

SUPPORTING STATEMENT
Form N-Q

A. JUSTIFICATION

1. Necessity for the Information Collection

Form N-Q (17 CFR 249.332 and 274.130) is a reporting form under Sections 13 and 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78a et seq.) (“Exchange Act”), in addition to the Investment Company Act of 1940 (15 U.S.C. 80a-1 et seq.) (“Investment Company Act”) that requires a registered management investment company (“fund”) to file its complete portfolio schedule as of the end of its first and third fiscal quarters with the Commission. Fund’s management is required to evaluate the effectiveness of the fund’s disclosure controls and procedures within the 90-day period prior to the filing of a report on Form N-Q, which must also be signed and certified by its principal executive and financial officers consistent with Section 302 of the Sarbanes-Oxley Act of 2002.¹ The Commission adopted the form to improve the periodic disclosure provided by funds to their investors about fund investments.²

2. Purpose of the Information Collection

Form N-Q contains “collection of information” requirements within the meaning of the Paperwork Reduction Act of 1995 (44 U.S.C. 3501, et seq.), and the Commission is submitting the proposed collections of information to the Office of Management and Budget (“OMB”) for review in accordance with 44 U.S.C. 3507(d) and 5 CFR 1320.11. The title for the collection of information is “Form N-Q – Quarterly Schedule of Portfolio Holdings of Registered Management Investment Company.” The respondents to this information collection are

¹ 17 CFR 270.30a-3(b).

² Investment Company Act Release No. IC-25870 (Dec. 18, 2002) (68 FR 160 (Jan. 2, 2003)) (“Proposing Release”). Investment Company Act Release No. 26372 (Feb. 11, 2004) (“Adopting Release”).

management investment companies subject to rule 30e-1 under the Investment Company Act registering with the Commission on Forms N-1A, N-2, or N-3. Compliance with the disclosure requirements of Form N-Q are mandatory. Responses to the disclosure requirements are not kept confidential.

The purpose of Form N-Q is to meet the disclosure requirement of the Investment Company Act and the Exchange Act and to provide investors with information necessary to evaluate an investment in the fund. The Commission designated Form N-Q as a filing required under the Exchange Act, because the fund's portfolio schedule constitutes financial information of great significance to investors. Requiring certification of this financial information is consistent with the intent of the certification requirement of Section 302 of the Sarbanes-Oxley Act, which is to improve the quality of the disclosure that a company provides about its financial condition in its periodic reports to investors. Failure to collect this information would seriously impede the Commission's regulatory program and make selective review of disclosure documents registered investment companies send to the public less effective as the industry continues to grow. The public also would suffer by receiving less current information about the operation of the funds.

3. Role of Improved Information Technology

The Commission's electronic filing system ("EDGAR") automates the filing, processing and dissemination of full disclosure filings. The system permits publicly held companies to transmit their filings to the Commission electronically, increasing the speed and accuracy of filings. All registered investment companies are generally required to file Form N-Q electronically.

4. Efforts to Identify Duplication

To ensure the relevance of the information filed by each registered investment company and to avoid unnecessary paperwork and duplicative reporting, the Commission has promulgated specific rules and designed specific forms or items of forms for each type of investment company. Some of the money market fund portfolio information included in proposed amendments to rule 2a-7 or new rule 30b1-6 would duplicate certain information filed by money market funds on Form N-Q. Proposed amendments to rule 30b1-5 would therefore exempt money market funds from filing that duplicative information on Form N-Q.

5. Effect on Small Entities

The burden imposed by Form N-Q has a relatively greater impact on smaller registered investment companies. Imposing different requirements on smaller registered investment companies, however, would not be consistent with investor protection and the statutory requirement that all registered investment companies file reports on Forms N-Q. The Commission estimates that the requirements of Form N-Q result in certain ongoing costs and burdens that are imposed on all funds, but which may have a relatively greater impact on smaller firms. These include the requirement that funds file their complete portfolio schedules with the Commission on a quarterly basis. These costs also could include expenses for computer time, legal and accounting fees, information technology staff, and additional computer and telephone equipment. However, the Commission believes the benefits that result to shareholders through better information about their funds' costs, investments, and past performance justify these potential costs.

6. Consequences of Less Frequent Collection

Funds currently file their complete portfolio holdings schedules with the Commission on a semi-annual basis as part of their shareholder reports. In addition, funds are required to file

their portfolio schedules for the first and third fiscal quarters on Form N-Q. The Commission requires the filing of Form N-Q semi-annually for all registered investment companies so that it will have current information available for use in performing inspections of registered investment companies, 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. Moreover, reports on Form N-Q provide investors with current information necessary to evaluate an investment in the fund.

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

Not applicable.

8. Consultation Outside the Agency

The Commission and the staff of the Division of Investment Management participate in various forums, such as public conferences, meetings, and informal exchanges, which provide the Commission and the staff with a medium for ascertaining and acting upon paperwork burdens confronting the industry. Before adopting proposed amendments to Form N-Q, the Commission will receive and evaluate public comments on the proposals and their collection of information requirements.

9. Payment or Gift to Respondents

Not applicable.

10. Assurance of Confidentiality

Confidentiality is not applicable because the information collected on Form N-Q is publicly available.

11. Sensitive Questions

Not applicable.

12. Estimate of Hour Burden

Form N-Q contains collection of information requirements. The respondents to this information collection will be management investment companies subject to rule 30e-1 under the Investment Company Act registering with the Commission on Forms N-1A, N-2, or N-3 (“funds”). Funds are required to file a quarterly report on Form N-Q disclosing the information required therein, not more than sixty calendar days after the close of the first and third quarters of each fiscal year. Under proposed amendments to rule 30b1-5, however, funds that are regulated as money market funds under rule 2a-7 would be exempt from the requirement to file a schedule of investments pursuant to Item 1 of Form N-Q.

The current approved total annual burden associated with Form N-Q is 188,223 hours, based on an estimated burden of approximately 21 hours per portfolio and on an estimated 8,963 portfolios required to file reports on Form N-Q semi-annually. We now estimate that there are approximately 8000 portfolios required to file reports on Form N-Q semi-annually. Using the currently approved annual burden estimate of approximately 21 hours per portfolio, we now estimate that the total annual burden associated with Form N-Q is 168,000 hours (21 hours x 8000 portfolios) per year. Under the proposed amendment to rule 30b1-5, we estimate that 750 money market funds would be exempt from the requirement to file a schedule of investment pursuant to Item 1 of Form N-Q. We further estimate that money market funds would have required an average of approximately 4 hours to prepare the schedule of investments required pursuant to Item 1 of Form N-Q. Based on these estimates, we estimate that the average annual burden avoided under the proposed amendment to rule 30b1-5 would be 8 hours per money market fund.³ Based on an estimate of 750 money market funds filing Form N-Q, each incurring

³ Funds are required to file a quarterly report on Form N-Q after the close of the first and third quarters of each fiscal year.

8 burden hours per year on average, we estimate that, in the aggregate, our proposed exemption would result in a decrease of 6000 burden hours associated with Form N-Q, resulting in a total of 162,000 burden hours.⁴ This represents a decrease of 26,223 annual burden hours.

The Commission estimates that the appropriate compensation rate for professionals commonly used in the preparation of Form N-Q filings is \$322 per hour.⁵ Based on this estimate, the total cost to the fund industry of the hour burden is approximately \$52,164,000.

13. Estimate of Total Annual Cost Burden

We estimate that there are no external costs associated with the certification requirement or with preparation of Form N-Q in general.

14. Estimate of Cost to the Federal Government

The Commission does not expect an increase in staff time or annual operating costs to review and process the Form N-Q.

15. Explanation of Changes in Burden

As noted in section 12 above, the new estimate represents a decrease of 26,223 hours per year. This decrease is due to the decrease in estimated number of portfolios from 8,963 to 8,000 and the proposed rule change that would exempt money market funds from filing a schedule of investment pursuant to Item 1 of Form N-Q.

16. Information Collection Planned for Statistical Purposes

Not applicable.

⁴ The estimate is based on the following calculation: 750 money market funds x 8 hours per money market fund = 6000 hours.

⁵ The Commission's estimates concerning burden hours and the relevant wage rates are based on consultations with industry representatives and on salary information for the securities industry compiled by the SIA. The estimated wage figures are also based on published rates for compliance attorneys in 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 an effective hourly rate of \$322. See Securities Industry Association, Report on Management & Professional Earnings in the Securities Industry 2005 (September, 2005).

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.