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Financial Services Technical Guideline
Developed By Accredited
Standards Committee
X9 – Financial Services

SIGNATURE GUARANTEE GUIDELINE

Developed by
Accredited Standards Committee
X9 – Financial Services

Signature Guarantee Guideline

Due to the enactment in January 1992 of new Rule 17Ad-15 by the Securities Exchange Commission (SEC), under the Securities Exchange Act of 1934, any financial institution can guarantee signatures so long as certain protection for transfer agents is provided. The Rule specifically permits transfer agents to rely on guarantors' participation in a signature guarantee program in order to comply with the requirements of the Rule. This document is meant to educate guarantors to the importance of safekeeping and controlling medallions (hand stamps and/or machine plates) issued to them by their Program Administrator and to suggest guidelines for those purposes.

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Foreword

This technical guideline is a product of the Accredited Standards Committee X9 – Financial Services and was generated by the X9D Subcommittee on Securities Standards.

Suggestions for the improvement or revision of this standard are welcome. They should be sent to Accredited Standards Committee X9, Inc., P.O. Box 4035, Annapolis, Maryland, 21403, USA.

This guideline was processed and approved by the Accredited Standards Committee X9 – Financial Services. Committee approval of this guideline does not necessarily imply that all committee members voted for its approval. At the time it approved this guideline, the X9 Committee had the following members:

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Signature Guarantee

Part 1: The Importance of Control and Safekeeping of Signature Guarantee Medallions

1 Introduction

1.1 Scope and purpose

In January of 1992 the Securities and Exchange Commission ("SEC" or "Commission") adopted new Rule 17Ad-15 ("Rule") under the Securities Exchange Act of 1934.[1] The SEC is the primary regulator for both broker-dealers and transfer agents, as well as other types of financial institutions. The Rule adopted by the Commission prohibits the inequitable treatment of financial institutions which are eligible to guarantee signatures by transfer agents. The Rule dramatically reshaped the method by which financial institutions guarantee signatures and thereby transfer securities. A result of the adoption of the Rule was the establishment of three Signature Guarantee Programs ("Programs").[2] See Examples A and B. Previously, signatures were generally guaranteed by just commercial banks and broker-dealers. Transfer agents checked acceptable guarantees against authorized signature guarantee cards which were maintained by transfer agents and continuously updated by guarantors or administrators. Because of the Rule's enactment, now any financial institution can guarantee signatures so long as certain protection for transfer agents are provided.

Due to the (1) increased universe of guarantors, (2) resultant obsolescence of the signature card system and (3) need by transfer agents to equitably treat all eligible signature guarantors, the signature guarantee programs were established. The Rule specifically permits transfer agents to rely on guarantors' participation in a signature guarantee program in order to comply with the requirements of the Rule.[3]

The Programs restrict signature guarantors to those institutions that can provide: 1) adequate protection to transfer agents against risk of financial loss in the event the transfer agent has no recourse against the eligible guarantor institution, and 2) adequate protection to the transfer agent against the issuance of unauthorized guarantees.[4] The Programs accomplish these objectives by requiring member guarantors to purchase medallion imprints from approved equipment vendors (hand stamps or machine plates), obtain certain financial bonds, execute certain agreements and, in some instances, pay a fee to administer the program ("Program Administrator").[5] The rights, obligations and responsibilities of the parties to a transfer have not changed and are controlled by commercial law and the terms of the individual programs.

Generally the rights and responsibilities under commercial law are dictated by the Uniform Commercial Code, Article 8 ("Code"). The Code states generally in Section 8-312 that the guarantor warrants at the time of signing that:

a) the signature was genuine;

b) the signer was the appropriate person to indorse (Section 8-308); and

c) the signer had legal capacity to sign. (UCC Sections 8-312(1)(a-c))[6]

Other sections of the Code may also apply, such as the presentment warranties under Section 8-306 and liabilities for forgeries under Section 3-401 and 403. In addition, guarantors' insurance carriers may impose additional responsibilities.

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[1] See, 17 CFR § 240.17Ad-15, SEC Release No. 34-30146 (January 6, 1992)(effective February 24, 1992)(The SEC promulgated this rule under the authority of Section 206 of the Securities Enforcement and Penny Stock Reform Act of 1990 (15 USC §78q-1(d)(5)).)

[2] The three Programs are the Securities Transfer Agents Medallion Program ("STAMP"), the Stock Exchanges Medallion Program ("SEMP") and the New York Stock Exchange, Inc.'s Medallion Signature Program ("NYSE Medallion Program").

[3] See, Securities Exchange Act of 1934 ("1934 Act"), Rule 17Ad-15(g).

[4] See, 1934 Act, Rule 17Ad-15(g)(3).

[5] Program Administrator for STAMP and SEMP is Kemark Financial Services, Inc. ("Kemark") and for NYSE Medallion Program it is the New York Stock Exchange, Inc. ("NYSE").

[6] See, Egon Guttman, *Modern Securities Transfers,* 3rd Ed. (1987) at 13-3.