

**SUPPORTING STATEMENT**  
**for the Paperwork Reduction Act Information Collection Submission for**  
**Rule 17Ad-11**  
**OMB Control No. 3235-0274**

**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 established a regulatory scheme for the transfer agent business. 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. Transfer agents 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, which in turn could 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.

In 1983, the Commission adopted Rule 17Ad-11 to require every registered recordkeeping transfer agent to report certain information to issuers and its appropriate regulatory agency when the aggregate market value of an "aged record difference" exceeds certain thresholds. A "record difference" occurs when either: (1) the total number of shares or total principal dollar amount of securities in the master securityholder file maintained by the transfer agent does not equal the number of shares or principal dollar amount authorized and issued by the issuer; or (2) the security transferred or redeemed contains certificate detail

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

different from the certificate detail currently on the master securityholder file. An “aged record difference” is a record difference that has existed for more than 30 calendar days. In addition, the rule requires every registered recordkeeping transfer agent to report certain information to issuers and its appropriate regulatory agency concerning buy-ins of all issuers for which it acts as recordkeeping transfer agent. Further, the rule requires every registered recordkeeping transfer agent to report to its appropriate regulatory agency in the event of a failure to post certificate detail to the master securityholder file within five business days of the time required by Rule 17Ad-10. Transfer agents must also maintain a copy of any report required under Rule 17Ad-11 for a period of not less than three years from the date of the report, the first year in an easily accessible place.

The purposes of Rule 17Ad-11 are: (1) to provide issuers with the information necessary to make informed decisions about whether the transfer agent is performing its recordkeeping functions in a satisfactory manner and whether the amount of aged record differences is sufficiently serious to be material and, therefore, require disclosure to securityholders; and (2) to provide regulatory authorities with information concerning the source and extent of aged record differences and information regarding transfer agents that are experiencing difficulties in creating and maintaining securityholder records.

The reports required by Rule 17Ad-11, in conjunction with transfer agent reports required under Rule 17Ad-2 (notices of noncompliance with the turnaround and processing performance standards), provide regulatory authorities with information regarding those transfer agents who are not performing their functions promptly or accurately. Under Rule 17Ad-11, however, the appropriate regulatory agencies are only informed when a dollar value threshold is breached. When this occurs, regulatory authorities can focus their attention on those transfer agents whose performance may represent potential harm to investors or a threat to the smooth operation of the national system for clearance and settlement.

The Commission adopted Rule 17Ad-11 pursuant to authority under Sections 17, 17A, and 23(a) of the Exchange Act.<sup>2</sup>

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

The reports required to be submitted by transfer agents to issuers under Rule 17Ad-11 are used by issuers to determine whether and what corrective action is necessary to resolve the operational difficulties disclosed by the transfer agent performing functions for the issuer’s securities. The reports required to be submitted by transfer agents to their appropriate regulatory agencies under Rule 17Ad-11 are used by such agencies to fulfill their regulatory and oversight responsibilities. Without this information, regulatory authorities would not be informed as to those transfer agents who are not performing their functions promptly and accurately. Transfer agents that are not properly performing their operations pose potential harm to investors who depend on an efficient operation of the national system of clearance and settlement.

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<sup>2</sup> 15 U.S.C. 78q, 78q-1, and 78w(a).

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

Most transfer agent processing systems are automated, which enables transfer agents to easily identify when reports must be made pursuant to Rule 17Ad-11. There are no legal or technical obstacles that, if removed, would reduce burdens.

### **4. Duplication**

There is no duplication of the information that the Commission obtains pursuant to Rule 17Ad-11.

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

The information required by Rule 17Ad-11 is already available to transfer agents and, as such, any collection burden for small entities is minimal.

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

Commission staff believes that the information collected under Rule 17Ad-11 is necessary to ensure that issuers and appropriate regulatory agencies are informed of transfer agents who are not performing their functions promptly and accurately. The absence of transfer agent reporting under Rule 17Ad-11 would allow transfer agents experiencing operational difficulty and financial liability to continue operating in such a manner, with a potential for further operational deterioration, without informing issuers or the appropriate regulatory agencies. Such a situation would greatly increase risks to public investors and to the national system for clearance and settlement.

### **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**

Not applicable. No payments or gifts have been provided to respondents in connection with this collection of information.

## 10. Confidentiality

No assurance of confidentiality is provided to respondents.

## 11. Sensitive Questions

The information collection does not collect any personally identifiable information. The agency has determined that neither a PIA nor a SORN are required in connection with the collection of information.

## 12. Information Collection Burden

Based on a review of the number of Rule 17Ad-11 reports the Commission, the Comptroller of the Currency, the Board of Governors of the Federal Reserve System, and the Federal Deposit Insurance Corporation (collectively, the “appropriate regulatory agencies”) received since 2015, the Commission staff estimates that 8 transfer agent respondents will file a total of approximately 10 reports annually. The Commission staff estimates that, on average, a report can be prepared and submitted by compliance clerical staff in 30 minutes. As a result, the total annual time burden to the entire transfer agent industry is approximately 5 hours (0.5 hours x 10 reports). Assuming an average hourly rate of \$72 for a compliance staff employee at a transfer agent,<sup>3</sup> the Commission staff estimates that the total internal cost of compliance for each report is \$36.<sup>4</sup> Therefore, the total annual internal cost of compliance for the estimated 8 respondents is approximately \$360.<sup>5</sup>

<b>Rule</b>	<b>Burden Type</b>	<b>Number of Annual Responses</b>	<b>Time Per Response (Hours)</b>	<b>Total Annual Burden (Hours)</b>
<b>Rule 17Ad-11</b>	Periodic Reporting	10	0.5	5
<b>Total Aggregate Burden</b>				<b>5</b>

<sup>3</sup> The \$72 per hour figure for a compliance clerk is from SIFMA’s Office Salaries in the Securities Industry 2013, modified by Commission staff to account for an 1,800-hour work-year and inflation, and multiplied by 2.93 to account for bonuses, firm size, employee benefits, and overhead.

<sup>4</sup> 0.5 hours per report x \$72 per hour = \$36 total internal cost of each report.

<sup>5</sup> \$36 per report x 10 reports per year = \$360 total annual internal cost for 8 respondents.

**13. Costs to Respondents**

Not applicable. Respondents will not incur any capital or start-up costs or any ongoing operation and maintenance costs.

**14. Costs to the Federal Government**

None. The time required to review Rule 17Ad-11 reports is minimal and accomplished by existing staff as part of their regular duties.

**15. Changes in Burden**

None.

**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. COLLECTIONS OF INFORMATION EMPLOYING STATISTICAL METHODS**

This collection does not involve statistical methods.