// By Erik Nelson

LISTING VS. SETTLEMENTS

KNOWING THE DIFFERENCE AND UNDERSTANDING THE IMPORTANCE OF EACH.

Over the course of the last couple of years, more times than I can remember, I have sat in a room watching a company present to investors who, even if they liked the company, could not buy shares in the company, or were not willing to pay physical settlement fees.

Take a moment and think about this. The presenting company is sending key executives to meet with potential shareholders in an effort to help develop a liquid market for their shares and improve the company's valuation in the process; and it just isn't happening.

I live in Atlanta. Foreign companies whose shares trade here in the United States, will fly one or more of their top executives to Atlanta to make presentations to dozens of investors and investment advisors hoping to get them to buy shares in their company. That is a lot of time and money spent trying to generate awareness and support for their company's shares. Developing a liquid, and active market for a company's shares requires a lot of things to go right. The last thing you want is for a minor issue, that is easily correctable, to cause investors who like your company to avoid buying its shares. Yet this is what happens when securities settlement is ignored.

The term "*securities settlement*" basically refers to the process of delivering securities that have been sold to the buyers, and receiving payment in return. This can basically be done the old fashioned way, physically, or electronically through a central depository such as the Depository Trust Company ("DTC"). The electronic delivery method for securities settlement is the fastest, most efficient, and least costly method of settling a transaction. Physical settlement is costly, time consuming, and inefficient. If the company's shares are not able to be settled electronically through the Depository Trust Company ("*DTC*") then either the investors brokerage firms will not trade the company's securities or they will pass the "*physical settlement*" fees along to the investors. This is a serious impediment to the efforts of the company's management to develop a liquid market for its shares, and one that supports an appropriate valuation. This can be a bigger problem than people realize. None of the investors I know want to pay the physical settlement fees, which can run hundreds of dollars per trade. As a result, none of the investors I know are able or willing to invest in the presenting company's shares unless they can be settled electronically, allowing them to avoid physical processing fees. This inability to settle trades electronically can be a serious problem for companies seeking to grow their shareholder base and improve their valuation.

"Our shares are quoted on the OTC Market, why do our shares need to be DTC Eligible ?" I hear this question all the time from executives presenting on behalf of their company. This is where knowing the difference between "*listing*" and "*settlement*" is very important. The answer to this question is relatively straight forward. A company's "*listing or quotation*" refers to their trading venue, the exchange or market where their shares can be bought or sold. This includes NASDAQ, the NYSE/Amex, or the OTC Markets. DTC Eligible refers to having securities approved for deposit into the DTC system, and able

to be settled electronically, thus avoiding the need to settle trades through the delivery of physical stock certificates. This is the fastest, most efficient, least costly, and most secure method of settling trades.

The alternative to being DTC Eligible, is to have a company's shares settled physically. This process is simple, when a company's shares are not DTC Eligible, trades in those shares are settled through the movement of physical certificates. This requires the brokerage firm that held the shares on behalf of the seller to physically ship stock certificates to the transfer agent for reregistration, in the selling brokerage firm's name, and in the number of shares of the trade for delivery to the brokerage firm that bought the shares. The brokerage firm whose client purchased the shares, then has to take those very same certificates and send them back to the transfer agent for reregistration in its name. If this sounds cumbersome and inefficient, it is because it is.

For example, a client of Morgan Stanley places an order for 1,000 shares of XYZ Corp, whose shares are not DTC Eligible. The purchase order is filled by a purchase of 273 shares from Goldman Sachs and 727 shares from Bank of America Securities. Goldman Sachs might send 5 certificates totaling 300 shares to the transfer agent, and request four (4) certificates totaling 273 shares, and one (1) for the balance of 27 shares. Bank of America might send 1 or several certificates to the transfer agent and request a certificate for the 727 shares and one (1) for the balance shares. Goldman Sachs and Bank of America Securities will send the certificates totaling 1,000 shares to Morgan Stanley, who then takes all the certificates it has received, which are in the names of Goldman Sachs and Bank of America Securities, and send them back to the transfer agent requesting the shares be reregistered in the name of Morgan Stanley.

This is a very expensive and time consuming way of settling trades. The transfer agent gets paid for every stock certificate it cancels, and every new stock

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certificate it issues. Additional fees for overnight delivery are billed as well. These "*processing fees*" can easily cost several hundred dollars to process a single trade. Sometimes the processing fees are greater than the value of the investment.

Many brokerage firms do not want to process the physical settlement of trades. Those that do, will pass these "*processing fees*" on to their clients. Investors do not like paying these fees. This results in a great deal of reluctance and hesitancy to buy shares in companies whose shares settle physically. This reluctance and hesitancy to trade a company's shares ultimately hurts its liquidity and market value. When the shares of a company become DTC Eligible, trades in those shares are settled electronically through DTC without the movement of physical shares. As a result, these processing fees are virtually eliminated. This eliminates the processing fee objection to buying a company's shares.

The term "*Listing*" refers to the stock exchange or marketplace where a company's shares trade. This is important, and where a company's securities primarily trade can have an impact on a variety of factors that impact its share trading. In the United States all the securities that trade on a major stock exchange are required to be DTC Eligible for settlement purposes. However, shares traded Over the Counter (OTC) are not required to be DTC Eligible. Additionally, OTC Markets does not require shares to be DTC Eligible for an OTCQB or OTCQX designation. As a result, the lack of electronic settlement, or not being DTC Eligible, is primarily a problem that effects companies whose shares trade on the US Over the Counter market.

The lack of DTC Eligibility, or electronic settlement, is easily solved. It simply requires an application for eligibility to be submitted on a company's behalf. Once the application is approved, for all practical purposes the settlement issue is resolved. The shares are now able to be settled without the movement of physical stock certificates.

All of this started with a company executive presenting to a room full of investors and investment advisors, hoping to bring in new shareholders and improve their company's valuation in the process. This requires the right set of conditions for this to happen; a good story, a listing and the ability to settle trades. Since the DTC's internal rules require a foreign company to obtain a US listing before applying for eligibility, this process is fairly straight forward. Once a company has obtained an OTC Markets listing, or an approval to list on a major stock exchange, it can then apply for, and receive its DTC Eligibility. Then the investors and the investment advisors will be able to buy the presenting company's shares. When the investors know they are able to purchase the Company's shares, they will naturally pay more attention to the presentation. With a little luck this will lead to an expanding shareholder base, and improved valuation.

We have seen the importance of knowing the difference between a listing and settlement; and more importantly why both are needed in order to create an environment where investors can become shareholders.

Corporate Bio

Erik Nelson is the President of Coral Capital Advisors, LLC. www.coralcapital.com, an independent consulting and advisory firm focused on companies and participants in the lower and middle markets. Coral Capital Advisors specializes in DTC Eligibility services, due diligence, and corporate restructurings. Coral Capital Advisors. provides services to Investment Banks, Private Equity Funds, investors, and both privately held and publicly traded companies, as well as various stakeholders in those organizations. Please feel free to visit our web site at: www.coralcapital.com or call our offices via. telephone # (404)-816-9220 to see how we may be of assistance. Additionally, Mr. Nelson is also the President of Mountain Share Transfer, www.mountainsharetransfer.com, a SEC registered transfer agent.

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