

SUPPORTING STATEMENT
for the Paperwork Reduction Act Collection Submission
for Rule 17f-1(b)

A. JUSTIFICATION

1. Necessity of Information Collection

The Commission, pursuant to Sections 2, 17(f), 19(a) and 23 of the Securities Exchange Act of 1934 (“Act”), adopted Rule 17f-1 (17 CFR 240.17f-1(b)) in 1979. This rule implemented Section 17(f)(1) of the Act by establishing a program for reporting and making inquiries requirements regarding missing, lost, stolen, or counterfeit securities (“Program”). Section 17(f)(1) of the Act was a response by Congress to large numbers of securities thefts. Testimony at the hearings conducted before the Senate Permanent Subcommittee on Investigation between 1971 and 1974 indicated that the trafficking in stolen securities was a profitable area for organized crime and that the failure to have available to the financial community a means of easily identifying missing, lost, stolen, or counterfeit certificates was a contributing factor to the increase in, and the ease of, negotiating such securities. The purpose of Section 17(f)(1) and Rule 17f-1 thereunder is to create a central database of information related to missing, lost, stolen, or counterfeit securities and to make available to covered institutions information that promptly identifies those securities, removing them from the stream of commerce and facilitating the capture of those who engage in such traffic.

The Commission has adopted a number of amendments to Rule 17f-1, including the addition of paragraph (b). Paragraph (b) requires that every “reporting institution” register with the Commission or its designee according to instructions issued by the Commission. The term “reporting institution” includes every national securities exchange, member thereof, registered securities association, broker, dealer, municipal securities dealer, government securities broker, government securities dealer, registered transfer agent, registered clearing agency, participant therein, member of the Federal Reserve System and bank whose deposits are insured by the Federal Deposit Insurance Corporation.

Upon accepting the registration form by the Securities Information Center (“SIC”), the Commission’s designee to maintain and operate the database, a reporting institution is given access to the data base for both reporting and inquiry purposes. Without the identifying information provided by the registration form, access to the confidential database could not be limited to those institutions specified in the Act and Rule 17f-1. In addition, the registration procedure provides the Commission with a means of identifying those reporting institutions that have not registered in the Program and those institutions that have registered but are not complying with the requirements for reporting and inquiry.

2. Purpose and Use of the Information Collection

The Commission uses the information received in response to Rule 17f-1(b) to correlate the occurrence of securities losses and thefts to the size and type of reporting institution involved. The information is also used during the inquiry procedure to notify immediately the Federal Bureau of Investigation with regard to attempted negotiations of such securities. Without Rule 17f-1(b), the Commission would not have a means of identifying those reporting institutions that have not registered in the Program and those institutions that have registered but are not complying with the requirements for reporting and inquiry.

3. Consideration Given to Information Technology

Not applicable.

4. Duplication

Not applicable because reporting institutions are required to register with SIC only once.

5. Effect on Small Entities

Although the information requested in the registration form affects small entities, the effect is minimal. The specific information requested is easily accessible to all reporting institutions and creates no significant burden.

6. Consequences of Not Conducting Collection

Since the information is requested only once upon registration for participation in the Program, the collection of this information could not be conducted less frequently.

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

There are no special circumstances. The 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

Not applicable.

10. Confidentiality

Reporting institutions required to register under rule 17f-1(b) will not be kept confidential. However, the Program database will be kept confidential.

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

Approximately 10,000 entities in the securities industry are registered with SIC. Registration is a one-time event; it is ongoing until the registrant withdraws from the Program. We estimate that, each year, 10 new reporting institutions register with SIC and 140 institutions withdraw. The staff estimates that the average number of hours necessary to comply with Rule 17f-1(b), that is, to register with SIC, is one-half hour. Accordingly, the staff estimates that the total annual reporting burden for all participants is 5 hours (10 x one-half hour).

While not a cost burden under Item 13, with respect to the estimated 5 hours per year to comply with Rule 17Ad-15, the Commission staff estimates that compliance staff work at subject entities results in an internal cost of compliance, at an estimated hourly wage of \$283, of \$141.50 per year per entity (.5 hours x \$283 per hour = \$141.50 per year).¹ Therefore, the aggregate annual internal cost of compliance is approximately \$1,415 (\$141.50 x 10= \$1,415).

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 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 Federal Government

Costs to the Federal Government in administering Rule 17f-1(b) are minimal. The staff occasionally receives an inquiry from a reporting institution with regard to registration. Those inquiries can be responded to within one-half hour. The staff is also involved with reviewing the multi-year delegation arrangement with the Securities Information Center (“SIC”). Accounting for the burden of this staff time on an annualized basis, the staff estimates that approximately 150 hours of staff time per year is

¹ 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.

devoted to answering oral inquiries and reviewing the SIC delegation. As a result, annual total operational cost concerning Rule 17Ad-15 is estimated to be approximately \$7,500 based on an average hourly cost of \$50. This figure is based on computation of the value of government staff time devoted to this activity and the related overhead valued at 35% of the value of staff time.

15. Changes in Burden

Not applicable.

16. Information Collection Planned for Statistical Purposes

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

17. Display of OMB Approval Date

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

18. Exceptions to Certification

This collection complies with the requirements in 5 CFR 1320.9.

B. COLLECTIONS OF INFORMATION EMPLOYING STATISTICAL METHODS

This collection does not employ statistical methods.