

SUPPORTING STATEMENT
Rule 22e-3

A. JUSTIFICATION

1. Necessity of Information Collection

Section 22(e) of the Investment Company Act [15 U.S.C. 80a-22(e)] (“Act”) generally prohibits funds, including money market funds, from suspending the right of redemption, and from postponing the payment or satisfaction upon redemption of any redeemable security for more than seven days. The provision was designed to prevent funds and their investment advisers from interfering with the redemption rights of shareholders for improper purposes, such as the preservation of management fees. Although section 22(e) permits funds to postpone the date of payment or satisfaction upon redemption for up to seven days, it does not permit funds to suspend the right of redemption for any amount of time, absent certain specified circumstances or a Commission order.

Rule 22e-3 under the Act [17 CFR 270.22e-3] exempts money market funds from section 22(e) to permit them to suspend redemptions in order to facilitate an orderly liquidation of the fund. Specifically, rule 22e-3 permits a money market fund to suspend redemptions and postpone the payment of proceeds pending board-approved liquidation proceedings if: (i) the fund’s board of directors, including a majority of disinterested directors, determines pursuant to § 270.2a-7(c)(8)(ii)(C) that the extent of the deviation between the fund’s amortized cost price per share and its current net asset value per share calculated using available market quotations (or an appropriate substitute that reflects current market conditions) may result in material dilution or other unfair results to investors or existing shareholders; (ii) the fund’s board of directors, including a majority of disinterested directors, irrevocably approves the liquidation of the fund; and (iii) the fund, prior to suspending redemptions, notifies the Commission of its

decision to liquidate and suspend redemptions. Rule 22e-3 also provides an exemption from section 22(e) for registered investment companies that own shares of a money market fund pursuant to section 12(d)(1)(E) of the Act (“conduit funds”), if the underlying money market fund has suspended redemptions pursuant to the rule. A conduit fund that suspend redemptions in reliance on the exemption provided by rule 22e-3 is required to provide prompt notice of the suspension of redemptions to the Commission. Notices required by the rule must be provided by electronic mail, directed to the attention of the Director of the Division of Investment Management or the Director’s designee.¹ Compliance with the notification requirement is mandatory for money market funds and conduit funds that rely on rule 22e-3 to suspend redemptions and postpone payment of proceeds pending a liquidation, and are not kept confidential.

2. Purposes of Information Collection

Certain provisions of rule 22e-3 contain “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 collection 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 purpose of the information collection requirement in rule 22e-3 is to assist Commission staff in monitoring a fund’s suspension of redemptions and ascertaining whether such suspension is consistent with the purposes of the rule and the protection of investors.² Rule 22e-3 is intended to facilitate orderly liquidations, reduce the vulnerability of investors to the harmful effects of a run on a fund, and minimize the potential for disruption to the securities markets.

¹ See rule 22e-3(a)(3).

² The rule permits the Commission to modify or rescind the exemption provided by the rule if necessary for the protection of shareholders (for example, if a liquidating fund has not devised, or is not properly executing a plan of liquidation that protects all shareholders). Rule 22e-3(c).

3. Role of Improved Information Technology

Rule 22e-3 would require a fund that suspends redemptions in reliance on the rule to provide notice to the Commission by electronic mail. The requirement to use electronic mail is intended to effect timely delivery of notice, and reflects current primary methods of communications in the business world.

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 information collection requirements in rule 22e-3 are not duplicated elsewhere.

5. Effect on Small Entities

Commission staff expects that rule 22e-3 will have no impact on small entities. We review all rules periodically, as required by the Regulatory Flexibility Act, to identify methods to minimize recordkeeping or reporting requirements affecting small entities.

6. Consequences of Less Frequent Collection

Less frequent information collection would be incompatible with the objectives of rule 22e-3. The notice requirement of the rule is necessary to assist Commission staff in monitoring a money market fund's suspension of redemptions under the rule. Moreover, the notice requirement is triggered only in the extraordinary event that a fund breaks the buck, or is at imminent risk of breaking the buck, and determines to liquidate.

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

Not applicable.

8. Consultation Outside of the Agency

Before adopting rule 22e-3, the Commission received and evaluated public comments on

the proposal and its collection of information requirements. Moreover, the Commission and staff of the Division of Investment Management participate in an ongoing dialogue with representatives of the industry through public conferences, meetings, and informal exchanges. These various forums provide the Commission and the staff with a means of ascertaining the magnitude of and acting upon paperwork burdens confronting the industry.

9. Payment or Gift to Respondents

Not applicable.

10. Assurance of Confidentiality

Not applicable.

11. Sensitive Questions

Not applicable.

12. Estimates of Hour Burden

We estimate that, on average, one money market fund would break the buck and liquidate every six years.³ In addition, we estimate that there are an average of 10 conduit funds that may be invested in a money market fund that breaks the buck.⁴ We further estimate that a money market fund or conduit fund would spend approximately one hour of an in-house attorney's time to prepare and submit the notice required by the rule. Given these estimates, the total annual burden of the notification requirement of rule 22e-3 for all money market funds and conduit funds would be approximately 110 minutes,⁵ at a cost of \$559.⁶

³ As noted above, only two money market funds have broken the buck since the adoption of rule 2a-7 in 1983.

⁴ These estimates are based on a review of filings with the Commission.

⁵ This estimate is based on the following calculations: (1 hour ÷ 6 years) = 10 minutes per year for each fund and conduit fund that is required to provide notice under the rule. 10 minutes per year x 11 (combined number of affected funds and conduit funds) = 110 minutes.

⁶ This estimate is based on the following calculation: \$305/hour x 110 minutes = \$559. The estimated hourly wages used in this PRA analysis were derived from reports prepared by the

All of the estimates in this section are made solely for the purposes of the PRA and are not derived from a comprehensive or even representative survey or study of the cost of Commission rules.

13. Estimate of Total Annual Cost Burden

The Commission staff estimates that there is no cost burden associated with the information collection requirement of rule 22e-3 other than the cost of the burden identified in Item 12 of this Supporting Statement.

14. Estimate of Cost to the Federal Government

The Commission does not expect that receiving and reviewing the notices required under rule 22e-3 would result in a material increase in staff time or annual operating costs.

15. Explanation of Changes in Burden

Not applicable. This is the first request for approval of the collection of information for this rule.

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.

Securities Industry and Financial Markets Association, modified to account for an 1800-hour work year and multiplied by 5.35 to account for bonuses, firm size, employee benefits and overhead. See Securities Industry and Financial Markets Association, Management & Professional Earnings in the Securities Industry 2008 (Sept. 2008).