

**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 Securities and Exchange Commission (“Commission”) under the Investment Company Act of 1940 (“Investment Company Act”).<sup>1</sup> Section 30(a) of the Investment Company Act<sup>2</sup> 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”).<sup>3</sup> In addition, Section 30(b) of the Investment Company Act requires each registered investment company to file, among other things, “such information, documents, and reports...as the Commission may require to keep reasonably current the information and documents contained in the registration statement of such company....”<sup>4</sup> Registered unit investment trusts are required to provide this information on an annual report filed with the Commission on Form N-SAR (OMB Control No. 3235-0330) pursuant to rule 30a-1 under the Investment Company Act,<sup>5</sup> 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 Act.<sup>6</sup>

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<sup>1</sup> 15 U.S.C. 80a-1 et seq.

<sup>2</sup> 15 U.S.C. 80a-29(a).

<sup>3</sup> 15 U.S.C. 78a et seq.

<sup>4</sup> 15 U.S.C. 80a-29(b).

<sup>5</sup> 17 CFR 30a-1.

<sup>6</sup> 17 CFR 270.30b1-1.

Form N-SAR constitutes a collection of information under the Paperwork Reduction Act. Compliance with the disclosure requirements of Form N-SAR is mandatory.

On July 21, 2010, the Commission issued a release proposing to replace rule 12b-1 under the Investment Company Act with new rule 12b-2.<sup>7</sup> The release also proposed technical and conforming amendments to certain rules and forms, including Form N-SAR. The proposed amendments would add an instruction to Form N-SAR to disregard, for funds that no longer have 12b-1 plans, four questions (Items 41-44) that relate to the operation of rule 12b-1 plans (because they would be irrelevant in light of our proposed new framework for asset-based distribution fees). However, funds that maintain grandfathered fund classes would continue to respond to these items.

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

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 under the Investment Company Act. 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, called EDGAR (for Electronic Data Gathering, Analysis and Retrieval), is designed to automate the filing, processing and

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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)].

<sup>7</sup> See Mutual Fund Distribution Fees; Confirmations, 33-9128; 34-62544; IC-29367 (July 21, 2010).

dissemination of all disclosure filings. The system permits publicly held companies to transmit their filings to the Commission electronically. This automation has increased the speed, accuracy, and availability of information, generating benefits to investors and financial markets. All registered investment companies required to file Form N-SAR are required to use EDGAR to file the form.

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

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 could not 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. It would not be in the best interest of investors to reduce the reporting and recordkeeping requirements for small entities.

With respect to the proposed amendments, the Commission considered special requirements for small entities. The Commission believes, however, that special compliance or reporting requirements, or different time tables, for small entities, or an exemption from coverage for small entities, would not be appropriate or consistent with investor protection. Finally, with respect to the proposed amendments, the Commission does not consider using performance rather than design standards to be consistent with the statutory requirement that we adopt rules for the protection of investors.

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 Commission requires the filing of Form N-SAR semi-annually, rather than annually, for all registered investment companies other than unit investment trusts 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 unit investment trusts for its regulatory program. However, the Commission requires the filing of Form N-SAR annually, rather than semi-annually, for unit investment trusts 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.

With the proposed amendments, the frequency with which information from Form N-SAR is collected would not change.

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

Not applicable.

**8. Consultation Outside The Agency**

The Commission has solicited and will consider comment on the proposed amendments to Form N-SAR to enhance the disclosures that are provided to investors in

registered investment companies, and on the changes to the collection of information that would be imposed by the amendments.

**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 following estimates of average burden hours and costs are made solely for purposes of the Paperwork Reduction Act of 1995 (44 U.S.C. 3501 et seq.), and are not derived from a quantitative, comprehensive, or even representative survey or study of the burdens associated with Commission rules and forms.

The Commission estimates that the burden hours that would be imposed by the proposed amendments to Form N-SAR are as follows:

The total annual hour paperwork burden estimate for Form N-SAR is 107,213 hours. The current approved total number of respondents is 4142, and the total annual number of responses is 7461.<sup>8</sup> The staff estimates that there are approximately 1292 management investment companies that respond to Items 40-44 of Form N-SAR.

The staff estimates that our proposed amendments would reduce the time it takes funds that do not have grandfathered share classes to complete Form N-SAR by 0.25 hours, and that there would be no change for funds that maintain grandfathered share

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<sup>8</sup> The staff estimates the number of filers and filings based on the actual number of EDGAR filings and on other Commission records.

classes. The staff estimates that, if these amendments are adopted, in the first three years after adoption, approximately 20% of these 1292 management investment companies (or 258) would no longer maintain grandfathered share classes and experience the estimated savings, while the remaining 80% (or 1034) would continue to have grandfathered share classes and respond to these items. Because Form N-SAR is completed twice a year, the staff estimates that each filer that no longer responds to these items would save approximately 0.5 hour annually (at an internal time cost equivalent rate of \$316 per hour).<sup>9</sup> The staff therefore estimates that our proposed amendments to Form N-SAR would result in an aggregate incremental time savings of approximately 129 hours (with a total internal time equivalent cost savings of \$40,764)<sup>10</sup> annually compared to the current approved hour burden.

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

The Commission staff estimates that there is no cost burden of Form N-SAR excluding that identified in Item No. 12 of this Supporting Statement.

### **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 \$20.4

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<sup>9</sup> The staff estimates that the internal time cost equivalent for time spent by internal counsel is \$316 per hour. This estimate, as well as all other internal time cost estimates made in this analysis (unless otherwise noted) is derived from SIFMA's Management & Professional Earnings in the Securities Industry 2009, modified by Commission staff to account for an 1800-hour work-year and multiplied by 5.35 to account for bonuses, firm size, employee benefits and overhead or from SIFMA's Office Salaries in the Securities Industry 2009, modified by Commission staff to account for an 1800-hour work-year and multiplied by 2.93 to account for bonuses, firm size, employee benefits and overhead.

<sup>10</sup> This estimate is based on the following calculation: (258 × 0.5 hours = 129 hours); (129 hours × \$316 per hour = \$40,764).

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**

Form N-SAR has a current burden hour inventory of 107,213 hours based on an estimate of 4142 respondents. As a result of the proposed amendments, the total hour burden for preparing and filing Form N-SAR would decrease by 129 hours to a new annual burden of 107,084 hours.

**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.