

procedures will be about 20 hours. The Commission staff further estimates that the average amount of time per transfer agent per year to comply with the collection of information associated with recording and tracking cancelled securities certificates will be 20 hours per transfer agent per year, a combined 40 hours for the first year, all of which are figures that would vary greatly depending on the size of an entity and the volume of its business. Thus, assuming 800 registered transfer agents actively involved in transfer agent activities, the start-up collection of information requirements will require about 16,000 hours (20×800), and the annual collection of information requirements will be about 16,000 hours (20×800). Thus, the estimated combined total during the first year will be about 32,000 hours.

Additionally, as discussed above in Sections III.A and III.D.7, the Commission is modifying proposed Rule 17Ad-19 to include securities certificates that are disposed of in some way other than by destruction as, for example, by sale to collectors. The purpose of this modification is to make the rule complete with respect to all dispositions of cancelled securities certificates, but we believe that the number of certificates disposed of by transfer agents by means other than by destruction will be *de minimis* and will not affect the PRA numbers.

V. Costs and Benefits of Proposed Amendments

The Commission has considered the costs and benefits of Rule 17Ad-19 and the amendments to Rules 17f-1 and 17Ad-12. The Commission identified certain costs and benefits relating to the proposals, which are discussed below. We requested public comment in our Proposing Release. In particular, we requested comment on the potential costs for any necessary modifications to information gathering, management, and record-keeping systems or procedures, as well as any potential benefits resulting from the proposals for issuers, transfer agents, banks, brokers, regulators, or others.

In general, the comment letters did not address costs or benefits in financial terms, and none provided cost or benefit data. One transfer agent, Otter Tail, commented that because of its small size it would be burdensome to witness the destruction of its cancelled certificates and to keep automated records of its cancelled certificates. This comment letter was discussed above in Section III.D.2,⁵⁹ where we stated that

it would be imprudent to exempt certain transfer agents from recordkeeping rules linked to antifraud rules simply because their volume of business is small. Additionally, Otter Tail has provided us with no financial or other information to support its claim that the new requirements would be unduly burdensome on itself or on other small transfer agents.

To supplement our information on small transfer agents for cost and benefit purposes, Commission staff conducted a survey of six small transfer agents. Staff provided them with a written summary of the rule proposals and later contacted them by telephone to discuss in detail the costs and benefits of the proposals. The small transfer agents reported that, in general, they already were in compliance with the proposed rules. That is, they generally were already marking retired securities certificates with the word "cancelled;" they were already maintaining the certificates in a secure environment; and they were destroying the certificates on-premises and witnessing their destruction. All but one transfer agent reported that they already had their data on certificate cancellation and destruction available in electronically retrievable format, and the one remaining transfer agent said it had plans to modify its computer to provide such data. As discussed in the PRA analysis, the one item in the rule proposal that would generally involve an added expense is the requirement to draft "written procedures" for processing cancelled securities. The transfer agents estimated that drafting written procedures would involve a one-time outlay of between 15 minutes and four hours, costs they variously estimated (based on the number of hours times their relevant expenses per hour) at between \$15 and \$500. Two of the small transfer agents suggested that it is the larger transfer agents that would tend to have problems with these rules because the large transfer agents are more apt to engage outside vendors for the transportation, warehousing, and destruction of cancelled certificates whereas the small transfer agents tend to perform these services within their own premises. One small transfer agent questioned the need for certain of the recordkeeping requirements, but another described the rule proposals as "nice and clean, with no problems."

Commission staff also surveyed the Securities Transfer Association ("STA") as a proxy for large transfer agents. The STA, at the staff's request, reviewed the rule proposals and later reported that its review had revealed "no problems" with the proposals and that it would not be submitting formal comments on the

proposals. The STA advised that the large transfer agents are already in compliance with the rule proposals and that, in its opinion, the rule proposals in large part codify existing STA rules. As discussed in the PRA analysis, the STA further reported that the one new item in the rule proposals that would involve new costs is the requirement to have "written procedures" for cancellation procedures, which would take a large transfer agent about 40 work hours to draft the procedures or about \$3,000. The STA emphasized its view that most of the proposed rule changes are already in effect at transfer agents.

A. Benefits

The new rule and rule amendments will provide specific benefits to U.S. investors, issuers, transfer agents, and other financial intermediaries. Some of these benefits are not readily quantifiable in terms of dollar value. However, the proposals are designed to reduce the fraudulent use of securities certificates, particularly cancelled certificates, by requiring improved safeguarding and recordkeeping by transfer agents. In recent years, the fraudulent resale and fraudulent collateralization of cancelled certificates (certificates with no investment value) cost private individuals and financial institutions many millions of dollars. We expect the costs of the described forms of certificate fraud on public investors and on market participants to be substantially reduced by the requirements related to adequate safeguarding, recordkeeping, and destruction procedures for these certificates by transfer agents.

B. Costs

The rule changes require transfer agents to have written procedures for the cancellation, storage, transportation, destruction, or other disposition of retired securities certificates; to mark cancelled securities certificates as "cancelled;" to supervise, witness, and document the destruction of certificates; and to keep an easily retrievable record of each cancelled, destroyed, or otherwise disposed of certificate. The preparation of these written procedures required by the new rules will be a cost to transfer agents, and we have discussed the paperwork costs above in Section IV, estimating the combined total paperwork burden during the first year will be about 32,000 hours.

Regarding the required use of the word "cancelled" on cancelled certificates, we reiterate that, with the encouragement of the STA's published

⁵⁹ See, *supra*, in text accompanying notes 48–50.