

**SUPPORTING STATEMENT**  
**for the Paperwork Reduction Act Information Collection Submission for**  
**Rule 17Ad-2(c), (d), and (h)**  
**OMB Control No. 3235-0130**

**A. Justification**

1. Necessity of Information Collection

As a result of the “paperwork crisis” that occurred 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 with respect to the business of being a transfer agent. Those amendments to the Securities Act of 1934 (the “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 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 materials and annual reports to shareholders.

Because transfer agents are such an integral component of the securities handling process, 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 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.

Section 17A(d)(1)(A) of the Act generally prohibits any registered transfer agent from engaging in any transfer agent activity in contravention of Commission rules. In addition, Sections 17(a)(1) and (3) of the Act require every registered transfer agent to file reports as the Commission or other appropriate regulatory agency (“ARA”) <sup>1</sup> require.

The Commission promulgated Rules 17Ad-2(c), (d), and (h) to provide an early warning system to alert the ARA when a registered transfer agent is not meeting the performance standards as set forth in the Commission's rules. This rule was adopted.

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<sup>1</sup> Section 3(a)(B) of the Act defines the term “ARA” as applied to transfer agents.

pursuant to authority in Sections 2, 17, 17A, and 23(a) of the Act (15 USC sec. 78b, 78q-1, and 78w(a)). Rules 17Ad-2(c), (d), and (h) thus enable the ARAs to take timely preventive and remedial action to protect the interests of the public and of investors.

Under Rule 17Ad-2(c), a registered transfer agent must file a notice within 10 days after the end of any month in which it fails to meet the minimum performance standards set forth in rule 17Ad-2(a). Generally, the notice must include: (a) specific quantitative data to enable the ARA to gauge the severity of the transfer agent's failure to comply with the applicable performance standard; (b) the reasons for the non-compliance; and (c) the steps that have been, are being, or will be taken by the transfer agent to prevent similar failures from recurring.

Similarly, when a registered transfer agent acting as an outside registrar fails to meet the minimum performance standards of Rule 17Ad-2(b), it must file a notice, as outlined above, with the Commission, and with the various ARAs, when appropriate.

## 2. Purpose and Use of Information Collection

The Commission utilizes the information contained in the notices to: (a) provide an early warning to the Commission, the ARA (if not the Commission), and the registered transfer agent itself, of its non-compliance with the minimum performance standards; and (b) assure that every registered transfer agent performs its functions promptly and accurately, and in accordance with the statutory goal.

## 3. Consideration Given to Information Technology

The information required by the rule to be reported to the Commission, or when appropriate, the ARAs, does not constitute a significant burden to the registered transfer agents covered by the rule. Thus, improved technology would not reduce the burden.

## 4. Duplication

Not applicable; no duplication exists with respect to the information to be submitted under the rule.

## 5. Effect on Small Entities

For purposes of the Regulatory Flexibility Act, a transfer agent is considered a small business or entity if it received fewer than 500 items for transfer and fewer than 500 items for processing during the six-month period preceding the time when the determination is made. See Exchange Act Rule 0.10(h), 17 CFR 240.0.10(h). Transfer agents that are considered "small businesses" by this test are exempt from the provisions of Rule 17Ad-2(c), (d), and (h).

## 6. Consequences of Not Conducting Collection

The transfer agent rules are designed to assure the continuous, prompt processing of securities presented for transfer. If this information were provided less frequently, the

Commission and the ARAs (when appropriate) would not be able to effectively regulate transfer agent conduct, and thus would not be able to fully comply with their statutory duties, as outlined above.

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 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

This rule does not involve the collection of confidential information.

11. Sensitive Questions

The information collection does not collect information about individuals. The agency has therefore determined that a PIA, SORN, and PAS are not required.

12. Information Collection Burden

The Commission receives approximately three notices per year from registered transfer agents. The staff's experience indicates that approximately one-half hour is needed per response because most of the required information is readily available and because the information only needs to be presented in summary fashion.<sup>2</sup> Consequently, the time burden averages 1.5 hours a year for the transfer agent industry.

<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-2(c), (d), and (h)</b>	Periodic Reporting	3	.5	1.5

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<sup>2</sup> Since the Commission has not adopted an official form for this purpose, each registered transfer agent required to file notices may submit a statement on its own letterhead.

13. Costs to Respondents

None.

14. Costs to Federal Government

None. Time required to review notices is minimal and accomplished by existing staff as part of their regular duties.

15. Changes in Burden

Not applicable. No changes in burden.

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 Certifications for Paperwork Reduction Act Submissions

Not applicable. 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.