

**SUPPORTING STATEMENT**  
**PROPOSED AMENDMENTS TO RULE 22c-2 UNDER THE INVESTMENT COMPANY**  
**ACT OF 1940**

**A. JUSTIFICATION**

**1. Necessity of Information Collection**

The Securities and Exchange Commission (“Commission”) is considering adopting amendments to Rule 22c-2 (17 CFR 270.22c-2 “Mutual fund redemption fees”) under the Investment Company Act of 1940 [15 U.S.C. 80a] (the “Investment Company Act” or “Act”). Rule 22c-2 requires the board of directors (including a majority of independent directors) of most registered investment companies (“funds”) to either approve a redemption fee of up to two percent or determine that imposition of a redemption fee is not necessary or appropriate for the fund. The redemption fee is designed to allow funds to recoup some of the costs funds incur as a result of short-term trading strategies, such as market timing. It also is intended to allow funds to reduce dilution of fund shares that result from abusive short-term trading.

Rule 22c-2 also requires funds to enter into written agreements with their intermediaries (such as broker-dealers and retirement plan administrators) under which the funds, upon request, can obtain from intermediaries certain shareholder identity and trading information. The written agreement also would allow the fund to direct the intermediary to prohibit further purchases or exchanges against specific shareholders the fund identifies or having engaged in transactions that violate the fund’s market timing policies. These requirements will enable funds to obtain the information that they need to monitor the frequency of short-term trading in omnibus accounts and enforce their market timing policies.

The Commission is now proposing to adopt amendments to Rule 22c-2, which would clarify the operation of the rule and reduce the number of intermediaries with which funds must negotiate information-sharing agreements. The amendments, (i) limit the types of intermediaries with which funds must negotiate information-sharing agreements, (ii) address the rule's application when there are chains of intermediaries, and (iii) clarify the effect of a fund's failure to obtain an agreement with any of its intermediaries. The amendments are designed to address issues that came to our attention after we had adopted the rule, and are designed to reduce the costs to funds (and fund shareholders) while still achieving the goals of the initial rulemaking.

## **2. Purposes of the Information Collection**

Rule 22c-2 and the proposed amendments include two distinct "collections of information" for purposes of the Paperwork Reduction Act. The first is related to shareholder information agreements, including the costs and time related to identifying the relevant intermediaries, drafting the agreements, negotiating new agreements or modifying existing ones, and maintaining the agreements in an easily accessible place. The second is related to the costs and time related to developing, maintaining, and operating the systems to collect, transmit, and receive the information required under the shareholder information agreements.

The collections of information created by Rule 22c-2 are necessary for funds to effectively assess redemption fees and monitor short-term trading, including market timing, in omnibus accounts. These collections of information are mandatory for funds that redeem shares within seven days of purchase. Funds also must retain a copy of the agreement that is or was in effect within the past six years in an easily accessible place. We do not expect that this requirement will impose additional costs on funds because most funds in the ordinary course of

their business retain these agreements with their intermediaries. This collection of information is necessary to allow Commission staff to fulfill its examination and oversight responsibilities. Responses provided in the context of the Commission's examination and oversight program are generally kept confidential.

### **3. Role of Improved Information Technology**

Rule 22c-2 and the proposed amendments do not require the reporting of any information or the filing of any documents with the Commission. The Electronic Signatures in Global and National Commerce Act<sup>1</sup> and the conforming amendments to rules under the Investment Company Act of 1940 and the Securities Exchange Act of 1934 permit funds and their financial intermediaries to maintain records electronically.

### **4. Efforts to Identify Duplication**

The Commission is not aware of any duplicate reporting or recordkeeping requirements concerning Rule 22c-2.

### **5. Effects on Small Entities**

As discussed above, Rule 22c-2 provides funds and their boards with the ability to impose a redemption fee designed to reimburse the fund for the direct and indirect costs incurred as a result of short-term trading strategies, such as market timing. The proposed amendments are designed to maintain these investor protections while reducing costs to market participants and clarifying the Commission's intent as to the proper interpretation of the rule.

While we expect that the rule and these proposed amendments would require some funds and intermediaries to develop or upgrade software or other technological systems to enforce

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<sup>1</sup> P.L. 106-229, 114 Stat. 464 (June 30, 2000).

certain market timing policies, or make trading information available in omnibus accounts, the amendments we are proposing are specifically designed to reduce the costs incurred by small entities. In particular, we anticipate that the changes we propose to make to the definition of financial intermediary would significantly reduce the number of small intermediaries that funds must enter into agreements with, and reduce the burden of complying with the rule for small funds and small intermediaries.

#### **6. Consequences of Less Frequent Collection**

The rule's requirement that funds enter into agreements with their financial intermediaries is a single event that will provide the fund with the option to receive certain identity and transaction information with which the fund can monitor implementation of its redemption fee program and direct the intermediary to enforce the fund's market timing policies in certain circumstances. Further information collection is solely at the discretion of the fund, and therefore is targeted to the individual needs of funds to protect shareholders.

#### **7. Inconsistencies With Guidelines in 5 CFR 1320.5(d)(2)**

Not applicable.

#### **8. Consultation Outside the Agency**

In its releases proposing and adopting Rule 22c-2, the Commission requested public comment on the rule's collection of information requirements and whether the estimates contained in the proposal were reasonable. The Commission and staff of the Division of Investment Management participate in an ongoing dialogue with representatives of the industry through public conferences, meetings, and informal exchanges. These various forums provide the Commission and the staff with a means of ascertaining the magnitude of and acting upon

paperwork burdens confronting the industry.

We received extensive comments on the projected costs of the rule both at the proposing stage and after adoption. In many cases, funds and intermediaries, including a number of small intermediaries, generally argued that the system functionality or start-up costs necessary to assess and collect redemption fees on shares held through omnibus accounts, coupled with the operational and maintenance costs, would be significant and in some cases greater than what we estimated. The amendments to the rule that the Commission is proposing are intended to address these concerns, and seek to alleviate any unnecessary burdens on funds and intermediaries.

**9. Payment or Gift to Respondents**

Not applicable.

**10. Assurances of Confidentiality**

Responses provided to the Commission will be accorded the same level of confidentiality accorded to other responses provided to the Commission in the context of its examination and oversight program.<sup>2</sup>

**11. Sensitive Questions**

Not applicable.

**12. Estimate of Hour Burden**

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See section 31(c) of the Investment Company Act [15 U.S.C. 80a-30(c)].

The Commission staff anticipates that most shareholder information agreements will be entered into at the fund complex level, and estimates that there are approximately 900 fund complexes. The Commission staff understands that the number of intermediaries that hold fund shares can vary for each fund complex, from less than 10 for some fund complexes to more than 3000 for others. Based on conversations with fund and financial intermediary representatives, our staff estimates that, on average, under the revised definition of financial intermediary, each fund complex would have approximately 300 financial intermediaries. Industry representatives have informed us that funds would already know and have previously identified the majority of their intermediaries. Therefore funds should expend a limited amount of time and costs related to the identification of such intermediaries. Our staff estimates that identifying the intermediaries with which a fund complex must enter into agreements may take the average fund complex 250 hours of a service representative's time at a cost of \$40 per hour<sup>3</sup>, for a total of 225,000 hours at a cost of \$9,000,000.<sup>4</sup> Our staff estimates that for a fund complex to prepare the model agreement, or provisions modifying a preexisting agreement, between the fund and the intermediaries, it will require a total of 5 hours of legal time at \$300 per hour, for a total of 4500 hours<sup>5</sup> at a total cost of \$1,350,000.

The Commission staff estimates that for a fund complex to enter into or modify a shareholder information agreement with each existing intermediary, it would require a total one-

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<sup>3</sup> The title and hourly cost of the person performing the intermediary identification and entering into agreements may vary depending on the fund or financial intermediary. This \$40 per hour cost is an average estimate for the hourly cost of employing the person doing the relevant work, derived from conversations with industry representatives.

<sup>4</sup> This estimate is based on the following calculations: (250 hours × 900 fund complexes = 225,000 hours); (225,000 hours × \$40 = \$9,000,000).

<sup>5</sup> This estimate is based on the following calculation: (5 hours × 900 fund complexes = 4500 hours of legal time).

time expenditure of approximately 2.5 hours of fund time and 1.5 hours of intermediary time for each agreement, for a total of 4 hours expended per agreement.<sup>6</sup> Therefore, for an average fund complex to enter into shareholder agreements, the fund complex and its intermediaries may expend approximately 1200 hours at a cost of \$48,000,<sup>7</sup> and all fund complexes and intermediaries may incur a total one-time burden of 1,080,000 hours at a cost of \$43,200,000.<sup>8</sup> The Commission staff understands that there are efforts under way (including an industry task force devoted to the project) to produce standardized shareholder information-sharing model agreements and terms. If fruitful, these efforts may reduce the costs associated with the agreement provision of the rule for both funds and intermediaries.<sup>9</sup> Finally, the Commission staff does not anticipate that funds or intermediaries will incur any new costs in maintaining these agreements in an easily accessible place, because such maintenance is already done as a matter of course. The staff therefore estimates that, for purposes of the Paperwork Reduction Act, the shareholder information agreement provision of the rule as proposed to be revised would require a total of 1,309,500 hours at a total cost of \$53,550,000.<sup>10</sup>

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<sup>6</sup> The 4 hour figure represents time incurred by both the fund and the financial intermediary for each agreement. The Commission staff estimates that this 4 hour figure is comprised of approximately 2.5 hours of a fund service representative's time at \$40 per hour and 1.5 hours of an intermediary representative's time at \$40 per hour.

<sup>7</sup> This estimate is based on the following calculations: (4 hours × 300 intermediaries = 1200 hours); (1200 hours × \$40 dollars per hour = \$48,000).

<sup>8</sup> This estimate is based on the following calculations: (1200 hours × 900 fund complexes = 1,080,000 hours); (1,080,000 hours × \$40 per hour = \$43,200,000).

<sup>9</sup> See Tom Leswing, *Redemption Rule Fuels Demand For New Standards*, Ignites (Oct. 26 2005).

<sup>10</sup> This estimate is based on the following calculation: (4,500 hours of legal drafting time + 1,080,000 hours of agreement negotiating time + 225,000 hours of intermediary identification time = 1,309,500 total hours); (\$43,200,000 + \$1,350,000 + \$9,000,000 = \$53,550,000).

Although the rule does not require first-tier intermediaries to enter into an agreement with their indirect intermediaries to share the indirect intermediaries' underlying shareholder data to funds upon a fund's request, we anticipate that in many cases intermediaries will nonetheless enter into such agreements, or at least enter into informal arrangements and design methods by which to collect the shareholder information. Our staff estimates that each of the 7000 intermediaries potentially affected by the rule will spend approximately 150 hours of service representatives' time at \$40 per hour, and 10 hours of legal counsel time at \$300 per hour, for a total of 1,050,000 hours of service representatives' time at a cost of \$42,000,000, and 70,000 hours of in-house legal time at a cost of \$21,000,000 to design and enter into these arrangements with other intermediaries.<sup>11</sup> The Commission staff therefore estimates that intermediaries will expend a total of approximately 1,120,000 hours at a cost of \$63,000,000 to enter into arrangements to ensure the proper transmittal of information to funds through chains of intermediaries.<sup>12</sup>

The total hours expended by both funds and intermediaries in complying with the amended rule would be a one-time expenditure of 2,429,500 hours at a total internal cost of \$116,550,000.<sup>13</sup>

<sup>11</sup> This estimate is based on the following calculations: (7000 intermediaries × 150 service representative hours at \$40 per hour = 1,050,000 hours at a cost of \$42,000,000); (7000 intermediaries × 10 hours of in-house legal time at \$300 per hour = 70,000 hours at a cost of \$21,000,000).

<sup>12</sup> This estimate is based on the following calculations: (1,050,000 service representative hours at \$42,000,000 + 70,000 in-house counsel hours at \$21,000,000 = 1,120,000 hours at \$63,000,000).

<sup>13</sup> This estimate is based on the following calculations: (1,309,500 hours at a cost of \$53,550,000 in agreement time + 1,120,000 hours at a cost of \$63,000,000 in chain of intermediary arrangement time = 2,429,500 hours at a cost of \$116,550,000).

For purposes of the Paperwork Reduction Act, the Adopting Release included an estimate of the total start up costs to funds and financial intermediaries in complying with the collection of



### **13. Estimate of Total Annual Cost Burden**

Some funds and intermediaries would incur the system development costs discussed in this section, but many would not because they already process all of their trades on a fully disclosed basis, use a third party administrator to handle their back office work,<sup>14</sup> or already have systems in place that allow intermediaries to transmit the shareholder identity and transaction information to funds. Other funds and intermediaries may have special circumstances that could increase the costs they may face in developing and operating systems to comply with the rule. The estimates below represent the Commission staff's understanding of the average costs that might be encountered by a typical fund complex or intermediary in complying with the information-sharing aspect of the rule as proposed to be amended.

#### **A. Funds**

The Commission staff understands that various organizations have developed, or are in the process of developing, enhancements to their systems that will allow funds and intermediaries to share the information required by the rule without developing or maintaining systems of their own. Our staff anticipates that most funds and intermediaries will use these systems, and will generally make minor changes to their back office systems to comply with the rule requirements and to match their systems to those of the service providers. Our staff

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information aspect of the rule of approximately \$1,111,500,000. We estimate that if the proposed amendments are adopted, for purposes of the Paperwork Reduction Act, funds and intermediaries would incur the reduced amount of \$274,575,000 in start-up costs, for a potential cost reduction of approximately \$836,925,000. In the Adopting Release we also estimated that the ongoing annual costs would be \$390,556,800. We estimate that if the proposed amendments are adopted, for purposes of the Paperwork Reduction Act, funds and intermediaries would incur the reduced amount of \$161,515,000 in total annual costs, for a potential ongoing annual cost reduction of approximately \$229,041,800.

<sup>14</sup> Third party administrators maintain accounts for many other intermediaries, and therefore incur the costs to develop a single system.

estimates that most funds could adapt their in-house systems to utilize these service providers' systems at a one-time cost of approximately \$10,000 or less.<sup>15</sup> In general, our staff understands that fees averaging 25 cents for every 100 account transactions requested may be charged when funds request information from intermediaries, and in response, intermediaries transmit the information back to funds.

As an example of the cost of using these services, if a fund complex requests information for 100,000 transactions each week, then it would incur costs of \$250 each week, or \$13,000 a year.<sup>16</sup> Our staff estimates that approximately 475 fund complexes would use these systems (including substantially all of the largest, and most of the medium-sized, fund families). If all of these complexes use these service providers' systems at the rate described above, they would incur a one-time system development cost of \$4,750,000<sup>17</sup> and an annual system use cost of approximately \$6,175,000.<sup>18</sup> Those 475 fund complexes may also incur system development costs related to the processing of information under the rule on trades that they receive through other channels than these service providers' systems, which we estimate to cost approximately \$50,000 per fund complex, and \$20,000 annually, for a total of \$23,750,000<sup>19</sup> in system

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<sup>15</sup> We expect that, in many cases, upgrades to fund transfer agents' as well as fund complex's systems will take place, and the transfer agents' costs will be charged back to the fund complex. These system development and operation costs include our staff's estimates of the potential charges by transfer agents, but do not include potential charges by intermediaries for providing the information.

<sup>16</sup> This estimate is based on the following calculations: (100,000 transaction requests × one quarter of a cent (the charge is 25 cents per 100 transactions requested, or one quarter of a cent per transaction) = \$250); (\$250 × 52 weeks = \$13,000).

<sup>17</sup> This estimate is based on the following calculation: (475 fund complexes × \$10,000 (one-time system update costs) = \$4,750,000).

<sup>18</sup> This estimate is based on the following calculation: (475 fund complexes × \$13,000 (annual costs) = \$6,175,000).

<sup>19</sup> This estimate is based on the following calculation: (475 fund complexes × \$50,000

development costs and \$9,500,000 annually<sup>20</sup>. Our staff estimates that the total system development cost for these 475 fund complex that are likely to use these existing systems is \$28,500,000 with annual operation costs of \$15,675,000.<sup>21</sup>

There are approximately 900 fund complexes currently operating, of which approximately 475 may use these existing systems, leaving approximately 425 fund complexes possibly needing to develop specific systems to meet their own particular needs. Our staff understands that approximately 75 percent of those fund complexes (or 319 complexes) are small to medium-sized direct-sold funds that have a very limited number of intermediaries. Our staff anticipates that those 319 fund complexes would incur minimal system development costs to comply with the information-sharing provisions of the rule, due to the limited number of intermediaries with which they interact. Our staff estimates that system development costs for handling information under the rule for those 319 fund complexes will be approximately \$25,000 each, with annual operation costs of approximately \$10,000, for a total system development cost of \$7,975,000<sup>22</sup> and an annual operations cost of \$3,190,000.<sup>23</sup>

The remaining approximately 106 fund complexes may face additional complexities or special circumstances in developing their systems. Our staff estimates that the start-up costs for those fund complexes will be approximately \$100,000 per fund complex and the annual costs for

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system development cost per fund complex = \$23,750,000).

<sup>20</sup> This estimate is based on the following calculation: (475 fund complexes × \$20,000 annual costs per fund complex = \$9,500,000).

<sup>21</sup> This estimate is based on the following calculations: (\$23,750,000 + \$4,750,000 (one-time system development costs) = \$28,500,000 total start-up costs for fund complexes utilizing existing systems); (\$6,175,000 + \$9,500,000 = \$15,675,000 in annual costs).

<sup>22</sup> This estimate is based on the following calculations: (319 funds × \$25,000 = \$7,975,000).

<sup>23</sup> This estimate is based on the following calculations: (319 funds × \$10,000 = \$3,190,000).

handling the information will be approximately \$25,000, for a total start-up cost of \$10,600,000 and an annual cost of \$2,650,000 for these fund complexes.<sup>24</sup>

For purposes of the Paperwork Reduction Act, our staff therefore estimates that the information-sharing provisions of the rule as proposed to be amended would cost all fund complexes a total of approximately \$47,075,000 in one-time capital costs to develop or upgrade their software and other technological systems to collect, store, and receive the required identity and transaction information from intermediaries, and a total of \$21,515,000 each year thereafter in operation costs related to the transmission and receipt of the information.<sup>25</sup>

## **B. Intermediaries**

The Commission staff estimates that there are approximately 7000 intermediaries that may provide information pursuant to the information-sharing provisions of Rule 22c-2.<sup>26</sup> Of those 7000 intermediaries, our staff anticipates that approximately 350 of these intermediaries

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<sup>24</sup> This estimate is based on the following calculations: (106 funds × \$100,000 = \$10,600,000); (106 funds × \$25,000 = \$2,650,000).

<sup>25</sup> This estimate is based on the following calculations: (\$28,500,000 (funds' that use service providers start-up costs) + \$7,975,000 (direct-traded funds' start-up costs) + \$10,600,000 (other funds' start-up costs) = \$47,075,000 system development costs); (\$15,675,000 (funds' that use service providers start-up costs) + \$3,190,000 (direct-traded funds' annual costs) + \$2,650,000 (other funds' annual costs) = \$21,515,000 annual funds' costs).

<sup>26</sup> This 7000 number is a rounded estimate, based on the number of intermediaries that may be affected by the rule as we propose to revise it. It consists of the following: 2203 broker-dealers classified as specialists in fund shares, 196 insurance companies sponsoring registered separate accounts organized as unit investment trusts, approximately 2400 banks that sell funds or variable annuities (the number of banks is likely over inclusive as it may include a number of banks that do not sell registered variable annuities or funds and/or banks that do their business through a registered broker-dealer on the same premises), and approximately 2000 retirement plans, third-party administrators, and other intermediaries (this number may be either over or under inclusive, as under the rule as we propose to revise it, the actual number of intermediaries that funds have is dependent on the precise application of varying fund policies on short-term trading).

are likely to primarily use the existing systems that are in place or under development.<sup>27</sup> The staff understands that these approximately 350 intermediaries include several major “clearing brokers” and third-party administrators that aggregate trades and handle the back-end work for thousands of other smaller broker-dealers and intermediaries, thereby likely providing access to these service providers’ information-sharing systems to a significant majority of all intermediaries in the marketplace. Our staff estimates that these approximately 350 intermediaries would provide access to systems that will allow for the transmission of information required by the rule and other processing for the transactions of approximately 80 percent of the 7000 intermediaries (5600 intermediaries) effected by the rule, leaving 1400 intermediaries that do not in some way utilize these systems, and that may need to develop their own systems.<sup>28</sup>

Our staff understands that in general, the providers who have developed or are developing these information sharing systems charge the fund, and not the intermediary for providing these systems to transmit shareholder identity and transaction information, or else include access to such systems as a complementary part of their other processing systems, and do not charge additional fees to intermediaries for its utilization. These intermediaries may be required to develop systems to ensure that they are able to transmit the records to these service providers in a standardized format.<sup>29</sup> Our staff estimates that it may cost each of these 350

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<sup>27</sup> See *supra* note Error: Reference source not found.

<sup>28</sup> This number is based on the following calculation: (7000 total intermediaries × 20% (the percentage of intermediaries do not use these service providers systems or use the services of the those 350 intermediaries that do) = 1400 intermediaries that do not use these service providers’ systems).

<sup>29</sup> Our staff anticipates that in most cases, first-tier intermediaries will use the same or slightly modified systems that they have developed to identify and transmit shareholder identity and transaction information to funds when collecting and transmitting this information from

intermediaries approximately \$200,000 to update its systems to record and transmit shareholder identity and transaction records to these service providers, and an additional \$100,000 each year to operate their own systems for communicating with the service providers, for a total start-up cost of \$70,000,000, and an annual cost of \$35,000,000.<sup>30</sup> We understand that these approximately 350 intermediaries may also have to upgrade their systems to handle Rule 22c-2 information on trades that do not go through the service providers' systems. Our staff estimates that it will cost each of those 350 intermediaries<sup>31</sup> an additional \$250,000<sup>32</sup> to update their systems, and \$100,000 annually to process Rule 22c-2 information through non service provider networks, for a total cost of \$87,500,000 in system development costs and \$35,000,000 in annual costs to process data through non service provider networks. Our staff therefore estimates that these approximately 350 intermediaries will incur a total of approximately \$157,500,000 in start-up costs and \$70,000,000 in annual costs associated with the information-sharing provisions of the rule.<sup>33</sup>

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indirect intermediaries. Therefore, we have also included the costs of developing and operating systems to collect information from indirect intermediaries and providing the information to funds in these estimates.

<sup>30</sup> This estimate is based on the following calculation: (350 intermediaries × \$200,000 (start-up costs) = \$70,000,000); (350 intermediaries × \$100,000 (start-up costs and annual costs) = \$35,000,000).

<sup>31</sup> The estimate includes higher costs for these 350 intermediaries in developing systems to handle non service provider information than for remaining intermediaries to handle the same data due to our staff's understanding that, in general, these 350 intermediaries that utilize the service provider's networks represent the largest intermediaries in the marketplace, and will face the highest costs in complying with the rule.

<sup>32</sup> Many of the costs that intermediaries incur in developing and operating systems to handle this information may be recouped from fund complexes through a variety of methods. However, it is unclear what recoupment might take place, and therefore the cost estimates for funds and intermediaries are made here prior to any potential recoupment.

<sup>33</sup> This estimate is based on the following calculations: (\$70,000,000 (intermediary start-up costs for processing information through service providers) + \$87,500,000 (intermediary start-up costs for handling information through other channels) = \$157,500,000); (\$35,000,000

The fund complexes and intermediaries that do not use these service providers' systems to process their trades would have to either develop their own systems to share information under the rule or engage some other third-party administrator to process the information. Our staff estimates that approximately 1400 intermediaries will not utilize these service provider systems to process this information, and estimates that each of these intermediaries will incur \$50,000 in system development costs and \$50,000 in annual costs in complying with the rule, for a total of \$70,000,000 in development costs and \$70,000,000 in annual costs for those intermediaries.<sup>34</sup> We understand that there is a task force that is in the process of developing industry standards for transmitting information under the rule between market participants that do not use these service provider systems.<sup>35</sup> This is likely to reduce costs to both funds and intermediaries.

For purposes of the Paperwork Reduction Act, our staff estimates that the information-sharing provisions of the rule will cost all intermediaries a total of approximately \$227,500,000 in one-time capital costs to develop or upgrade their software and other technological systems to collect, store, and transmit the required identity and transaction information to funds and from other intermediaries, and a total of \$140,000,000 each year thereafter in operation costs related to the transmission and receipt of the information.<sup>36</sup> Our staff estimates that the amended rule would

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(intermediary annual costs for processing information through service providers) + \$35,000,000 (intermediary annual costs for handling information through other channels) = \$70,000,000).

<sup>34</sup> This estimate is based on the following calculation: (1400 intermediaries × \$50,000 (development costs) = \$70,000,000); (1400 intermediaries × \$50,000 (annual costs) = \$70,000,000).

<sup>35</sup> See Tom Leswing, *Redemption Rule Fuels Demand For New Standards*, Ignites (Oct. 26 2005).

<sup>36</sup> This estimate is based on the following calculations: (\$157,500,000 (intermediaries that use service providers' start-up costs) + \$70,000,000 (other intermediaries' start-up costs) = \$227,500,000 in total intermediary start-up costs); (\$70,000,000 (intermediaries that use service providers annual costs) + \$70,000,000 (other intermediaries' annual costs) = \$140,000,000 in annual costs).

have a total collection of information cost in the first year to both funds and intermediaries of \$274,575,000 in one-time start-up costs, and annual operation costs of \$161,515,000.<sup>37</sup> Our staff estimates that the weighted average annual cost of the rule to funds and intermediaries for each of the first three years would be \$253,040,000.<sup>38</sup>

We anticipate that there will be a total of approximately 7900<sup>39</sup> respondents, with approximately 3,510,000 total responses in the first year, and 3,240,000 annual responses each year thereafter.<sup>40</sup>

#### **14. Estimate of Cost to the Federal Government**

The rule does not impose any additional costs on the federal government.

#### **15. Explanation of Changes in Burden**

These changes in burden reflect proposed amendments to Rule 22c-2.

#### **16. Information Collection Planned for Statistical Purposes**

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<sup>37</sup> This estimate is based on the following calculations: (\$47,075,000 (fund start-up costs) + \$227,500,000 (intermediary start-up costs) = \$274,575,000 in total start-up costs); (\$21,515,000 (fund annual costs) + \$140,000,000 (intermediary annual costs) = \$161,515,000 in total annual costs).

<sup>38</sup> This estimate is based on the following calculations: (\$274,575,000 in total start-up costs + \$484,545,000 (3 years at \$161,515,000 in total annual costs) = \$759,120,000 in total costs over a three year period); (\$759,120,000 ÷ 3 years = a weighted average cost of \$253,040,000 per year).

<sup>39</sup> This estimate is based on the following calculation: (7000 intermediaries + 900 fund complexes = 7900 respondents).

<sup>40</sup> This estimate is based on the following calculations: (900 fund complexes with an average of 300 intermediaries each, equals 270,000 one time responses for the shareholder information portion of the collection (900 funds × 300 intermediaries = 270,000). Assuming that each fund requests information from each of its intermediaries once each month, the total number of annual responses would be 3,240,000 (270,000 fund intermediaries × 12 months = 3,240,000 annual responses). Therefore, in the first year, there would be 3,510,000 total responses (3,240,000 monthly responses + 270,000 initial responses required for the agreements) and 3,240,000 annual responses thereafter.



Not applicable.

**17. Approval to Not Display Expiration Date**

Not applicable.

**18. Exceptions to Certification Requirement**

Not applicable.

**B. COLLECTION OF INFORMATION EMPLOYING STATISTICAL METHODS**

Not applicable.