
STAMP SOUNDBYTES

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**This Newsfax is a service of STAMP to the Securities Processing Industry. Its contents are intended to be educational only and do not constitute legal opinion.*

We strongly recommend that this edition be reviewed by Senior Management or Corporate Counsel

CLAIMS PROCESSING

We have addressed the Medallion Signature Guarantee Program Claims Process in previous issues of *Soundbytes*; however, through questions received from both Guarantors and Transfer Agents, we have found that claims processing guidelines are not well understood by the securities industry. This may be due – in large part – to the infrequent nature of these events. Nevertheless, we felt it worthwhile to revisit the topic as claims resolution is more efficient when all parties follow the recommended procedures.

The process usually begins when the Investor or the legal representative of the Investor makes an inquiry to the Transfer Agent seeking resolution for a claim, which may result in a loss, arising from a wrongful transfer.

The Uniform Commercial Code assigns liability to the Issuer of a Security, and, by extension, to the Transfer Agent, for the “wrongful registration of transfer if the Issuer has registered a transfer of a security to a person not entitled to it.” Indeed, it has been our experience that the process works best when the Transfer Agent is central to the resolution of an Investor’s claim. If the Transfer Agent suffers a loss by settling an Investor claim, the Transfer Agent would then seek reimbursement from a Guarantor under its Medallion Program Indemnity Agreement. The Medallion Program Indemnity Agreement, signed by all Medallion Guarantors, indemnifies the Transfer Agent against losses “arising out of or in connection with the transfer, payment, exchange, purchase or delivery of securities in reliance upon the [Guarantor’s] Imprint.”

Accordingly, the following guidelines or best practices are recommended should an incident occur:

- The Transfer Agent should confirm that an internal error has not been made.
- The Transfer Agent should provide the Investor with copies of the transfer and/or other relevant documents in question.
- If, upon review of the documents, the Investor is still certain that a fraudulent event has occurred, the Investor should complete an Affidavit of Forgery and any other documentation requested by the Transfer Agent to allow it to resolve the matter.

- Internal Transfer Agent legal resources should be notified.
- If it is determined that there is a loss and the loss resulted from the wrongful transfer of securities pursuant to a forged or otherwise ineffective endorsement, a “demand for indemnity” under the Medallion Program Indemnity Agreement should be made by the Transfer Agent upon the Guarantor. The Transfer Agent should provide the Guarantor with all documentation related to the item in question, including copies of the endorsement, the Medallion imprint, and the Affidavit of Forgery.
- Under the terms of the Medallion Program’s Application and Subscription Agreement, the Guarantor should acknowledge receipt of the demand in writing within three business days. Also, under the terms of the Medallion Program’s Application and Subscription Agreement, the Guarantor’s “failure to satisfy a demand within ten (10) business days after receipt” will constitute a default under the Indemnity Agreement, entitling the Transfer Agent to present the demand as a claim under the Guarantor’s Medallion Program Surety Bond.
- If Guarantor Surety Bond information is needed, the Transfer Agent can secure this information via a written request made to the Medallion Program Administrator.
- The Guarantor should deal with the demand for indemnity under its Indemnity Agreement according to predetermined internal procedures, which will likely involve legal and risk management resources and, possibly, other financial institution insurance.
- The Transfer Agent should maintain a dialogue with the Investor and the Guarantor or its Surety Company until settlement or resolution.

Obviously, the incidents and circumstances giving rise to claims vary. Both Guarantors and Transfer Agents have a mutual obligation to the Investor to resolve issues efficiently and expeditiously.