

SUPPORTING STATEMENT
for the Paperwork Reduction Act Information Collection Submission for
Rule 17f-1(c) and Form X-17F-1A

A. Justification

(1) Necessity of Information Collection

Section 17f-1 of the Securities Exchange Act of 1934 (“Act”) was a response by Congress to the large number of securities thefts which occurred in the late 1960s. Testimony at hearings conducted before the Senate Permanent Subcommittee on Investigations between 1971 and 1974 indicated that trading of stolen securities was profitable for organized crime. Testimony also indicated that the inability to easily identify missing, lost, stolen, or counterfeit securities certificates was a contributing factor to the increase in trading of such securities. Accordingly, the Commission adopted Rule 17f-1, which established certain requirements relating to the Lost and Stolen Securities Program (“Program”). Separately, the Commission created a central database for information relating to missing, lost, counterfeit, or stolen securities and made available to financial institutions designated in Rule 17f-1 information that promptly identifies those securities.

Rule 17f-1(c) was adopted in December 1976, pursuant to 15 U.S.C 78b, 78q(f), 78s(a), and 78w and was most recently amended on December 23, 2003, based on proposed amendments to the rule published in October 2000. Paragraph (c) of the rule established requirements related to the Program. In particular, Rule 17f-1(c) requires financial institutions to report to the Commission or its designee whenever a security is suspected of being lost, missing, stolen, or counterfeit. National securities exchanges and their members, registered securities associations, brokers, dealers, transfer agents, clearing agencies, FDIC insured banks, and members of the Federal Reserve System make these reports to a central database on Form X-17F-1A.

(2) Purpose and Use of Information Collection

The Program serves three objectives. First, the Program enables the Commission's designee, the Securities Information Center (“SIC”), to maintain a database of securities reported as lost, missing, stolen, or counterfeit. Second, the database enables institutions considering giving value in exchange for securities certificates, as well as law enforcement authorities that discover suspect certificates, to consult a repository of information about lost, missing, stolen, or counterfeit securities. Third, the mere existence of the report and inquiry process enhances commercial confidence in efficient certificate handling and thereby serves to discourage sophisticated criminals from placing stolen securities into commerce for value. Failure to report this information would cause substantial losses to securities holders and financial institutions through increased trading and pledging of lost, missing, stolen, or counterfeit securities.

(3) Consideration Given to Information Technology

The SIC has consistently used the most current computer techniques for processing inquiries and reports. Initial inquiries and reports generally can be processed over the telephone in less than one minute. Follow-up electronic reports on Form X-17F-1A generally are processed quickly and efficiently.

(4) Duplication

The Program is unique, and therefore duplication is not possible.

(5) Effect on Small Entities

Through arrangements with larger financial institutions, the Program provides a low-cost means for small businesses to report and inquire about securities. The rule also exempts from the inquiry requirement securities certificates received from the institution's customers, if the institution's records show that the security was sold to the customer by that institution.

(6) Consequences of Not Conducting Collection

Less frequent reports and inquiries would result in an unreliable database and increased losses to financial institutions.

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

There are no special circumstances. This collection is consistent with the guidelines in 5 CFR 1320.5(d)(2).

(8) Consultations Outside the Agency

The Commission has consistently communicated with personnel at the SIC concerning the use, collection, availability, and accuracy of data. The SIC has informed the Commission that a survey of participating institutions indicated that Form X-17F-1A is well designed to provide necessary information in a relatively simple format.

The required Federal Register notice with a 60-day comment period soliciting comments on this collection of information was published. No public comments were received.

(9) Payment or Gift

No payment or gift is provided to respondents.

(10) Confidentiality

Each participating institution must have a unique access code to gain entry to the database. The Commission believes such confidentiality is necessary and adequate to achieve the goals of Section 17f-1 of the Act.

(11) Sensitive Questions

Not applicable; no information of a sensitive nature is required. The information collection does not collect any Personally Identifiable Information (PII).

(12) Burden of Information Collection

Approximately 15,500 reporting institutions will report that securities are either missing, lost, counterfeit, or stolen annually. Each reporting institution will submit this report approximately 30 times each year. The staff estimates that the average amount of time necessary for each reporting institution to comply with the Rule 17f-1(c) and Form X-17F-1A is five minutes. As a result the total hourly burden for Rule 17f-1(c) is 38,750.¹

(13) Costs to Respondents

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) Costs to the Federal Government

No costs are incurred by the Federal Government for direct operation of the Program. No estimate is available regarding staff time expended on the development and supervision of the Program. The SIC, as the Commission's designee, finances its operations by assessing Program participants fees based upon participation status, report/inquiry volume, and use of specialized services.

(15) Changes in Burden

The burden decreased because the estimated number of reporting entities is lower than in previous years and because the estimated number of reports is lower than in previous years.

(16) Information Collection Planned for Statistical Purposes

Not applicable. The information collection is not used for statistical purposes

¹ $(15,500 \times 30) = 465,000 \times (5 \text{ minutes}/60) = 38,750$.

(17) Approval to Omit OMB Expiration Date

The Commission is not seeking approval to omit the OMB expiration date.

(18) Exceptions to Certification

This collection complies with the requirements in 5 CFR 1320.9.

B. Collection of Information Employing Statistical Methods

This collection does not employ statistical methods.