

SUPPORTING STATEMENT
Proposed Rule 22e-3

A. JUSTIFICATION

1. Necessity of the Information Collection

The Securities and Exchange Commission (“Commission”) is proposing new rule 22e-3 [17 CFR 270.22e-3] under the Investment Company Act of 1940 [15 U.S.C. 80a] (“Act”). Proposed rule 22e-3 would exempt money market funds from section 22(e) of the Act [15 U.S.C. 80a-22(e)] to permit them to suspend redemptions in order to facilitate an orderly liquidation of the fund.

Section 22(e) of the 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, absent certain specified circumstances or a Commission order.

Proposed rule 22e-3 would permit a money market fund to suspend redemptions and postpone the payment of proceeds pending board-approved liquidation proceedings if: (i) the fund’s current price per share, calculated pursuant to rule 2a-7(c) [17 CFR 270.2a-7(c)], is less than the fund’s stable net asset value per share; (ii) the fund’s board of directors, including a majority of directors who are not interested persons, 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. Under the proposed rule, notice 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 would be necessary for money market funds that seek to rely on rule 22e-3 to suspend redemptions and postpone payment of proceeds pending a liquidation, and would not be kept confidential.

2. Purpose of the Information Collection

Certain provisions of the rule 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 proposed rule 22e-3 is to assist Commission staff in monitoring a money market fund's suspension of redemptions in furtherance of an orderly liquidation.² The proposed rule is intended to 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.

3. Role of Improved Information Technology

Proposed rule 22e-3 would require a fund that suspends redemptions in reliance on the rule to provide prior 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.

¹ See proposed rule 22e-3(a)(3).

² The proposed 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). Proposed rule 22e-3(c).

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 proposed rule 22e-3 are not duplicated elsewhere.

5. Effect on Small Entities

Commission staff expects that proposed 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 proposed rule 22e-3. The notice requirement of the proposed 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 and determines to liquidate.

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

Not applicable.

8. Consultation Outside the Agency

Before adopting proposed rule 22e-3, the Commission will receive and evaluate public comments on the proposals and their 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 Staff estimates that a fund providing the required electronic mail notice under proposed rule 22e-3 would spend approximately 1 hour of an in-house attorney's time to prepare and submit the notice.⁴ Given these estimates, the total annual burden of proposed rule 22e-3 for all money market funds would be approximately 10 minutes.⁵ We further estimate that the cost of the annual burden of the notification requirement would be \$51.⁶

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.

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

⁴ These estimates are based on conversations with fund representatives.

⁵ These estimates are based on the following calculations: (1 hour ÷ 6 years) = 10 minutes per year.

⁶ This estimate is based on the following calculation: \$305/hour x 1/6 hour = \$51. The estimated hourly wages used in this PRA analysis were derived from reports prepared by the 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).

13. Estimate of Total Annual Cost Burden

The Commission staff estimates that there is no cost burden associated with the information collection requirement of proposed 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 proposed 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.