

## SUPPORTING STATEMENT - RULE 17Ad-17

### 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 Acts Amendments of 1975.<sup>1</sup> 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 Exchange Act of 1934 ("Exchange Act") require transfer agents to meet minimum standards as established by the Commission in furtherance of the purposes of the Exchange 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 issuers' securityholder records. They also prepare, maintain, and certify securityholder records, disburse dividend and interest payments, and mail securityowner communications such as proxy materials and annual reports to shareholders.

To the extent transfer agents fail to perform their activities promptly, accurately, and safely, the entire clearance, settlement, and transfer process suffers. Substandard performance by transfer agents can affect the accuracy of an issuer's securityowner records and thereby interrupt the channels of communication between issuers and shareowners. Moreover, the absence of adequate internal accounting controls in the operation of transfer agents and procedures for the safeguarding of funds and securities in the possession or control of transfer agents can provide the opportunity for significant financial loss to securityholders, issuers, financial intermediaries, and securities depositories.

Rule 17Ad-17 (17 CFR 240.17Ad-17) is designed to enhance the accuracy of transfer agents' records. Under Rule 17Ad-17, transfer agents are required to exercise reasonable care to maintain the correct address of each securityholder in its master file. As a part of such reasonable care, transfer agents are required to make two searches for the correct address of lost securityholders<sup>2</sup> using an information database service without charge to the lost securityholders. The initial search must be carried out within three and twelve months after the securityholder

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<sup>1</sup> Pub. L. No. 94-29, 89 Stat. 97 (June 4, 1975).

<sup>2</sup> Rule 17Ad-17(b)(2) defines a lost securityholder as a securityholder to whom an item of correspondence that was sent to the securityholder at the address contained in the transfer agent's master securityholder file has been returned as undeliverable.

becomes lost and the second search must be carried out between six and twelve months after the initial search.

The Commission adopted Rule 17Ad-17 pursuant to authority under Section 17A of the Exchange Act.

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

The purpose of Rule 17Ad-17 is to reduce the number of lost securityholders by requiring transfer agents to conduct two database searches for correct addresses for the lost securityholders. Without the requirement, transfer agents could use different methods to locate lost securityholders which could result in different standards of investor protection.

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

Transfer agents have the option to deliver the names of the lost securityholders to third party database vendors by electronic, tape, or paper submissions.

(4) Efforts to Identify Duplication

No other requirement exists with respect to the information required to be reported under the Rule.

(5) Effects on Small Entities

To the extent that some transfer agents covered by the rule are small entities, the rule impacts those entities. However, that impact is mitigated by the lower number of lost securityholders for which those firms should be responsible.

(6) Consequences of Less Frequent Collection

If the information is collected less frequently, investors are deprived of their assets for longer periods of time and the searches are less likely to result in a corrected address.

(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 communicated with, and requested the views of, the Comptroller of the Currency, the Board of Governors of the Federal Reserve System, and the Federal Deposit Insurance Corporation. The Commission communicates on a continuous basis with these organizations, and has not received any indication of major problems with Rule 17Ad-17. The

Commission also communicates with many registered transfer agents on a continuous basis and has not discovered any major problems with Rule 17Ad-17.

(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 information required to be collected by Rule 17Ad-17 generally is already maintained by registered transfer agents. Approximately 608 registered transfer agents devote approximately five hours per year (1.25 hours x 4 responses per year) to providing information on lost securityholders to third party database vendors as required under Rule 17Ad-17, totaling 2,432 hours industry wide.

(13) Estimate of Total Annualized Cost Burden

The cost of compliance for each individual transfer agent depends on the number of lost accounts at each transfer agent, which in turn affects the amount charged by third party vendors for each search. Together with reporting and record keeping costs, the Commission estimates the annualized cost burden to be approximately \$1,356 per response. We therefore estimate that the annual cost industry wide is approximately \$3.3 million.

(14) Estimated Cost to Federal Government

There is no cost to the Federal Government.

(15) Explanation of Changes in Burden

The changes in burden result from a decrease in the aggregate number of registered transfer agents.

(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.