

MEMO# 30502

January 4, 2017

Medallion Signature Guarantee Considerations and Alternatives White Paper

[30502] January 4, 2017 TO: ICI Members

Operations Committee

Small Funds Committee

Transfer Agent Advisory Committee SUBJECTS: Compliance RE: Medallion Signature
Guarantee Considerations and Alternatives White Paper

We are pleased to announce the publication of a new white paper, Medallion Signature Guarantee Considerations and Alternatives.

Medallion Signature Guarantees (MSG) have become a critical tool used by mutual fund transfer agents to protect shareholders, limit liability, and protect against fraudulent transactions. An MSG provides protection for the receiving transfer agent against losses due to a fraudulent signature/transaction up to specified dollar amounts. Shareholders may obtain a signature guarantee from a financial institution^[1] that participates in an MSG program.^[2] In recent years, some financial institutions have reevaluated their risk profile and made the decision to limit their guarantor activities or to exit the MSG program all together. This shift has significantly reduced the number of financial institutions offering MSGs and made it more difficult for shareholders to obtain an MSG when necessary.

An Investment Company Institute (ICI) industry working group developed this white paper to share considerations and alternatives for the requirement of an MSG and to help funds and transfer agents reconsider their policies and procedures related to MSGs.

The paper covers the following topics:

- Introduction – discusses the origins of MSGs, and the purpose of the paper in light of the shifting landscape and reduction in the number of available guarantors.
- Benefits of reexamining MSG policies and procedures – discusses the benefits to funds and transfer agents of reevaluating their MSG policies and procedures.
- Applicable transactions – discusses at a high level where an MSG is appropriate.
- Transactions where other controls are available – discusses situations where funds and transfer agents may want to consider whether an MSG should be required when other controls would mitigate the risk of a fraudulent transaction occurring.
- Requirements based on dollar threshold – discusses an alternative approach of eliminating the requirement for an MSG on all transactions under a specified dollar

threshold.

- Alternatives for high-risk transactions – discusses various alternatives a fund or transfer agent can use to mitigate the risks associated with high-risk transactions when a shareholder is unable to obtain an MSG.
- Nonfinancial transactions – discusses the fact nonfinancial transactions, such as those involving account maintenance activities, are beyond the scope of the Uniform Commercial Code’s intended use of MSGs and provides various alternative authentication practices.
- Online processing as a secure alternative – discusses the benefits of funds and transfer agents considering increasing the types and scope of transactions they make available to their shareholders via their website.
- Administrative considerations – discusses the various administrative factors that should be reviewed as part of the process of reevaluating the use of MSGs including: any applicable insurance policies; policies and procedures relating to transaction processing; processing guides or resources; and staff training.

Questions or comments on the white paper may be directed to Joanne Kane at the ICI (joanne.kane@ici.org, 202-326-5850). We hope you find this paper beneficial as you consider reevaluating the need for shareholders to obtain MSGs and discuss alternatives with your internal colleagues, fund management and designated transfer agent(s).

Joanne Kane
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[Attachment](#)

endnotes

[1] Financial institutions include commercial banks, credit unions, or broker-dealers.

[2] There are three Medallion Signature Guarantee programs—the Securities Transfer Agents Medallion Program, the Stock Exchanges Medallion Program, and the New York Stock Exchange Medallion Signature Program. Participation may vary by program.