

SUPPORTING STATEMENT
Form N-1A

A. JUSTIFICATION

1. Necessity for the Information Collection

Form N-1A (17 CFR 239.15A and 274.11A) is the form used by open-end management investment companies (“funds”) to register under the Investment Company Act of 1940 (15 U.S.C. 80a-1) (“Investment Company Act”) and register their securities under the Securities Act of 1933 (15 U.S.C. 77a) (“Securities Act”). Section 8 of the Investment Company Act (15 U.S.C. 80a-8) requires a fund to register as an investment company. Section 5 of the Securities Act (15 U.S.C. 77e) requires, among other things, securities to be registered prior to being offered to the public.

Form N-1A is also used by funds to provide investors with a prospectus and a statement of additional information (“SAI”) covering essential information about the fund when it makes an offering of its securities. Section 5(b) of the Securities Act requires that investors be provided with a prospectus containing the information required in a registration statement prior to the sale or at the time of confirmation or delivery of the securities.

Form N-1A constitutes a collection of information under the Paperwork Reduction Act. Compliance with the disclosure requirements of Form N-1A 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-2.¹ The release also proposed technical and conforming amendments to certain rules and forms, including

¹ See Mutual Fund Distribution Fees; Confirmations, 33-9128; 34-62544; IC-29367 (July 21, 2010).

Form N-1A. The proposed amendments to Form N-1A would: (i) replace references to 12b-1 fees and plans with references to relevant fees and sales charges; (ii) require certain disclosures regarding those fees and sales charges; and (iii) require funds offering multiple classes of shares in a single prospectus to describe generally the circumstances under which an investment in one class may be more advantageous than an investment in another class.

2. Purpose of the Information Collection

The title for the collection of information is: Form N-1A under the Investment Company Act of 1940 and Securities Act of 1933, Registration Statement of Open-End Management Investment Companies. The purpose of Form N-1A is to meet the filing and disclosure requirements of the Securities Act and the Investment Company Act and provide investors with information necessary to evaluate an investment in the fund.

Unlike many other federal information collections, which are primarily for the use and benefit of the collecting agency, this information collection is primarily for the use and benefit of investors. The information filed with the Commission also permits the verification of compliance with securities law requirements and assures the public availability and dissemination of the information.

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. Form N-1A is required to be filed with the Commission electronically on EDGAR (17 CFR 232.101(a)(1)(i) and (iv)). 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. Prospectuses and SAIs may be sent to investors by electronic means so long as the fund meets certain requirements.² The Commission has no information concerning the percentage of such documents sent electronically, but believes it is a small percentage.

4. Efforts to Identify Duplication

The Commission periodically evaluates rule-based reporting and recordkeeping requirements for duplication, and reevaluates them whenever it adopts changes in its rules. The requirements of Form N-1A are not generally duplicated elsewhere.

5. Effect on Small Entities

The current disclosure requirements for reports on Form N-1A do not distinguish between small entities and other funds. The burden on smaller funds, however, to prepare and file registration statements 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 the registration statements. We review all rules periodically, as required by the Regulatory Flexibility Act, to identify methods to minimize recordkeeping or reporting requirements affecting small businesses.

With respect to the proposed amendments, the Commission considered special requirements for small entities. The Commission believes, however, that special

² See Use of Electronic Media for Delivery Purposes, Securities Act Release No. 7233, Exchange Act Release No. 36345, Investment Company Act Release No. 21399 (Oct. 6, 1995) (60 FR 53458 (Oct. 13, 1995)).

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.

6. Consequences of Less Frequent Collection

The Investment Company Act requires that funds file annual amendments to their registration statements. Less frequent collection would mean that current information might not be available to fund investors.

With the proposed amendments, the frequency with which information from Form N-1A is collected will not change.

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

Not Applicable.

8. Consultation Outside the Agency

Form N-1A has previously been amended through rulemaking actions pursuant to the Administrative Procedures Act. Comments are generally received from registrants, trade associations, the legal and accounting professions, and other interested parties. 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. The Commission requested public comment on the collection of information requirements in Form N-1A before it submitted this request for revision and approval to the Office of Management and Budget. We will consider all comments received on the proposed amendments.

9. Payment of Gift to Respondents

Not Applicable.

10. Assurance of Confidentiality

Not Applicable.

11. Sensitive Questions

Not Applicable.

12. Estimate of Hour Burden

In our most recent Paperwork Reduction Act submission for Form N-1A, Commission staff estimated the annual compliance burden to comply with the collection of information requirement of Form N-1A is 1,248,589 hours. This hourly burden includes time spent by in-house counsel, back office personnel, compliance professionals, and others in preparing the form. The proposed amendments would affect the staff's estimates of the hour burden as described below.

1. Revised Fee Table

The proposed amendments would require funds, in the fee table of Form N-1A, to replace the current line item titled "Distribution and/or Service (12b-1) Fees" with two line items titled "Marketing and Service Fee" and "Ongoing Sales Charge," as relevant. Only funds that charge asset-based distribution fees would be affected by these proposed amendments. Funds would be able to refer to the same information about asset-based distribution fees that they use to complete the 12b-1 line item currently in the fee table. All information necessary to disclose these fees in the fee table would be readily available, and the staff estimates that funds would not require any additional resources to disclose the fees on two lines, instead of one. Therefore, the staff estimates that funds

would not incur any additional hourly burdens to complete the fee table as we propose to amend it. As a result, the staff estimates that the proposed amendments to the fee table would not change the collection of information currently approved by OMB to complete the fee table in Form N-1A, either initially or when submitting a post-effective amendment.

2. Prospectus Revisions

The proposed amendments would amend Item 12(b) of Form N-1A, which currently requires funds that have adopted 12b-1 plans to disclose information about the operation of the plan in the prospectus. The proposed amendments would eliminate this requirement, and instead require funds to disclose whether they charge a marketing and service fee or an ongoing sales charge, and if they do, to disclose the rate of the fees and the purposes for which they are used. A fund that imposes an ongoing sales charge would be required to disclose the number of months (or years) before the shares would automatically convert to another class without an ongoing sales charge. In addition, we would require a fund offering multiple classes of shares in a single prospectus (each with its own method of paying distribution expenses) to describe generally the circumstances under which an investment in one class may be more advantageous than another class.

Based on information received during conversations with fund representatives, the staff estimates that funds filing initial Form N-1A registrations would expend approximately the same amount of time to provide the narrative prospectus disclosure on asset-based distribution fees under our proposal as they expend under the current disclosure requirements.

The proposed amendments would also require funds that deduct asset-based

distribution fees to revise their narrative prospectus disclosure in post-effective amendments. The staff further estimates that the funds would need to incur a one-time burden to revise and update existing narrative prospectus disclosure to comply with the proposal. After this one-time revision and update is complete, the staff estimates that ongoing burden would remain the same as current estimates because we expect the revised disclosures to be of similar length and complexity as the previous disclosure. The staff estimates that funds would use outside legal resources to prepare this one-time amendment to reflect the proposed new framework. The staff expects that all funds in a fund family would engage in this one-time update at the same time, and therefore the burden of revising a series prospectus would be shared among all funds in the family, thereby reducing the burden for each post-effective update filer. Based on an analysis of data received on Form N-SAR and information received during conversations with fund representatives, the staff estimates that there are approximately 379 fund families that may be affected by this proposed change. The staff further estimates that, on average, each of these fund families would expend 10 hours in internal personnel time (at an internal time cost equivalent rate of \$316 per hour) to revise item 12(b) of Form N-1A to comply with the proposed changes.³ The staff therefore estimates that funds will incur a one-time burden of 3790 hours (at an internal cost equivalent of \$1,197,640) associated

³ 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.

with this proposed revision to Item 12(b) of Form N-1A.⁴ The staff estimates that the proposed amendments would not change the ongoing currently approved collection of information for Item 12(b) of Form N-1A.

3. Statement of Additional Information

The proposal would amend a number of items contained in the SAI portion of Form N-1A. Item 19(g) currently requires funds to describe in detail the material aspects of their 12b-1 plans, and related agreements, in the SAI. Under the proposal, 12b-1 plans would no longer be required, and grandfathered funds would no longer be required to have written “plans” that are supervised and approved by the board of directors; therefore, the proposal would eliminate paragraphs 2 through 6 of Item 19(g). However, Item 19(g)(1) (which requires disclosure of the material aspects of a 12b-1 plan, including a list of the principal activities paid for under the plan and the dollar amounts spent on each activity over the last year), may help investors to better understand how the fund uses asset-based distribution fees, and the proposal would retain it in substance. The proposal would amend Item 19(g)(1) to eliminate references to a 12b-1 plan, and instead require disclosure of the principal activities paid for through asset-based distribution fees (both ongoing sales charges and marketing and service fees).

The proposal would add new paragraph (d) to Item 25, which would require funds that have elected to externalize the sales charge pursuant to proposed rule 6c-10(c) to disclose this election on Form N-1A. This disclosure is designed to inform interested investors of the fund’s election. The proposal would also make technical conforming

⁴ These estimates are based on the following calculations: (379 x 10 hours = 3790 hours); (3790 hours x \$316 per hour = \$1,197,640).

changes to Instruction 3(b) to Item 3; Instruction 5 to Item 26(b)(4); and Item 27(d)(1) (and Instruction 2(a)(i) to Item 27(d)(1)) to replace references to 12b-1 fees and plans with references to the appropriate types of asset-based distribution fee under the proposal. Finally, the proposal would eliminate existing Item 28(m) of Form N-1A, which requires a fund to attach its rule 12b-1 plan and any related agreements as an exhibit to its registration statement. The exhibit would be unnecessary because proposed rule 12b-2 does not require a written plan.

The staff estimates that the proposed amendments to the SAI would result in overall time savings for funds. Funds would incur savings because of the reduced time required to prepare disclosure materials for Item 19(g). The staff further estimates that responding to proposed paragraph (d) of Item 27 would entail little additional time, as it would only require a fund to make a single affirmative statement (if applicable) that the fund has taken the election. The staff estimates that the other proposed technical and conforming amendments to the SAI would not result in changes in the hourly burdens because they would not change the legal or disclosure obligations of funds.

Therefore, based on information received during conversations with fund representatives, the staff estimates that the proposed amendments to the SAI would result in a net time savings of approximately 10 hours for each fund's initial filing and of 1 hour for each post-effective amendment (all of which time would be spent by fund counsel at a time cost equivalent rate of \$316 per hour). Based on a review of information filed with the Commission on Form N-SAR, the staff estimates that there are approximately 300 funds with a 12b-1 plan that newly file each year and 7367 funds that have adopted a 12b-1 plan that file post-effective amendments. Therefore, the staff estimates that all

funds submitting their initial SAI filing would experience an annual reduction of 3000 hours (at an internal cost equivalent of \$948,000).⁵ The staff also estimates that all funds filing post-effective amendments will experience an annual reduction of 7367 hours (at an internal cost equivalent of \$2,327,972).⁶

Thus, the staff estimates that the total incremental compliance burden of the proposed amendments to Form N-1A would be a one-time burden of 3790 hours and an annual burden decrease of 10,367 hours (at an internal time cost savings of \$3,275,972).⁷

These estimated average burden hours are made solely for purposes of the Paperwork Reduction Act and are not derived from a quantitative, comprehensive, or even representative survey or study of the burdens associated with Commission rules and forms.

13. Estimate of Total Annual Cost Burden

The cost burden is the cost of goods and services purchased to prepare and update reports filed on Form N-1A, such as for the services of outside counsel. The cost burden does not include the hour burden discussed in Item 12. Estimates are based on the Commission's experience with the filing of Form N-1A.

The current estimated cost burden allocated to Form N-1A is \$88,009,520. The proposed amendments would impact the cost burden as described below.

⁵ These estimates are based on the following calculations: (300 x 10 hours = 3000 hours); (3000 hours x \$316 per hour = \$948,000).

⁶ These estimates are based on the following calculations: (7367 x 1 hours = 7367 hours); (7367 hours x \$316 per hour = \$2,327,972).

⁷ These estimates are based on the following calculations: (7367 hours + 3000 hours) = 10,367 hours; 10,367 hours x \$316 per hour = \$3,275,972.

1. Prospectus Revisions

As discussed above, the proposed amendments would require funds that deduct asset-based distribution fees to revise their narrative prospectus disclosure in post-effective amendments. The staff expects that the revised narrative prospectus disclosure would be similar in length to the current narrative, and thus would not change the number of pages in the prospectus or change printing costs of the prospectus.⁸

The staff estimates that funds would use outside legal resources to prepare the revised narrative prospectus disclosure. The staff expects that all funds in a fund family would engage in this one-time update at the same time, and therefore the costs for revising a series prospectus would be shared among all funds in the family, thereby reducing the cost for each post-effective update filer. Based on an analysis of data received on Form N-SAR and information received during conversations with fund representatives, the staff estimates that there are approximately 379 fund families that may be affected by this proposed change. The staff further estimates that, on average, each of these fund families would incur approximately \$2000 in one-time costs (for outside legal counsel drafting and review) to revise item 12(b) of Form N-1A to comply with the proposed changes. The staff therefore estimates that funds will incur \$758,000 in outside costs associated with this proposed revision to Item 12(b) of Form N-1A.⁹ The staff estimates that the proposed amendments would not change the ongoing currently approved collection of information for Item 12(b) of Form N-1A.

⁸ Based on conversations with fund representatives, the staff understands that, in general, unless the page count of a prospectus is changed by at least 4 pages, the printing costs would remain the same.

⁹ This estimate is based on the following calculations: $(379 \times \$2000 = \$758,000)$.

2. Statement of Additional Information

The proposal would amend a number of items contained in the SAI portion of Form N-1A. Item 19(g) currently requires funds to describe in detail the material aspects of their 12b-1 plans, and related agreements, in the SAI. Under the proposal, 12b-1 plans would no longer be required, and grandfathered funds would no longer be required to have written “plans” that are supervised and approved by the board of directors; therefore, the proposal would eliminate paragraphs 2 through 6 of Item 19(g). However, Item 19(g)(1) (which requires disclosure of the material aspects of a 12b-1 plan, including a list of the principal activities paid for under the plan and the dollar amounts spent on each activity over the last year), may help investors to better understand how the fund uses asset-based distribution fees, and the proposal would retain it in substance. The proposal would amend Item 19(g)(1) to eliminate references to a 12b-1 plan, and instead require disclosure of the principal activities paid for through asset-based distribution fees (both ongoing sales charges and marketing and service fees).

The proposal would add new paragraph (d) to Item 25, which would require funds that have elected to externalize the sales charge pursuant to proposed rule 6c-10(c) to disclose this election on Form N-1A. This disclosure is designed to inform interested investors of the fund’s election. The proposal would also make technical conforming changes to Instruction 3(b) to Item 3; Instruction 5 to Item 26(b)(4); and Item 27(d)(1) (and Instruction 2(a)(i) to Item 27(d)(1)) to replace references to 12b-1 fees and plans with references to the appropriate types of asset-based distribution fee under the proposal. Finally, the proposal would eliminate existing Item 28(m) of Form N-1A, which requires a fund to attach its rule 12b-1 plan and any related agreements as an exhibit to its

registration statement. The exhibit would be unnecessary because proposed rule 12b-2 does not require a written plan.

The staff estimates that the proposed amendments to the SAI would result in overall cost savings for funds. Funds would incur savings because of the lower costs to prepare disclosure materials for Item 19(g).¹⁰ The staff further estimates that responding to proposed paragraph (d) of Item 27 would entail no costs, as it would only require a fund to make a single affirmative statement (if applicable) that the fund has taken the election. The staff estimates that the other proposed technical and conforming amendments to the SAI would not result in changes in cost because they would not change the legal or disclosure obligations of funds.

Therefore, based on information received during conversations with fund representatives, the staff estimates that the proposed amendments to the SAI would reduce costs incurred for outside counsel associated with completing the SAI, by \$500 for each initial filing and \$150 for each post-effective amendment. Therefore, the staff estimates that all funds submitting their initial SAI filing would experience annual cost savings of \$150,000.¹¹ The staff also estimates that all funds filing post-effective amendments will experience annual cost savings of \$1,105,050.¹²

Thus, the staff estimates that the total incremental compliance burden of Form N-1A would be a one-time cost burden of \$758,000 and an annual cost savings of

¹⁰ Generally, most SAIs are not printed in advance, but are instead printed on demand when requested. The staff estimates that the proposal would not result in a change in printing costs because the staff does not expect that the number of pages of the SAI would be reduced as a result of the proposal, and if there were any reduction; any savings would be minimal due to the few occasions on which the SAI is printed.

¹¹ This estimate is based on the following calculation: $(300 \times \$500 = \$150,000)$.

¹² This estimate is based on the following calculation: $(7367 \times \$150 = \$1,105,050)$.

\$1,255,050.¹³

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

Currently, the approved annual hour burden for preparing and filing registration statements on Form N-1A is 1,248,589 hours. The new estimate of the total annual hour burden is 1,242,012 hours. The decrease in the total annual hour burden is 6577 hours. This decrease is due to the staff's estimates of the time savings that would result from our proposed amendments.

Currently, the approved annual cost burden for preparing and filing registration statements on Form N-1A is \$88,009,520. The new estimate of the total annual cost burden is \$87,512,470. The decrease in the total annual cost burden is \$497,050. This decrease is due to the staff's estimates of the time savings that would result from our proposed amendments.

16. Information Collection Planned for Statistical Purposes

Not Applicable.

17. Approval to not Display Expiration Date

Not Applicable.

¹³ This estimate is based on the following calculation: ($\$1,255,050 = \$1,105,050 + \$150,000$).

18. Exceptions to Certification Statement

Not Applicable.

B. COLLECTIONS OF INFORMATION EMPLOYING STATISTICAL METHODS

Not Applicable.