SUPPORTING STATEMENT FOR
Rule 17a-10

A. JUSTIFICATION

1. Necessity for the Information Collection

Section 17(a) of the Investment Company Act of 1940 (the "Act"), prohibits affiliated persons of a registered investment company ("fund") from borrowing money or other property from, or selling or buying securities or other property to or from the fund, or any company that the fund controls. Section 2(a)(3) of the Act defines "affiliated person" of a fund to include its investment advisers.[1] Rule 17a-10 permits (i) a subadviser of a fund to enter into transactions with funds the subadviser does not advise but which are affiliated persons of a fund that it does advise (e.g., other funds in the fund complex), and (ii) a subadviser (and its affiliated persons) to enter into transactions and arrangements with funds the subadviser does advise, but only with respect to discrete portions of the subadvised fund for which the subadviser does not provide investment advice.

To qualify for the exemptions in rule 17a-10, the subadvisory relationship must be the sole reason why section 17(a) prohibits the transaction; and the advisory contracts of the subadviser entering into the transaction, and any subadviser that is advising the purchasing portion of the fund, must prohibit the subadvisers from consulting with each other concerning securities transactions of the fund, and limit their responsibility to providing advice with respect to discrete portions of the fund's portfolio.[2]

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1 See 15 U.S.C. 80a-2(a)(3)(E),

2 See 17 CFR 270.17a-10(a)(2).

2. Purpose of the Information Collection

Funds must amend their subadvisory contracts before they can rely on the exemptions in rule 17a-10 to ensure that the subadviser that engages in the transaction does not influence the fund's investment decision to engage in the transaction.

3. Role of Improved Information Technology

To the extent the rule includes recordkeeping requirements, the Electronic Signatures in Global and National Commerce Act[3] and the conforming amendments to recordkeeping rules under the Investment Company Act permit funds to maintain records electronically.

4. Efforts to Identify Duplication

The Commission is not aware of any duplicate reporting or recordkeeping requirements concerning rule 17a-10.

5. Effect on Small Entities

Rule 17a-10's exemptive relief is conditioned upon funds including certain provisions in their advisory contracts to ensure that fund interests are the primary consideration for otherwise prohibited transactions; these conditions apply equally to all funds, including small entities.

6. Consequences of Less Frequent Collection

Rule 17a-10 requires that a fund's subadvisory contract be either initially drafted or amended to qualify for the rule's exemption. This is not a recurring requirement; less frequent collection is not possible.

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3 P.L. 106-229, 114 Stat. 464 (June 30, 2000).

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

Not applicable. The collection is not inconsistent with 5 CFR 1320.5(d)(2).

8. Consultation Outside the Agency

The Commission requested public comment on the collection of information requirements in rule 17a-10 before it submitted this request for approval to the Office of Management and Budget. The Commission received no comments in response to this request.

More generally, the Commission and the staff at the Division of Investment Management participate in an ongoing dialogue with representatives of the investment company industry through public conferences, meetings, and informal exchanges. These various forums provide the Commission and the 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

The following estimates of average burden hours are made solely for the purposes of the Paperwork Reduction Act. The estimates are not derived from a comprehensive or even a representative survey or study of the costs of Commission rules.

The Commission staff estimates that 3583 portfolios of approximately 649 fund complexes use the services of one or more subadvisers. Based on discussions with industry representatives, the staff estimates that it requires approximately 6 hours to draft and execute revised subadvisory contracts allowing funds and subadvisers to rely on the exemptions in rule 17a-10.[4] The staff assumes that all existing funds amended their advisory contracts following the adoption of rule 17a-10 in 2003 that conditioned certain exemptions upon these contractual alterations, and therefore there is no continuing burden for those funds.[5]

Based on an analysis of fund filings, the staff estimates that approximately 600 fund portfolios enter into new subadvisory agreements each year.[6] Based on discussions with industry representatives, the staff estimates that it will require approximately 3 attorney hours[7] to draft and execute additional clauses in new subadvisory contracts in order for funds and subadvisers to be able to rely on the exemptions in rule 17a-10. Because these additional clauses are identical to the clauses that a fund would need to insert in their subadvisory contracts to rely on rules 10f-3, 12d3-1, and 17e-1, and because we believe that funds that use one such rule generally use all of these rules, we apportion this 3 hour time burden equally among all four rules. Therefore,

4 Rules 12d3-1, 10f-3, 17a-10, and 17e-1 require virtually identical modifications to fund advisory contracts. The Commission staff assumes that funds would rely equally on the exemptions in these rules, and therefore the burden hours associated with the required contract modifications should be apportioned equally among the four rules.

5 We assume that funds formed after 2002 that intended to rely on rule 17a-10 would have included the required provision as a standard element in their initial subadvisory contracts.

6 The use of subadvisers has grown rapidly over the last several years, with approximately 600 portfolios that use subadvisers registering between December 2005 and December 2006. Based on information in Commission filings, we estimate that 31 percent of funds are advised by subadvisers.

7 The Commission staff's estimates concerning the wage rates for attorney time are based on salary information for the securities industry compiled by the Securities Industry Association. The $292 per hour figure for an attorney is from the SIA Report on Management & Professional Earnings in the Securities Industry 2006, modified to account for an 1800-hour work-year and multiplied by 5.35 to account for bonuses, firm size, employee benefits and overhead.

we estimate that the burden allocated to rule 17a-10 for this contract change would be 0.75 hours.[8] Assuming that all 600 funds that enter into new subadvisory contracts each year make the modification to their contract required by the rule, we estimate that the rule's contract modification requirement will result in 450 burden hours annually, with an associated cost of approximately $131,400.[9]

13. Estimate of Total Annual Cost Burden

We estimate that there is no cost burden associated with rule 17a-10, other than the costs of contract modification burden identified in Item 12 of this Supporting Statement.

14. Estimate of Cost to the Federal Government

There are no costs to the Federal Government associated with rule 17a-10.

15. Explanation of Changes in Burden

Rule 17a-10 has a current annual burden of 117 hours. The hour burden associated with rule 17a-10 has increased by 333 hours to a total of 450 hours since our last burden analysis. This increase is due to an increase in the estimated number of funds using subadvisers and revised estimates for the hourly burden of complying with the rule.

16. Information Collection Planned for Statistical Purposes

Not applicable.

17. Approval to not Display Expiration Date

Not applicable.

18. Exceptions to Certification Statement

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8 This estimate is based on the following calculation (3 hours ÷ 4 rules = .75 hours).

9 These estimates are based on the following calculations: (0.75 hours × 600 portfolios = 450 burden hours); ($292 per hour × 450 hours = $131,400 total cost).

Not applicable.

B. COLLECTIONS OF INFORMATION EMPLOYING STATISTICAL METHODS

Not applicable.