United States General Accounting Office

GAO

Report to Congressional Requesters

September 2001

LOST SECURITY HOLDERS

SEC Should Use Data to Evaluate Its 1997 Rule

Accountability ★ Integrity ★ Reliability

GAO-01-978

Contents

Abbreviations

SEC	Securities and Exchange Commission
SIA	Securities Industry Association

G A O

Accountability * Integrity * Reliability

United States General Accounting Office
Washington, D.C. 20548

September 28, 2001

The Honorable Michael G. Oxley
Chairman, Committee on Financial Services
House of Representatives

The Honorable W. J. "Billy" Tauzin
Chairman, Committee on Energy and Commerce
House of Representatives

The Honorable Heather Wilson
House of Representatives

One in eight Americans are entitled to unclaimed and abandoned assets, according to the National Association of Unclaimed Property Administrators. These unclaimed and abandoned assets include savings and checking accounts, securities, paychecks, insurance settlements, and utility and rental deposits. Reportedly, most of the funds are unclaimed because the owner moved and simply forgot about the account, changed his or her name, or died. After a period of dormancy, the funds are turned over to state unclaimed property offices. In an effort to protect investors in securities, the Securities and Exchange Commission (SEC) adopted a rule in 1997 requiring transfer agents[1] to search for lost security holders, maintain written procedures for searching for lost security holders, and annually report to SEC data on the accounts of lost security holders. But the rule excluded the broker-dealers that are involved in the buying and selling of securities and that hold the vast majority of owners' assets.

In 2000, a bill[2] was introduced in the Congress that would have, among other things, expanded the SEC rule to cover broker-dealers. The Securities Industry Association (SIA) testified on October 4, 2000, that without some evidence that current practices are ineffective, additional legislation would "…appear to be a solution in search of a problem." Concerned about lost security holder issues, you asked us to provide information on (1) the extent to which accounts are lost, whether this has changed over time, and the reasons security holders were separated from their accounts; (2) the

[1]Issuers of securities, such as corporations and investment companies, appoint transfer agents to maintain records of stock, bond, and fund shareholders; issue and cancel certificates; and resolve problems arising from lost, destroyed, or stolen certificates.

[2]H.R. 3997, The Money Return Act of 2000, 106th Cong. (2000).

techniques used by transfer agents, broker-dealers, and other entities to find lost customers, and the costs of these searches; (3) SEC's efforts to use the data reported by transfer agents to review the operation of its 1997 rule; and (4) SEC's methods for ensuring that transfer agents comply with the rule's requirements.

To address these questions, we conducted mail questionnaire surveys with samples of 250 transfer agents and 225 broker-dealers in April through July, 2001. Our overall survey response rate was 69 percent for transfer agents and 54 percent for broker-dealers. The low overall response rates to the surveys and individual questions along with the low response rate from the largest firms, which represent most account volume, threaten the validity of estimates made using these data, if those not providing data are materially different from those who do. Because of these low response rates and the inability of some respondents to provide complete lost account data, we are (1) restricting our analysis to that subset of firms that participated in our surveys and (2) not making estimates about the larger population of broker-dealers and transfer agents in the United States. Appendix I provides a more detailed description of our objectives, scope, and methodology. Our surveys for transfer agents and broker-dealers are included in appendixes II and III, respectively.

We conducted our review from December 2000 through July 2001 in accordance with generally accepted government auditing standards.

Results in Brief

For 2000, broker-dealer and transfer agent survey respondents reported that the number of lost accounts was approximately 2 percent of total accounts. While we were not able to assess the trend in this ratio because many transfer agents and broker-dealers were unable to provide historical information, survey respondents said that they believe the number of lost security holders has remained about the same since 1998. The primary reason transfer agents and broker-dealers cited for owners becoming lost was that the owners forgot to send a change of address when they moved.

The transfer agents and broker-dealers who responded to our surveys used similar techniques and spent a similar amount to find lost security holders. Both transfer agents and broker-dealers most frequently resorted to telephone calls and mailings to locate lost security holders, using each method at least 75 percent of the time. Transfer agents and broker-dealers used credit bureaus and professional search firms the least and told us that they found these methods to be the least effective. Approximately 40 percent of the responding transfer agents and broker-dealers spent less than $10 attempting to locate each lost customer.

SEC has not been able to use data provided by transfer agents to assess the operation of the 1997 rule. When transfer agents began reporting lost security holder data to SEC, differences in the way that the agents interpreted the questions resulted in inconsistencies in the data reported. In addition, the requested information was insufficient for SEC staff to review the operation of the rule after 3 years as they were directed when the Commission adopted the rule. For these reasons, SEC modified the reporting requirements for lost security holder information as part of a June 2, 2000, revision of transfer agents' reporting requirements. The first set of data under the new requirement was to be filed in March 2001. SEC expects that the revised reporting requirement will provide it with more consistent and accurate data. At the time of our review, SEC had not started to analyze these data.

SEC relies primarily on its general inspections of transfer agents to ensure that these firms comply with the 1997 rule. SEC found violations in compliance with the 1997 rule's reporting and procedural requirements in about one quarter of the inspections it made between 1998 and 2000. When SEC finds a violation, it sends a deficiency letter to the transfer agent; if the violation is serious, SEC will refer the results to banking regulators if the transfer agent is affiliated with a bank or to the Commission's Division of Enforcement. SEC conducts inspections cyclically on the basis of the size of the firm, ranging from 2 years if it is a large firm to 10 years if it is a small firm. Small firms are also inspected periodically by banking regulators who also review compliance with the 1997 rule. Our survey results showed that small firms may be more at risk of noncompliance with the rule's requirement that they maintain written policies for lost security holder searches. Almost all large and medium transfer agents reported that they had written policies for lost security holder searches, while only about 60 percent of small transfer agents reported similar compliance with the rule.

Given that only transfer agents are covered by the 1997 rule, indications are that the extent of the lost security holder issue may be small and many broker-dealers and transfer agents already use similar techniques to find lost security holders, we are recommending that SEC use the data submitted by transfer agents and collected during its examinations to (1) determine the continued need for and scope of the 1997 rule and (2) target the future inspections of transfer agents. SEC commented on a draft of this report and agreed with our recommendations.

Background

SEC, whose primary mission is to protect investors and maintain the integrity of the securities markets, oversees key participants in the securities world, including broker-dealers and transfer agents. Broker-dealers hold securities and other investments for customers. Because the broker-dealer holds the customers' underlying assets, customers have an economic incentive to maintain contact with the firm. Also, the broker-dealer has an incentive to maintain contact with the customer since the customer may purchase additional securities. Transfer agents maintain individual security holder records for banks; corporations; and other issuers, such as mutual funds. In this capacity, transfer agents frequently are responsible for disseminating shareholder communications and dividend and interest payments. However, the transfer agent does not hold the underlying security on behalf of the investor as a broker-dealer does.

SEC became concerned that while various transfer agents attempted to locate lost security holders, the extent and type of efforts used varied considerably. Establishing minimum search requirements, SEC reasoned, would facilitate finding lost security holders. Accordingly, SEC adopted a rule on October 1, 1997, requiring transfer agents to conduct searches and annually report to SEC aggregate data on the accounts of lost security holders.[3] The rule requires transfer agents to exercise "reasonable care" in their efforts to find the correct addresses of all lost security holders. At a minimum, transfer agents must conduct two electronic searches for accounts whose owners are considered lost. An owner generally becomes "lost" when correspondence is returned as undeliverable and the transfer agent has not received the security holder's new address. Transfer agents are not required to search for the owners of a lost account if (1) the aggregate value of the account is less than $25; (2) they have received documentation of the security holders' death; or (3) the account owner is not a person. Transfer agents are also required to submit information regarding the status of lost security holder accounts and the number of lost security holder accounts that were remitted to the states during the reporting period. In adopting the rule, SEC directed its staff to review the operation of the adopted rules after 3 years and to report back on its findings. On June 2, 2000, SEC modified the reporting requirements for lost

[3]17 C.F.R. §24017a-24, §240.17Ad-17.

security holders as part of its revision of the TA-2, which is the annual report filed by all registered transfer agents.[4]

Transfer Agents and Broker-dealers Reported Limited Numbers of Lost Accounts, but Little Historical Data Were Available

In 2000, the year for which the data are most complete, the average number of lost security holders for transfer agents and broker-dealers was approximately 2 percent of total accounts. Seventy-five percent of transfer agents reported that the number of their lost security holders amounted to less than 1 percent of their total accounts. Ninety-five percent of broker-dealers reported that their lost accounts amounted to less than 1 percent of their total accounts. Our survey observations are similar to those of SEC in its informal surveys in 1997 and 2000. In the 1997 survey, SEC estimated that 1.34 percent of accounts held by transfer agents were lost. On the basis of a second survey in 2000 that represented about 75 percent of shareholder accounts held by transfer agents, SEC estimated that lost security holder accounts were 2.23 percent of total accounts. A May 2000 SIA poll of 17 broker-dealers showed that 0.79 percent of total accounts belonged to lost security holders.

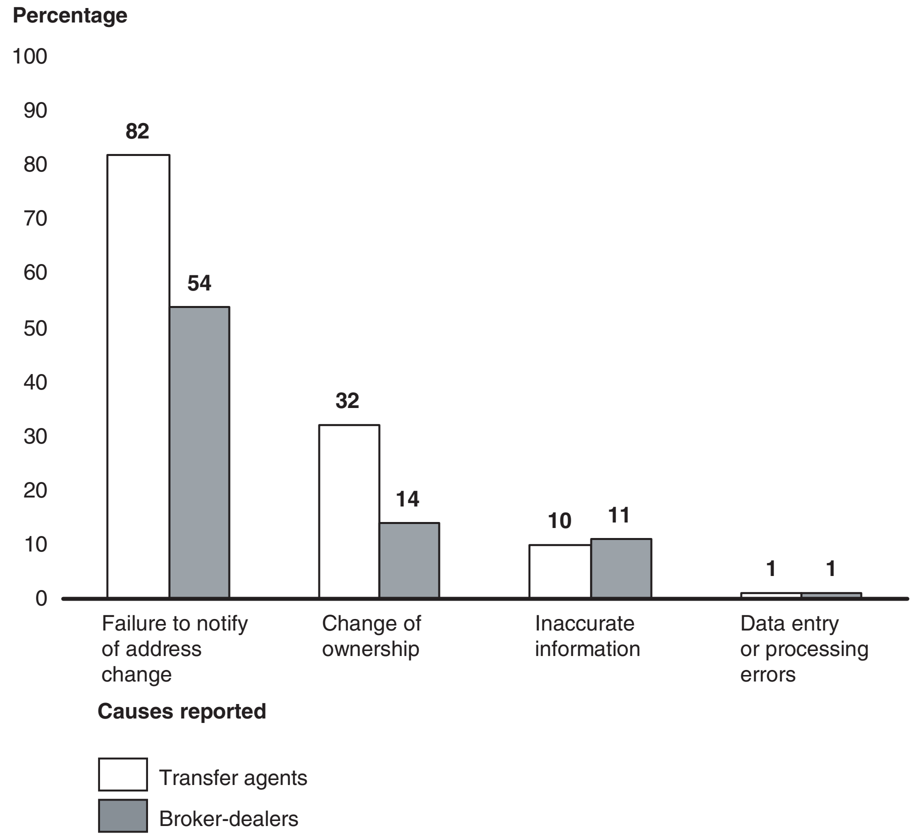
Over half of the transfer agents and broker-dealers that responded to our surveys were unable to provide us with information on lost owners for earlier years. However, data from the 75 transfer agents that did have the information for previous years showed that the ratio of lost accounts to total accounts was more likely to have increased or remained the same than decreased since the 1997 rule change. On the other hand, data supplied by the 42 broker-dealers who were able to supply it showed that this ratio was most likely to have stayed the same or decreased.

Most of the transfer agents and broker-dealers that were unable to provide us with data reported to us that they believed that the lost account ratio has remained the same or decreased in the last 2 years. Among transfer agents, about 21 percent told us that the ratio had increased, about 43 percent indicated it had remained the same, and about 35 percent said it had decreased. Broker-dealers' responses included a higher percentage reporting that the lost account ratio had remained the same over the last 2 years: about 10 percent indicated they felt it had increased; about 67 percent, that it had remained the same; and about 24 percent, that it had decreased.

[4] 65 Fed. Reg. 36,602 (2000).

In testimony before the House Committee on Commerce, SIA said that security holders frequently become lost through no fault of the financial institution holding the assets. According to SIA, the most common situation occurs when a security holder relocates and leaves no forwarding address. Our survey also showed that the primary reason owners become lost is that they have failed to notify the firms of address changes (see fig. 1). The second most common reason for owners becoming lost was a transfer of beneficial ownership, such as through an inheritance, in which the transfer agent or broker-dealer does not receive information about the transfer. Few transfer agents and broker-dealers believe that they received inaccurate information in initially setting up the account. Although internal data entry or processing errors are clearly the firms' responsibility, they are not considered to be a significant cause of lost security accounts.

Figure 1: Causes of Lost Security Holder Accounts



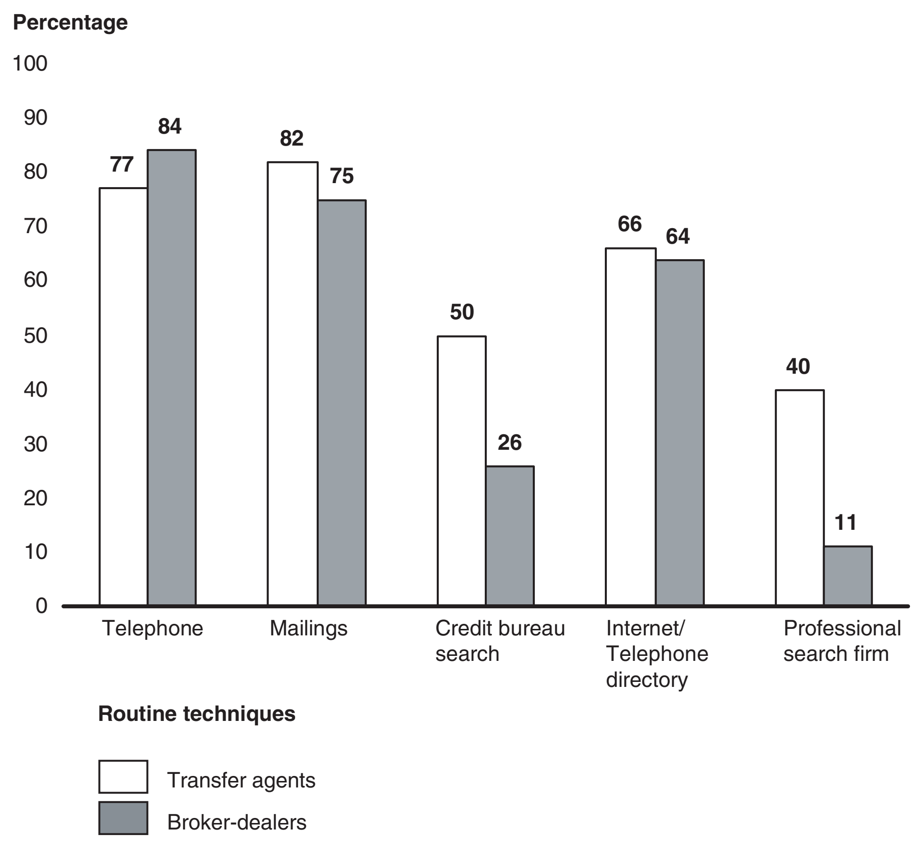
Source: GAO analysis of survey results.

When searches for lost security holders are unsuccessful, transfer agents and broker-dealers are required to remit the property to the state unclaimed property administrators under the state escheat laws. Both groups indicated that few account holders remain lost for so long a period that the firms would be required to remit the securities to the state. Twenty-six percent of broker-dealers remitted property to the state in 1995, and 30 percent did so during 2000. Our survey findings indicated that the proportion of transfer agents remitting property to the states has grown since 1995. Only 30 percent of all transfer agents able to provide data remitted property to the states in 1995; however, over 55 percent remitted property to the states in 2000. A number of factors could influence the proportion of property remitted to the states. However, we could not determine the causes of these changes from our survey results.

Transfer Agents and Broker-dealers Used Similar Techniques to Find Lost Security Holders

The transfer agents we surveyed indicated that they routinely used telephone, mail, and searches of the Internet and telephone directories in looking for lost security holders (see fig. 2). Although they are not required to search for lost customers, broker-dealers often do, using the same techniques. Both transfer agents and broker-dealers used telephone calls and mail for over 75 percent of their searches. Transfer agents used credit bureaus and professional search firms less frequently, but they still used these firms more than broker-dealers.

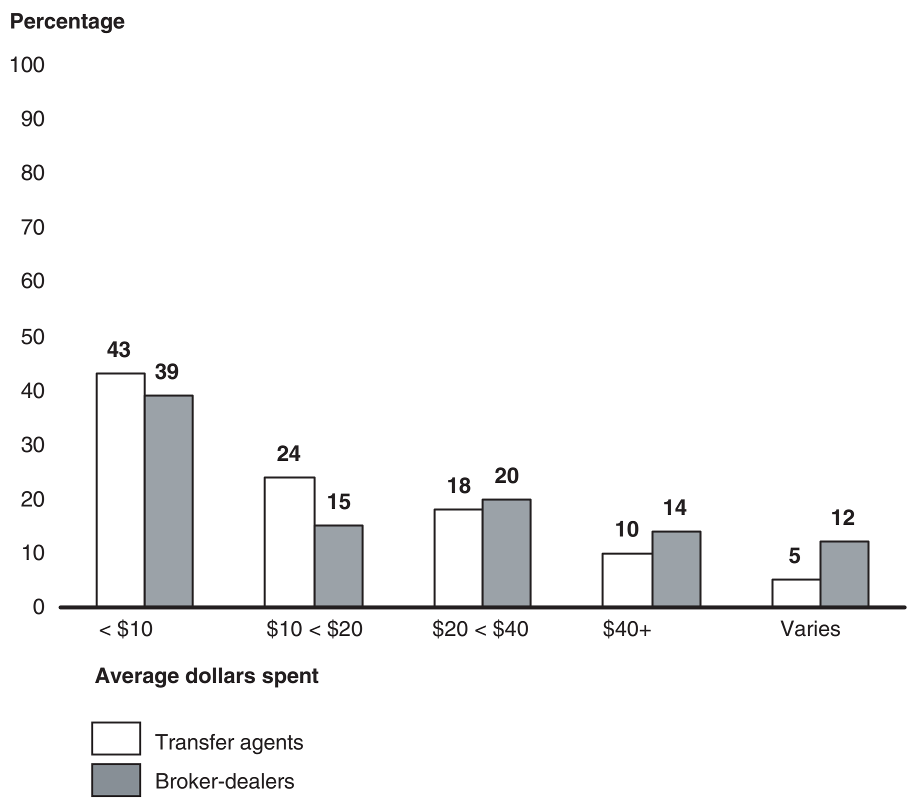
Figure 2: Routine Techniques Used by Respondents to Locate Lost Security Holders



Source: GAO analysis of survey results.

The transfer agents and broker-dealers we surveyed also estimated that they spend a similar amount of resources to find lost security holders. About forty percent of all transfer agents and broker-dealers estimated spending less than $10 in the search for each lost security holder (see fig. 3). For transfer agents, the smallest firms were the most likely to spend less than $10 per lost customer (55 percent), while almost 67 percent of medium firms and 58 percent of larger firms spent more. Small and medium broker-dealer firms spent more than $10 per lost customer over 60 percent of the time, while 77 percent of larger firms spent more. Thirty-seven percent of transfer agents told us that, in 2000, they had full-time staff at headquarters assigned to find lost security holders. These employees were in addition to any that may have been located at branch offices. The average number of personnel assigned was 2.5 at firms with full-time staffing. About 34 percent of broker-dealers had full-time staff assigned to find lost security holders; on average, these firms devoted 2.5 employees to this task.

Figure 3: Percentage of Respondents Reporting Average Dollars Spent per Lost Security Holder Account



Source: GAO analysis of survey results.

Transfer agents and broker-dealers usually have policies or procedures in place specifying steps to be taken to find security holders when mail is returned as undeliverable. According to our survey results, 78 percent of transfer agents and 69 percent of broker-dealers responding told us that they have written policies on searching for lost security holders. For the transfer agents with policies or procedures, 48 percent had these measures before they were required by the 1997 SEC rule. Larger transfer agents were more likely to have written policies or procedures before the 1997 ruling. Some 75 percent of large firms and 65 percent of medium firms reported having written policies or procedures on locating lost customers before 1997, compared with only 24 percent of small firms. Among broker-dealers, who are not required to have search policies, 55 percent had similar measures before 1997.

Other financial institutions that have customer accounts, such as banks and insurance companies, are not required to search for lost account holders or maintain data on lost accounts. Thus, the Federal Reserve Board, the Federal Deposit Insurance Corporation, and the Office of the Comptroller of the Currency do not maintain information on the extent of lost accounts or search techniques used in the industry. Similarly, state and industry officials told us that insurance companies are not required to search for lost beneficiaries.[5]

SEC Has Not Used the Data Submitted Under the 1997 Rule

SEC's 1997 data reporting requirement has yet to provide information that staff can use to assess the rule as the Commission directed them to when the rule was adopted because data initially received from transfer agents were inconsistent. Transfer agents were to report the aggregate number of lost security holder accounts as of June 30 each year and the percentage of total accounts represented by the lost security holder accounts. The number of lost security holder accounts was to be reported as lost for specified periods of time: 1 year or less, 3 years or less, 5 years or less, or greater than 5 years. Transfer agents were also to report information on security holder accounts that were remitted to the state unclaimed property administrators. According to SEC officials, the reporting requirement took effect in February 1998, and the numbers were to be reported in an annual filing due in August that reports data as of the preceding June. Therefore, the first full year's data were due in August 1999.

However, when transfer agents began reporting the data, SEC staff found differences in the way that firms interpreted the questions. As a result, the data that the transfer agents reported to SEC were inconsistent. Because of these inconsistencies, SEC staff have not been able to review the operation of the rule after 3 years as instructed by the Commission in 1997. SEC proposed changes to the reporting form in March 1999 and adopted a revised form on June 2, 2000. SEC officials expect that the revised reporting requirement will provide more consistent and accurate data that will allow them to assess the scope of the lost security holder problem and

[5]Regulating the insurance industry is primarily the states' responsibility.

the effectiveness of the search requirements of the rule. The first set of data, now required on a calendar year basis, was filed in March 2001 for calendar year 2000. At the time of our review, SEC had not started to analyze these data.

SEC Relies on Inspections to Ensure Compliance

SEC relies primarily on its general inspections of transfer agents to ensure that these firms comply with the securities laws and regulations, including the lost security holder rule. SEC policy is to inspect transfer agents with large operations every 2 years, agents associated with investment companies every 5 years, and agents with small banks every 10 years. However, SEC staff noted that the 10-year cycle reflects the fact that banking regulators already conduct examinations of these firms every 18 to 36 months, and that banking regulators review these firms' compliance with the lost security holder rule.

SEC records showed that transfer agents inspected between 1998 and 2000 were inspected within the cycle time. SEC found violations relating to compliance with the 1997 rule in about a quarter of the inspections it made between 1998 and 2000. This is consistent with our survey results, which indicated that about 22 percent of the transfer agents who responded to our survey were in violation of the lost security holder rule because they did not have written policies or procedures for searching for lost security holders. Our survey results also showed that smaller firms may be more at risk of noncompliance because only about 60 percent of small transfer agents reported having written search policies.

In 2000, SEC conducted 183 exams of transfer agents and found violations of lost security holder rules in 51, or 28 percent of examinations. In 1998 and 1999, SEC found such violations in 21 and 32 percent of the total exams, respectively. Of the 51 exams with lost security holder rule violations in 2000:

- 29 firms failed to maintain substantive evidence that they had conducted at least 2 database searches for lost security holders and did not have written procedures governing searches for lost security holders;
- 13 other firms failed to maintain substantive evidence that they had conducted 2 database searches; and
- 9 firms did not have relevant written procedures.

Typically, the transfer agent with a violation is sent a deficiency letter and has 30 days to respond. SEC staff said that most firms respond to the deficiency letter by indicating corrective actions they will take or have taken. If the firm's response letter indicates that the firm will take adequate steps to address the issues, no follow-up is conducted until the next examination. However, if the deficiency is serious or if the transfer agent's response to the deficiency letter does not indicate that adequate corrective actions will be taken, SEC staff may decide that a follow-up exam is needed. However, SEC officials said that it was unclear whether a lost security holder rule violation, alone, would likely be considered serious enough to trigger a follow-up exam.

As of July 11, 2001, SEC had sent deficiency letters to all 51 agents with violations in 2000. SEC also referred 19 transfer agents' exam results to banking regulators and 4 results to SEC's Division of Enforcement. At that time, 2 of the 51 firms in violation had been reexamined and 6 had withdrawn their registration with SEC or SEC had cancelled their registration. Also as of July 11, SEC had reexamined 11 of the 60 registered transfer agents found to have lost security holder deficiencies in 1999 exams and 9 of the 26 agents found to have violations in the 1998 exams.

Conclusions

Our survey data suggest that few differences may exist between transfer agents and broker-dealers in the ratio of lost security holders to total accounts or search techniques and procedures used to find lost account holders. Yet, only transfer agents are subject to SEC's 1997 rule. In addition, most security holders appear to be lost due to address changes that they have not reported to the transfer agent or broker-dealer, rather than through errors made by the firm that would clearly be the firm's responsibility. In addition, SEC directed its staff to assess the operation of the rule after 3 years. Now that SEC has adopted a revised form for these data, the Commission expects that its revised reporting requirements will provide it with more consistent and accurate data. In that event, SEC can analyze the data it receives in conjunction with its inspection results and our survey data to assess the continued need for and scope of the 1997 rule.

SEC's use of a standard exam cycle coupled with exams by banking regulators and follow-up exams for serious deficiencies or inadequate corrective actions could be supplemented by using additional data to target inspections. Our survey results showed that small transfer agents may be more likely to be in violation of SEC's 1997 rule than larger transfer agents. These data, along with the data received from transfer agents under the rule's data reporting requirement and the data collected during inspections could be useful as SEC works to target future inspections.

Recommendations

To better determine the usefulness of the 1997 rule and to help ensure compliance with the rule, we recommend that the Chairman of SEC take the following steps:

- Analyze the data submitted by transfer agents in conjunction with inspection results and our survey data to assess the need for and scope of the 1997 rule.
- Use the data submitted by transfer agents along with inspection results to target future transfer agent inspections.

Agency Comments

We provided a draft of this report to SEC for its review and comment. SEC concurred with the report's recommendations. SEC's comment letter is reproduced in appendix IV.

We will send copies of this report to the Ranking Minority Members of the House Committee on Financial Services and Committee on Energy and Commerce, other interested congressional committees, the Chairman of SEC, and other interested parties. We will also make copies available to others on request.

Key contributors to this report are listed in appendix V. If you have any questions, please call me at (202) 512-8678 or Susan H. Campbell at (202) 512-6790.

Davi M. D'Agostino
Director, Financial Markets
and Community Investment

Objectives, Scope, and Methodology

Our objectives were to provide information on (1) the extent to which accounts are lost, whether this has changed over time, and the reasons security holders were separated from their accounts; (2) the techniques used by transfer agents, broker-dealers, and other entities to find lost customers and the costs of these searches; (3) the Securities and Exchange Commission's (SEC) effort to use the data reported by transfer agents to review the operation of its 1997 rule; and (4) SEC's methods for ensuring that transfer agents comply with the rule's requirements.

To address our first and second objectives, we visited and interviewed officials from SEC's Division of Market Regulation; the New York Stock Exchange; the National Association of Securities Dealers; and the Securities Industry Association. We also reviewed applicable SEC rules, reports, and transcripts from previous congressional hearings on the issues. To gain a perspective on how lost account holders are handled in other related industries, we interviewed officials from the Federal Reserve Board, the Federal Deposit Insurance Corporation, the Office of the Comptroller of the Currency, the American Counsel of Life Insurers, and selected state insurance commissioners.

We also conducted mail questionnaire surveys with samples of 250 transfer agents and 225 broker-dealers in April through July, 2001. We drew our stratified random samples[1] from records in SEC's databases. For broker-dealers, our target population was all broker-dealers doing a public business and carrying their own accounts, who made required filings to SEC in the third quarter of 2000, and who were active at the time of our survey. There were approximately 320 such firms. After drawing our sample of broker-dealers, we further restricted this survey to only those who were engaged in retail activity. For transfer agents, our target population was all transfer agents that made required filings with SEC for fiscal year 1999, maintained at least one customer account, and were active at the time of this survey—approximately 700 firms.

[1]We drew firms into our samples at different rates across different categories, or strata, defined by size—that is, we drew proportionally more of the larger firms than the smaller firms into our samples. For our sample of broker-dealers, small firms were defined as those with total capital of less than $100 million, medium-sized firms had from $100 million to $1 billion, and large firms were those with over $1 billion. For transfer agents, we stratified the sample using the total number of accounts held. Small agents were those with up to 50,000 accounts; medium-sized firms had from 50,000 to 4 million accounts; and large agents had 4 million or more accounts.

As shown in tables 1 and 2, our overall survey response rate was 54 percent for broker-dealers and 69 percent for transfer agents. Response rates also varied by size of firm in both samples, with lower response rates in the stratum of larger firms than in the two strata of smaller firms. Because of these low response rates, and the inability of some respondents to provide complete lost account data, we are restricting our analysis to that subset of firms that participated in our survey and are not making estimates about the larger population of broker-dealers and transfer agents in the United States. The low response rates to the surveys and individual questions threaten the validity of estimates made using these data, if those not providing data were materially different from those who do. Because the largest firms, which are important to our estimates for the population because they account for much of the activity of the two industries, are providing data at such low rate, the representativeness of weighted estimates for the population might be subject to significant bias. Therefore, we present survey results in this report in unweighted form, representing only those firms that participated in our study and provided answers to the individual questions being analyzed.

Table 1: Disposition of Broker-dealer Sample

			Disposition				
				Nonresponse			
Stratum, by total capital	**Original population size**	**Sample size**	**Ineligible**	**Refusal**	**All other nonresponse**	**Usable response**	**Response rate**
Large: Over $1 billion	26	26	1	0	16	9	36%
Medium: $100 million to $1 billion	85	75	21	0	29	25	46
Small: Under $100 million	207	124	21	1	38	64	62
Total	**318**	**225**	**43**	**1**	**83**	**98**	**54%**

Source: GAO analysis of survey results.

Table 2: Disposition of Transfer Agent Sample

			Disposition				
				Nonresponse			
Stratum, by total accounts	**Original population size**	**Sample size**	**Ineligible**	**Refusal**	**All other nonresponse**	**Usable response**	**Response rate**
Large: Over 4 million accounts	22	22	1	0	9	12	57%
Medium: 50,000 to 4 million accounts	138	89	4	0	27	58	68
Small: Under 50,000 accounts	539	139	10	1	36	92	71
Total	**699**	**250**	**15**	**1**	**72**	**162**	**69%**

Source: GAO analysis of survey results.

To address our third objective, we interviewed officials from SEC's Division of Market Regulation. We also reviewed SEC's revised rules relating to reporting requirements for transfer agents.

To answer our fourth objective on SEC's efforts to ensure that transfer agents comply with its 1997 rule on lost security holders, we interviewed and reviewed data provided by officials in SEC's Office of Compliance Inspections and Examinations. The officials provided us with several electronic files containing transfer agent examination data that we analyzed to determine how many inspections were conducted in each year, how many violations were found, and whether the firm had been reinspected or withdrawn or cancelled its registration with SEC.

We conducted our review from December 2000 through July 2001 in accordance with generally accepted government auditing standards.

Transfer Agent Survey Questionnaire

United States General Accounting Office

Lost Securityholders: A Survey of Transfer Agents

Introduction

The U.S. General Accounting Office (GAO), a legislative agency that reviews federal programs for the U.S. Congress, is gathering information on the number of lost securityholders and the financial industry's efforts to locate them. As part of this effort, we are conducting a survey of broker/dealers and transfer agents throughout the United States.

We selected your firm randomly from a list maintained by the Securities and Exchange Commission (SEC). Your answers are important to ensure that we obtain an accurate picture of industry practices. Please complete this questionnaire even if your firm's activity in this area seems minimal.

GAO will take steps to safeguard the privacy of your responses. The identifying information on this questionnaire is only to aid us in our followup efforts with those not responding. Survey results will be reported in summary form only. Any discussion of individual answers or comments in our report will omit any information that could identify the respondent.

Instructions

The questionnaire should be completed by the person(s) in your firm most knowledgeable about policies concerning lost securityholders.

Please answer the questions for only the institution or registered entity as addressed, and not any holding companies, subsidiaries, affiliates, or other limited partnerships that have their own securityholder accounts or separate policies and procedures.

Our objective is to identify a representative sample of securityholder accounts, enumerate the number of lost accounts among them, and profile the policies covering those accounts We realize that the SEC lists we used to identify your institution often list multiple units within a firm or related firms. In the event that your firm receives multiple questionnaires, we ask that you coordinate your responses in such a way as to ensure that individual accounts are reported on only once.

To avoid costly followup efforts, we would appreciate your return of the completed questionnaire in the enclosed pre-addressed, postage-paid envelope within 10 business days of receipt. In the event the envelope is misplaced, the return address is:

U. S. General Accounting Office
Attn: Mr. Monty Kincaid
441 G Street, NW, Room 2A28
Washington, DC 20548

If you have any questions or concerns about this survey, please call Monty Kincaid at (202) 512-8432, or Tom Conahan at (202) 512-4545.

Thank you for your time and effort.

Please provide the following information so that we can contact you if we have a question:

Name of primary respondent: ____

Title: ____

Telephone: (   ) _______ - __________

Institution: ____

Top-Tier Parent or Holding Company (if applicable): __________________________________

1. **Which one of the following categories best describes your firm:**
   Mark only one box.

   ☐ Bank
   ☐ Investment Company
   ☐ Other -- Please Specify: ____

2. **Please provide the number of securityholder accounts in each of the following three categories that you maintained on some date within each of the following calendar years or remitted to the states during each of those years.**

   Enter a number in each box of the table, or "NA" if data not available.

   Numbers can be reported as of any date within a year for which a record is available.

	Total number of: all securityholder accounts maintained	lost securityholder accounts maintained	lost securityholder accounts escheated to states
1995			
1996			
1997			
1998			
1999			
2000			

2

3. Considering any numbers provided in question 2 or any other information you may have, do you think that the overall number of lost securityholder accounts relative to total accounts at your firm has increased or decreased over the last two years?
Mark only one box.

☐ Greatly increased
☐ Somewhat increased
☐ Stayed about the same
☐ Somewhat decreased
☐ Greatly decreased

☐ Don't know

4. To what do you attribute this increase or decrease? *Mark as many as apply.*

☐ Not applicable -- stayed about the same

☐ Merger activity and/or consolidation involving your firm
☐ Increased number of investors
☐ Accounts are more active
☐ Increased investor sophistication
☐ Improvements in recordkeeping
☐ Increased amount of stock in brokerage accounts (in street name)
☐ Enhancements in search technology
☐ Use of search firms
☐ New procedures introduced by my firm
☐ SEC's 1997 Rule 17
☐ Other changes in market
☐ Other -- please describe: ____

☐ Don't know

3

5. **In your estimation, how frequently is each of the following among the causes of lost securityholder accounts in your firm?** *Mark one box in each row.*

	Always or almost always	Very often	Often	Sometimes	Seldom if ever	Not applicable/ No basis to judge
Securityholder failure to notify of change of address	☐	☐	☐	☐	☐	☐
Change of ownership (e.g., death)	☐	☐	☐	☐	☐	☐
Inaccurate information provided to your firm	☐	☐	☐	☐	☐	☐
Internal data entry or processing errors	☐	☐	☐	☐	☐	☐
Other -- Specify: ________________________	☐	☐	☐	☐	☐	☐

6. **Does your firm have any written policies or procedures to find securityholders when mail from your firm is returned as undeliverable?** *Mark either "No" or "Yes" box.*

☐ No

☐ Yes ➨ **Were the original policies or procedures first implemented:**
Mark only one box below.

☐ 1997 through present
☐ 1992 through 1996
☐ Before 1992

☐ Don't know

7. **Did you implement or change any policies or procedures in response to the 1997 SEC Rule 17?**
Mark either "Yes" or "No" box.

☐ Yes
☐ No

☐ Don't know

4

8. **How many times does outgoing mail need to be returned to your firm as undeliverable before an account is considered lost?** *Mark only one box.*

☐ 1
☐ 2
☐ 3
☐ 4
☐ 5
☐ 6 or more
☐ Varies/Other -- please specify: ____

9. **Does your firm routinely use any of the following techniques to search for lost security holders?** *Mark either "Yes" or "No" box in each row.*

Yes	No	
☐	☐	Telephone calls
☐	☐	Mailings
☐	☐	Searches of credit bureau databases
☐	☐	Internet searches, including telephone directory databases
☐	☐	Contract with professional search firms (Keane Tracers, for example) to find lost securityholders
☐	☐	Other actions -- please describe: ______________________________________

5

10. And whether or not you use these techniques, how effective do you believe them to be in locating lost securityholders? *Mark one box in each row.*

	Very effective	Generally effective	Marginally effective	Generally ineffective	Very ineffective	Don't know/ No basis to judge
Telephone calls	☐	☐	☐	☐	☐	☐
Mailings	☐	☐	☐	☐	☐	☐
Searches of credit bureau databases	☐	☐	☐	☐	☐	☐
Internet searches, including telephone directory databases	☐	☐	☐	☐	☐	☐
Contract with professional search firms	☐	☐	☐	☐	☐	☐
Other -- Specify: ______________________	☐	☐	☐	☐	☐	☐

6

11. In addition to any work done at branch levels, were any headquarters personnel of your firm assigned tasks related to finding lost securityholders during Calendar Year 2000?
Mark either "No" or "Yes" box.

☐ No

☐ Yes ➨ **Approximately how many headquarters staff were assigned to any of these tasks in CY 2000?** *Enter a number in each box.*

Full-time staff: ☐

Part-time staff: ☐

12. In your estimation, how much does your firm spend, on average, per lost securityholder account in your attempts to locate the securityholder?
Consider all costs, including mail room, branch contact time, account maintenance, search firms, headquarters salaries, etc., in your estimate. Mark only one box.

☐ Less than $10
☐ $10 to less than $20
☐ $20 to less than $40
☐ $40 or more
☐ Varies/Other -- please specify: ____

13. If you have any explanation of, or comments on the data you provided or could not provide, please use the space below or attach additional material:

7

Broker-dealer Survey Questionnaire

United States General Accounting Office

Lost Securityholders: A Survey of Broker/Dealers

Introduction

The U.S. General Accounting Office (GAO), a legislative agency that reviews federal programs for the U.S. Congress, is gathering information on the number of lost securityholders and the financial industry's efforts to locate them. As part of this effort, we are conducting a survey of broker/dealers and transfer agents throughout the United States.

We selected your firm randomly from a list maintained by the Securities and Exchange Commission (SEC). Your answers are important to ensure that we obtain an accurate picture of industry practices. Please complete this questionnaire even if your firm's activity in this area seems minimal.

GAO will take steps to safeguard the privacy of your responses. The identifying information on this questionnaire is only to aid us in our followup efforts with those not responding. Survey results will be reported in summary form only. Any discussion of individual answers or comments in our report will omit any information that could identify the respondent.

Instructions

The questionnaire should be completed by the person(s) in your firm most knowledgeable about policies concerning lost securityholders.

Please answer the questions for only the institution as addressed, and not any holding companies, subsidiaries, transfer agents, or other affiliates that have their own securities operations or separate policies and procedures.

Our objective is to identify a representative sample of securityholder accounts, enumerate the number of lost accounts among them, and profile the policies covering those accounts. We realize that the SEC lists we used to identify your institution often list multiple units within a firm or related firms. In the event that your firm receives multiple questionnaires, we ask that you coordinate your responses in such a way as to ensure that individual accounts are reported on only once.

To avoid costly followup efforts, we would appreciate your return of the completed questionnaire in the enclosed pre-addressed, postage-paid envelope within 10 business days of receipt. In the event the envelope is misplaced, the return address is:

U. S. General Accounting Office
Attn: Mr. Monty Kincaid
441 G Street, NW, Room 2A28
Washington, DC 20548

If you have any questions or concerns about this survey, please call Monty Kincaid at (202) 512-8432, or Tom Conahan at (202) 512-4545.

Thank you for your time and effort.

Please provide the following information so that we can contact you if we have a question:

Name of primary respondent: ____

Title: ____

Telephone: (   ) _______ - __________

Institution: ____

Top-Tier Parent or Holding Company (if applicable): ___________________________________

1. **Please provide the number of securityholder accounts in each of the following three categories that you maintained on some date within each of the following calendar years or remitted to the states during each of those years.**

   Enter a number in each box of the table, or "NA" if data not available.

   Numbers can be reported as of any date within a year for which a record is available.

	Total number of:		
	all securityholder accounts maintained	lost securityholder accounts maintained	lost securityholder accounts escheated to states
1995			
1996			
1997			
1998			
1999			
2000			

2

2. **Please provide the <u>asset value</u> of securityholder accounts in each of the following three categories that you maintained on some date within each of the following calendar years or remitted to the states during each of those years.**

Enter a U.S. Dollar amount, in thousands, in each box of the table, or "NA" if data not available.

Numbers can be reported as of any date within a year for which a record is available.

	Total asset value ($000's) of:		
	all securityholder accounts maintained	lost securityholder accounts maintained	lost securityholder accounts escheated to states
1995	$	$	$
1996	$	$	$
1997	$	$	$
1998	$	$	$
1999	$	$	$
2000	$	$	$

3. **Considering any numbers provided in questions 1 and 2, or any other information you may have, do you think that the overall number of lost securityholder accounts relative to total accounts at your firm has increased or decreased over the last two years?**
Mark only one box.

☐ Greatly increased
☐ Somewhat increased
☐ Stayed about the same
☐ Somewhat decreased
☐ Greatly decreased

☐ Don't know

3

4. **To what do you attribute this increase or decrease?** *Mark as many as apply.*

☐ Not applicable -- stayed about the same

☐ Merger activity and/or consolidation involving your firm
☐ Increased number of investors
☐ Accounts are more active
☐ Increased investor sophistication
☐ Improvements in recordkeeping
☐ Increased amount of stock in brokerage accounts (in street name)
☐ Enhancements in search technology
☐ Use of search firms
☐ New procedures introduced by my firm
☐ SEC's 1997 Rule 17, relating to transfer agent searches
☐ Other changes in market
☐ Other -- please describe: ________________________________

☐ Don't know

5. **In your estimation, how frequently is each of the following among the causes of lost securityholder accounts in your firm?** *Mark one box in each row.*

	Always or almost always	Very often	Often	Sometimes	Seldom if ever	Not applicable/ No basis to judge
Securityholder failure to notify of change of address	☐	☐	☐	☐	☐	☐
Change of ownership (e.g., death)	☐	☐	☐	☐	☐	☐
Inaccurate information provided to your firm	☐	☐	☐	☐	☐	☐
Internal data entry or processing errors	☐	☐	☐	☐	☐	☐
Other -- Specify: ____________________	☐	☐	☐	☐	☐	☐

4

6. **Does your firm have any written policies or procedures to find securityholders when mail from your firm is returned as undeliverable?** *Mark either "No" or "Yes" box.*

☐ No

☐ Yes ➨ **Were the original policies or procedures first implemented:**
Mark only one box below.

☐ 1997 through present
☐ 1992 through 1996
☐ Before 1992

☐ Don't know

7. **Did you implement or change any policies or procedures in response to the 1997 SEC Rule 17, which relates to transfer agent searches?** *Mark only one box.*

☐ Yes
☐ No

☐ Don't know

8. **How many times does outgoing mail need to be returned to your firm as undeliverable before an account is considered lost?** *Mark only one box.*

☐ 1
☐ 2
☐ 3
☐ 4
☐ 5
☐ 6 or more
☐ Varies/Other -- please specify: ____

5

9. **Does your firm routinely use any of the following techniques to search for lost securityholders?** *Mark either "Yes" or "No" box in each row.*

Yes	No	
☐	☐	Telephone calls
☐	☐	Mailings
☐	☐	Searches of credit bureau databases
☐	☐	Internet searches, including telephone directory databases
☐	☐	Contract with professional search firms (Keane Tracers, for example) to find lost securityholders
☐	☐	Other actions -- please describe: ______________________________

10. **And whether or not you use these techniques, how <u>effective</u> do you believe them to be in locating lost securityholders?** *Mark one box in each row.*

	Very effective	Generally effective	Marginally effective	Generally ineffective	Very ineffective	Don't know/ No basis to judge
Telephone calls	☐	☐	☐	☐	☐	☐
Mailings	☐	☐	☐	☐	☐	☐
Searches of credit bureau databases	☐	☐	☐	☐	☐	☐
Internet searches, including telephone directory databases	☐	☐	☐	☐	☐	☐
Contract with professional search firms	☐	☐	☐	☐	☐	☐
Other -- Specify: ______________________	☐	☐	☐	☐	☐	☐

6

11. **In addition to any work done at branch levels, were any headquarters personnel of your firm assigned tasks related to finding lost securityholders during Calendar Year 2000?**
Mark either "No" or "Yes" box.

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☐ Yes ➨ **Approximately how many headquarters staff were assigned to any of these tasks in CY 2000?** *Enter a number in each box.*

Full-time staff: ☐

Part-time staff: ☐

12. **In your estimation, how much does your firm spend, on average, per lost securityholder account in your attempts to locate the securityholder?**
Consider all costs, including mail room, branch contact time, account maintenance, search firms, headquarters salaries, etc., in your estimate. Mark only one box.

☐ Less than $10
☐ $10 to less than $20
☐ $20 to less than $40
☐ $40 or more
☐ Varies/Other -- please specify: ____

13. **If you have any explanation of, or comments on the data you provided or could not provide, please use the space below or attach additional material:**

Comments From the Securities and Exchange Commission

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

September 10, 2001

Ms. Davi M. D'Agostino
Director, Financial Markets
and Community Investment
United States General Accounting Office
441 G Street, N.W.
Washington, DC 20548

Dear Ms. D'Agostino:

Thank you for the opportunity to comment on the draft GAO Report, Lost Security Holders: SEC Should Use Data to Evaluate Its Rule. The GAO Report recommends that to better determine the usefulness of the 1997 rule regarding lost securityholders* and to help ensure compliance with the rule, the SEC should (1) analyze the data submitted by transfer agents in conjunction with inspection results and the GAO's survey data to assess the need for and scope of the 1997 rule and (2) use the data submitted by transfer agents along with inspection results to target future transfer agent inspections.

We agree with your recommendation regarding the need to analyze the data submitted by the transfer agents in conjunction with inspection results and the GAO's survey data to assess the need for and scope of the1997 rule. Transfer agents are required to submit information on the SEC's annual transfer agent report form regarding the results of database searches for lost securityholders and the number of securityholder accounts that were remitted to the states. We have recently developed a new transfer agent database that we will use to analyze the lost securityholder information submitted by transfer agents in their annual SEC reports for the year 2000 reporting period. We expect to have our analysis for this reporting period completed shortly. When we receive the annual reports for the year 2001 reporting period early next year, we will be in a better position to determine the need for and scope of the 1997 rule.

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* Rule 17Ad-17, adopted in 1997, requires transfer agents to conduct periodic database searches to obtain current addresses for security holders for whom they have incorrect addresses. Securities Exchange Act Release No. 39176 (October 1, 1997), 62 FR 52229 (October 7, 1997).

Ms. Davi M. D'Agostino
September 10, 2001
Page 2

In addition, we agree with your recommendation that SEC staff use the data submitted by transfer agents along with examination results to target future transfer agent inspections. As noted in your report, when SEC examiners find serious deficiencies in a transfer agent examination or if a transfer agent's response fails to indicate that adequate corrective action will be taken, examiners will conduct a follow up examination. In accordance with the GAO's recommendation, we plan to further utilize the data collected in the transfer agent database to assist in targeting transfer agents for examination. We are currently in the process of reviewing the data collected in preparation for a series of examinations of transfer agents for compliance with the rule regarding lost security holders.

Thank you again for the opportunity to comment on this draft report. We appreciate the considered and useful attention you gave this matter.

Sincerely,

Annette L. Nazareth
Director
Division of Market Regulation

Lori A. Richards
Director
Office of Compliance Inspections and Examinations

GAO Contacts and Staff Acknowledgments

GAO Contacts

Davi M. D'Agostino (202) 512-8678
Susan H. Campbell (202) 512-6790

Acknowledgments

In addition to those named above, Brian D. Berg, Emily R. Chalmers, Tom Conahan, Heather T. Dignan, Monty Kincaid, Carl M. Ramirez, and Sindy R. Udell made key contributions to this report.

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