

**SUPPORTING STATEMENT**  
**for the Paperwork Reduction Act Information Collection Submission for**  
**Rule 17Ad-10**

**A. Justification**

**1. Necessity of Information Collection**

As a result of the paperwork crisis in the late 1960's, during which the number of securities transactions exceeded the securities industry's capacity to process those transactions, Congress enacted the Securities Act Amendments of 1975. 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 of transfer agents. Those amendments to the Securities Act of 1934 ("Act") require transfer agents to meet minimum performance and recordkeeping standards as established by the Commission, in furtherance of the purposes of the Act and generally, to protect investors.

Transfer agents play an important 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 materials and annual reports to shareholders.

Transfer agents are an integral component of the securities handling process and, to the extent transfer agents fail to perform their activities promptly, accurately and safely, the entire clearance, settlement, and transfer process becomes ineffective. Moreover, substandard performance by transfer agents can affect the accuracy of an issuer's security owner records and, thus, interrupt the channels of communication between issuers and shareowners. Thus, substandard performance by transfer agents can adversely affect issuers, broker-dealers, banks, other financial intermediaries, the investing public, and the securities markets.

Under Rule 17Ad-10, a transfer agent must maintain certain minimum information regarding purchases, transfer, and redemptions of securities ("certificate detail") and record this information promptly on the master securityholder record. The time frame for posting certificate detail varies depending on a number of factors including the volume of securities transferred. Failure by a registered transfer agent to record sufficient certificate detail in a timely manner severely hampers its efforts or those of its successor to create and maintain accurate security holder records and to research errors when discovered.

If the transfer agent discovers that certificate detail associated with a transfer of securities is different from certificate detail already on the master securityholder record (a "record difference"), the rule requires the transfer agent to post the new information to the file, to maintain inconsistent information in a subsidiary file, and to pay diligent and continuous attention to resolving the record difference. If the record difference remains unresolved for six months, the rule requires the transfer agent to purchase in the open market (a "buy-in") an

amount of securities associated with the record difference. This requirement imposes a financial discipline on transfer agents in order to ensure the integrity of their operations. In 1986, the rule was amended to change the time for buy-ins from thirty to sixty days.

The rule also requires prompt communication between transfer agents with responsibilities for the same issue of securities. The performance standard required by the rule, however, is a minimum standard intended to provide transfer agents with some flexibility in effecting compliance. The requirements should foster timely communication between transfer agents responsible for a particular issue of securities, eliminate delays in the transmission of information necessary to the performance of transfer agent functions and, thereby, ensure the accuracy of securityholder records.

The rule also requires transfer agents that maintain securityholder records to keep certificate detail that has been deleted from those records for a minimum of six years and to maintain and keep current an accurate record of the number of shares or principal dollar amount of debt securities that the issuer has authorized to be outstanding (a “control book”). The maintenance of deleted certificate detail will facilitate the resolution of record differences by providing essential research material. The maintenance of an accurate control book will ensure that the transfer agent is aware of the number of securities that are properly authorized by the issuer and, thereby, avoid over issuance of securities.

The Commission adopted Rule 17Ad-10 pursuant to authority under Sections 2, 17(a), 17A(d) and 23(a) of the Act, 15 U.S.C. 78b, 78q(a), 78q-l(d) and 78w(a).

## **2. Purposes and Use of the Information Collection**

The records required to be maintained by transfer agents under Rule 17Ad-10 are used by these transfer agents in performing transfer agent functions for issuers and by the appropriate regulatory agency in examinations of transfer operations.

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

The information required by the rule to be maintained by transfer agents is mostly maintained by those transfer agents. The compilation and maintenance of this information is tailored to the complexity of the transfer agents’ business. Thus, there are no legal or technical obstacles that if removed would reduce burdens.

## **4. Duplication**

No federal securities requirements other than Rule 17Ad-10 exist with respect to the information to be kept under the rule.

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

Because the information required to be kept under Rule 17Ad-10 is already available to transfer agents, any collection burden for small businesses is minimal.

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

If the information required by the rule were collected less frequently, the ability to maintain accurate securityholder records, research errors, and ensure the transfer agent is aware of the number of securities that are properly authorized would be significantly hampered. In addition, these records assist the Commission and other regulatory agencies with monitoring transfer agents and ensuring compliance with the rule.

## **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 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 was no payment or gift to respondents.

## **10. Confidentiality**

The information kept by transfer agents under Rule 17Ad-10 is not confidential.

## **11. Sensitive Questions**

No information of a sensitive nature, including social security numbers, will be required under this collection of information. The information collection does not collect personally identifiable information (PII). The agency has determined that a system of records notice (SORN) and privacy impact assessment (PIA) are not required in connection with the collection of information.

## **12. Burden of Information Collection**

There are approximately 333 registered transfer agents. We estimate that, on average, each transfer agent will spend approximately 80 hours of staff time per year to comply with Rule 17Ad-10 (70 hours of recordkeeping and 10 hours of third party disclosure). This yields an annual industry-wide burden of 26,640 hours (333 times 80 hours). This burden consists mainly of recordkeeping, but also includes a small amount of third party disclosure. At an average staff cost of \$50 per hour, the industry-wide internal cost of compliance (a monetization of the hour burden) is approximately \$1,332,000 (26,640 x \$50). The amount of time any particular transfer agent will devote to Rule 17Ad-10 compliance will vary according to the size and scope of the transfer agent's business activity. We note, however, that at least some of the records, processes,

and communications required by Rule 17Ad-10 would likely be maintained, generated, and used for transfer agent business purposes even without the rule.

<b>Rule</b>	<b>Burden Type</b>	<b>Number of Respondents</b>	<b>Number of Annual Reponses Per Respondent</b>	<b>Time Per Response (Hours)</b>	<b>Total Burden Per Burden Type (Hours)</b>
<b>Rule 17Ad-12</b>	Record Keeping	333	1	70	23,310
<b>Rule 17Ad-12</b>	Third Party Disclosure	333	1	10	3,330
<b><i>Total Aggregate Burden</i></b>					<b><i>26,640</i></b>

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

We estimate that each transfer agent will incur an annual cost burden of \$18,000 resulting from the collection of information (\$17,000 from recordkeeping and \$1,000 from third party disclosure). Therefore, the total annual cost on the entire transfer agent industry is approximately \$5,994,000 (\$18,000 times 333). This cost primarily reflects ongoing computer operations and maintenance associated with generating, maintaining, and disclosing or providing certain information required by the rule.

<b>Rule</b>	<b>Burden Type</b>	<b>Number of Respondents</b>	<b>Number of Annual Reponses Per Respondent</b>	<b>Cost Per Response</b>	<b>Total Cost Per Burden Type</b>
<b>Rule 17Ad-12</b>	Record Keeping	333	1	\$17,000	\$5,661,000
<b>Rule 17Ad-12</b>	Third Party Disclosure	333	1	\$1,000	\$333,000
<b><i>Total Aggregate Cost</i></b>					<b><i>\$5,994,000</i></b>

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

Records required by Rule 17Ad-10 generally cost the Federal Government little because the records are maintained by the transfer agents and are produced as requested during transfer agent examinations. It is estimated that the review of these records during examinations takes approximately four hours, costing the Commission and Federal Bank Regulatory Agencies approximately \$5,400 based on the number of transfer agents examined each year and our computation of the value of staff time devoted to examinations and the related overhead, valued at 35% of the value of staff time. Costs to the Federal Government also include staff time devoted to responding to questions from transfer agents regarding the rule. The staff estimates that approximately 80 hours of staff time per year are devoted to Rule 17Ad-10, at a cost of \$4,000 per year (80 hours times \$50). In addition, the staff estimates overhead expenses at \$1,400, resulting in total cost to the Federal Government of \$5,400. This figure is based on our computation of staff time devoted to this activity and related overhead at 35 percent of the value of staff time. This estimate was computed according to the guidelines set forth in GSA, Guide to Estimating Reporting Costs (1973).

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

The decrease in burden hours from 33,040 total annual industry hours in 2016 to the current 26,640 total annual industry hours (a decrease of 6,400 hours) is due to a decrease in the number of registered transfer agents from 413 in 2016 to 333 currently (a decrease of 80).

The cost burden decrease from \$7,434,000 in 2016 to the current \$5,994,000 (a decrease of \$1,440,000) is also due to the decrease in the number of registered transfer agents from 413 in 2016 to 333 currently (a decrease of 80).

#### **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**

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.