

SUPPORTING STATEMENT
For the Paperwork Reduction Act Information Collection Submission for
Rule 17Ad-17
OMB Control No. 3235-0469

A. JUSTIFICATION

1. Information Collection Necessity

In response to the “paperwork crisis” that occurred in the late 1960s when the number of securities transactions exceeded the securities industry’s capacity to process those transactions, Congress enacted the Securities Acts Amendments of 1975.¹ This amendment added a new Section 17A to the Securities Exchange Act of 1934 (“Exchange Act”), which directed the Commission to establish a national system for the prompt and accurate clearance and settlement of securities transactions. This included a new regulatory system for the transfer agent industry by requiring transfer agents to meet minimum performance standards as established by the Commission in furtherance of the purposes of the Exchange Act.

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 material and annual reports to shareholders.

To the extent that transfer agents fail to perform their activities promptly and accurately, the entire clearance, settlement, and transfer process suffers. For example, substandard performance by transfer agents can affect the accuracy of an issuer’s securityholder records and therefore could disrupt communication between issuers and securityholder. Moreover, poor performance by transfer agents could systemically affect issuers, broker-dealers, banks, other financial intermediaries, the investing public, and the securities markets.

The Commission adopted Rule 17Ad-17 in 1997 pursuant to authority under Section 17A of the Exchange Act in order to enhance the accuracy of transfer agents’ records. The rule required, among other things, transfer agents make two searches for the correct address of lost securityholders using an information database service without charge to the lost securityholders. In 2013, the Commission issued amendments to Rule 17Ad-17 pursuant to Section 929W of the Dodd-Frank Wall Street Reform and Consumer Protection Act.

2. Information Collection Purpose and Use

The purpose of Rule 17Ad-17 as amended is to reduce the number of lost securityholders and unresponsive payees by (1) requiring certain transfer agents, brokers and dealers to conduct

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

searches and (2) requiring paying agents, including carrying firms, transfer agents, indenture trustees, custodians, and approximately 10% of issuers, to provide notification to unresponsive payees. In addition, the rule also requires a mandatory “collection of information” that requires covered entities to maintain records in order to comply with and to demonstrate compliance with the rule. Such records must be maintained for a period of not less than three years with the first year in an easily accessible place. The Commission reviews this information to test for compliance. The collection of information is necessary to enable covered entities, as custodians of records that determine the ownership of securities and the entitlement to corporate distributions, to reduce the number of lost and missing securityholders.

3. Consideration Given to Information Technology

Covered entities have the option to deliver the names of the lost securityholders to third party database vendors (who use that information to conduct the search for the lost securityholders) by electronic, tape, or paper submissions.

4. Duplication

No other requirement currently exists with respect to the information required to be disclosed under the rule.

5. Effect on Small Entities

A high proportion of paying agent services are performed by large brokers and dealers and by transfer agents that perform such services. These firms are not typically small businesses as defined in Exchange Act Rule 0-10(c).

6. Consequences of Not Conducting Collection

If the information is collected less frequently, investors are deprived of their assets for longer periods of time and the searches are less likely to result in a corrected address.

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

The collection of information does not provide any payment or gift to respondents.

10. Confidentiality

This rule does not involve the collection of confidential information.

11. Sensitive Questions

The information collection does not collect personally identifiable information. Any information collected under this rule is collected and maintained by a third party. The agency has determined that neither a PIA nor a SORN are required in connection with the collection of information.

12. Information Collection Burden

The Commission staff estimates that there are a total of 489 entities (169 broker-dealers and 320 transfer agents, or “searching entities”) that are subject to the requirement to conduct searches and 3,113 paying agents subject to the requirement to provide notification. We are assuming for the purposes of Rule 17Ad-17 that, on an annual basis, there are approximately 2,205,766 searches by searching entities and approximately 778,250 notifications by paying agents. The annual burden for searches is approximately 183,813 hours (2,205,766 x 5 minutes per search) and the annual burden for paying agent notifications is approximately 38,913 (778,250 x 3 minutes per notification). In addition, there will be an approximate recordkeeping burden of 5,968 hours (4,411 for searching entities and 1,557 hours for paying agents), based on an estimation of one hour for every 500 lost securityholder accounts and one hour for every 500 unresponsive payee accounts, or 2,205,760 divided by 500 times one hour and 778,250 divided by 500 times one hour. The Aggregate annual burden is thus approximately 228,694 hours (183,813 + 38,913 + 5,968).

NOTE: We entered two information collections in OMB’s ROCIS system for the three estimated burdens below. This is because we included the estimated burdens for the recordkeeping requirements in the ROCIS entries for the third-party notification requirements in order to keep the estimated burdens for related requirements together.

| Rule | Burden Type | Number of Respondents | Number of Annual Searches by broker-dealers or notifications by paying agents | Time Per Response (Hours) | Total Burden Per Burden Type (Hours) |
|---|------------------------|-----------------------|---|---------------------------|--------------------------------------|
| Rule 17Ad-17 (lost securityholders and unresponsive payees): searching entities | Third Party Disclosure | 489 | 2,205,766 | 5 minutes | 183,813 |
| Rule 17Ad-17 (lost securityholders and unresponsive payees): paying agents | Third Party Disclosure | 3,106 | 778,250 | 3 minutes | 38,913 |

| | | | | | |
|--|----------------|-------|-----------|------------|----------------------|
| Rule 17Ad-17 (lost securityholders and unresponsive payees): recordkeeping requirements | Record Keeping | 3,595 | 2,984,016 | .002 hours | 5,968 ² |
| Total Aggregate Burden | | | | | 228,694 hours |

13. Costs to Respondents

For purposes of this Supporting Statement, the primary cost incurred by covered entities to comply with Rule 17Ad-17 consists of a fee paid to third party data base providers that will search for the missing securityholders. Based on information provided by the industry, we estimate this fee to be approximately \$3 per search. Therefore, the total cost for all covered entities is approximately \$6,617,298 (2,205,766 searches times \$3).

14. Costs to Federal Government

Rule 17Ad-17 does not require covered entities to submit anything to the federal government. As previously stated, the Commission examines transfer agents, brokers, and dealers for their compliance with this rule. Since the cost to examine these entities consists solely of normal full-time employee labor costs, the cost to the federal government for purposes of this Supporting Statement is zero.

15. Changes in Burden

There is no change to the estimated burden. There was a small decrease in the number of respondents; however, the estimated burdens are based on the estimated number of searches rather than respondents, and the estimated number of searches has not changed.

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. COLLECTION OF INFORMATION EMPLOYING STATISTICAL METHODS

² This is reported in ROCIS with the information collection for searching entities as an annual burden of 4,411.53 record keeping hours and for paying agents as an annual burden of 1,556.5 record keeping hours.

This collection does not involve statistical methods.