RISK ALERT
DIVISION OF EXAMINATIONS

August 28, 2026

Observations Regarding Lost Securityholder Rule Compliance[*]

I. Introduction

The Division of Examinations conducted examinations evaluating compliance with Securities Exchange Act of 1934 ("Exchange Act") Rule 17Ad-17 Lost Securityholders and Unresponsive Payees ("Rule 17Ad-17") at transfer agents and broker-dealers, some of which were also paying agents ("firms"). The Division identified instances of non-compliance with Rule 17Ad-17, including issues related to database searches and recordkeeping. The Division is sharing the results of these examinations for registrants to consider when evaluating their compliance with the rule.

II. Summary of Legal Requirements

Rule 17Ad-17 establishes requirements for recordkeeping transfer agents (referred to in this alert as "transfer agents") and broker-dealers with customer security accounts (referred to in this alert as "broker-dealers") to exercise reasonable care to ascertain the correct address of any lost securityholder.[1] A lost securityholder means a securityholder to whom an item of correspondence that was sent to the address contained in the transfer agent's master securityholder file or customer security account records of the broker-dealer has been returned undeliverable and for whom the transfer agent or broker-dealer has not received information regarding the securityholder's new address.[2]

Transfer agents and broker-dealers must conduct two database searches to locate lost securityholders, between three and twelve months of the securityholder becoming a lost securityholder and between six to twelve months after the first search.[3] Searches must be made by taxpayer identification number ("TIN") or by name if a search based on TIN is not reasonably

[*] The views expressed herein are those of the staff of the Division of Examinations ("Division" or "EXAMS"). This Risk Alert is not a rule, regulation, or statement of the Securities and Exchange Commission ("SEC" or "Commission"). The Commission has neither approved nor disapproved the content of this Risk Alert. This Risk Alert, like all staff statements, has no legal force or effect; it does not alter or amend applicable law, and it creates no new or additional obligations for any person.

[1] For purposes of the rule, "securityholder" includes both securityholders on the transfer agent's master securityholder file and customers within a broker-dealer's customer security account records. Rule 17Ad-17(b)(2).

[2] A securityholder would not become a lost securityholder if the transfer agent or broker-dealer re-sends the undeliverable correspondence within one month. If the second mailing is also returned undeliverable, the transfer agent or broker-dealer must code the person as lost at that time. Rule 17Ad-17(b)(2)(i).

[3] No searches are required for securityholders who are deceased, have assets of less than $25, or are not natural persons. Rule 17Ad-17(a)(3).

likely to locate the securityholder.[4] Transfer agents and broker-dealers may not use a search method that results in a charge to a lost securityholder prior to completing the two required searches.[5]

Additionally, Rule 17Ad-17(c) establishes requirements for any paying agent, which is defined as any issuer, transfer agent, broker, dealer, investment adviser, indenture trustee, custodian, or any other person that accepts payments from the issuer of a security and distributes the payments to the holders of the security.[6] Paying agents must provide not less than one written notification no later than seven months after sending the non-negotiated check, to any "unresponsive payee," which is defined as a securityholder who has been sent a check that has not yet been negotiated (i.e., not cashed) before the earlier of the paying agent's sending the next regularly scheduled check or the elapsing of six (6) months (or 180 days) after the sending of the not yet negotiated check.[7]

Finally, entities subject to Rule 17Ad-17 must maintain records to demonstrate compliance with the rule, including written procedures that describe their methodology for complying with the rule.[8]

III. Staff Observations from Examinations

A. Failure to Comply with Rule 17Ad-17. The staff observed multiple firms that were subject to Rule 17Ad-17 but did not search for lost securityholders, provide notifications to unresponsive payees, or maintain written procedures that described their methodology for compliance with the rule.[9]

B. Written Procedures

- Firms failed to create written procedures that described their methodology for complying with the Lost Securityholder Rule despite conducting searches for lost securityholders and sending notices to unresponsive payees.
- Firms had written procedures for the rule, but those written procedures were not adequate. For example:
    - The methodology in the firms' written procedures did not meet the requirements of the rule. For example, the databases required in the procedures did not meet the definition of "information database service"

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4 Rule 17Ad-17(a)(1). The database used must meet the standards of Rule 17Ad-17(b)(1). Rule 17Ad-17(b)(1)(ii) permits transfer agents and broker-dealers to use various types of databases when searching for lost securityholders, provided such databases produce results comparable to those described in Rule 17Ad-17(b)(1)(i).

5 Rule 17Ad-17(a)(2).

6 Rule 17Ad-17(c)(2).

7 Rule 17Ad-17(c)(1). The notice must be sent no later than seven months after the sending of the not yet negotiated check, unless the check is valued at less than $25 or the unresponsive payee is considered a lost securityholder. Rule 17Ad-17(c)(4).

8 Rule 17Ad-17(d).

9 Rule 17Ad-17 has applied to transfer agents since 1998. The Commission extended the requirements to broker-dealers, and added the unresponsive payee provision, in 2013. Lost Securityholders and Unresponsive Payees, Exchange Act Release No. 68668 (Jan. 16, 2013).

contained in the rule, or the written procedures set forth time frames for conducting searches that were not in compliance with the time frames set forth by the rule.

  - The written procedures did not describe basic steps, such as how to identify and code lost securityholders as lost or how to conduct database searches.

C. Searches for Lost Securityholders and Notices to Unresponsive Payees

- Database Searches
  - While certain firms did conduct some database searches and sent some unresponsive payee notices, they did not identify and conduct searches for all lost securityholders or send notices to all unresponsive payees. Sometimes the failure was the result of miscoding the securityholder account (e.g., inaccurately designating persons as deceased) or not following the firm's procedures.
  - The firm conducted database searches based on a combination of both TIN and name, rather than by TIN alone without any determination that usage of TIN alone was not reasonably likely to locate the securityholder.[10]
- Timing
  - Some firms conducted searches that were not compliant with the required time frames in the rule (e.g., the first database search was more than a year after the securityholder became lost; or the second database search was less than six months after the first search).
  - Some firms sent unresponsive payee notices that were not compliant with the required time frames in the rule (e.g., the notice to an unresponsive payee was sent more than seven months after the non-negotiated check was sent).
- Recordkeeping
  - Some firms did not retain records of the searches for lost securityholders or the notices sent to unresponsive payees (e.g., no records were maintained of the dates searched or when payee notifications were mailed).

D. Electronic Communications

- Firms did not update or tailor their methodology for complying with the rule to reflect their usage of electronic addresses to communicate with securityholders.[11] The staff

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[10] *See supra* note 4.

[11] Registrants are encouraged to review the Commission's existing guidance regarding electronic delivery of documents. *See, e.g.*, Use of Electronic Media by Broker-Dealers, Transfer Agents, and Investment Advisers for Delivery of Information, Exchange Act Release No. 37182 (May 9, 1996), 61 FR 24644 (May 15, 1996) (providing Commission views on electronic delivery of required information by broker-dealers, transfer agents and investment advisers);Use of

identified instances in which the firms' process to code securityholders as lost did not take into account communications sent to the email address, which were returned as undeliverable. Because of that omission, securityholders were not coded as lost even though the email was not delivered.

IV. Conclusion

In sharing these staff observations, the Division encourages transfer agents and broker-dealers, including paying agents, to evaluate their own practices, policies, and procedures and to implement any appropriate modifications to comply with Rule 17Ad-17.

This Risk Alert is intended to highlight for firms risks and issues that Division staff has identified. In addition, this Risk Alert describes risks that firms may consider to: (1) assess their supervisory, compliance, and/or other risk management systems related to these risks, and (2) make any changes, as may be appropriate, to address or strengthen such systems. Other risks besides those described in this Risk Alert may be appropriate to consider, and some issues discussed in this Risk Alert may not be relevant to a particular firm's business. The adequacy of supervisory, compliance and other risk management systems can be determined only with reference to the profile of each specific firm and other facts and circumstances.

Electronic Media, Exchange Act Release No. 42728 (Apr. 28, 2000), 65 FR 25843 (May 4, 2000) (providing updated interpretive guidance on the use of electronic media to deliver documents on matters such as telephonic and global consent; issuer liability for website content; and legal principles that should be considered in conducting online offerings). In addition, on July 16, 2026, the Commission proposed Regulation E-Delivery which, if adopted, would set forth conditions for certain entities, including broker-dealers and transfer agents, to deliver information to recipients electronically without first obtaining their affirmative consent. *See* Electronic Delivery of Information Under the Federal Securities Laws, Exchange Act Release No. 105921 (July 16, 2026), 91 FR 45884 (July 21, 2026).