

SUPPORTING STATEMENT
Rule 17g-1

A. JUSTIFICATION

1. Necessity for the Information Collection

Section 17(g) of the Investment Company Act of 1940 (the "Act") (15 U.S.C. 80a-17(g)) authorizes the Commission to require by rules and regulations, for the protection of investors, that officers and employees of registered management investment companies ("funds") who may singly, or jointly with others, have access to securities or funds of any registered management investment company, either directly or through authority to draw upon such funds or to direct generally the disposition of such securities, shall be bonded by a reputable fidelity insurance company against larceny and embezzlement. The Commission, pursuant to this provision, adopted rule 17g-1 (17 CFR 270.17g-1) in 1947 and has subsequently amended the rule on numerous occasions. Rule 17g-1 provides, in substance, the following requirements:

- Independent directors' approval

The form and amount of the fidelity bond must be approved by a majority of the fund's independent directors at least once annually, and the amount of any premium paid by the fund for any "joint insured bond," covering multiple funds or certain affiliates, must be approved by a majority of the fund's independent directors.

- Terms and provisions of the bond

The amount of the bond may not be less than the minimum amounts of coverage set forth in a schedule based on the fund's gross assets; the bond must provide that it shall not be cancelled, terminated, or modified except upon 60-days written notice to the affected party and to the Commission; in the case of a joint insured bond, 60-days written notice must also be given

to each fund covered by the bond; a joint insured bond must provide that the fidelity insurance company will provide all funds covered by the bond with a copy of the agreement, a copy of any claim on the bond, and notification of the terms of the settlement of any claim prior to execution of that settlement; and a fund that is insured by a joint bond must enter into an agreement with all other parties insured by the joint bond regarding recovery under the bond.

- Filings with the Commission

Upon the execution of a fidelity bond or any amendment thereto, a fund must file with the Commission within 10 days a copy of the executed bond or any amendment to the bond, the independent directors' resolution approving the bond, and a statement as to the period for which premiums have been paid on the bond. In the case of a joint insured bond, a fund must also file (i) a statement showing the amount the fund would have been required to maintain under the rule if it were insured under a single insured bond and (ii) the agreement between the fund and all other insured parties regarding recovery under the bond. A fund must also notify the Commission in writing within five days of any claim or settlement on a claim under the fidelity bond.

- Notices to Directors

A fund must notify by registered mail each member of its board of directors of (i) any cancellation, termination, or modification of the fidelity bond at least 45 days prior to the effective date, and (ii) the filing or settlement of any claim under the fidelity bond when notification is filed with the Commission.

The Commission amended rule 17g-1 most recently in 2004 to require that the fund's board of directors satisfies the fund governance standards defined in rule 0-1(a)(7) (17 CFR

270.0-1(a)(7)).¹ This amendment was designed to enhance the independence of fund boards and enable them to more effectively manage the conflicts investment advisers have with the funds they manage.

2. Purposes of the Information Collection

The requirements of rule 17g-1 are designed to protect fund shareholders from losses due to larceny and embezzlement. As discussed above, the rule contains two sets of filing and reporting requirements that constitute collections of information. The first set of requirements pertain to filings made to the Commission. The second set requires that notices be given to the fund's directors.

- Filings with the Commission

Rule 17g-1 requires funds to file with the Commission copies of the executed bond agreement, the independent directors' resolution of approval, and a statement of paid premiums. The rule also requires Commission notice if a filed fidelity bond is cancelled, terminated, or modified. Funds are also required to file written notification with the Commission of any claim or settlement on a claim under the fidelity bond. Finally, for joint insured bonds, funds must file a statement showing the amount the fund would have been required to maintain under the rule for a single insured bond and the agreement between the fund and all other insured parties regarding recovery under the bond. These filing requirements assure that Commission staff can review the executed fidelity bond and other documents for compliance with the Act. The filing requirements also inform the Commission staff of potential problem areas, especially when modifications in the bond result in an increase or decrease in fidelity coverage. Having the

¹ Investment Company Governance, Investment Company Act Release No. 26520 (July 27, 2004) (69 FR 46378 (Aug. 2, 2004)).

fidelity bond and other documents available for ready reference by the staff facilitates a determination as to whether, for example, a fund has acted properly in not seeking recovery for a loss.

- Notices to Directors

The rule also requires that funds notify each member of their boards when there has been a cancellation, termination, or modification of the fidelity bond or a claim has been filed, or a settlement of any claim has been made, under the fidelity bond. The notices to fund directors enable fund boards to monitor and provide oversight on the adequacy of the fund's fidelity bond coverage. Without these notices it would be difficult for directors to meet this responsibility, and it would be difficult for the Commission staff to verify that directors are getting timely information.

3. Role of Improved Information Technology

The Commission's Electronic Data Gathering, Analysis and Retrieval System ("EDGAR") provides for the automated filing, processing, and dissemination of full disclosure filings. The automation provides for speed, accuracy, and public availability of information, generating benefits to investors and financial markets. In order to keep EDGAR current and make it useful for investors and the Commission staff, the Commission in 2005 adopted an amendment requiring funds to submit filings under rule 17g-1 electronically using the EDGAR system.²

4. Efforts to Identify Duplication

The Commission periodically evaluates rule-based reporting and recordkeeping

² Rulemaking for EDGAR System, Investment Company Act Release No. 26990 (July 18, 2005) (70 FR 43558 (July 27, 2005)).

requirements for duplication, and reevaluates them whenever it proposes a rule or form, or a change in either. The requirements of rule 17g-1 are not duplicated elsewhere in federal securities laws, and similar information is not available from other sources.

5. Effect on Small Entities

The information collection requirements of rule 17g-1 apply to all funds, including those that are small entities. These requirements are necessary for the safety of fund assets and investor protection.

6. Consequences of Less Frequent Collection

Rule 17g-1's required notices to fund directors are designed to facilitate board oversight of the fund's fidelity bond. The rule's required filings with the Commission are designed to assist the Commission in monitoring the funds' compliance with the rule's fidelity bond requirements. Both sets of requirements seek to assure that information is provided in a timely manner for effective investor protection.

7. Inconsistencies with Guidelines in 5 CFR 1320.5(d)(2)

The rule's required filings with the Commission may require certain information to be provided to the Commission more often than quarterly, depending on the circumstances of a particular fund's fidelity bond arrangements and whether the fund makes any claim(s) under the fidelity bond within a give quarter. The Commission believes that such circumstances are highly unlikely. Rule 17g-1's reporting requirements are designed to assure timely monitoring by the Commission of compliance with the fidelity bond requirements.

8. Consultations Outside the Agency

The Commission requested public comment on the information collection requirements in rule 17g-1 before it submitted this request for extension and approval to the Office of Management and Budget. The Commission received no comments to its request.

The Commission and the staff of the Division of Investment Management participate in an ongoing dialogue with representatives of the fund industry through public conferences, meetings, and informal exchanges. These various forums provide the Commission and its staff with a means of ascertaining and acting upon paperwork burdens confronting the industry.

9. Payment or Gift to Respondents

Not applicable.

10. Assurance of Confidentiality

Not applicable.

11. Sensitive Questions

Not applicable.

12. Estimate of Hour Burden

After a fund's fidelity bond is executed, the fund enters into any agreements relating to a joint bond, and files copies of these and related documents with the Commission. Following this initial filing, the ongoing requirements of the rule are (i) notification to the Commission of amendments to, and claims and settlements on, the fidelity bond; (ii) annual approval of the fidelity bond by the fund's independent directors; and (iii) notification to the fund's directors regarding claims and settlements on the fidelity bond. Depending on a fund's circumstances,

particularly whether the fund makes a claim under its bond, the burden hours associated with complying with these requirements could vary widely.

Based on conversations with persons in the mutual fund industry, the Commission staff estimates that for each of the estimated 4033 funds,³ the average annual paperwork burden associated with the rule 17g-1's requirements is one hour. The Commission staff therefore estimates the total burden hours per year for all funds under rule 17g-1 to be 4033 hours (4033 funds x 1 hour = 4033 hours). The Commission staff further estimates that the annual cost of the hourly burden per fund is \$334 (one hour of a mid-level compliance attorney's time at \$334 per hour),⁴ for a total annual cost for all funds of \$1,347,022. This estimate of average burden hours is made solely for the purposes of the Paperwork Reduction Act and is not derived from a comprehensive or even representative survey or study of the cost of Commission rules.

13. Estimate of Total Annual Cost Burden

The filing and reporting requirements of rule 17g-1 do not entail any annual cost burden in addition to the hourly burden discussed above.

14. Estimate of Cost to the Federal Government

The Commission staff may review filings made pursuant to rule 17g-1 in connection with its examination program or when an issue arises concerning a fund's fidelity bond. The

³ Based on statistics compiled by Commission staff, we estimate that there are approximately 4033 funds that must comply with the collections of information under rule 17g-1.

⁴ The \$334 per hour figure is based on salary information compiled by the Securities Industry Association ("SIA"). The Commission staff has modified the SIA's information to account for an 1800-hour work year and multiplied by 5.35 to account for bonuses, firm size, employee benefits and overhead. See Securities Industry Association, Report on Management and Professional Earnings in the Securities Industry (2005).

Commission staff, however, does not review filings made pursuant to rule 17g-1 on a regular basis. Therefore, the ongoing cost to the federal government of rule 17g-1 is negligible.

15. Explanation of Changes in Burden

The decrease in estimated total annual burden hours from 4600 hours to 4033 hours is based on a decrease in the number of active funds registered with the Commission (from 4600 to 4033). In addition, we have increased our estimate for the average hourly wage for a mid-level compliance attorney from \$40 to \$334. The increase in estimated average hourly wages is due to the use of a more current source of information and a new method of calculation. We believe this estimate more accurately reflect funds' total personnel expenses – including bonuses, employee benefits, and overhead.

16. Information Collection Planned for Statistical Purposes

Not applicable.

17. Approval to not Display Expiration Date

Not applicable.

18. Exceptions to Certification Statement

Not applicable.

B. COLLECTIONS OF INFORMATION EMPLOYING STATISTICAL METHODS

Not applicable.