

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

A. Justification

(1) Information Collection Necessity

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-17 in 1997 pursuant to authority under Section 17A of the Exchange Act in order to enhance the accuracy of transfer agents’ records. The rule required, among other things, transfer agents make two searches for the correct address of lost securityholders using an information database service without charge to the lost securityholders. In 2013, the Commission issued amendments to Rule 17Ad-17 pursuant to Section 929W of the Dodd-Frank Wall Street Reform and Consumer Protection Act.

(2) Information Collection Purpose and Use

The purpose of Rule 17Ad-17 as amended is to reduce the number of lost securityholders by requiring transfer agents, brokers, dealers, and paying agents (collectively, “covered entities”) to conduct two database searches for correct address for lost securityholders. “Paying agent” is defined as “any issuer, transfer agent, broker, dealer, investment adviser, indenture trustee,

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

custodian or any other person that accepts payments from the issuer of a security and distributes the payments to the holders of the security.” In addition, Rule 17Ad-17 requires a mandatory “collection of information” that requires covered entities to maintain records in order to comply with and to demonstrate compliance with the rule. Such records must be maintained for a period of not less than three years with the first year in an easily accessible place. The Commission reviews this information to test for compliance. The collection of information is necessary to enable covered entities, as custodians of records that determine the ownership of securities and the entitlement to corporate distributions, to reduce the number of lost and missing securityholders.

(3) Consideration Given to Information Technology

Covered entities have the option to deliver the names of the lost securityholders to third party database vendors (who use that information to conduct the search for the lost securityholders) by electronic, tape, or paper submissions.

(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

A high proportion of paying agent services are performed by large brokers and dealers and by transfer agents that perform such services. These firms are not typically small businesses as defined in Exchange Act Rule 0-10(c).

(6) Consequences of Not Conducting 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)

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

(8) Consultation Outside the 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) Information Collection Burden

The Commission staff estimates that there are 301 broker-dealers and 2,766 paying agents subject to the rule. We are assuming for the purposes of Rule 17Ad-17 that, on an annual basis, there will be approximately 651,123 searches by broker-dealers and approximately 691,500 notifications by paying agents. The hourly burden for searches is approximately 54,044 hours and approximately 34,575 hours for paying agent notifications. In addition, there will be an approximate recordkeeping burden of 2,686 hours (1,303 hours for broker-dealers and 1,383 hours for paying agents).

(13) Costs to Respondents

For purposes of this Supporting Statement, the primary cost incurred by covered entities to comply with Rule 17Ad-17 consists of a fee paid to third party data base providers that will search for the missing securityholders. Based on information provided by the industry, we estimate this fee to be approximately \$3 per search. Therefore, the total cost for all covered entities is approximately \$1,953,369 (651,123 searches times \$3).

(14) Costs to Federal Government

Rule 17Ad-17 does not require covered entities to submit anything to the federal government. As previously stated, the Commission examines transfer agents, brokers, and dealers for their compliance with this rule. Since the cost to examine these entities consists solely of normal full-time employee labor costs, the cost to the federal government for purposes of this Supporting Statement is zero.

(15) Changes in Burden

The changes in burden result from fewer covered entities due to the decrease in registered transfer agents as well as an increase in the number of searches and notifications.

(16) Information Collection Planned for Statistical Purposes

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

(17) Approval to Omit OMB Expiration Date

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

(18) Exceptions to Certification for Paperwork Reduction Act Submissions

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

B. Collection of Information Employing Statistical Methods

This collection does not involve statistical methods.