

**SUPPORTING STATEMENT
FORM N-SAR**

A. JUSTIFICATION

1. Necessity for the Information Collection

All registered investment companies with the exception of face amount certificate companies are required to file periodic reports with the Securities and Exchange Commission (“Commission”) under the Investment Company Act of 1940 (“Investment Company Act”).¹ Section 30(a) of the Investment Company Act² provides that each registered investment company must file annually with the Commission such information, documents and reports as investment companies having securities registered on a national securities exchange are required to file annually under the Securities Exchange Act of 1934 (“Exchange Act”).³ In addition, Section 30(b) of the Investment Company Act requires each registered investment company to file, among other things, “such information, documents, and reports...as the Commission may require to keep reasonably current the information and documents contained in the registration statement of such company....”⁴ Registered unit investment trusts are required to provide this information on an annual report filed with the Commission on Form N-SAR (OMB Control No. 3235-0330) pursuant to rule 30a-1 under the Investment Company Act,⁵ and registered management investment companies must submit the required information on a semi-annual report filed on Form N-SAR pursuant to rule 30b1-1 under the Act.⁶

¹ 15 U.S.C. 80a-1 et seq.

² 15 U.S.C. 80a-29(a).

³ 15 U.S.C. 78a et seq.

⁴ 15 U.S.C. 80a-29(b).

⁵ 17 CFR 30a-1.

⁶ 17 CFR 270.30b1-1.

The Commission is proposing amendments to Form N-SAR in accordance with the Sudan Accountability and Divestment Act of 2007 (“Sudan Divestment Act”).⁷ Among other things, the Sudan Divestment Act provides that no person may bring any civil, criminal, or administrative action against any registered investment company, or any employee, officer, director, or investment adviser of the investment company, based solely upon the investment company divesting from, or avoiding investing in, securities issued by persons that the investment company determines, using credible information that is available to the public, conduct or have direct investments in certain business operations in Sudan.⁸ This limitation of actions does not apply to a registered investment company, or any of its employees, officers, directors, or investment advisers, unless the investment company makes disclosures about the divestments in accordance with regulations prescribed by the Commission.⁹ To that end, the Sudan Divestment Act requires the Commission to prescribe regulations not later than 120 days after enactment that require disclosure by each registered investment company that divests itself of securities in accordance with the Act. The Sudan Divestment Act states that these rules shall require this disclosure to be included in the next periodic report filed under Section 30 of the Investment Company Act following the divestment.¹⁰

To implement the Sudan Divestment Act, the Commission is proposing to require each unit investment trust that divests securities in accordance with the Sudan Divestment

Face amount certificate companies are required to file periodic reports pursuant to Section 13 or 15(d) of the Exchange Act [15 U.S.C. 78m, 78o(d)].

⁷ Pub. L. 110-174, 121 Stat. 2516 (2007).

⁸ Section 4(a) of the Sudan Divestment Act [to be codified at 15 U.S.C. 80a-13(c) (1)].

⁹ Section 4(a) of the Sudan Divestment Act [to be codified at 15 U.S.C. 80a-13(c) (2)(B)].

¹⁰ Section 4(b) of the Sudan Divestment Act.

Act to disclose the divestment on the next Form N-SAR that it files following the divestment. Specifically, the proposed amendments to Form N-SAR would require disclosure of the following information for securities divested in accordance with the Sudan Divestment Act: issuer's name; exchange ticker symbol; Committee on Uniform Securities Identification Procedures ("CUSIP") number; total number of shares or, for debt securities, principal amount divested; and dates that the securities were divested.¹¹ In addition, if the unit investment trust continues to hold any securities of the divested issuer, it would be required to disclose the exchange ticker symbol; CUSIP number; and total number of shares or, for debt securities, principal amount of such securities, held on the date of filing.¹²

2. Purpose of the Information Collection

The purpose of Form N-SAR is to satisfy the filing and disclosure requirements of Section 30 of the Investment Company Act, and of rules 30a-1 and 30b1-1 under the Investment Company Act. The information required to be filed with the Commission assures the public availability of the information and permits verification of compliance with Investment Company Act requirements.

3. Role of Improved Information Technology

The Commission's electronic filing system, called EDGAR (for Electronic Data Gathering, Analysis and Retrieval), is designed to automate the filing, processing and dissemination of all disclosure filings. The system permits publicly held companies to transmit their filings to the Commission electronically. This automation has increased the speed, accuracy, and availability of information, generating benefits to investors and

¹¹ Proposed Item 133.A.-E. of Form N-SAR.

¹² Proposed Item 133.F. of Form N-SAR.

financial markets. All registered investment companies required to file Form N-SAR are required to use EDGAR to file the form.

4. Efforts to Identify Duplication

The information on Form N-SAR either is not duplicated elsewhere at all or is not duplicated in a format that permits the electronic analysis of the data in a single filing or in comparison over time or among similar investment companies. Any information solicited by Form N-SAR that may be duplicated in other documents filed with the Commission is in narrative format so that it can be read and understood by investors. The Commission could not analyze narrative information electronically on a regular basis, using database or spreadsheet applications.

5. Effect on Small Entities

Form N-SAR must be filed by all registered investment companies other than face amount certificate companies, regardless of size. It would not be in the best interest of investors to reduce the reporting and recordkeeping requirements for small entities.

With respect to the proposed amendments, the Commission considered special requirements for small entities. The Commission believes, however, that special compliance or reporting requirements, or different time tables, for small entities, or an exemption from coverage for small entities, would not be appropriate or consistent with investor protection or the requirements of the Sudan Divestment Act. Finally, with respect to the proposed amendments, the Commission does not consider using performance rather than design standards to be consistent with the statutory requirement that we adopt rules for the protection of investors.

We review all rules periodically, as required by the Regulatory Flexibility Act, to identify methods to minimize recordkeeping or reporting requirements affecting small businesses.

6. Consequences of Less Frequent Collection

The Commission requires the filing of Form N-SAR semi-annually, rather than annually, for all registered investment companies other than unit investment trusts so that it will have current information available for use in performing inspections, selectively reviewing registration documents, and conducting studies and other types of analyses necessary to keep the Commission's regulatory program for investment companies current with industry conditions. The Commission also needs current information about unit investment trusts for its regulatory program; however, the Commission requires the filing of Form N-SAR annually, rather than semi-annually, for unit investment trusts because the portfolios of these trusts rarely change so the information in Form N-SAR does not often change. Less frequent collection would mean that current information may not be available to investors and may potentially decrease investor confidence in the full and fair disclosure system that is the hallmark of the U.S. capital markets.

With the proposed amendments, the frequency with which information from Form N-SAR is collected will not change.

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

Not applicable.

8. Consultation Outside The Agency

The Commission has solicited and will consider comment on the proposed amendments to Form N-SAR to enhance the disclosures that are provided to investors in

registered investment companies, and on the changes to the collection of information that would be imposed by the amendments.

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 and costs are made solely for purposes of the Paperwork Reduction Act of 1995 (44 U.S.C. 3501 *et seq.*), and are not derived from a quantitative, comprehensive, or even representative survey or study of the burdens associated with Commission rules and forms.

The Commission estimates that the burden hours that would be imposed by Form N-SAR are as follows:

The current total annual burden hour inventory for Form N-SAR is 107,203 hours. As a result of the proposed amendments, unit investment trusts that are not insurance company separate accounts that choose to divest in accordance with the Sudan Divestment Act would incur an additional one-half burden hour per filing for a total of an additional 10 annual burden hours.¹³ Therefore, we estimate that the proposed

¹³ 90 filings on Form N-SAR x 15% of filings on Form N-SAR x ½ burden hour = approximately 10 total burden hours (rounded to the nearest 10).

We believe that the number of registered investment companies that hold securities in companies conducting or directly investing in certain business operations in Sudan, and that will divest from these securities in accordance with the Sudan Divestment Act, will be relatively small. We estimate that approximately 15% of all registered investment company portfolios have an objective of investing internationally. Based on a conservative assumption that each of these portfolios will make a divestment in

amendments would result in a total annual burden of 107,213 hours for Form N-SAR. The total number of respondents to Form N-SAR is 4,142, and the total number of responses annually is 7,461.¹⁴ The Commission estimates that under the proposed amendments, the weighted average annual burden per response for Form N-SAR would be 14.37 hours.¹⁵ We estimate that the total annualized cost to respondents of the Form N-SAR information collection burden is approximately \$29,966,000 for all filers of Form N-SAR.¹⁶

13. Estimate of Total Annual Cost Burden

The Commission staff estimates that there is no cost burden of Form N-SAR excluding that identified in Item No. 12 of this Supporting Statement.

14. Estimate of Cost to the Federal Government

The annual cost of reviewing and processing new registration statements, and post-effective amendments of investment companies amounted to approximately \$20.8 million in fiscal year 2007, based on the Commission's computation of the value of staff time devoted to this activity and related overhead.

accordance with the Sudan Divestment Act prior to each filing it makes on Form N-SAR, we estimate that approximately 15% of the filings on Form N-SAR will include disclosures of divestments in accordance with the Sudan Divestment Act.

¹⁴ (3,319 management investment company respondents x 2 responses per year) + (823 UIT respondents x 1 response per year) = 7,461 responses.

¹⁵ 107,213 hours / 7,461 responses = 14.37 hours.

¹⁶ This figure is estimated by multiplying the total annual hour burden (107,213 hours) by the estimated hourly wage rate of \$279.50 and rounding to the nearest 1,000. The estimated wage figure is based on published rates for compliance attorneys and senior programmers, modified to account for an 1800-hour work-year and multiplied by 5.35 to account for bonuses, firm size, employee benefits, and overhead, yielding effective hourly rates of \$270 and \$289, respectively. See Securities Industry Association, Report on Management & Professional Earnings in the Securities Industry 2007 (Sept. 2007). The estimated wage rate is further based on the estimate that attorneys and programmers would divide time equally, resulting in a weighted wage rate of \$279.50 (((\$270 x .50) + (\$289 x .50)).

15. Explanation of Changes in Burden

Form N-SAR has a current burden hour inventory of 107,203 hours based on an estimate of 4,142 respondents. As a result of the proposed amendments, the hour burden for preparing and filing Form N-SAR will increase to a total annual burden of 107,213 hours.

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. COLLECTION OF INFORMATION EMPLOYING STATISTICAL METHODS

Not applicable.