

OTC Markets Advisor Insights Podcast

Clear Trust, LLC Season 3 | Episode 5

OTC Markets Group: From OTC Markets' global headquarters in New York City, you are listening to Advisor Insights, where we feature professionals that will address the issues that affect the small-cap companies that trade on the OTC Markets. Joining us today is Kara Kennedy, executive director at ClearTrust. Kara, thanks a lot for joining us on our podcast.

Kara Kennedy: Thank you so much, it's a privilege.

OTC Markets Group: Absolutely. So before we get started on our topic of community banks today I would like to ask you, like I asked all our guests, can you just tell us a little bit about yourself and ClearTrust?

Kara Kennedy: Absolutely. So believe it or not, I have been working at a transfer agent since I was a teenager. So this is literally all I have ever done. Uh, fast forward to today. I do serve on the board of directors of the securities transfer association. And basically I can just geek out all things, transfer agent but back in 2009 some colleagues and I good dear friends and, and I started ClearTrust and we're very much a hands on relationship based transfer agent. and we've always had a really heavy focus on OTC companies of course, and smaller exchange listed issuers. But in recent years we've really found our sweet spot in serving community banks.

OTC Markets Group: All right. And, you know, just to get right down to it with the community banks let's start with the, their engagement of shareholders. So we have over 12,000 quoted companies that trade across our various tiers on the OTC markets. So Pink, OTCQB, OTCQX. What makes community banks especially the ones that do trade on our markets what makes them unique when it comes to engaging with the shareholders?

Kara Kennedy: Sure. So, I mean, we, we represent clients in just about every industry and just about every continent. And there, there there's a lot of consistency among publicly traded companies and their shareholders, but banks are special in that. They really have a focus on maintaining close relationships with their shareholders. And it makes sense because almost always their shareholders are by and large going to also be account holders with the bank and by extension, they're also going to be their neighbors. And so you really have this human element in the community bank space and the way they go about engaging with their investors, that that's actually quite lovely given how so much today has been reduced down to algorithms and numbers and everything else. It's, it's there's a lot of life in community banks and the relationships with their investors. And, and so when we're talking about those investors and the shareholders you know, the, in regards to the management of its shareholders, what are some key pain points that community banks may think about or may face in the, in the management. I'll give you three, one has to do with tension. One has to do with awareness and one has to do with quality control. So a key tension that banks have to navigate is maintaining those close, personalized relationships and staying hands on while not getting bogged down in the logistics of it all, because it's one thing for a chairman or a chairwoman to say, yes, we wanna make, you know, handle everything ourselves and stay really close to our shareholders. And it's quite another thing for the team to actually pull that off, right? So there's always that tension. And especially if the community bank is going to decide to be their own shareholder record keeper and they may not necessarily have the software or the appropriate tools that they, you know, could use, or could need to be able to

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pull these things off and assist them in managing dividends in communications and proxies and all that stuff. So one thing is just that tension between, you know, what the ideal of what they want and then the logistics of doing it. Another one has to do with awareness. And this is actually a really big one that we see. And it, this is the scarier one, in my opinion, because you don't know what you don't know. I do a lot of consulting and compliance training for community banks, helping them with their shareholder record keeping and, you know, team training, that kind of thing. And when I get in there and I examine their shareholder records, so often what I find is a just lack of full awareness of shareholder record, keeping rules and regulations, and how to do things properly. So you see, I come in and I'll see that transfers aren't documented properly. I'll see that restrictions aren't being managed correctly or being managed at all. We'll see a treatment isn't being handled, right. Just, you know, there's all kinds of things like nitpicky, things that as a transfer agent, you might know, but as a community bank, I mean, you know, they're bankers, they're not a transfer agent. So, you know, they just don't necessarily know these things. And the reason I think it's scary is that there's a risk exposure there that they're not even aware of. So, so I do think that that is a challenge. and then there's also a lack of awareness in just knowing that there are actually tools and solutions available to them, right? I mean, like oftentimes, you know, we're, we're a TA that specializes in community banks. And so often I'll talk to community banks and they'll be like, oh my goodness, I never knew you guys existed. So there's, there's a lot of lack of awareness. I think that poses potential challenges for banks. And then a third pain point would really be quality control. And this is especially challenging for banks on the other end of the spectrum who actually do have a transfer agent. So oftentimes banks are gonna just choose one of the, the, the larger TAs and that's all good and fine, except that they become a very, very small fish in a very, very big pond. Right. And when you go back to what a community bank wants, which is that personalized, customized shareholder experience and things done a special way reflective of their brand, where you're just not necessarily going to be able to produce that when, when you're with a really, really large transfer agent. So being able to control the quality of the shareholder experience, I think is another big pain point for banks. And actually that's a reason why banks oftentimes don't want to outsource to a transfer agent because they've got some horror stories, you know, and, and, and then they don't want that. so yeah, I, I think those are some of the key pain points we're seeing

OTC Markets Group: And you know, moving away from the, the pain points for a second, what are some key reasons that banks may give you when they, you know, are interested in trading on the OTC markets or when they decide to trade on the OTC Markets?

Kara Kennedy Sure. So there there's several. And but, but the key ones though that I'm seeing over and over again is number one liquidity opportunity for their investors. So again, these community bank investors, they're account holders, they're also neighbors. So they're in this for the long haul. oftentimes multi-generational shareholders, but still at some point they do want a liquidity event. And OTC markets creates a perfect opportunity for that because it's an economical option. It's far less expensive than being exchange listed. It meets all the needs that the community bank has and it's relatively easy to accomplish. so other than the liquidity, I would also say to add to that, it also is going to increase visibility for the bank. So if the bank is ex considering expanding, they've got a capital raise, their planning listing over the counter is a really good opportunity for them to just increase visibility and exposure. And you guys have done an awesome job in, in promoting these banks. Uh, so thank you for that.

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It's a huge value add. And then I'd also say, and this is something that, again, it goes back to that like lack of awareness about risk exposure <laugh> is, would be listing over the counter, does reduce compliance risk because it reduces the need for those like president desktop transactions, right? Like oftentimes if a shareholder right now, if, if the bank is private and a shareholder wants to sell their shares, they'll literally go to the president's office and say, Hey, you know, which one of your friends wants to buy my stock, right? They should absolutely not be doing that banks so often will have like a list of, you know, board members, insiders, friends, family who wanna buy this stock. And that just should absolutely not be happening by listing over the counter that just does away with all of that. And they say, oh, you wanna sell your shares fine. Then deposit the shares with a broker and then sell it the right way. Like everybody else

OTC Markets Group: So I have heard that it's pretty, not uncommon for banks to just use Excel, to keep track of everything. And I can't imagine the, the risk of, you know, losing your computer or losing the file.

Kara Kennedy: Absolutely. Yes, sir. That that's a huge risk. That's the number one thing. When I say banks that don't often have the tools that they need to manage their shareholders properly. Yeah. It's, I'm talking about Excel, they're using that and I think, oh my goodness, how do you sleep at night?

OTC Markets Group: Well, first of all, thank you for the compliment. I agree. I guess I'm a little biased. OTC has done a great job and its visibility for, for our companies. But moving forward you know, how should a bank prepared shareholders before they begin trading on, on the OTC markets? What needs to be known? You know, we talked about pain points for shareholder management. Are there any pain points prior to trading publicly on our markets, on the OTC Markets that banks can address with its shareholders?

Kara Kennedy: Yes. So I think that the key to success here is all about communication and education. So when a bank does decide to list on OTC markets, that's a really big deal for the bank and their entire family of shareholders. And oftentimes this is going to be the first time those investors are engaging with at, with an OTC traded stock and depositing shares into their brokerage account. And so, you know, this can be a little bit daunting. It can be a little bit overwhelming if the shareholders don't know what to do, how to do it when to do it. So the solution really comes with proactive shareholder friendly communication. So some of the things that I recommend is that in advance, and this is what we would do at ClearTrust. If we were the transfer agent in advance, we would meet with the bank and oftentimes they're legal counsel. And if they have a broker involved as well, of course, but our market maker, but we would meet together and create a communication plan that would include like a webinar. Like we would host an online event where we invite all the shareholders to come and understand what is OTC markets? How do you deposit shares into your brokerage account? What's the paperwork and process there. Oftentimes shareholders are going to have restricted stock, especially if the bank had organized as a holding company, they may hold restricted shares that aren't immediately available to be deposited with a broker. Well, shareholders need to understand the nuances of that and how do they remedy that? Right?

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So we would host an interactive engagement and recorded, you know, webinar where shareholders would be able to ask their questions and get all the information they need. The other thing of course we do is we recommend like a resource landing page, like the IR page for the bank. Also, of course, you know, that's something that, that we can do, but basically we want like a streamlined step by step. If this is you, you're a shareholder of this bank, click here, do this, fill this form, da. Right? So by, by, by doing these things early, before it happens you're, you're generating a little bit of excitement. You're getting the shareholders on board with what the bank is doing in their listing. And you're preparing the shareholder so that when the big day comes, everything's easy and then they have a positive experience and then it just reflects that much better on the bank and the bank's brand.

OTC Markets Group: All right. And you know, let's get a little technical right now. Can you tell us and our listeners, what is DTC, eligibility, DAC, and DRS, do community banks need these, if they're going to list on the OTC.

Kara Kennedy All right. Yeah. So, so much of our industry is like just acronyms, right? It's like a whole other language of acronyms. So I would say I would highly recommend yes to all of these. So let's go through them. The first one is DTC eligibility. And when we talk about this basic DTC eligibility, what we mean by that is that the depository trust company, which is the central depository, whereby like all shares that are traded in a secondary market are sort of housed with DTC. When a bank becomes DTC eligible, it simply means that DTC is going to receive their shares for a deposit and further credit to brokerage accounts. And that's absolutely critical if you're going to list over the counter or on an exchange, if you're gonna be public in any way, you need DTC eligibility. And there is a due diligence process that goes along with that, it does involve a market maker. And, and but it's, it's essential. Uh, once you have basic DTC eligibility, though, all that means is that a shareholder can present a paper stock certificate to their broker and request that that certificate be deposited into their brokerage account and who today wants to be dealing with paper stock certificates. That's archaic and ridiculous. So let's move on from that. Now we need to upgrade to what's called DAC and DRS eligibility. All right, now DAC stands for deposit withdrawal at custodian. DRS stands for direct registration system. All right, basically, I'm not gonna get too nerdy about all of this. All I'm gonna say is both of those are means by which shares can be electronically deposited via DTC into a brokerage account. So from the shareholder's perspective, what this means is if you have DAC and DRS eligibility, it means that they have two different choices, two different ways to work with their broker to say, Hey, I've got a hundred shares of ABC bank, and I want them deposited into my brokerage account. And no physical certificate is necessary at all. A little bit of paperwork, maybe that the broker does. And that's it, the shares can get deposited. It's almost like a wire. I would say it's almost like doing a, a bank wire instead of dealing with cash when it comes to like certificates and, and DAC and DRS. So I would, I would strongly recommend that a bank go ahead and, and, and upgrade to both DAC and DRS. As soon as they get their OTC listings, just gonna, it's gonna save hundreds, if not thousands of dollars per deposit for their shareholders. It's also going to save several days. I mean, like it, a deposit can take one to two days instead of taking several weeks when it comes to like the old fashioned paper cert process.

OTC Markets Group: All right. So Kara, we've spoken about community banks trading outta the OTC markets. We've spoken about some technical things. Now let's get back to you. Let's get back to

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ClearTrust. Let's get back to the transfer agent. What is a transfer agent and why would a community bank consider partnering with one?

Kara Kennedy: Sure. So a transfer agent in short is a shareholder record keeper. And what we do is manage pretty much anything that's going to have anything to do with your shareholders. So when it comes of keeping accurate record of who your shareholders are, yes. Issuing new shares and processing transfers. Yes. But also a transfer agent is gonna be able to help with paying out dividends. If you ever are going to maybe acquire another bank and expand the transfer, agent's going to help with that share exchange process. Uh, and also we're gonna get involved in help with your annual meeting. So we'll do the printing and mailing and proxy tabulation and all that good stuff. So basically just think of a transfer agent as is like glorified record keeper for all things, shareholder.

OTC Markets Group: You did mention that there are many different transfer agents out there. What are some good questions that you'd recommend a community bank to ask a potential transfer agent if they're shopping around for one?

Kara Kennedy: Absolutely. So thinking like a community bank, the first question I always get is what other community banks do you represent? so I, I, I think all banks would just start with that one. Uh, but we need to drill down a little bit deeper. So, so the banks can appreciate the, the options that they have. There's basically two different kinds of transfer agent. If I could, if I could summarize them that grossly, you've got like a small handful of very, very large agents. And then you've got a greater number of very, very small agents. The advantage to the large agents is you've got a lot of industry expertise and that's awesome. disadvantage there though. You don't have as much customization and that kind of thing. They would be a very small fish in a big pond. Then you've got this small agents, small agents are gonna be all about customization. They're gonna be scrappy and that's great, but there's a risk that they don't have the industry expertise and the compliance knowledge and, and the full scope of services that a bank's gonna need many times, if not all the time, they're not gonna be slack one audited either which a bank would need. So I would ask the market positioning of the transfer agent. You really do want a Goldie locks and which is, which is how ClearTrust actually is positioned. another question though, that I would definitely ask is about their call center community banks, with that focus on relationships. you wanna know when a shareholder calls, who are they calling and where, right? Like oftentimes the larger agents are outsourcing their call centers overseas. They need to do that. That's fine, but that's not gonna work at all for a community bank. So you wanna know when the shareholder calls is a live person going to answer the phone that's at the TA or not. another thing that they would wanna ask is about that customization capacity, right? The bank wants the trans agent to be a seamless extension of their team. To what extent can the bank's brand be reflected in the shareholder interactions, in the forms, in the email communications, how is the bank's culture going to be transferred through the transfer agent, to the shareholders, right? These are important things. And finally, and this is extremely important. I would say they definitely need to ask about the termination fees. And I say this because, you know, TAs are funny like that. They bake those in, in all kinds of, of ways. <laugh> so, you know, oftentimes they've got, I, you know, multi-year agreement, you're assigning, I I've seen clients have paid up upwards of 35, \$40,000 to terminated transfer agent and move to ClearTrust. So these are very hefty fees. I would strongly recommend you look at those. We don't have any

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termination fees or exit penalties at all at ClearTrust. And so I think a follow up question should be, if you do have a termination fee, then why is that? you know, for us, we're very big into relationships, maintaining those relationships and earning our clients' business. And I think that that is something that's very near and dear to community banks.

OTC Markets Group: All right, Kara, thank you very much for all that last but not least, we are outta time here, but I would like to ask if you have any clients that are interested in reaching out to you, any recommendations on perhaps reaching out to you directly on LinkedIn, what you website or Twitter what do you got?

Kara Kennedy: Absolutely. So I don't, I'm not cool enough to have Twitter or else. I just don't have time but I'm certainly on LinkedIn. You can look me up. Also, our website is ClearTrust online.com and you can call me up or email me kara@cleartrusttransfer.com. Phone is eight 132354490. We'd love to chat with you

OTC Markets Group: And last but not least ClearTrust is on our premium provider directory under the transfer agent category. So Kara again, thank you very much for joining us today. It's been wonderful speaking with you.

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**This is an autogenerated transcript and may contain typos.*