

**SUPPORTING STATEMENT**  
**for the Paperwork Reduction Act Information Collection Submission**  
**“Mutual Fund Interactive Data”**

**A. JUSTIFICATION**

**1. Necessity for the Information Collection**

Open-end management investment companies (“funds”) are required to submit to the Commission information included in their registration statements, or information included in or amended by post-effective amendments thereto, in response to Items 2, 3, and 4 (“risk/return summary information”) of Form N-1A (OMB Control No. 3235-0307)<sup>1</sup> in interactive data format and to post it on their websites, if any, in interactive data form. The specified risk/return summary information is also required to be submitted to the Commission in traditional format. In addition, funds are required to submit an interactive data file to the Commission for any form of prospectus filed pursuant to rule 497(c) or (e)<sup>2</sup> under the Securities Act of 1933 (“Securities Act”)<sup>3</sup> that includes risk/return summary information that varies from the registration statement and to post the interactive data file on their websites, if any.

The title for the collection of information for submitting risk/return summary information in interactive data format is “Mutual Fund Interactive Data” (OMB Control No. 3235-0642). This collection of information relates to regulations and forms adopted under the Securities Act, the Securities Exchange Act of 1934 (“Exchange Act”),<sup>4</sup> and the Investment Company Act of

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<sup>1</sup> 17 CFR 239.15A and 274.11A.

<sup>2</sup> 17 CFR 230.497.

<sup>3</sup> 15 U.S.C. 77a et seq.

<sup>4</sup> 15 U.S.C. 78a et seq.

1940 (“Investment Company Act”)<sup>5</sup> that set forth disclosure requirements for funds and other issuers.

Form N-1A is used by funds to register under the Investment Company Act and to offer their securities under the Securities Act. The information required by this collection of information corresponds to the risk/return summary information required by Form N-1A and is required to appear in exhibits to registration statements on Form N-1A and rule 497 submissions, and on fund websites. Although the Mutual Fund Interactive Data filing requirements are included in Form N-1A, the Commission has separately reflected the burden for these requirements in the burden estimate for Mutual Fund Interactive Data and not in the burden for Form N-1A.

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

The purpose of the Mutual Fund Interactive Data requirements is to make risk/return summary information easier for investors to analyze and to assist in automating regulatory filings and business information processing.

## **3. Role of Improved Information Technology**

The Commission’s electronic filing system (“EDGAR”) automates 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. Risk/return summary information in interactive data format is submitted to the Commission electronically on EDGAR. The public may access submissions on EDGAR through the Commission’s website (<http://www.sec.gov>) or at EDGAR terminals located at the

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<sup>5</sup> 15 U.S.C. 80a-1 et seq.

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 Mutual Fund Interactive Data requirements generally are not duplicated elsewhere.

#### **5. Effect on Small Entities**

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.<sup>6</sup> Approximately 116 funds registered on Form N-1A are considered small entities.<sup>7</sup> The Mutual Fund Interactive Data requirements do not distinguish between small entities and other registrants. The burden on small entities, however, to prepare and then submit interactive data may be greater than for larger registrants. This burden may include the cost of software designed to prepare risk/return summary information in interactive data format and hiring a consultant/filing agent to prepare and/or file risk/return summary information in interactive data format. The Commission believes, however, that imposing different requirements on smaller funds would not be consistent with investor protection and the purposes of the Mutual Fund Interactive Data requirements.

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<sup>6</sup> 5 U.S.C. 601 *et seq.*

<sup>7</sup> This estimate is based on analysis by the Division of Investment Management staff of publicly available data as of June 30, 2011.

**6. Consequences of Less Frequent Collection**

The Investment Company Act requires that funds file annual amendments to their registration statements on Form N-1A. Rule 497 under the Securities Act requires that funds file any form of prospectus used after the effective date of a registration statement. Less frequent collection of Mutual Fund Interactive Data would mean that current information might not be available in interactive data format to fund investors.

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

This collection is not inconsistent with 5 CFR 1320.5(d)(2).

**8. Consultation Outside the Agency**

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. These various forums provide the Commission and the staff with a means of ascertaining and acting upon paperwork burdens that may confront the industry. The Commission requested public comment on the Mutual Fund Interactive Data collection of information requirements 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**

No payment or gift to respondents are provided.

**10. Assurance of Confidentiality**

No assurance of confidentiality is provided.

**11. Sensitive Questions**

No questions of a sensitive nature are asked.

## 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<sup>8</sup> and are not derived from a comprehensive or even representative survey or study of the cost of Commission rules and forms. Compliance with the Mutual Fund Interactive Data requirements is mandatory for all funds. Responses to the disclosure requirements will not be kept confidential.

Funds are required to file an initial registration statement on Form N-1A and to update that registration statement annually. The Commission estimates that each fund will submit one interactive data document as an exhibit to a registration statement or a post-effective amendment thereto on Form N-1A that includes or amends information provided in response to Items 2, 3 or 4 annually. In addition, based on a review by Commission staff of Mutual Fund Interactive Data submissions in calendar year 2011, the Commission estimates that 33% of funds will provide risk/return summary information as interactive data in additional filings submitted pursuant to rule 485(b)<sup>9</sup> or rule 497 of the Securities Act annually.

The Commission has previously estimated that the total annual hour burden associated with tagging risk/return summary information is approximately 11 hours. Based on estimates of 9,800 funds<sup>10</sup> each submitting one interactive data document as an exhibit to a registration statement or post-effective amendment thereto and 3,200 funds<sup>11</sup> submitting an additional interactive data document as an exhibit to a filing pursuant to rule 485(b) or rule 497, each

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<sup>8</sup> 44 U.S.C. 3501 *et seq.*

<sup>9</sup> 17 CFR 230.485(b).

<sup>10</sup> At the end of November 2011, the Investment Company Institute reported that there were 9,789 funds, including 7,628 series, 1,127 exchange-traded funds and 1,034 funds of funds.

<sup>11</sup> 9,800 funds x 0.33 = 3,234 funds.

incurring 11 hours per year on average, the Commission estimates that, in the aggregate, the tagging of risk/return summary information will result in approximately 143,000 annual burden hours.<sup>12</sup> Based on the estimated wage rate, the total cost to the fund industry of the hour burden for the tagging of risk/return summary information is approximately \$41.1 million per year.<sup>13</sup>

In addition, the Commission previously estimated that funds will require an average of approximately one burden hour to post interactive data to their websites. Based on estimates of 9,800 funds each posting one interactive data document as an exhibit to a registration statement or post-effective amendment thereto and 3,200 funds posting an additional interactive data document as an exhibit to a filing pursuant to rule 485(b) or rule 497, each incurring one burden hour per year on average, the Commission estimates that, in the aggregate, Mutual Fund Interactive Data website posting requirements will result in approximately 13,000 annual burden hours.<sup>14</sup> Based on the estimated wage rate, the total cost to the fund industry of the hour burden for website posting is approximately \$3.6 million per year.<sup>15</sup>

In the aggregate, the estimated annual total burden hours for complying with the Mutual

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<sup>12</sup> (9,800 funds + 3,200 funds) x 11 hours per fund = 143,000 hours.

<sup>13</sup> This cost is estimated using an estimated hourly wage rate of \$287.50 (143,000 hours x \$287.50 hourly wage rate = \$41,112,500). The estimated wage figure is based on published rates for compliance attorneys and senior system analysts, 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 \$322 and \$276, respectively. See Securities Industry and Financial Markets Association, Report on Management & Professional Earnings in the Securities Industry 2011 (Oct. 2011). The estimated wage rate was further based on the Commission's previous estimate that compliance attorneys account for one quarter of the hours worked and senior system analysts account for the remaining three quarters, resulting in a weighted wage rate of \$248.00 per hour (((\$322 x 0.25) + (\$276 x 0.75)).

<sup>14</sup> (9,800 funds + 3,200 funds) x 1 burden hour per fund = 13,000 hours.

<sup>15</sup> Previously, the Commission estimated a cost of \$250 per hour for posting interactive data. The Commission now believes that this function will be performed by senior system analysts. Using a wage rate of \$276 for senior system analysts, the total cost to the fund industry of the hour burden for website posting is approximately \$3.6 million per year (13,000 hours x \$276 per hour = \$3,588,000).

Fund Interactive Data requirements is approximately 156,000 hours.<sup>16</sup> Based on the estimated wage rate, the total cost to the fund industry of the hour burden for complying with the Mutual Fund Interactive Data requirements is approximately \$44.7 million per year.<sup>17</sup>

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

Cost burden is the cost of goods and services purchased to comply with the Mutual Fund Interactive Data requirements, such as for software and/or the services of consultants/filing agents. The cost burden does not include the cost of the hour burden discussed in Item 12 above.

The Commission previously estimated that the average cost burden for software and/or consulting services used by funds is approximately \$800 per fund. Adjusted for the effects of inflation, we now estimate that the average cost burden per fund is \$841 per year.<sup>18</sup> Based on the estimate of 9,800 funds using software and/or consulting services at an annual cost of \$841, the Commission estimates that, in the aggregate, the total external costs to the industry will be approximately \$8.2 million.<sup>19</sup>

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<sup>16</sup> 143,000 hours + 13,000 hours = 156,000 hours.

<sup>17</sup> \$41.1 million + \$3.6 million = \$44.7 million.

<sup>18</sup> To account for the effects of inflation since 2009, a rate of 5.8125% was applied, which was calculated using the Consumer Price Index.

<sup>19</sup> 9,800 funds x \$841 per fund = \$8,241,800.

#### **14. Estimate of Cost to the Federal Government**

The annual cost of reviewing and processing disclosure documents, including new registration statements, post-effective amendments, proxy statements, and shareholder reports of investment companies amounted to approximately \$21.3 million in fiscal year 2010, 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 complying with the Mutual Fund Interactive Data requirements is 120,444 hours. The new estimate for complying with the Mutual Fund Interactive Data requirements is 156,000 hours, representing an increase of 35,556 hours. The increase in hourly burden is due to an increase in the number of funds as well as the Commission's increased estimate of the number of funds that will provide risk/return summary information as interactive data in additional filings submitted pursuant to rule 485(b) or rule 497 annually.

Currently, the total cost burden for software and/or consulting services is approximately \$7,098,970. The new total cost burden is approximately \$8,200,000, representing an increase of \$1,101,030. This increase is due to the increase in the number of funds as well as accounting for the effects of inflation.

#### **16. Information Collection Planned for Statistical Purposes**

The results of any information collected will not be published.



**17. Approval to not Display Expiration Date**

We request authorization to omit the expiration date on the electronic version of This collection for design and project scheduling reasons. The OMB control number will be displayed.

**18. Exceptions to Certification Statement**

This collection complies with the requirements in 5 CFR 1320.9.

**B. COLLECTIONS OF INFORMATION EMPLOYING STATISTICAL METHODS**

The collection of information will not employ statistical methods.