SUPPORTING STATEMENT
Mutual Fund Interactive Data

A. JUSTIFICATION

1. Necessity for the Information Collection

The Commission implemented a voluntary filer program, started in 2005,[1] that has allowed it to evaluate certain uses of interactive data. The voluntary program allows companies to submit financial statements on a supplemental basis in interactive format as exhibits to specified filings under the Exchange Act and the Investment Company Act. Over 100 operating companies participated in the voluntary program. These companies span a wide range of industries and company characteristics, and have a total market capitalization of over $2 trillion. Companies that participated in the program were still required to file their financial statements in American Standard Code for Information Interchange or HyperText Markup Language ("HTML").[2] Four mutual fund complexes participated in the voluntary program and have submitted financial statement information in interactive data format.[3]

In 2007, the Commission extended the program to enable mutual funds voluntarily to submit in interactive data format supplemental information contained in the risk/return summary section of their prospectuses.[4] The risk/return summary contains information about a fund's investment objectives and strategies, costs, risks, and past performance.[5] Twenty-five mutual funds from a variety of fund families have submitted risk/return summary information in

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1 Securities Act Release No. 8529 (Feb. 3, 2005) [70 FR 6556 (Feb. 8, 2005)].

2 HTML is a standardized language commonly used to present text and other information on Web sites.

3 These four fund complexes made 23 submissions representing 12 mutual funds.

4 Securities Act Release No. 8823 (July 11, 2007) [72 FR 39290 (July 17, 2007)].

5 Items 2, 3, and 4 of Form N-1A.

interactive data format. These funds represent 15 fund complexes, and consist of a range of fund types, including 14 equity funds, two balanced funds, five bond funds, and four money market funds. The funds participating in the voluntary program also include larger and smaller funds.

The amendments 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 continues to be required to be submitted to the Commission in traditional format under existing disclosure requirements. Compliance with the amendments is mandatory beginning with initial registration statements, and post-effective amendments that are annual updates to effective registration statements, that become effective after January 1, 2011. The amendments also require that an interactive data file must be submitted to the Commission for any form of prospectus filed pursuant to rule 497(c) or (e) under the Securities Act[6] that includes information provided in response to Items 2, 3, or 4 that varies from the registration statement. The information required to be submitted will 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 amendments establish is "Mutual Fund Interactive Data" (OMB Control No. 3235-0642). 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 Act[7] 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

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6 17 CFR 230.497.

7 17 CFR 239.15A; 17 CFR 274.11A.

information corresponds to the risk/return summary information now required by Form N-1A and is 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 changes to these items add and revise rules under Regulations C and S-T. The filing requirements themselves, however, are included in Form N-1A and the Commission has 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

The purpose of the 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 amendments affect mutual funds that are small entities. Approximately 127 mutual funds registered on Form N-1A meet this definition.[8] All of these mutual funds are subject to the rule amendments. The rules do not currently distinguish between small entities and other registrants. 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

The Commission received comments on the proposed rule amendments, including comments from trade associations, fund complexes, a data aggregator, technology service providers, and individual investors and professionals.

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

We received feedback from four commenters on the collection of information requirements and have revised the estimated reporting and cost burdens of the rule and form amendments.[9] One commenter challenged the estimates provided in the release proposing the amendments ("Proposing Release"),[10] asserting that the sample of voluntary program participants is too small and consists mostly of large fund complexes. The Commission notes that the 22 participants in the voluntary program at that time included both larger and smaller funds, and, therefore, the estimates derived from our experiences with this program reflect burdens incurred by funds of varying sizes.[11] Of these 22 funds, six funds, representing a range of fund complex sizes, provided data in response to the voluntary program questionnaire concerning internal and external costs of preparing and submitting interactive risk/return summary information.[12]

One commenter asserted that the Commission's cost estimates may be vastly understated because they omit the much larger cost of converting fund Web sites to XBRL compatibility. This commenter did not provide any specific cost estimates to support this assertion. Complying with the Web site posting requirement, however, does not require conversion of the fund's Web site infrastructure.

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9 To view the comment letters received concerning this collection of information please access the following links to the Commission's Web site:

http://www.sec.gov/comments/s7-12-08/s71208-17.pdf
http://www.sec.gov/comments/s7-12-08/s71208-7.pdf
http://www.sec.gov/comments/s7-12-08/s71208-9.pdf
http://www.sec.gov/comments/s7-12-08/s71208-13.pdf

10 Securities Act Release No. 8929 (June 10, 2008) [73 FR 35442 (June 23, 2008)].

11 To date 25 funds have participated in the voluntary program. However, at the time of the Proposing Release, only 22 funds had submitted interactive data risk/return summary information.

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

While one commenter asserted that software and consulting service estimates do not include professional costs from outside accountants and lawyers, the Commission notes that this estimate does reflect the external cost data provided in response to the voluntary program questionnaire. Respondents to the questionnaire universally indicated that they did not use the services of outside accountants in preparing their interactive data submissions. A few of the respondents indicated that they used the services of an outside attorney in preparing their interactive data submissions, however, only one respondent indicated a de minimis expense for such services. A few respondents who did not use the services of an outside attorney for their voluntary filing did indicate they would work with an outside attorney to prepare their interactive data submission upon adoption of our rule amendments. These costs were reflected in the Commission's estimates in the Proposing Release.

One commenter also stated that costs for the voluntary program participants were low because many fund groups received tagging software and services at no cost, which the commenter anticipated would not be the case upon the adoption of our rule amendments. The Commission notes, however, that its survey data included information from funds that used no-cost software and from one fund that created its own software in-house at great expense. The Commission believes its cost estimates provide an adequate picture of the initial software expenditures for funds to comply with the Commission's rule amendments.

One commenter asserted that automated tagging and filing processes would reduce the risk and cost associated with manual processes. The Commission agrees that such software tools may help minimize both the burden on respondents and the risk of errors in the collection process. While this commenter noted that additional software tools would need to be introduced in order to allow data to be identified and tagged at its source, thereby automating the processing of the risk/return data, the Commission expects that the development of such tools is likely to be hastened by mutual fund disclosure using interactive data. There is a growing number of software applications available to preparers and consumers that are designed to help make interactive data increasingly useful to both retail and institutional investors.

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

In the Proposing Release, the Commission estimated that each mutual fund would submit one interactive data document as an exhibit to a registration statement or a post-effective amendment thereto on Form N-1A that includes or amends information provided in response to Items 2 or 3.[13] The Commission estimated in the Proposing Release 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.[14] Therefore, the Commission estimated the average annual burden over

[13] This information is now contained in Items 2, 3, and 4.

[14] The average burden hours for the first and subsequent submissions were calculated using data collected from a voluntary program participant questionnaire.

a three-year period to be approximately 12 hours.[15]

The Commission is modifying its rules to include changes to risk/return summary information that mutual funds are permitted to make pursuant to rule 497 under the Securities Act. Based on a limited, random, non-statistical survey by Commission staff of filings made pursuant to rule 497, the Commission estimates that 5% of mutual funds, or approximately 443 funds,[16] will make changes to risk/return summary information in filings submitted pursuant to rule 497. Based on estimates of 8,856 mutual funds each submitting one interactive data document as an exhibit to a registration statement or post-effective amendment thereto and 443 mutual funds submitting an additional interactive data document as an exhibit to a filing pursuant to rule 497, each incurring 12 hours per year on average, the Commission estimates that, in the aggregate, interactive data adoption will result in an additional 111,588 burden hours for all mutual funds for each of the first three years.[17] Converted into dollars, this amounts to approximately $23,768,244.[18]

15 (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.

16 5% x 8,856 mutual funds = approximately 443 mutual funds.

17 (8,856 mutual funds + 443 mutual funds) x 12 incremental burden hours per mutual fund = 111,588 burden hours.

18 This cost increase is estimated using an estimated hourly wage rate of $213.00 ((111,588 burden hours) x ($213.00 hourly wage rate) = $23,768,244 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 and Financial Markets Association, Report on Management & Professional Earnings in the Securities Industry 2007 (Sept. 2007). 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

The Commission further estimates, as in the Proposing Release, that mutual funds will require an average of approximately 1 burden hour to post interactive data to their Web sites. Based on estimates of 8,856 mutual funds posting interactive data, each incurring 1 burden hour per year on average, the Commission estimates that, in the aggregate, adoption of Web site posting requirements will result in an additional 8,856 burden hours for all mutual funds.[19] Converted into dollars, this amounts to approximately $2,214,000.[20]

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. The Commission estimates that software and consulting services would be used by mutual funds for an increase of approximately $802 per mutual fund.[21] Based on the estimate of 8,856 mutual funds using software and consulting services at an annual cost of $802 the Commission estimates that, in the aggregate, the total

three quarters, resulting in a weighted wage rate of $213.00 per hour (($270 x .25) + ($194 x .75)).

19 8,856 mutual funds x 1 burden hour per mutual fund = 8,856 burden hours.

20 ($250 x 1 hour x 8,856 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.

21 For purposes of this estimate, the Commission assumes that the largest 50 fund complexes will develop software in-house incurring costs of $125,000 in the first year. Assuming that the largest 50 fund complexes will develop software for use in all of their funds, and that their funds encompass 80% of the number of funds (7,085), then the average first year cost for those funds will be ($125,000 x 50)/7,085 = $882. Therefore, for those funds using software developed internally, the average 3 year cost will be approximately $827 ($882 in the first year + $800 in the second year + $800 in the third year) ÷ 3 years = approximately $827. The average 3 year cost for those funds that use commercial software will 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 $827 and 20% of funds incurred costs of $700, the average software and consulting cost per mutual fund will be approximately $802. These estimates were derived from responses to a voluntary program questionnaire.

external costs to the industry will be approximately $7,098,970.[22]

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

Not Applicable.

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[22] 8,856 mutual funds x $802 = approximately $7,098,970.