

**SUPPORTING STATEMENT**  
**for the Paperwork Reduction Act Information Collection Submission for**  
**Rules 17Ad-6 and 17Ad-7**

**A. JUSTIFICATION**

**1. Information Collection Necessity**

As a result of the paperwork crisis that occurred in the late 1960s, 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 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 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 securityholder records and interrupt the channels of communication between issuers and securityholders. Thus, substandard performance by transfer agents can adversely affect issuers, broker-dealers, banks, other financial intermediaries, the investing public and the securities markets.

Based on experience in the operation of the transfer agent regulatory program, the Commission adopted Rules 17Ad-6 and 17Ad-7, which require registered transfer agents to make and keep current certain records such as: (1) specific operational data regarding the time taken to perform transfer agent activities (to ensure compliance with the minimum performance standards in Rule 17Ad-2 (17 CFR 240.17Ad-2)); (2) written inquiries and requests by shareholders and broker-dealers and response time thereto; (3) resolutions, contracts or other supporting documents concerning the appointment or termination of the transfer agent; (4) stop orders or notices of adverse claims to the securities; and (5) all canceled registered securities certificates.

**2. Information Collection Purpose and Use**

Rules 17Ad-6 and 17Ad-7 were designed to accomplish two purposes. First, the recordkeeping requirements ensure that all registered transfer agents are maintaining the records necessary to monitor and keep adequate control over their own performance. Second, the recordkeeping

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

requirements allow the examination of registered transfer agents on an historical basis for compliance with applicable rules.

### **3. Consideration Given to Information Technology**

Rules 17Ad-6 and 17Ad-7 do not state how information must be recorded but only state that certain information needed to determine a transfer agent's compliance with the applicable rules must be recorded. Therefore, improved information technology does not affect the transfer agent's recordkeeping requirements.

### **4. Duplication**

When Rules 17Ad-6 and 17Ad-7 were promulgated, the Commission consulted with other appropriate regulatory agencies ("ARA") (i.e., the Board of Governors of the Federal Reserve System, the Federal Deposit Insurance Corporation and the Office of the Comptroller of the Currency) to prevent multiple recordkeeping requirements among the various ARAs. Regulation H, Section 208.31 (12 CFR 208.31) of the Board of Governors of the Federal Reserve System imposes Rules 17Ad-6 and 17Ad-7, among other rules, on state member bank transfer agents. Office of the Comptroller of the Currency rule §9.20 (12 CFR 9.20) imposes Rules 17Ad-6 and 17Ad-7, among other rules, upon the domestic activities of registered national bank transfer agents.

### **5. Effect on Small Entities**

Small transfer agents are exempt under Rule 17Ad-4(b) (17 CFR 240.17Ad-4(b)) from many of the recordkeeping requirements of Rules 17Ad-6 and 17Ad-7. The recordkeeping requirements imposed on these small entities are the minimal recordkeeping requirements needed to adequately fulfill their most basic duty to transfer securities and do not create any significant burden.

### **6. Consequences of Not Conducting Collection**

The records that must be made or retained under Rules 17Ad-6 and 17Ad-7 require regular updating because of the relationship between a transfer agent's function and the securities market (i.e., the on-going, daily transfer of record ownership of securities resulting from continuous trading activity in the market). Preparation and retention of these records are essential to establish record ownership of securities and to operate successfully as a registered transfer agent.

Lesser requirements under the Rules would adversely affect the Commission's ability to examine transfer agent compliance with applicable Commission rules. This would allow transfer agents experiencing operational difficulty to continue operating in such a manner, with a potential for further operational deterioration. Such a situation would greatly increase risks to public investors and to the national system for clearance and settlement of securities transactions.

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

The records retention periods required by Rule 17Ad-7 vary depending on the type of record. For certain types of records, the retention period may exceed three years.

Rule 17Ad-7(c) provides that the records required by Rules 17Ad-6(a) (8), (9) and (10) and (b) shall be maintained for one year after termination of the transfer agency. Thus, if the transfer agent relationship with the issuer continued for longer than a two year period, these records would be required to be retained for more than three years. Also, Rule 17Ad-7(e) provides that records required under Rule 17f-2(d) must be maintained until at least three years after the termination of employment of those persons required by Rule 17f-2 to be fingerprinted. Therefore, these records, in nearly all cases, would be required to be retained for more than three years. In addition, Rule 17Ad-7(d) provides that the records required by § 240.17Ad-6(c), which relate to cancelled security certificates and accompanying documentation, shall be maintained for a period of not less than six years.

Other than the above-referenced aspects of Rule 17Ad-7, there are no special circumstances and this collection is consistent with the guidelines in 5 CFR 1320.5(d)(2).

## **8. Consultations 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**

There were no payments or gifts to respondents.

## **10. Confidentiality**

The information required by Rules 17Ad-6 and 17Ad-7 is maintained in the possession of the registered transfer agents or their third party agents, outside service bureaus or other recordkeeping services. Under Section 17(b) of the Exchange Act, the Commission and the ARA for such registered transfer agent have access to the records for inspection and examination purposes and, in appropriate circumstances, for investigations. Rule 17Ad-7(f)(5)(ii) requires, with respect to electronic storage media or micrographic media, that the independent third party escrow agent required to be used by such rule file an undertaking with the Commission and the ARA for such registered transfer agent stating that the third party will furnish upon request to the Commission the physical and logical format, the field format, and source code for such media and information required to access such media. Rule 17Ad-7(f)(6)(i) requires, with respect to electronic storage media or micrographic media, that a third party agent used by a registered transfer agent file an undertaking with the Commission and the ARA for such registered transfer agent stating that the third party will permit examination of the records by the Commission. In addition, Rule 17Ad-7(g) requires a registered transfer agent using an outside service bureau or other recordkeeping service to obtain an agreement from the outside service bureau or other recordkeeping service that the records are subject to examination by the Commission and the

ARA for such registered transfer agent and that the records will be furnished upon demand in hard copy to the Commission and the ARA for such registered transfer agent.

### **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 time required to administer the retention of the necessary information varies from each transfer agent depending on the size and nature of the transfer agent’s operation. In addition, some records are made on a daily basis, while other records must be made only once. The Commission estimates that, on average, each of the approximately 382 registered transfer agents spends approximately 500 hours per year storing and retaining these records. The aggregate annual burden on the 382 registered transfer agents is thus approximately 191,000 hours per year.

While not a cost burden under Item 13, with respect to the estimated 500 hours per year per transfer agent to comply with Rules 17Ad-6 and 17Ad-7, the Commission staff estimates that compliance staff work at registered transfer agents results in an internal cost of compliance, at an estimated hourly wage of \$283, of \$141,500 per year per transfer agent (500 hours x \$283 per hour = \$141,500 per year).<sup>1</sup> Therefore, the aggregate annual internal cost of compliance for the approximately 382 registered transfer agents is approximately \$54,053,000 (\$141,500 x 382 = \$54,053,000).

### **13. Costs to Respondents**

The collections of information required by Rules 17Ad-6 and 17Ad-7 do not impose any cost burdens, as defined by the Paperwork Reduction Act, on transfer agents.

### **14. Costs to Federal Government**

The rules do not impose any direct costs on the government because they are recordkeeping rules. However, the Commission staff spends approximately 1,480 staff days or 11,840 hours per year inspecting transfer agent records to ensure compliance with Rules 17Ad-6 and 17Ad-7. As a result, annual total operational cost to the Commission concerning Rules 17Ad-6 and 17Ad-7 is estimated to be approximately \$592,000 based on an average hourly cost of \$50. This figure is based on our computation of the value of staff time devoted to this activity and the related overhead valued at 35% of the value of staff time.

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<sup>1</sup> The estimated hourly wages used in this analysis were derived from reports prepared by the Securities Industry and Financial Markets Association. See Securities Industry and Financial Markets Association, Office Salaries in the Securities Industry – 2013 (2013), modified to account for an 1800-hour work year and multiplied by 5.35 to account for bonuses, firm size, employee benefits and overhead.

### **15. Changes in Burden**

The total annual hourly burden decreased from 214,500 hours to 191,000 hours due to the decrease in the number of registered transfer agents.

### **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**

This collection complies with the requirements in 5 CFR 1320.9.

## **B. COLLECTIONS OF INFORMATION EMPLOYING STATISTICAL METHODS**

This collection does not involve statistical methods.