

Regulatory Alert

Regulatory Insights for Financial Services

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Registered Transfer Agents: SEC Proposed Rule

KPMG Regulatory Insights

- **Technology Neutral:** *Revises the rules to reflect increased use of electronic systems and changes in securities processing and record ownership (e.g., applies to certificated and uncertificated securities); applies regardless of technology used and allows for but does not mandate distributed ledger and blockchain.*
- **Revised Processing Thresholds:** *Accelerates processing requirements to one business day and tightens the “fail rate” necessitating capability reviews of third-party arrangements, risk management and controls, and electronic systems.*
- **Securityholder Communications:** *Organizations should review communication and payment processes for inactive or unreachable securityholders and prepare to address notice requirements and requirements around electronic delivery failures.*
- **Expanded Application:** *Smaller firms relying on the current exemption would be subject to the proposed operational, recordkeeping, reporting, and internal control requirements.*

The Securities and Exchange Commission (SEC) has [issued](#) a proposal to update rules and forms for registered transfer agents (i.e., entities registered with the SEC or another federal regulator to process securities transfers and maintain issuer ownership records.) The proposed framework is intended to reflect the expanded role of transfer agents, changes in securities processing and record ownership, and the increased use of electronic systems since the adoption of the rules many decades ago. The SEC requests comments on the proposed rule on or before November 3, 2026.

The proposal addresses a broad range of topics, including:

- Amended Forms – Registration, Reporting
- Amended Rules – Definitions, Processing, Recordkeeping, Posting, and Safeguarding
- Rescission of Rules - Exemptions

- New Rules – Compliance, Restrictive Legends

Proposed Amendments to Forms

Registration and annual reporting. The proposal would amend the transfer agent registration and annual reporting requirements and revise Forms TA-1 and TA-2, respectively. The changes are intended to provide regulators with more current and detailed information about transfer agents’ ownership, operations, services, technology, financial condition, and risk profile. Proposed changes include:

- Form TA-1: A transfer agent’s registration application would become effective 45 days (an increase from 30 days) after filing of the application or filing of any amendment to a pending application.
- Form TA-2: A registered transfer agent would be required to amend (rather than “may amend”) its annual activity

report within 60 days after discovering information was materially inaccurate, incomplete, or misleading when filed.

- Registration and annual activity reporting forms and their instructions would be revised to collect information about each transfer agent's business and activities, including information related to the use of distributed ledger technology, identification of third-party service providers, and servicing of tokenized securities.

Proposed Amendments to Rules

Definitions. The proposal would amend definitions to "modernize" the terminology used in the transfer agent rules to better reflect the current technological and operational environment, such as the use of automated systems, electronic platforms, and digital communication channels. Definitions would use technology-neutral terms intended to be flexible and capable of accommodating future technological developments. Defined terms to be amended include:

- **Item:** New subsections to the definition would use technology-neutral terms for transfer instructions, issuer ownership records, and communications, covering both certificated and uncertificated securities as well as electronic systems, including blockchain or other distributed-ledger systems.
- **Receipt:** To remove the focus on physical receipt of an item, the definition would add that an electronic instruction to transfer securities, or an electronic inquiry about a transfer, would be treated as received on the business day it reaches the transfer agent, or, if received on a non-business day, treated as received on the next business day. The noon cutoff would be deleted.
- **Certificate Detail:** Would be replaced with a neutral term, "position detail," that can apply to any form of security, whether certificated or uncertificated. Additional information on the position detail would be updated including a securityholder's registration and contact information, and would require a transfer agent to maintain electronically each issuer's master file of registered securityholders.
- **Master Securityholder File:** Proposes to require that it be maintained in electronic form and to remove reference to investment company securities, such that any master securityholder file may consist of multiple linked files or systems.
- **Recordkeeping Transfer Agent:** Would be amended to mean the registered transfer agent that maintains and updates the master securityholder file for an issue of securities and to specify that there may be only one recordkeeping transfer agent for a given issue of securities.

The proposal also introduces new definitions for "authorized securities," "transfer journal," and "presentor."

Processing. Performance requirements for processing and turn around would be amended to ensure a transfer agent's timely turnaround of all "routine items" and processing of all applicable items, and to promote prompt/accurate clearance and settlement of securities transactions. Transfer agents would be required to:

- Establish, maintain, and enforce written policies and procedures designed to turn around all "routine items" received for transfer within one business day (or within any shorter period required by the settlement of those securities). The current 90 percent performance standard would be eliminated.
- Provide written notification within one business day when rejecting a request to transfer securities within one business day. Identify the rejected request, the reason for rejection, and the specific actions taken for the request to be completed. (Such notifications are not currently required.)
- Notify the SEC and the agent's regulatory agency, if the SEC is not that agency, if, during a month, it missed the applicable deadline for more than 3 percent of routine items submitted for transfer or other items submitted for processing.
- Limit the expansion of transfer agent activities if a transfer agent that completed fewer than 95 percent (increase from 75 percent) of routine items submitted for transfer or other items submitted for processing on time for two consecutive months.

Recordkeeping. The proposal would establish a single retention period for most transfer agent records and align the recordkeeping requirements with the proposed changes to the nature and scope of the proposed performance requirements. Transfer agents would be required to:

- Maintain records "sufficient to show:"
 - Securities-transfer requests.
 - Items received, turned around, processed, or rejected.
 - Number of non-routine items received.
 - Appointment or termination of the transfer agent agreement.
 - The number of securities an issuer is authorized to issue.
 - Service relationships with issuers and other transfer agents.
- Retain records (with some exceptions for at least 6 years, with the records from the most recent two years readily accessible).

- Implement controls when using an electronic recordkeeping system that:
 - Protect records from unauthorized changes or destruction.
 - Provide indexing and retrieval capabilities.
 - Create an audit trail that tracks access, modification, and deletion.
 - Recover altered, damaged, or lost records.
- Maintain continuous, independent access to required records if using a third party for recordkeeping. Using a third party would not relieve the transfer agent of responsibility for maintaining and producing those records.
- Deliver records to any successor transfer agent within 15 calendar days after ceasing to perform transfer agent functions for an issue.

Posting. The proposal would align the “prompt” posting timeframe to the “modern settlement cycle” and replace “certificate” with a reference to “security” to ensure prompt posting requirements clearly apply to both certificated and uncertificated securities. Transfer agents would be required to:

- Make changes in registered ownership of an issuer’s securities in the issuer’s master securityholder file within one business day (or within any shorter period required by the settlement of those securities).
- Exchange information about securities transactions and respond to inquiries about the issuer’s ownership records when jointly servicing the same securities issue within one business day (as opposed to the two- and five-day requirements, respectively, under the current provisions).
- Continue to retain any “position detail” deleted from an issuer’s master securityholder file for 6 years.

Safeguarding. The proposal would reframe the rule as an “outcomes-based, policies and procedures” requirement to better align with modern transfer agent activities. Transfer agents would be required to:

- Establish, maintain, and enforce written policies and procedures to
 - Protect all securities and funds in their possession, control, or custody, from theft, loss, misappropriation, misuse, damage, destruction, and improper or unauthorized access.
 - Address material custody, operational, cybersecurity, and other risks.
- Maintain money belonging to issuers, securityholders, or other third parties in a separate bank account designated as a “for the benefit of” account.

- Establish, maintain, and enforce a written business continuity plan as well as test, review, and update the plan at least annually.

Inactive and lost securityholders. The proposal would introduce a new defined term for “inactive securityholder” to include a securityholder for which the transfer agent has not observed any account activity for a period of 18 months. Transfer agents would be required to provide notices to inactive and lost securityholders as follows:

- Transfer agents and broker-dealers would have to send at least two notices to an inactive securityholder explaining the account inactivity, the potential treatment of the securities or other property as abandoned, and how the securityholder can demonstrate account activity.
 - The first notice would be required no later than 6 months after the securityholder’s account became inactive.
 - The second notice would be required no later than 6 months after the first notice.
- Rules for lost-securityholder, as defined, would treat undeliverable items of correspondence, including electronic communications, as evidence that a securityholder cannot be located.
- When an electronic payment is rejected and returned as undeliverable, as well as when a check remains not yet negotiated, a paying agent would be required to notify a securityholder. The paying agent generally would be required to send the notice no later than 7 months, or 210 days, after sending the electronic payment, or check not yet negotiated, that was rejected and returned as undeliverable.

Proposed Rescission of Rules

Exemptions. The proposal would rescind exemptions that currently excuse certain smaller transfer agents or transfer agents servicing certain securities from turnaround, processing, and recordkeeping requirements. As such, processing and recordkeeping requirements would apply to registered transfer agents that currently qualify for exemptions based on size or the type of security serviced.

Proposed New Rules

Compliance. Every registered transfer agent would be required to establish, maintain and enforce written policies and procedures “reasonably designed” to:

- Comply with the federal securities laws and rules applicable to its transfer agent activities.
- Identify and remediate noncompliance in a timely manner.

The transfer agent's board or equivalent governing body would be required to review and approve the compliance program at least annually, as well as after:

- A material change in the transfer agent's operations.
- A material change in applicable federal securities laws or rules.

Restrictive Legends. The proposed rule would establish requirements for transfer agents regarding the placement and removal of restrictive legends on registered securities, including:

- A transfer agent could place or remove a restrictive legend only when directed by an issuer employee included on the issuer's current list of authorized employees.
- A transfer agent could not facilitate an unregistered securities transaction unless the transfer agent has a

reasonable basis to believe the transaction does not violate, and is not part of a chain of transactions that would violate, the Securities Act. The transfer agent could establish a reasonable basis if it:

- Obtains and reviews a detailed opinion from counsel who is not affiliated with or employed by the issuer or the person seeking to resell the shares.
- Otherwise determines that the transaction may be conducted pursuant to a specific exemption from registration and is not aware of circumstances indicating that the transaction may violate, or is part of a chain of transactions that may violate, Section 5(a) of the Securities Act of 1933.

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