

**SUPPORTING STATEMENT**  
**for the Paperwork Reduction Act Information Collection Submission for**  
**Rule 17Ad-13**  
**(OMB Control No. 3235-0275)**

**A. JUSTIFICATION**

**1. Necessity of Information Collection**

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 (the "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 issuers' securityholder records. They also prepare, maintain, and certify securityholder records; disburse dividend and interest payments; and mail securityholder communications, such as proxy materials 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. Substandard performance by transfer agents can affect the accuracy of an issuer's securityholder records and, thus, interrupt the channels of communication between issuers and shareowners. Moreover, the absence of adequate internal accounting controls in the operation of transfer agents and procedures for the safeguarding of funds and securities in the possession or control of transfer agents can provide the opportunity for significant financial loss to securityholders, issuers, financial intermediaries, and securities depositories.

Based on experience in the operation of the transfer agent regulatory program, the Commission adopted Rule 17Ad-13, which was designed to require certain registered transfer agents to obtain an annual report on the adequacy of their internal accounting controls. Because the safe and accurate flow and recording of a large volume of securities transfers is dependent upon the adequacy, accuracy, and reliability of those controls and procedures, the Commission believed that an adequate system of internal accounting controls and procedures for safeguarding funds and securities was critical to the establishment of an accurate and safe clearance and settlement system for securities transactions.

Rule 17Ad-13 exempts issuers that perform transfer agent functions solely for their own

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

securities and certain transfer agents that qualify under the rule as “small” transfer agents. The rule also permits the federal bank regulatory agencies to exempt bank transfer agents subject to their jurisdiction that are not otherwise exempt as small transfer agents or issuer-transfer agents, provided that a report similar in scope to the report required by Rule 17Ad-13 is prepared by the bank's internal auditors for the bank's board of directors or an audit committee of the board of directors. The federal bank regulatory agencies have taken appropriate action and Rule 17Ad-13 applies primarily to professional independent transfer agents that perform transfer agent functions on behalf of other issuers, including affiliated issuers. The Commission believes that the benefits of Rule 17Ad-13 to the transfer agent community, public investors, and the federal regulatory agencies outweigh the compliance costs placed on the approximately 100 transfer agents subject to the audit requirement of the rule.

The report required by the rule must be prepared by an independent public accountant and filed annually by the transfer agent with the Commission and the transfer agent's appropriate regulatory agency. The report is required to be prepared on the basis of an annual study and evaluation of the internal accounting controls and procedures for safeguarding funds and securities used in the transfer agent's operations. The independent accountant must report and comment on any material inadequacy found to exist as of the date of the study and evaluation of the internal accounting controls and procedures for safeguarding funds and securities.

If the independent accountant's report specifies any “material inadequacies,” the transfer agent receiving that report must indicate in writing to the Commission and to the transfer agent's appropriate regulatory agency, within sixty calendar days of receipt of the accountant's report, the corrective action taken or planned to be taken.

Finally, the rule requires that the independent accountant's report and all other documents required by the rule be maintained by the transfer agent for at least three years, the first year in an easily accessible place.

The Commission believes that the benefits of this rule outweigh the compliance costs placed on transfer agents. Transfer agents are fully informed of the adequacy of their systems of internal accounting controls and their procedures for safeguarding funds and securities that come into their possession or custody. That information facilitates transfer agent efforts to establish and to maintain sufficient controls and procedures. Further, while an independent audit will not replace examinations by the federal regulatory agencies charged with inspecting registered transfer agents, those agencies can enhance their ability to focus on those transfer agents that are experiencing serious difficulties.

The Commission adopted Rule 17Ad-13 pursuant to authority under Sections 17, 17A, and 23(a) of the Act, 15 U.S.C. 78q, 78q-1, and 78w(a).

## **2. Purpose and Use of Information Collection**

The report required under Rule 17Ad-13 is used by transfer agents to evaluate and, where necessary, improve the adequacy of their internal accounting controls and procedures for the

safeguarding of funds and securities in their possession or control. The report is also used by the appropriate regulatory agency in examinations of transfer agent operations.

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

The Rule 17Ad-13 annual report is submitted to the Commission in paper format (hardcopy). Commission staff estimates that replacing the current means of collection with a method that involves the use of information technology would not reduce burdens.

### **4. Duplication**

There is no duplication of the information that the Commission obtains pursuant to Rule 17Ad-13. For transfer agents subject to Rule 17Ad-13, the information required by the rule is not otherwise available.

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

Small transfer agents are exempt from Rule 17Ad-13.

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

The Commission believes that the information collected under Rule 17Ad-13 is necessary to ensure that transfer agents are evaluating and, where necessary, improving the adequacy of their internal accounting controls and procedures for the safeguarding of funds and securities in their possession or control. The absence of this annual independent audit could increase risks to public investors and the securities industry resulting from deficiencies in transfer agents' internal accounting controls and procedures for the safeguarding of funds and securities.

### **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 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**

Rule 17Ad-13 does not involve the collection of confidential information.

### 11. Sensitive Questions

No questions of a sensitive nature are asked under this collection of information. The information collection does not collect Personally Identifiable Information (PII). The agency has determined that neither a PIA nor a SORN are required with the collection of information.

### 12. Information Collection Burden

<b>Rule</b>	<b>Burden Type</b>	<b>Number of Respondents</b>	<b>Number of Annual Responses Per Respondent</b>	<b>Time Per Response (Hours)</b>	<b>Total Time Burden Per Burden Type (Hours)</b>
<b>Rule 17Ad-13 (Annual Report Prepared by an Independent Accountant)</b>	Periodic Reporting	100	1	0	0
<b>Total Aggregate Burden</b>					<b>0</b>

Approximately 100 transfer agents must file one annual report prepared by an independent accountant per year pursuant to Rule 17Ad-13. The Commission staff estimates that the annual internal time burden for each transfer agent to comply with Rule 17Ad-13 by filing the report prepared by the independent accountant with the Commission is minimal or zero.

### 13. Costs to Respondents

<b>Rule</b>	<b>Burden Type</b>	<b>Number of Respondents</b>	<b>Number of Annual Responses Per Respondent</b>	<b>Cost Per Response (\$)</b>	<b>Total Annual Cost for All Respondents</b>
<b>Rule 17Ad-13 (Annual Report Prepared by an Independent Accountant)</b>	Periodic Reporting	100	1	\$31,200	\$3,120,000

As noted above, approximately 100 transfer agents must file an annual report prepared by an independent accountant each year. The main cost to respondents consists of the external costs associated with the fees charged by independent accountants to perform the study, prepare the report, and retain the required records on an annual basis pursuant to Rule 17Ad-13. Commission staff estimates that, on average, an independent accountant can perform the annual study, prepare the annual report, and retain the required records in 120 hours. The burden was estimated using Commission staff review of previously filed Rule 17Ad-13 reports and Commission staff conversations with transfer agents and independent accountants. The time required to prepare the independent accountant's report varies with each transfer agent depending on the size and nature of the transfer agent's operations. Assuming that the average hourly rate of an independent accountant is \$260,<sup>2</sup> Commission staff estimates that the total annual external cost for each transfer agent to comply with Rule 17Ad-13 is \$31,200.<sup>3</sup> The aggregate total annual external cost to the 100 respondents is approximately \$3,120,000.

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

The annual cost to the Federal Government is zero because the rule only requires normal full-time employees to review the material.

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

Since the previous Paperwork Reduction Act submission to OMB in 2018, Commission staff has changed its basis for estimating the hourly rate of an independent accountant. For all outside accountants, Commission staff has estimated the hourly rate by using U.S. Bureau of Labor Statistics data on the average hourly wage of accountants in New York State and multiplying that hourly rate by the 5.35 factor, which is used to include benefits. Under this basis, Commission staff changed the average hourly rate of an independent accountant from \$60 to \$260, which resulted in the total annual external cost to each respondent increasing from approximately \$7,200 to approximately \$31,200 and the aggregate total external cost to all respondents increasing from approximately \$720,000 to approximately \$3,120,000.

#### **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**

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<sup>2</sup> The estimated hourly rate used in this analysis was derived from U.S. Bureau of Labor Statistics data on the average hourly wage of an accountant in New York State, which has the highest rates in the country, multiplied by 5.35 to account for employee benefits. See U.S. Bureau of Labor Statistics, Occupational Employment and Wage Statistics (May 2020), available at <https://www.bls.gov/oes/current/oes132011.htm>.

<sup>3</sup> 1 report per year x 120 hours x \$260 per hour = \$31,200 total annual external cost to each respondent.

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.