

UNITED STATES OF AMERICA
Before the
SECURITIES AND EXCHANGE COMMISSION

SECURITIES EXCHANGE ACT OF 1934
Release No. 101924 / December 16, 2024

ADMINISTRATIVE PROCEEDING
File No. 3-22358

In the Matter of

DIRECT TRANSFER LLC,

Respondent.

**ORDER INSTITUTING
ADMINISTRATIVE AND CEASE-AND-
DESIST PROCEEDINGS, PURSUANT TO
SECTIONS 17A AND 21C OF THE
SECURITIES EXCHANGE ACT OF 1934,
MAKING FINDINGS, AND IMPOSING
REMEDIAL SANCTIONS AND A CEASE-
AND-DESIST ORDER**

I.

The Securities and Exchange Commission (“Commission”) deems it appropriate and in the public interest that public administrative and cease-and-desist proceedings be, and hereby are, instituted pursuant to Sections 17A and 21C of the Securities Exchange Act of 1934 (“Exchange Act”) against Direct Transfer LLC (“Direct Transfer” or “Respondent”).

II.

In anticipation of the institution of these proceedings, Respondent has submitted an Offer of Settlement (the “Offer”) which the Commission has determined to accept. Solely for the purpose of these proceedings and any other proceedings brought by or on behalf of the Commission, or to which the Commission is a party, and without admitting or denying the findings herein, except as to the Commission’s jurisdiction over it and the subject matter of these proceedings, which are admitted, Respondent consents to the entry of this Order Instituting Administrative and Cease-and-Desist Proceedings, Pursuant to Sections 17A and 21C of the Securities Exchange Act of 1934, Making Findings, and Imposing Remedial Sanctions and a Cease-and-Desist Order (“Order”), as set forth below.

III.

On the basis of this Order and Respondent’s Offer, the Commission finds¹ that:

¹ The findings herein are made pursuant to Respondent’s Offer of Settlement and are not binding on any other person or entity in this or any other proceeding.

Summary

1. Between at least January 2020 and February 2024 (the “Relevant Period”), Direct Transfer, a registered transfer agent, failed to assure that client funds in its custody and possession were adequately safeguarded against loss, unauthorized disposition, and misappropriation by failing to perform periodic reconciliations of its client escrow accounts and failing to take steps to resolve discrepancies or other problems. As a result of these failures, during the Relevant Period, significant variances existed between the actual balances of Direct Transfer’s client escrow accounts compared to the expected balances of those accounts listed in the firm’s internal records. As a result, Direct Transfer willfully violated Section 17A(d) of the Exchange Act and Rule 17Ad-12 thereunder, which require registered transfer agents that have custody of funds related to their transfer agent activities to assure that, among other things, all such funds are protected, in light of all facts and circumstances, against misuse.

Respondent

2. **Direct Transfer LLC** is a Delaware limited liability company with its principal place of business in Raleigh, North Carolina and has been registered with the Commission as a transfer agent since 2009. Direct Transfer is a subsidiary of Issuer Direct Corporation, a communications and compliance company that is headquartered in Raleigh, North Carolina and incorporated in Delaware.

Facts

3. During the Relevant Period, as a transfer agent, Direct Transfer handled securities and funds for at least 100 transfer agent clients, many of which were microcap issuers. Direct Transfer also acted as a paying agent for several of its issuer clients, and disbursed dividends and interest payments to those issuer clients’ shareholders of record. As a paying agent, Direct Transfer maintained custody of its clients’ funds in segregated escrow accounts.

4. During the Relevant Period, Direct Transfer compared the actual balances contained in monthly bank statements for its client escrow accounts to expected balances of those accounts listed in Direct Transfer’s internal records on an annual basis only. In performing these reviews, Direct Transfer prepared its internal records of uncashed checks and unclaimed funds in each client escrow account by using a third-party software platform that contained numerous limitations and produced records that included inaccuracies. Despite Direct Transfer’s knowledge that the records generated through the third-party software platform were unreliable and inaccurate, Direct Transfer continued to utilize the software platform throughout the Relevant Period and did not make changes to its account review process to correct or otherwise address the inaccuracies. Direct Transfer also failed to conduct reviews of all of the escrow accounts of all of its clients.

5. For example, during 2021, Direct Transfer disbursed approximately \$73.38 million in dividend and interest payments on behalf of its issuer clients. In early 2022, Direct Transfer reviewed 55 of the client escrow accounts and found that for at least 40 of the 55 accounts,

significant variances existed between the actual account balances compared to the expected balances contained in Direct Transfer's internal records. These variances included an account deficit totaling \$65,634 in one account and an account overage totaling \$138,396 in another account. Despite these differences, Direct Transfer did not resolve the deficits or overages after they were discovered.

6. As another example, Direct Transfer failed to conduct any reviews of the client escrow accounts of three issuers for whom it had disbursed over \$4 million in dividend and interest payments in 2021.

7. During the Relevant Period, Direct Transfer failed to prepare reconciliations of its client escrow accounts, and instead relied on an inadequate review process that produced inaccurate results.

8. In addition, during the Relevant Period, Direct Transfer failed to establish written policies or procedures governing how it should conduct reconciliations of its client escrow accounts, adopt appropriate safeguards to ensure that funds held in its client escrow accounts were protected against misuse, or follow certain of the written policies and procedures it had previously adopted to govern its operations.

Violations

9. As a result of the conduct described above, Direct Transfer willfully² violated Section 17A(d) of the Exchange Act, which prohibits registered transfer agents from engaging in any activity in contravention of the Commission's rules and regulations, and Rule 17Ad-12 thereunder, which requires every registered transfer agent with custody or possession of any funds or securities related to the transfer agent's activities to assure that: (1) all such securities are held in safekeeping and are handled, in light of all facts and circumstances, in a manner reasonably free from risk of theft, loss, or destruction, and (2) all such funds are protected, in light of all facts and circumstances, against misuse.

IV.

In view of the foregoing, the Commission deems it appropriate and in the public interest to impose the sanctions agreed to in Direct Transfer's Offer.

² "Willfully," for purposes of imposing relief under Section 17A of the Exchange Act, "means no more than that the person charged with the duty knows what he is doing." See *Wonsover v. SEC*, 205 F.3d 408, 414 (D.C. Cir. 2000) (quoting *Hughes v. SEC*, 174 F.2d 969, 977 (D.C. Cir. 1949)). There is no requirement that the actor "also be aware that he is violating one of the Rules or Acts." *Tager v. SEC*, 344 F.2d 5, 8 (2d Cir. 1965). The decision in *The Robare Group, Ltd. v. SEC*, which construed the term "willfully" for purposes of a differently structured statutory provision, does not alter that standard. 922 F.3d 468, 478-79 (D.C. Cir. 2019) (setting forth the showing required to establish that a person has "willfully omit[ted]" material information from a required disclosure in violation of Section 207 of the Advisers Act).

Accordingly, pursuant to Sections 17A and 21C of the Exchange Act, it is hereby ORDERED that:

A. Direct Transfer cease and desist from committing or causing any violations and any future violations of Section 17A(d) of the Exchange Act and Rule 17Ad-12 thereunder.

B. Direct Transfer is censured.

C. Direct Transfer shall, within 14 days of the entry of this Order, pay a civil money penalty in the amount of \$115,231 to the Securities and Exchange Commission for transfer to the general fund of the United States Treasury, subject to Exchange Act Section 21F(g)(3). If timely payment is not made, additional interest shall accrue pursuant to 31 U.S.C. § 3717.

Payment must be made in one of the following ways:

- (1) Respondent may transmit payment electronically to the Commission, which will provide detailed ACH transfer/Fedwire instructions upon request;
- (2) Respondent may make direct payment from a bank account via Pay.gov through the SEC website at <http://www.sec.gov/about/offices/ofm.htm>; or
- (3) Respondent may pay by certified check, bank cashier's check, or United States postal money order, made payable to the Securities and Exchange Commission and hand-delivered or mailed to:

Enterprise Services Center
Accounts Receivable Branch
HQ Bldg., Room 181, AMZ-341
6500 South MacArthur Boulevard
Oklahoma City, OK 73169

Payments by check or money order must be accompanied by a cover letter identifying Direct Transfer as the Respondent in these proceedings, and the file number of these proceedings; a copy of the cover letter and check or money order must be sent to Anne C. McKinley, Assistant Regional Director, Division of Enforcement, Chicago Regional Office, 175 West Jackson Boulevard, Suite 1450, Chicago, Illinois 60604.

D. Amounts ordered to be paid as civil money penalties pursuant to this Order shall be treated as penalties paid to the government for all purposes, including all tax purposes. To preserve the deterrent effect of the civil penalty, Respondent agrees that in any Related Investor Action, it shall not argue that it is entitled to, nor shall it benefit by, offset or reduction of any award of compensatory damages by the amount of any part of Respondent's payment of a civil penalty in this action ("Penalty Offset"). If the court in any Related Investor Action grants such a Penalty Offset,

Respondent agrees that it shall, within 30 days after entry of a final order granting the Penalty Offset, notify the Commission's counsel in this action and pay the amount of the Penalty Offset to the Securities and Exchange Commission. Such a payment shall not be deemed an additional civil penalty and shall not be deemed to change the amount of the civil penalty imposed in this proceeding. For purposes of this paragraph, a "Related Investor Action" means a private damages action brought against Respondent by or on behalf of one or more investors based on substantially the same facts as alleged in the Order instituted by the Commission in this proceeding.

By the Commission.

Vanessa A. Countryman
Secretary