

# HOW TO **RETITLE** YOUR PRE-IPO SHARES

▶ **Have you invested in a pre-IPO deal?** Transferring those shares can be tricky. Here's a guide to help you through the process.

At some point in time, you might find yourself in a position where you have to retitle (or transfer) your shares to another party. For example:

- You invested in a Pre-IPO investment as an individual, but for tax and estate planning purposes you want to move those shares into an LLC or trust.
- You invested in a Pre-IPO investment using a ***Custodian Controlled Self-Directed IRA (SDIRA)***, the company is now public, and you are required to transfer shares into a different custodian that can hold publicly traded securities.

This change of ownership – even if it's to yourself – seems like it should be a simple process. However, due to regulatory requirements, the administrative burden can sometimes feel overwhelming (and unnecessarily complex).

For this reason, generally speaking, there is a clear case to be made for setting up the appropriate investment vehicles based on your specific tax and estate planning needs before investing in private market securities.

Even though the upfront costs of hiring tax and estate planning professionals may seem expensive, as the saying goes, “*an ounce of prevention beats a pound of cure.*”

The purpose of this guide is to help you – a Pre-IPO investor – gain a basic understanding of how the transfer process works, the associated costs, and what questions you should ask as part of your due diligence process (both for making investment decisions and hiring professional advisors).

Please keep in mind, we are not tax professionals nor estate planning professionals. The purpose of this article is only to assist you in preparing to ask the right questions, as it pertains to your pre-IPO investments, if you do meet with one of these professionals.

## A Quick Recap on Buying Pre-IPO Investments

Before you buy any Pre-IPO investment, it's important to understand exactly how the buying and selling process works, from end-to-end.

For example purposes, we will assume you've already [created your free account on the Equifund Crowdfunding Portal](#)... have already identified a Pre-IPO investment opportunity, and you are ready to purchase your shares.

*[note: the process is fundamentally the same, regardless of what portal or broker dealer you purchase shares from. However, we can only speak specifically to how it works within our ecosystem]*

### Step 1) Subscription Agreement Signed

The investor signs (and submits) all required documentation, which includes **Personal Identification Information (PII)** required for all “**Know Your Customer**” (KYC) and “**Anti-Money Laundering**” (AML) compliance protocols.

For the purposes of this verification process, Equifund, LLC charges a non-refundable \$24 transaction fee to cover the baseline costs associated with KYC/AML.

We understand this \$24 fee might be inconvenient for smaller-dollar investors to pay versus a percentage-based fee. However, a percentage-based fee unfairly penalizes larger investors.

We refuse to turn our compliance fees into profit centers, and instead choose to be

transparent about the true cost of compliance we bear and ask the investor for their understanding in the matter.

## Step 2) Funds Remitted & Cleared

The investor may remit payment for shares via ACH, Wire, or by mail via check/money order. Please be advised that different payment methods take different amounts of time to clear.

- **Wires** – 24 hours (one business day) following receipt of funds;
- **Checks** – 10 days following deposit of funds to the Escrow Account;
- **ACH** – 10 days following receipt of funds;
- **Credit and Debit Cards** – 24 hours (one business day) following receipt of funds.

Please be advised that this could have an impact on when your Subscription Agreement can be executed.

## Step 3) Subscription Agreement is Executed

Once the funds have cleared escrow, the company raising money (the “*Issuer*”) has to close on the investment to finalize it. In the middle of a campaign, this is also called a “*Roll Close*.”

A “roll close” means the Issuer doesn’t have to wait until the end of the campaign to close the offering and receive funds. Instead, they can have the money held in escrow transferred to them while the campaign is still live.

To get the funds, they have to countersign and execute their portion of the Subscription Agreement you signed earlier. Once this happens...

## Step 4) Settlement

Once the Issuer has signed the Subscription Agreement, three things now happen...

- The Issuer receives the money in escrow.

- The investor will receive the ***Executed Subscription Agreement*** via the email specified in the original Subscription Agreement.
- The ***Transfer Agent (TA)*** records your shares in “Book Entry.”

A ***Transfer Agent*** records changes of ownership, maintain the issuer’s security holder records, cancel and issue certificates, and distribute dividends.

Transfer Agents are required to be registered with the SEC, or if the transfer agent is a bank, with a bank regulatory agency.

***Book Entry*** is a method of tracking ownership of securities where no physically engraved certificate is given to investors.

Securities are tracked electronically, rather than in paper form, allowing investors to trade or transfer securities without having to present a paper certificate as proof of ownership.

When an investor purchases a security, the Transfer Agent receives a receipt and the information is stored electronically.

**WARNING:** *Once your transaction has been settled, it is final and can not be refunded for any reason!*

Please make sure to keep your digital records of the ***Executed Subscription Agreement***. You will need this document later in order to transfer your shares (or deposit them into brokerage should the company go public).

## **What happens if – after the investment is complete – you want to change who owns the shares?**

There are several reasons why you might need to “***retitle***” – or change ownership – of shares you’ve already purchased.

- 1. Your name was misspelled** – Perhaps you made a mistake when completing

the subscription agreement. Perhaps the Transfer Agent made a mistake when recording the shares in “book entry.” Either way, the reason for “retitling” is to correct an administrative error.

**2. You want to add a “Transfer on Death” (TOD) beneficiary** – For estate planning purposes, adding a TOD means your investments can be passed on to your heirs without going through probate or estate administration.

**3. You want to transfer ownership to a different account type** – For example, you invested as an individual but decide later you’d like to transfer ownership to a joint account (i.e. co-owned with your spouse).

**4. You want to transfer ownership to an entity you control** – For tax and estate planning purposes, you might decide it makes more sense to have all of your assets held inside of an LLC or Trust.

However, because investment products are regulated, there are certain safeguards and protections in place designed to reduce or eliminate fraud when it comes to changing ownership. Also, a change in ownership might possibly trigger a taxable event in the eyes of the IRS, so it is important to discuss a possible transfer with your tax advisor prior to making the change.

Almost always, this means the *Transfer Agent* is the entity who assumes liability for any requests to transfer shares.

As a result, in order to transfer ownership of any Pre-IPO shares, the Transfer Agent will ask you to sign some forms and provide some identifying information before processing your request.

While each Transfer Agent’s process is different, broadly speaking, you will need to sign what is commonly known as a “Stock Power” form.

## What is a Stock Power form?

**Stock Power** is a legal power of attorney form that transfers the ownership of certain shares of a stock to a new owner. Sometimes this form is called a **Transfer Instruction**

**Form.** In some cases, you'll be asked to sign both a Stock Power and Transfer Instruction Form. Regardless of what the forms are called, you will likely be asked to provide the following information:

- **The CUSIP Number** – This unique identifier is a combination of nine characters, including letters and numbers. It is used to identify a specific security or exempt offering, and is issued by the SEC for that purpose.
- **The Previous Owner** – Usually this means providing your full name and social security number
- **The Certificate Number / Book Entry Number / Account Number** – This unique identifier will match the name listed under Previous Owner.
- **The Description of Shares Being Transferred** – Usually this means indicating the name of the Issuer, what share class, and how many shares you are transferring.
- **The Stock Certificates** – Normally, Stock Power forms are used for transferring physical certificates. Because your shares are recorded in book entry (i.e. you won't have a physical stock certificate), the ***Executed Subscription Agreement*** is used here.
- **The “Cost Basis” of the Shares** – Cost Basis is the amount you originally paid to acquire these shares. As of January 1, 2011, the IRS requires all equity securities and units of investment trusts to maintain and report all cost bases on all transactions.
- **The Name of the New Owner(s)** – This is the name of the person(s) (or entity) the shares are being transferred to, along with the Tax Identification Number, date of transfer, and the transfer/sell price.

When completing a stock power form, all owners will need to sign and have their signatures guaranteed with a ***“Medallion Signature Guarantee.”***

For owners unable to complete the form – as in the case of a transfer to a minor or of an estate after death – the authorized legal representative of the shareowner

such as a *Power of Attorney*, *Custodian Trustee* or *Successor Trustee* will be required to sign the stock power form and will need a medallion signature guarantee.

## What is a Medallion Signature Guarantee?

The *Medallion Signature Guarantee (or “MSG”)* protects investors by making it harder to steal securities by forging signatures. Transfer Agents insist on *Medallion Signature Guarantees* because they limit their liability and losses if a signature turns out to be forged.

In a nutshell, an MSG verifies:

- You are who you say you are
- You have ownership rights to the asset you wish to transfer or sell
- The guarantor institution will be responsible should a signature turn out to be fraudulent

The Medallion imprint incorporates bar code technology – and other hidden security features – designed to deter counterfeiting.

The stamp uses a patented green ink, called **STAMP2000** ink. This security ink, required since December 31, 2003, has special qualities. One is the visible green pigment. The other is the invisible security compound that is only detectable using a **STAMP2000 Transfer Agent Document Reader**.

The document reader used by the transfer agent is designed to authenticate the frequency specific wavelength emitted by the security compound (and is also why they will request you mail a physical copy instead of faxed or scanned).

It looks something like this...



They also have a prefix that indicates their surety limit, which limits how much they can guarantee the transaction for (*see right*).

In the past, Transfer Agents routinely accepted signature guarantees from broker-dealers and commercial banks, but normally rejected the signature guarantees of savings banks, savings and loan associations and credit unions.

<u>Prefix</u>	<u>Surety Limit</u>
Z	\$10,000,000
Y	\$5,000,000
X	\$2,000,000
A	\$1,000,000
B	\$750,000
C	\$500,000
D	\$250,000
E	\$100,000
F (Credit Unions)	\$100,000

The SEC implemented Rule 17Ad-15 – which went into effect on February 24th, 1992 – in response to the discriminatory treatment that many registered transfer agents practiced with respect to the signature guarantees of savings associations and credit unions.

The term “**signature guarantee program**” is defined in Rule 17Ad-15 as a program which the transfer agent determines accomplishes the following:

- (i) To facilitate the equitable treatment of eligible guarantor institutions; and
- (ii) To promote the prompt, accurate and safe transfer of securities by providing:
  - (A) Adequate protection to the transfer agent against risk of financial loss in the event persons have no recourse against the eligible guarantor institution; and
  - (B) Adequate protection to the transfer agent against the issuance of unauthorized guarantees.

Rule 17Ad-15 encouraged a movement away from the traditional signature card programs administered by the exchanges towards certain **Medallion Signature Guarantee Programs**.

## How do I get a Medallion Signature Guarantee?

According to the US Securities and Exchange Commission:

*“an investor can obtain a medallion signature guarantee from a financial institution*



– such as a commercial bank, savings bank, credit union, or broker dealer – that participates in one of the Medallion Signature Guarantee Programs”

The three **Medallion Signature Guarantee Programs** are the:

- **Securities Transfer Agents Medallion Program (STAMP):** This program accommodates over 7000 Canadian and US banking institutions.
- **Stock Exchange Medallion Program (SEMP):** Participants in this program include regional clearing and trust firms, as well as stock exchange member companies.
- **New York Stock Exchange Medallion Signature Program (MSP):** The participants here are limited to NYSE member firms.

Medallion Programs are therefore only issued by financial institutions that are members of any of these programs.

*[Note: a Medallion Signature Guarantee is different from a notarization. A notary stamp cannot be used in place of an MSG]*

The first place to look is a bank, savings and loan association, brokerage firm, or credit union you have an existing relationship with. If none of them offer MSGs, you will need to establish a relationship with a new financial institution that does.

Generally speaking, you will need an account that is 6-12 months old before a financial institution will offer an MSG. For this reason, you’ll want to get this relationship established sooner than later.

There are several websites and directories that offer up information on how to find providers of the Medallion Signature Guarantee.

For example, you can use [MSG Lookup](#), or simply perform a Google search with the phrase ‘Medallion Signature Guarantee’ along with the city or state closest to where you’d need to obtain one.

Be sure to call ahead and ask questions about their MSG program before opening up any new accounts.

## How much does it cost?

In many cases, MSGs are provided free of charge. However, this might not apply to your specific financial institution or your specific situation. Call ahead and ask about their policies and fee structures.

## What documentation do I need?

You may be asked to provide a recent account statement, which proves your ownership and the value of the securities involved in the transaction.

Here are the types of things you'll commonly be asked for:

- **A valid government issued ID** – A state issued identification card or passport (cannot be expired).
- **Proof of membership with a providing institution and have an account in good standing** – For example, if you have an account with a bank or are a member of the credit union, they will, more than likely, ask for identification or information that proves you have a relationship or an account with them.
- **Proof of ownership of securities** – You'll either need the executed subscription agreement or a physical stock certificate.
- **Evidence of value** – The executed subscription agreement will have all of this information.
- **Verification of legal right to sign in case the owner is not present.** (i.e. death certificate, Stock Power, power of attorney, or trust agreements)

Remember, each institution could have its own procedures and best practices in place, so be sure to contact them directly for more information.

## What about international investors?

**If you are a US citizen living abroad...** getting an MSG while overseas can be challenging. In some cases, with prior notice, some financial institutions offer a substitution and accept a United States embassy seal instead.

On the other hand, banking institutions with a correspondence relationship with a bank in the US might be given the permission to offer the guarantee to existing customers.

For military personnel, the institutions might accept an alternative form of proof or waive the requirement entirely for small transfers.

**If you are not a US citizen...** for a variety of reasons, getting an MSG can be almost impossible without a US Taxpayer ID (i.e. a social security number, EIN, or ITIN).

For this reason, non-US citizens should strongly consider obtaining an EIN/ITIN before investing in any US-based issuer selling securities through any of The JOBS Act exemptions (Regulation D, Regulation A, or Regulation CF).

For more information on this, [please refer to our free guide for international investors by going here.](#)

► For more information on private investing and vetted opportunities, please visit: <https://equifund.com/>



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