

**SUPPORTING STATEMENT**  
**Form N-1A**

**A. JUSTIFICATION**

**1. Necessity for the Information Collection**

Form N-1A (17 CFR 239.15A and 274.11A) is the form used by open-end management investment companies (“funds”)<sup>1</sup> under the Investment Company Act of 1940 (15 U.S.C. 80a-1 et seq.) (“Investment Company Act”) and/or to register their securities under the Securities Act of 1933 (15 U.S.C. 77a et seq.) (“Securities Act”). Section 5 of the Securities Act (15 U.S.C. 77e) requires the filing of a registration statement prior to the offer of securities to the public and that the statement be effective before any securities are sold, and Section 8 of the Investment Company Act (15 U.S.C. 80a-8) requires a fund to register as an investment company. Form N-1A also permits funds to provide investors with a prospectus and a statement of additional information (“SAI”) covering essential information about the fund when it makes an initial or additional offering of its securities. Section 5(b) of the Securities Act requires that investors be provided with a prospectus containing the information required in a registration statement prior to the sale or at the time of confirmation or delivery of the securities.

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<sup>1</sup> Management investment companies typically issue shares representing an undivided proportionate interest in a changing pool of securities, and include open-end and closed-end companies. See T. Lemke, G. Lins, A. Smith III, REGULATION OF INVESTMENT COMPANIES, Vol. I, ch. 4, § 4.04, at 4-5 (2002). An open-end company is a management company that is offering for sale or has outstanding any redeemable securities of which it is the issuer. A closed-end company is any management company other than an open-end company. See Section 5 of the Investment Company Act (15 U.S.C. 80a-5). Open-end companies generally offer and sell new shares to the public on a continuous basis. Closed-end companies generally engage in traditional underwritten offerings of a fixed number of shares and, in most cases, do not offer their shares to the public on a continuous basis.

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

The title for the collection of information is: Form N-1A under the Investment Company Act of 1940 and Securities Act of 1933, Registration Statement of Open-End Management Investment Companies”. The purpose of Form N-1A is to meet the filing and disclosure requirements of the Securities Act of 1933 (“Securities Act”) and the Investment Company Act of 1940 (“Investment Company Act”) and to enable funds to provide investors with information necessary to evaluate an investment in the fund. Unlike many other federal information collections, which are primarily for the use and benefit of the collecting agency, this information collection is primarily for the use and benefit of investors. The information filed with the Commission also permits the verification of compliance with securities law requirements and assures the public availability and dissemination of the information.

## **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. Form N-1A is required to be filed with the Commission electronically on EDGAR. (17 CFR 232.101(a)(1)(i) and (iv)). The public may access filings 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. Prospectuses and SAIs may be sent to investors by electronic means so long as the fund meets certain requirements.<sup>2</sup> The Commission has no information concerning the percentage of such documents sent electronically, but believes it is a small percentage.

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

The Commission periodically evaluates rule-based reporting and recordkeeping requirements for duplication, and reevaluates them whenever it adopts changes in its rules. The requirements of Form N-1A are not generally duplicated elsewhere.

#### **5. Effect on Small Entities**

The current disclosure requirements for reports on Form N-1A do not distinguish between small entities and other funds. The burden on smaller funds, however, to prepare and file registration statements may be greater than for larger funds. The Commission believes, however, that imposing different requirements on smaller investment companies would not be consistent with investor protection and the purposes of the registration statements. 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 Investment Company Act requires that funds file annual amendments to their registration statements. Less frequent collection would mean that current information might not be available to fund investors.

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

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<sup>2</sup> See Use of Electronic Media for Delivery Purposes, Securities Act Release No. 7233, Exchange Act Release No. 36345, Investment Company Act Release No. 21399 (Oct. 6, 1995) (60 FR 53458 (Oct. 13, 1995)).

Not Applicable.

**8. Consultation Outside the Agency**

Form N-1A has previously been amended through rulemaking actions pursuant to the Administrative Procedures Act. Comments are generally received from registrants, trade associations, the legal and accounting professions, and other interested parties. 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. The Commission requested public comment on the collection of information requirements in Form N-1A before it submitted this request for extension and approval to the Office of Management and Budget. The Commission received no comments in response to its request.

**9. Payment of Gift to Respondents**

Not Applicable.

**10. Assurance of Confidentiality**

Not Applicable.

**11. Sensitive Questions**

Not Applicable.

**12. Estimate of Hour Burden**

Open-end funds register as investment companies under the Investment Company Act and register their securities under the Securities Act on Form N-1A. Compliance with the disclosure requirements of Form N-1A is mandatory.

The estimate of the annual number of registration statements filed on Form N-1A

is based on the average annual number of filings received by the Commission over the past three years. The hour burden estimates for preparing and filing Form N-1A are based on the Commission's experience with the contents of the form. The number of burden hours may vary depending on, among other things, the complexity of the filing and whether preparation of the form is performed by fund staff or outside counsel. The estimated average burden hours are made solely for purposes of the Paperwork Reduction Act and are not derived from a quantitative, comprehensive, or even representative survey or study of the burdens associated with Commission rules and forms.

Form N-1A generally imposes two types of reporting burdens on investment companies: (1) the burden of preparing and filing the initial registration statement; and (2) the burden of preparing and filing post-effective amendments to a previously effective registration statement.

The Commission estimates that the burden hours that will be imposed by Form N-1A are as follows:

Calculation of Hour Burden of Initial Form N-1A Filings

• Number of initial Form N-1A filings annually	77
• Average number of portfolios per filing	4.9
• Number of portfolios/funds referenced in initial Form N-1A filings annually	377.3
• Current hour burden per portfolio/fund for preparing initial Form N-1A filing	830.47
• Total annual hour burden for initial Form N-1A filings (377 x (830.47))	313,336

Calculation of Hour Burden of Post-Effective Amendments

• Number of post-effective amendments filed annually	2,320
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- Average number of portfolios per filing 4.9
- Number of portfolios/funds referenced in post-effective amendments filed annually 11,368
- Current hour burden per portfolio/fund for preparing post-effective amendments 111
- Total annual hour burden to prepare post-effective amendments (11,368 x (111)) 1,261,848

Total Annual Hour Burden

- Annual hours for initial Form N-1A filings + annual hours for post-effective amendments (313,336 + 1,261,848) 1,575,184

Based on the estimated wage rate, the total cost to the fund industry of the hour burden for complying with Form N-1A is approximately \$397.7 million.<sup>3</sup>

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

Cost burden is the cost of goods and services purchased to prepare and update reports filed on Form N-1A, such as for the services of outside counsel. The cost burden does not include the hour burden discussed in Item 12. Estimates are based on the Commission's experience with the filing of Form N-1A.

The current estimated cost burden for preparing an initial Form N-1A is \$20,300 per portfolio and for preparing a post-effective amendment to a previously effective registration statement is \$8,894 per portfolio. The Commission estimates that, on an annual basis, 377.3 portfolios will be referenced in initial filings on Form N-1A and

<sup>3</sup> The cost to the industry is calculated by multiplying the total annual hour burden (1,575,184 hours) by the estimated hourly wage rate of \$252.50. The estimated wage figure is based on published rates for compliance attorneys (\$48.79) and senior programmers (\$45.61) outside New York City, 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 \$261 and \$244, respectively. See Securities Industry Association, Report on Management & Professional Earnings in the Securities Industry 2006 (Sept. 2006). The estimated wage rate was further based on the estimate that attorneys and programmers would divide time equally, resulting in a weighted wage rate of \$252.50 (((\$261 x .50) + (\$244 x .50)).

11,368 portfolios will be referenced in post-effective amendments of Form N-1A filings.

Thus, the total cost burden allocated to Form N-1A would be as follows:

Cost Burden of Preparing and Filing Initial Form N-1A

• Cost burden per portfolio/fund of preparing and filing initial Form N-1A	\$20,300
• Number of portfolios/funds referenced in initial Form N-1A filings annually	377.3
• Cost burden of preparing and filing portfolio/fund on initial Form N-1A (number of portfolios x cost per portfolio)	\$7,659,190

Cost Burden of Preparing and Filing Post-Effective Amendments

• Cost burden per portfolio/fund of preparing and filing post-effective amendments	\$8,894
• Number of portfolios/funds referenced in post-effective amendments filed annually	11,368
• Cost burden of preparing and filing portfolio/fund post-effective amendments (number of portfolios x cost per portfolio)	\$101,106,992

Total Cost Burden

• Initial Form N-1A + post-effective amendments (\$7,659,190 + \$101,106,992)	\$108,766,182
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**14. Estimate of Cost to the Federal Government**

The annual cost of reviewing and processing new registration statements, post-effective amendments, proxy statements, and shareholder reports of investment companies amounted to approximately \$16.8 million in fiscal year 2006, 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**

Currently, the approved annual hour burden for preparing and filing registration statements on Form N-1A is 1,127,280 hours based on the previous estimate of 2,602 responses, referencing a total of 7,025 portfolios. The new estimate of the total annual hour burden is 1,575,184 hours based on the new estimated total number of responses of 2,397, referencing a total of 11,745.3 portfolios. The increase in the total annual hour burden is 447,904 hours. This increase is due to the increase in our estimates of the average annual number of portfolios per response.

**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.