

SUPPORTING STATEMENT
For the Paperwork Reduction Act Information Collection Submission for
Rule 17Ad-16

A. Justification

(1) Necessity of Information Collection

In response to the “paperwork crisis” that occurred in the late 1960s when the number of securities transactions exceeded the securities industry’s capacity to process those transactions, Congress enacted the Securities Acts Amendments of 1975.¹ This amendment added a new Section 17A to the Securities Exchange Act of 1934 (“Exchange Act”), which directed the Commission to establish a national system for the prompt and accurate clearance and settlement of securities transactions. This included a new regulatory system for the transfer agent industry by requiring transfer agents to meet minimum performance standards as established by the Commission in furtherance of the purposes of the Exchange Act.

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 material and annual reports to shareholders.

To the extent that transfer agents fail to perform their activities promptly and accurately, the entire clearance, settlement, and transfer process suffers. For example, substandard performance by transfer agents can affect the accuracy of an issuer’s securityholder records and therefore could disrupt communication between issuers and securityholder. Moreover, poor performance by transfer agents could systemically affect issuers, broker-dealers, banks, other financial intermediaries, the investing public, and the securities markets.

The Commission adopted Rule 17Ad-16 in 1994 to address the problem of certificate transfer delays caused by transfer requests that are directed to the wrong transfer agent or the wrong address.² Transfer delays can potentially cause acute problems for registered securities depositories, which hold a large number of certificates for safekeeping and have a large daily volume of certificate transfers. The rule addresses the problems by requiring transfer agents to provide written notice to a qualified registered securities depository when assuming or terminating transfer agent services on behalf of an issuer or when changing its name or address.³

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

² Securities Exchange Act Release No. 35039 (Dec. 1, 1994), 59 FR 63656 (Dec. 8, 1994).

³ The Commission has designated The Depository Trust Company as the appropriate qualified registered securities depository. Securities Exchange Act Release No. 35378 (Feb. 15, 1995), 60 FR 9875 (Feb. 22, 1995).

(2) Purpose and use of the Information Collection

The notices required to be sent to appropriate qualified registered securities depositories provide to the depositories current information regarding where to send transfer instructions. Accurate transfer agent information reduces the number of transfer delays caused by imprecise transfer agent information.

(3) Consideration Given to Information Technology

There are no legal or technical obstacles that, if removed, would reduce burdens.

(4) Duplication

No other reporting requirement currently exists with respect to the information required to be reported under the rule.

(5) Effect on Small Entities

Because the information required to complete Rule 17Ad-16 notices is generated by and is readily available to transfer agents, any collection burden for small businesses is minimal.

(6) Consequences of Not Conducting Collection

Less frequent reporting under the rule would deprive registered securities depositories of current information regarding the issuers a transfer agent services and the name and address of transfer agents that have changed their name or address. That situation would increase the number of transfer delays, risk of loss of certificates, and personnel and operational costs.

(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) Consultation Outside Agency

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

Not applicable.

(10) Confidentiality

This rule does not involve the collection of confidential information.

(11) Sensitive Questions

No questions of a sensitive nature are asked. The information collection does not collect any Personally Identifiable Information (PII).

(12) Burden of Information Collection

We estimate that the transfer agent industry submits approximately 6,970 Rule 17Ad-16 notices to appropriate qualified registered securities depositories per year. The staff estimates that the average amount of time necessary to create and submit each notice is approximately 15 minutes per notice. Accordingly, the estimated total industry burden is 1,743 hours per year (15 minutes multiplied by 6,970 notices filed annually). Because the information needed by transfer agents to properly notify the appropriate registered securities depository is readily available to them and the report is simple and straightforward, the cost is relatively minimal. The average internal compliance cost to prepare and send a notice is approximately \$7.50 (15 minutes at \$30 per hour). This yields an industry-wide internal compliance cost estimate of \$52,275 (3,700 notices multiplied by \$7.50 per notice).

(13) Costs to Respondents

Other than the internal compliance costs identified in 12 above, there are no additional one-time capital or start-up costs or recurring operation or maintenance costs to respondents.

(14) Costs to Federal Government

The cost to the federal government to administer Rule 17Ad-16 is generally minimal. First, the rule requires the transfer agents to maintain copies of the notices; the federal government does not collect them. The notices, however, are only produced to the government as requested during transfer agent examinations if and when an issue arises. Accordingly, the cost to the federal government results from appropriate regulatory agency staff time and related overhead cost devoted to answering phone and written questions regarding the rule as well as an examination of transfer agent and clearing agency records in the event of an issue arising. Because the rule is simple and straightforward in its application, the staff does not receive a substantial number of inquiries. Furthermore, the number of issues arising where Rule 17Ad-16 is implicated is very low. Hence, the Commission staff estimates that approximately five hours of staff time per year will be devoted to answering questions or resolving Rule 17Ad-16 notice issues. If staff time and relevant overhead expenses are estimated at \$100 per hour, the total annual cost to the federal government is \$500 per year.

This estimate was computed according to the guidelines set forth in GSA, Guide to Estimating Reporting Costs (1973).

(15) Changes in Burden

The change in the hour burden estimate from 925 hours to 1,743 is based on an updated estimate by the primary U.S. securities depository, The Depository Trust Company (“DTC”), of the number of Rule 17Ad-16 notices DTC receives on an annual basis.

(16) Information Collection Planned for Statistical Purposes

Not applicable.

(17) Approval to Omit OMB Expiration Date

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

(18) Exceptions to Certification

Not applicable. This collection complies with the requirements in 5 CFR 1320.9.

B. Collection of Information Employing Statistical Methods

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