

## SUPPORTING STATEMENT

### A. Justification

#### (1) Necessity for Information Collection

The Commission, pursuant to Sections 2, 17(f), 19(a) and 23 of the Securities Exchange Act of 1934 (“Act”), adopted Rule 17f-1 (17 CFR 240.17f-1(b)) in 1979. This rule implemented Section 17(f)(1) of the Act by establishing a program for reporting and making inquiries requirements regarding missing, lost, stolen, or counterfeit securities (“Program”). Section 17(f)(1) of the Act was a response by Congress to large numbers of securities thefts. Testimony at the hearings conducted before the Senate Permanent Subcommittee on Investigation between 1971 and 1974 indicated that the trafficking in stolen securities was a profitable area for organized crime and that the failure to have available to the financial community a means of easily identifying missing, lost, stolen, or counterfeit certificates was a contributing factor to the increase in, and the ease of, negotiating such securities. The purpose of Section 17(f)(1) and Rule 17f-1 thereunder is to create a central database of information related to missing, lost, stolen, or counterfeit securities and to make available to covered institutions information that promptly identifies those securities, removing them from the stream of commerce and facilitating the capture of those who engage in such traffic.

The Commission has adopted a number of amendments to Rule 17f-1, including the addition of paragraph (b). Paragraph (b) requires that every “reporting institution” (*i.e.*, every national securities exchange, member thereof, registered clearing agency, participant therein, member of the Federal Reserve System, and bank insured by the Federal Deposit Insurance Corporation) register with the Commission or its designee according to instructions issued by the Commission. (Two classes of broker-dealers were exempted.)

Upon accepting the registration form by the Securities Information Center (“SIC”), the Commission’s designee to maintain and operate the database, a reporting institution is given access to the data base for both reporting and inquiry purposes. Without the identifying information provided by the registration form, access to the confidential database could not be limited to those institutions specified in the Act and Rule 17f-1. In addition, the registration procedure provides the Commission with a means of identifying those reporting institutions that have not registered in the Program and those institutions that have registered but are not complying with the requirements for reporting and inquiry.

#### (2) Purpose of and Consequences of Not Requiring the Information Collection

The Commission uses the information received in response to Rule 17f-1(b) to correlate the occurrence of securities losses and thefts to the size and type of reporting institution involved. The information is also used during the inquiry procedure to notify immediately the

Federal Bureau of Investigation with regard to attempted negotiations of such securities. Without Rule 17f-1(b), the Commission would not have a means of identifying those reporting institutions that have not registered in the Program and those institutions that have registered but are not complying with the requirements for reporting and inquiry.

(3) Role of Improved Information Technology and Obstacles to Reducing Burden

Not applicable.

(4) Efforts to Identify Duplication

Not applicable because reporting institutions are required to register with SIC only once.

(5) Effect on Small Entities

Although the information requested in the registration form affects small entities, the effect is minimal. The specific information requested is easily accessible to all reporting institutions and creates no significant burden.

(6) Consequences of Less Frequent Collection

Since the information is requested only once upon registration for participation in the Program, the collection of this information could not be conducted less frequently.

(7) Inconsistencies with Guidelines in 5 CFR 1320.5(d)(2)

The collection is conducted in a manner consistent with the guidelines in 5 CFR 1320.5(d)(2).

(8) Consultations Outside the Agency

The Commission has consistently communicated with personnel at SIC concerning the information required by this rule. SIC has repeatedly informed the Commission that surveys of reporting institutions indicate that the existing registration process is well designed to provide SIC with the necessary information in a relatively simple format.

(9) Payment of Gift to Respondents

Not applicable.

(10) Assurance of Confidentiality

Reporting institutions required to register under rule 17f-1(b) will not be kept

confidential. However, the Program database will be kept confidential.

(11) Sensitive Questions

No questions of a sensitive nature are asked.

(12) Estimate of Respondent Reporting Burden

Approximately 26,000 entities in the securities industry are required to register with SIC. Registration is a one-time event; it is ongoing until the registrant withdraws from the Program. We estimate that, each year, 1,000 reporting institutions register with SIC and 1,000 institutions withdraw. The staff estimates that the average number of hours necessary to comply with Rule 17f-1(b), that is, to register with SIC, is one-half hour.

(13) Estimate of Total Annualized Cost Burden

Not applicable; (a) it is not anticipated that respondents will have to incur any capital and start up cost to comply with the rule; (b) it is not anticipated that the respondents will have to incur any additional operational or maintenance cost (other than provided for in item number 12) to comply with the rule.

(14) Estimate of Cost to the Federal Government

Costs to the Federal Government in administering Rule 17f-1(b) are minimal. The staff presently receives about two inquiries per week from reporting institutions with regard to registration. Those inquiries can be responded to within one-half hour. The staff is also involved with annually reviewing the delegation arrangement with the Securities Information Center ("SIC"). The staff estimates that approximately 150 hours of staff time per year will be devoted to answering oral inquiries and reviewing the SIC delegation at a cost of \$4,500 per year.

This figure is based on our computation of staff time devoted to this activity and related overhead at 35 percent of the value of staff time. This estimate has been computed based on GSA, Guide to Estimating Reporting Costs (1973).

(15) Explanation of Changes in Burden

Not applicable.

(16) Information Collection Planned for Statistical Purposes

Not applicable.

(17) Explanation as to Why Expiration Date Will Not be Displayed

Not applicable.

(18) Exceptions to Certification

Not applicable.

B. Collection of Information Employing Statistical Methods

No statistical methods are employed in connection with the collections of information.