**

Your editor's top-five items in choosing a transfer agent - from the perspective of someone who spent 32 years inside the business:

1. Quality of the top management team; specifically, the background, experience and stability of the team; plus the way they relate, as people, to each other and to the rank and file. If things are in excellent shape here, all else tends to be – and to stay – in proportionately good shape. In our long experience, the opposite is equally true.
2. The kinds of people, systems, procedures and technologies that are employed to provide fast, responsive and "caring" services to shareholders. After all, *this is what you're really paying the agent for.*
3. The qualities of the person who will manage the relationship day-to-day; in particular, (a) how much they *know* about the business and (b) how much *influence* they appear to have within their own organization...to work on your company's behalf...and yours.
4. The kinds of systems, procedures and technologies that are employed to make life easier for *clients*
5. Systems, procedures and technologies designed to reduce costs to client companies.