

**SUPPORTING STATEMENT  
FORM N-SAR**

**A. JUSTIFICATION**

**1. Necessity for the Information Collection**

All registered investment companies with the exception of face amount certificate companies are required to file periodic reports with the Commission under the Investment Company Act of 1940 (“Investment Company Act”) (15 U.S.C. 80a-1 et seq.). Section 30(a) of the Investment Company Act (15 U.S.C. 80a-29(a)) provides that each registered investment company must file annually with the Commission such information, documents and reports as investment companies having securities registered on a national securities exchange are required to file annually under the Securities Exchange Act of 1934 (“Exchange Act”) (15 U.S.C. 78a et seq.). In addition, Section 30(b) of the Investment Company Act (15 U.S.C. 80a-29(b)) requires each registered investment company to file, among other things, “such information, documents, and reports (other than financial statements), as the Commission may require to keep reasonably current the information and documents contained in the registration statement of such company....” Registered unit investment trusts (“UITs”) are required to provide this information on an annual report filed with the Commission on Form N-SAR (OMB Control No. 3235-0330, 17 CFR 249.330) pursuant to rule 30a-1 under the Investment Company Act (17 CFR 30a-1), and registered management investment companies must submit the required information on a semi-annual report filed on Form N-SAR pursuant to rule 30b1-1 under the Investment Company Act (17 CFR 270.30b1-1).<sup>1</sup>

**2. Purpose of the Information Collection**

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<sup>1</sup> Face amount certificate companies are required to file periodic reports pursuant to Section 13 or 15(d) of the Exchange Act (15 U.S.C. 78m, 78o(d)).

The purpose of Form N-SAR is to satisfy the filing and disclosure requirements of Section 30 of the Investment Company Act, and of rules 30a-1 and 30b1-1 thereunder. The information required to be filed with the Commission assures the public availability of the information and permits verification of compliance with Investment Company Act requirements.

**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. Reports on Form N-SAR are required to be filed with the Commission electronically on EDGAR. 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.

**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 on Form N-SAR either is not duplicated elsewhere at all or is not duplicated in a format that permits the electronic analysis of the data in a single filing or in comparison over time or among similar investment companies. Any information solicited by Form N-SAR that may be duplicated in other documents filed with the Commission is in narrative format so that it can be read and understood by

investors. The Commission is not able to analyze narrative information electronically on a regular basis, using database or spreadsheet applications.

**5. Effect on Small Entities**

Form N-SAR must be filed by all registered investment companies other than face amount certificate companies, regardless of size. The burden on smaller funds, however, to prepare reports on Form N-SAR 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 Section 30 of the Investment Company Act.

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**

The Commission requires the filing of Form N-SAR semi-annually, rather than annually, for all registered investment companies other than UITs so that it will have current information available for use in performing inspections, 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. The Commission also needs current information about UITs for its regulatory program; however, the Commission requires the filing of Form N-SAR annually, rather than semi-annually, for UITs because the portfolios of these trusts rarely change so the information in Form N-SAR does not often change. Less frequent collection would mean that current information may not be available to investors and

may potentially decrease investor confidence in the full and fair disclosure system that is the hallmark of the U.S. capital markets.

**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 an ongoing dialogue with representatives of the investment company industry and through public conferences, meetings, and informal exchanges. These various forums provide the Commission and the staff with a means of ascertaining and acting upon paperwork burdens confronting the industry. The Commission requested public comment on the collection of information requirements in Form N-SAR 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 Or Gift To Respondents**

Not applicable.

**10. Assurance of Confidentiality**

Not applicable.

**11. Sensitive Questions**

Not applicable.

**12. Estimate of Hour Burden**

The Commission estimates that registered management investment companies, including open-end and closed-end companies, small business investment companies, and managed separate accounts currently spend as much as 15.35 hours preparing and filing the form. The Commission further estimates that UITs, including separate account UITs,

spend as much as 7.11 hours preparing and filing Form N-SAR, since a UIT is required to answer fewer items. The total number of respondents to Form N-SAR is 3,480 and the number of responses annually is 6,180.<sup>2</sup> The Commission has estimated that the weighted average annual hour burden per response for Form N-SAR is 14.31 hours,<sup>3</sup> and the total annual hour burden for all respondents would be approximately 88,436 hours.<sup>4</sup> The Commission estimates that the appropriate compensation rate for professionals commonly used in the preparation of Form N-SAR filings is \$288 per hour. Based on this estimate, the total annual cost to the industry of the hour burden is approximately \$25,469,568 for all filers of Form N-SAR.<sup>5</sup>

The current approved total annual hour burden for completing Form N-SAR is 107,213 hours. The decrease in estimated annual burden hours for all respondents from 107,213 hours to 88,436 hours is based on the decrease in the annual number of respondents from 4,142 to 3,480. This represents a decrease of 18,777 hours for all respondents.

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<sup>2</sup> (2,700 management investment company respondents x 2 responses per year) + (780 UIT respondents x 1 response per year) = 6,180 responses.

<sup>3</sup>  $((2,700 \times 2 \times 15.35 \text{ hours}) + (780 \times 1 \times 7.11)) / 6,180 = 14.31 \text{ hours.}$

<sup>4</sup> 6,180 responses X 14.31 hours = 88,436 hours.

<sup>5</sup> This figure is estimated by multiplying the total annual hour burden (88,436 hours) by the estimated hourly wage rate of \$288.00. The estimated wage figure is based on published rates for compliance attorneys and senior programmers, 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 \$291 and \$285, respectively. See Securities Industry Association, Report on Management & Professional Earnings in the Securities Industry 2009 (Sept. 2009). The estimated wage rate is further based on the estimate that attorneys and programmers would divide time equally, resulting in a weighted wage rate of \$288.00  $((\$291.00 \times .50) + (\$285 \times .50))$ .

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

The Commission estimates that there are no external costs associated with preparation of reports on Form N-SAR.

**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 \$20.4 million in fiscal year 2009, 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**

As noted in section 12 above, the new estimated annual hour burden for Form N-SAR represents a decrease of 18,777 hours per year. This decrease is due to the decrease in the estimated number of respondents submitting Form N-SAR per year from 4,142 to 3,480.

**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.