

SUPPORTING STATEMENT – RULE 17Ad-2(c),(d), and (h)

A. Justification

(1) Necessity for Information Collection

As a result of the "paperwork crisis" that occurred in the late 1960's, during which the number of securities transactions exceeded the securities industry's capacity to process those transactions, Congress enacted the Securities Act Amendments of 1975. In order to establish a national system for the prompt and accurate clearance and settlement of securities transactions, Congress provided for a scheme of regulation with respect to the business of being a transfer agent. Those amendments to the Securities Act of 1934 (the "Act") require transfer agents to meet minimum performance and recordkeeping standards as established by the Commission, in furtherance of the purposes of the Act and generally, to protect investors.

Transfer agents play an integral role in the national system for the clearance and settlement of securities transactions. Transfer agents cancel certificates presented for transfer, issue new certificates to the transferee and record the change of record ownership of securities on the issuer's securityholder records. They also prepare, maintain and certify securityholder records, disburse dividend and interest payments, and mail security-owner communications such as proxy materials and annual reports to shareholders.

Because transfer agents are such an integral component of the securities handling process, to the extent transfer agents fail to perform their activities promptly, accurately and safely, the entire clearance, settlement, and transfer process suffers. Moreover, substandard performance by transfer agents can affect the accuracy of an issuer's security-owner records and, thus, interrupt the channels of communication between issuers and shareowners. Thus, substandard performance by transfer agents can adversely affect issuers, broker-dealers, banks, other financial intermediaries, the investing public, and the securities markets.

Section 17A(d)(1)(A) of the Act generally prohibits any registered transfer agent from engaging in any transfer agent activity in contravention of Commission rules. In addition, Sections 17(a)(1) and (3) of the Act require every registered transfer agent to file reports as the Commission or other appropriate regulatory agency ("ARA")¹ require.

The Commission promulgated Rules 17Ad-2(c), (d), and (h) to provide an early warning system to alert the ARA when a registered transfer agent is not meeting the performance standards as set forth in the Commission's rules. This rule was adopted pursuant to authority in Sections 2, 17, 17A, and 23(a) of the Act (15 USC sec. 78b, 78q-

¹ / Section 3(a)(B) of the Act defines the term "ARA" as applied to transfer agents.

1, and 78w(a)). Rules 17Ad-2(c), (d), and (h) thus enable the ARAs to take timely preventive and remedial action to protect the interests of the public and of investors.

Under Rule 17Ad-2(c), a registered transfer agent must file a notice within 10 days after the end of any month in which it fails to meet the minimum performance standards set forth in rule 17Ad-2(a). Generally, the notice must include (a) specific quantitative data to enable the ARA to gauge the severity of the transfer agent's failure to comply with the applicable performance standard; (b) the reasons for the non-compliance; and (c) the steps that have been, are being, or will be taken by the transfer agent to prevent similar failures from recurring.

Similarly, when a registered transfer agent acting as an outside registrar fails to meet the minimum performance standards of Rule 17Ad-2(b), it must file a notice, as outlined above, with the Commission, and with the various ARAs, when appropriate.

(2) Purposes of, and Consequences of Not Requiring, the Information Collection

The Commission utilizes the information contained in the notices to (a) provide an early warning to the Commission, the ARA (if not the Commission), and the registered transfer agent itself, of its non-compliance with the minimum performance standards; and (b) assure that every registered transfer agent performs its functions promptly and accurately, and in accordance with the statutory goal.

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

The information required by the rule to be reported to the Commission, or when appropriate, the ARAs, does not constitute a significant burden to the registered transfer agents covered by the rule. Thus, improved technology would not reduce the burden.

(4) Efforts to Identify Duplication

Not applicable; no duplication exists with respect to the information to be submitted under the rule.

(5) Effects on Small Entities

For purposes of the Regulatory Flexibility Act, a transfer agent is considered a small business or entity if it received fewer than 500 items for transfer and fewer than 500 items for processing during the six month period preceding the time when the determination is made. Transfer agents that are considered "small businesses" by this test are exempt from the provisions of Rule 17Ad-2(c), (d), and (h).

(6) Consequences of Less Frequent Collection

The transfer agent rules are designed to assure the continuous, prompt processing of securities presented for transfer. If this information was provided less frequently, the Commission and the ARAs (when appropriate) would not be able to effectively regulate transfer agent conduct, and thus would not be able to fully comply with their statutory duties, as outlined above.

(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) Consultation Outside Agency

The rule and its amendments were subject to public notice and comment. The rule has not been amended since 1994.

(9) Payment of Gift to Respondents

Not applicable.

(10) Assurances of Confidentiality

This rule does not involve the collection of confidential information.

(11) Sensitive Questions

No questions of a sensitive nature are asked.

(12) Estimate of Respondent Reporting Burden

The Commission receives approximately ten notices per year from registered transfer agents pursuant to these rules. The staff's experience indicates that approximately one-half hour is needed per response, because most of the required information is readily available, and because the information only needs to be presented in summary fashion.^{2/} In short, the burden placed upon transfer agents is minimal, and in fact averages five hours per year.

(13) Estimate of Total Annualized Cost Burden

The estimated annual cost to respondents is minimal. In view of (a) the readily available nature of most of the information required to be included in the notice (since that information must be compiled and retained pursuant to other Commission rules); (b)

² / Since the Commission has not adopted an official form for this purpose, each registered transfer agent required to file notices may submit a statement on its own letterhead.

the summary fashion in which such information must be presented in the notice (most notices are one page or less in length); and (c) the experience of the staff regarding the notices, the Commission staff estimates that, on the average, most notices require approximately one-half hour to prepare. The Commission staff estimates that transfer agents spend an average of five hours per year complying with the rule.

(14) Estimated Cost to Federal Government

On an annual basis, the Commission receives an average of 10 notices from registered transfer agents pursuant to Rule 17Ad-2(c), (d), and (h). The Commission's staff estimates that the total cost to the Commission and the ARAs of reviewing those notices and taking appropriate action thereon is approximately \$720. This figure is based on computation of the value of staff time devoted to reviewing notices and taking appropriate remedial action, and based on a calculation of the related overhead, which is valued at 35% of the value of staff time. This estimate was computed according to the guidelines set forth in 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 Certifications

Not applicable.

B. Collection of Information Employing Statistical Methods

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