

SUPPORTING STATEMENT

Mutual Fund Interactive Data

A. JUSTIFICATION

1. Necessity for the Information Collection

In 2004, the Commission began assessing the benefits of interactive data and its potential for improving the timeliness and accuracy of financial disclosure and analysis of Commission filings.¹ As part of this evaluation, the Commission adopted rules in 2005 permitting filers, on a voluntary basis, to provide financial disclosure in interactive data format as an exhibit to certain filings on our electronic filing system. After more than two years of increasing participation, over 75 companies have chosen to provide interactive data financial reporting.²

In 2007, the Commission extended the program to enable mutual funds voluntarily to submit risk/return summary information in interactive data format. To date, approximately 20 mutual funds have chosen to provide interactive data risk/return summaries.³

The proposed amendments, if adopted, would require mutual funds to submit their risk/return summary information in interactive data format and post it on their Web sites, if any, in interactive data form. The specified risk/return summary information already is and would continue to be required to be submitted to the Commission in traditional format under existing disclosure requirements. Compliance with the proposed amendments would be mandatory

¹ See SEC Announces Initiative to Assess Benefits of Tagged Data in Commission Filings, Securities and Exchange Commission Press Release, July 22, 2004, available at: <http://www.sec.gov/news/press/2004-97.htm>.

² A viewer for this interactive data is available at: <http://www.sec.gov/spotlight/xbrl/xbrlwebapp.shtml>. This viewer, one of several funded by the Commission to demonstrate interactive data, maintains a running total of companies and filers submitting data as part of the voluntary program. As of April 17, 2008, 78 companies had submitted 350 interactive data reports.

³ The mutual fund information viewer contains all mutual fund submissions under the voluntary program. As of May 1, 2008, 21 mutual funds had submitted 33 interactive data reports.

beginning with initial registration statements, and post-effective amendments that are annual updates to effective registration statements, that become effective after December 31, 2009. The information required to be submitted would not be kept confidential by the Commission.

The title for the new collection of information for submitting risk/return summary information in interactive data format that the proposed amendments would establish is “Mutual Fund Interactive Data” (OMB Control No. 3235-XXXX). This collection of information relates to already existing regulations and forms adopted under the Securities Act, the Exchange Act, and the Investment Company Act that set forth disclosure requirements for mutual funds and other issuers.

Form N-1A (OMB Control No. 3235-0307) under the Securities Act and the Investment Company Act⁴ is used by mutual funds to register under the Investment Company Act and to offer their securities under the Securities Act. The information required by the new collection of information would correspond to the risk/return summary information now required by Form N-1A and would be required to appear in exhibits to Form N-1A and on mutual funds’ Web sites.

Regulation C (OMB Control No. 3235-0074) describes the procedures to be followed in preparing and filing registration statements with the Commission. Regulation S-T (OMB Control No. 3235-0424) specifies the requirements that govern the electronic submission of documents. The proposed changes to these items would add and revise rules under Regulations C and S-T. The filing requirements themselves, however, are included in Form N-1A and we have reflected the burden for these new requirements in the burden estimate for Mutual Fund Interactive Data. The rules in Regulations C and S-T do not impose any separate burden.

2. Purpose of the Information Collection

⁴ 17 CFR 239.15A; 17 CFR 274.11A.

The purpose of the proposed amendments is to make risk/return summary information easier for investors to analyze and to assist in automating regulatory filings and business information processing.

3. Role of Improved Information Technology

The Commission's electronic filing system (Electronic Data Gathering, Analysis and Retrieval or EDGAR) is designed to automate the filing, processing, and dissemination of full disclosure filings. The system permits publicly held companies to transmit filings to the Commission electronically. This automation has increased the speed, accuracy, and availability of information, generating benefits to investors and financial markets. Risk/Return Summary information in interactive data format is submitted to the Commission electronically on EDGAR. The public may access submissions on EDGAR through the Commission's Internet Web site (<http://www.sec.gov>) or at EDGAR terminals located at the Commission's public reference rooms.

4. Efforts to Identify Duplication

The Commission periodically evaluates rule-based reporting and recordkeeping requirements for duplication, and reevaluates them whenever it proposes a rule or a change in a rule. The requirements of Form N-1A are not generally duplicated elsewhere.

5. Effect on Small Entities

The proposed amendments would affect mutual funds that are small entities. Approximately 127 mutual funds registered on Form N-1A meet this definition.⁵ All of these mutual funds would become subject to the proposed rules. The proposed rules do not currently distinguish between small entities and other registrants, but the Commission has requested

⁵ This estimate is based on analysis by the Division of Investment Management staff of public available data as of December 2007.

comments regarding the proposals and their effect on small entities. The Commission reviews 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

Not Applicable.

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

Not Applicable.

8. Consultation Outside the Agency

This proposal is subject to a public comment period. In addition, the Commission and staff of the Division of Investment Management participate in an ongoing dialogue with representatives of the investment company industry through public conferences, meetings, and informal exchanges.

9. Payment or Gift to Respondents

Not Applicable.

10. Assurance of Confidentiality

Not Applicable.

11. Sensitive Questions

Not Applicable.

12. Estimate of Hour Burden

Based on estimates from voluntary program participant responses to a questionnaire and the Commission's experiences with the voluntary program, the Commission anticipates that interactive data filers would require an average of approximately 13 burden hours to tag risk/return summary information in the first year, and the same task in subsequent years would

require an average of approximately 11 hours.⁶ The average annual burden over a three-year period is estimated at approximately 12 hours.⁷ Based on estimates of 8,810 mutual funds submitting interactive data documents,⁸ each incurring 12 hours per year on average, the Commission estimates that, in the aggregate, interactive data adoption would result in an

additional 105,720 burden hours, on average, for all mutual funds for each of the first three years.⁹ Converted into dollars, this amounts to approximately \$22,500,000.¹⁰

⁶ The average burden hours for the first and subsequent submissions were calculated using data collected from 6 responses to a voluntary program participant questionnaire from mutual funds that participated in the voluntary program.

⁷ (13.33 hours for the first submission + 11.275 hours for the second submission + 11.275 hours for the third submission) ÷ 3 years = approximately 12 hours.

⁸ This estimate is based on analysis by the Division of Investment Management staff of publicly available data.

⁹ 8,810 mutual funds x 12 incremental burden hours per mutual fund = 105,720 burden hours.

¹⁰ This cost increase is estimated using an estimated hourly wage rate of \$213.00 (105,720 total burden hours x \$213.00 hourly wage rate = \$22,519,638 total incremental internal cost). The estimated wage figure is based on published rates for compliance attorneys and programmer analysts, 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 \$194, respectively. See Securities Industry Association, Report on Management & Professional Earnings in the Securities Industry 2007 (Sept. 2007) (“SIA Report”). The estimated wage rate was further based on the estimate that compliance attorneys would account for one quarter of the hours worked and senior system analysts would account for the remaining three quarters,

We further estimate that mutual funds would require an average of approximately 1 burden hour to post interactive data to their Web sites. Based on estimates of 8,810 mutual funds posting interactive data, each incurring 1 burden hour per year on average, we estimate that, in the aggregate, adoption of Web site posting requirements would result in an additional 8,810 burden hours for all mutual funds.¹¹ Converted into dollars, this amounts to approximately \$2,200,000.¹²

We therefore estimate, based on estimates of 8,810 mutual funds submitting interactive data documents, that, in the aggregate, interactive data adoption will result in 114,530 burden hours, on average, for all mutual funds for each of the first three years.¹³ Converted into dollars, this amounts to approximately \$24,700,000.¹⁴

13. Estimate of Total Annual Cost Burden

Cost burden is the cost of goods and services purchased associated with the proposed rules, such as for the services of outside counsel and accountants. The cost burden does not include the hour burden discussed in Item 12. We estimate that software and consulting services would be used by mutual funds for an increase of approximately \$803 per mutual fund.¹⁵ Based

resulting in a weighted wage rate of \$213.00 $((\$270 \times .25) + (\$194 \times .75))$.

¹¹ 8,810 mutual funds x 1 burden hour per mutual fund = 8,810 burden hours.

¹² $(\$250 \times 1 \text{ hour} \times 8,810 \text{ mutual funds})$. This cost estimate is based on informal discussions with a limited number of persons believed to be generally knowledgeable about preparing, submitting, and posting interactive data.

¹³ $105,720 \text{ burden hours} + 8,810 \text{ burden hours} = 114,530 \text{ total burden hours}$.

¹⁴ $\$22,500,000 + \$2,200,000 = \$24,700,000$.

¹⁵ For purposes of this estimate, we assumed that the largest 50 fund complexes would develop software in-house incurring costs of \$125,000 in the first year. Assuming that the largest 50 fund complexes would develop software for use in all of their funds, and that their funds encompass 80% of the number of funds (7,048), then the average first year cost for those funds would be $(\$125,000 \times 50)/7,048 = \887 . Therefore, for those funds using software developed

on the estimate of 8,810 mutual funds using software and consulting services at an annual cost of \$803 we estimate that, in the aggregate, the total external costs to the industry would be approximately \$7,100,000.¹⁶

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.

15. Explanation of Changes in Burden

New Collection.

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

internally, the average 3 year cost would be approximately \$829 (\$887 in the first year + \$800 in the second year + \$800 in the third year) ÷ 3 years = approximately \$829. The average 3 year cost for those funds that use commercial software would be \$700 (\$500 in the first year + \$800 in the second year + \$800 in the third year) ÷ 3 years = \$700. Assuming 80% of funds incurred costs of \$829 and 20% of funds incurred costs of \$700, the average software and consulting cost per mutual fund would be approximately \$803. These estimates were derived from responses to a voluntary program questionnaire

¹⁶ 8,810 mutual funds x \$803 = approximately \$7,100,000.

Not Applicable.