

The Depository Trust Company

# IMPORTANT

## REDUCING AVOIDABLE REJECTS

**B#:** 0096-06

**DATE:** August 22, 2006

**TO:** All Participants

**CATEGORY:** Operations

**FROM:** Joe Clemente

**ATTENTION:** Operations Management/Cashiers/Officers

**SUBJECT:** Reducing Avoidable Rejects

Participants had noted an increase in signature guarantee Medallion-related rejects from transfer agents. With transfer agents increasing their reject-related fees, participants can incur an extraordinary expense each month as a result of these medallion-related rejects. These rejects occur for a variety of reasons and DTC is working with participants, transfer agents, and industry groups concerning this issue.

In some cases the rejects are the result of technical issues with the equipment provided by Medallion vendor. Meetings have taken place with the vendor to discuss improving readability of Medallions. Since then, rejects have decreased and we feel some progress has been made.

To ensure that participants are not incurring incorrect transfer rejects, DTC examined the causes of both Deposit and Withdrawals-By-Transfer rejects. The examination revealed that many of the rejects are avoidable. Examples of these rejects are provided below as well as recommendations on how they can be avoided.

### Deposit Rejects

While the primary reason for a Deposit reject is directly related to invalid certificates, a number of rejects are incurred as the result of stamp issues.

These include:

- a) The Medallion is missing
- b) The Medallion is unreadable – too light
- c) The Medallion is unreadable because it has been applied to a location where the Medallion is partially or fully obscured
- d) The Medallion is not affixed with outdated ink.

These are examples of stock powers with either incorrectly applied Signature Guarantee Medallions or the medallion is missing. Each can easily be avoided by following some precautions:

1. If necessary, consider redesigning your firm's stock/bond power to include a blank area large enough to accommodate the Medallion
2. Ensure that the Medallion is applied and that it is clearly legible
3. Confirm with the vendor that you are using the latest generation ink.
4. Only use vendor supplied products
5. Do not use medallions that have been previously reported lost or stolen

### **Paperless Legals**

There also seems to be some misunderstanding regarding the need for an inheritance tax waiver on estate transfers. What the participating transfer agent will look for is either the inheritance tax waiver or the stamp. They will not look at any other legal papers such as affidavit of domicile, death certificate, or letters of testamentary as the presenter should hold and maintain these documents. Therefore if the decedent died in a state that doesn't require a waiver, participating paperless legal transfer agents would expect to have the stamp applied. If the stamp isn't applied they will reject the transfer, regardless of any documents submitted with the transfer.

The following was noted in Important Notice B #7745 published April 13, 2005:

The STA has determined that the Inheritance Tax Waiver is a required document for estate transfers or the inheritance tax stamp must be attached. A new stamp has been developed for those estate transfers that **do not** require an Inheritance Tax Waiver. For those estate transfer transactions that do not require an Inheritance Tax Waiver, you **must** affix a stamp impression with the below wording. Either the tax waiver form or the stamp is required, whether or not you join the program. (You can purchase such a rubber stamp independently.)

**WE CERTIFY THAT THE DECEDENT  
IN THIS TRANSACTION RESIDED  
IN A STATE WHICH DOES NOT  
REQUIRE AN INHERITANCE TAX WAIVER**

**(YOUR FIRM NAME)  
MEMBER NYSE MSP PROGRAM **or**  
MEMBER STAMP PROGRAM **or**  
MEMBER SEMP PROGRAM**

(The type should be 10 point and be affixed in black ink for the best reproduction quality. The stamp requires no signatures or additional medallion imprints.)

### **WT Rejects**

Transfer agents are becoming more rigorous in reviewing, rejecting and charging for improperly formatted WT registrations. The following is a partial list of exception items that cause additional risk, re-work, delayed transfers and increase processing costs for all members in the industry, including investors.

Some examples of these errors are:

- a) Trust/Trustee Name is Incomplete. When there is more than one trustee with the same last name, the full name of all trustees must appear in the registration. For example, if the trust is for Jane and John Doe, the registration must read “Jane Doe and John Doe Trust.” If both are trustees, it should read “Jane Doe and John Doe Ttees” **NOT** “Jane and John Doe Ttees.”
- b) Incomplete Trust Registration. Each trust registration must have the name of the trust, the name of the trustee(s), and one date of trust. In some registrations we noted in our review, it was very difficult to distinguish the name of the trust from the name of the trustee. All too often the date is missing or more than one date is included.
- c) Missing Name of Transferee. In some cases the name of the transferee is being omitted. The transfer agent cannot rely on the taxpayer ID to affect the transfer.
- d) Incorrect Formatting of Gift to Minors Registrations. All transfers made under the provisions of the UCC’s United Gift/Transfer to Minor’s Act must include the name of the custodian, custodial phrase (either “Custodian for” or “C/F”), reference to the United Gift/Transfer to Minor’s Act and the state in which the act applies, and the name full of the minor.
- e) Many times, participants elect to bypass DTC’s registration reformatting process. At times this results in the registration not meeting industry standards, such as the address line of the registered owner defaulting to the name line. The result of bypassing the formatting process for all transfers could be increased rejects and costs.

To avoid WT related rejects, Participants are encouraged to carefully review each registration prior to submission and avoid bypassing DTC’s registration formatting process for all WT transactions. If there are any questions concerning the proper form or format of a registration, the Stock Transfer Association provides excellent guidelines on its web site. They can be accessed at [www.stai.org](http://www.stai.org)

Questions regarding this notice can be directed to Joe Clemente, Product Manager for Securities processing at either (212) 855-2425 or via email at [jpclemente@dtcc.com](mailto:jpclemente@dtcc.com)