

**SUPPORTING STATEMENT**  
**Rule 20a-1**

**A. JUSTIFICATION**

**1. Necessity for the Information Collection**

Rule 20a-1 (17 CFR 270.20a-1) was adopted under Section 20(a) of the Investment Company Act of 1940 (“1940 Act”) (15 U.S.C. 80a-20(a)) and concerns the solicitation of proxies, consents, and authorizations with respect to securities issued by registered investment companies (“Funds”).

Rule 20a-1 under the 1940 Act (15 U.S.C. 80a-1 et seq.) requires that the solicitation of a proxy, consent, or authorization with respect to a security issued by a Fund be in compliance with Regulation 14A (17 CFR 240.14a-1 et seq.), Schedule 14A (17 CFR 240.14a-101), and all other rules and regulations adopted pursuant to section 14(a) of the Securities Exchange Act of 1934 (“1934 Act”) (15 U.S.C. 78n(a)). It also requires, in certain circumstances, a Fund’s investment adviser or a prospective adviser, and certain affiliates of the adviser or prospective adviser, to transmit to the person making the solicitation the information necessary to enable that person to comply with the rules and regulations applicable to the solicitation. In addition, rule 20a-1 instructs Funds that have made a public offering of securities and that hold security holder votes for which proxies, consents, or authorizations are not being solicited, to refer to section 14(c) of the 1934 Act (15 U.S.C. 78n(c)) and the information statement requirements set forth in the rules thereunder.

The types of proposals voted upon by Fund shareholders include not only the typical matters considered in proxy solicitations made by operating companies, such as

the election of directors, but also include issues that are unique to Funds, such as the approval of an investment advisory contract and the approval of changes in fundamental investment policies of the Fund. Through rule 20a-1, any person making a solicitation with respect to a security issued by a Fund must, similar to operating company solicitations, comply with the rules and regulations adopted pursuant to Section 14(a) of the 1934 Act. Some of those Section 14(a) rules and regulations, however, include provisions specifically related to Funds, including certain particularized disclosure requirements set forth in Item 22 of Schedule 14A under the 1934 Act.

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

Rule 20a-1 is intended to ensure that investors in Fund securities are provided with appropriate information upon which to base informed decisions regarding the actions for which Funds solicit proxies. Without rule 20a-1, Fund issuers would not be required to comply with the rules and regulations adopted under Section 14(a) of the 1934 Act, which are applicable to non-Fund issuers, including the provisions relating to the form of proxy and disclosure in proxy statements.

## **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 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 Funds are required to use EDGAR for filing most documents with the Commission. Proxy statements that comply with rule 20a-1 are required to be

submitted to the Commission on EDGAR to the extent filing with the Commission is required by rule 14a-6 under the 1934 Act (17 CFR 240.14a-6). 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. In addition, rule 14a-3 under the 1934 Act (17 CFR 240.14a-3) requires Funds to make certain proxy statements available electronically to shareholders on publicly accessible websites.

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

Rule 20a-1 does not call for duplicative, overlapping, or conflicting disclosure. The Commission staff reviews the collection of information requirements on an ongoing basis to find and eliminate duplicative requirements.

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

The Commission staff reviews all rules periodically, as required by the Regulatory Flexibility Act of 1980 (5 U.S.C. 601-612), to identify methods to minimize recordkeeping or filing requirements affecting small businesses. Rule 20a-1 does not distinguish between small entities and other entities. The burden for smaller Funds related to proxy solicitation may be greater than for larger Funds due to economies of scale.

#### **6. Consequences of Less Frequent Collection**

The information required by rule 20a-1 under the 1940 Act and Schedule 14A under the 1934 Act is given to shareholders and filed with the Commission only when proxies are solicited for a shareholder meeting, usually less than once each year. Because the Commission does not have authority over the frequency of shareholder meetings, it cannot require less frequent collection unless it does not require the collection with

respect to every proxy solicitation. Not requiring disclosure of the information required by rule 20a-1 and Schedule 14A in proxy statements would harm investors by denying them information that may be useful in making decisions, such as with regard to the election of directors.

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

Not applicable.

**8. Consultation Outside the Agency**

On occasion, the rules under the 1934 and 1940 Acts have been amended to improve disclosure requirements. Comments on the proxy rules are generally received from registrants, the legal and accounting professions, and other interested parties. In addition, the Commission and the staff of the Division of Investment Management participate in an ongoing dialogue with representatives of the Fund industry through public conferences, meetings and informal exchanges. These various forums provide the Commission with sufficient information for acting upon paperwork burdens confronting the industry.

The Commission requested public comment on the collection of information requirements in rule 20a-1 before it submitted this request for extension 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**

Proxy statements filed by Funds must comply with rule 20a-1 under the 1940 Act.

The staff currently estimates that approximately 1,108 proxy statements are filed by Funds annually.

Based on staff estimates and information from the industry, the staff estimates that the average annual burden associated with the preparation and submission of proxy statements is 85 hours per response, for a total annual burden of 94,180 hours (1,108 responses x 85 hours per response = 94,180). The burden of compliance will vary depending upon the nature of the proposals included in the proxy materials filed with the Commission. Proxy solicitations that relate to complex matters such as reorganizations or involve an increase in the advisory fee rate are typically more involved than those proxies that pertain to more routine matters such as the election of directors. Whether amended filings will be necessary to respond to staff comments and whether outside legal counsel is used in preparing proxy materials will also affect the hour burden of rule 20a-1.

Based on the estimated wage rate, the total cost to the fund industry of the hour burden is approximately \$23,686,270.<sup>1</sup> These estimates are made solely for the purposes

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<sup>1</sup> The industry burden is calculated by multiplying the total annual hour burden to prepare a proxy statement (94,180 hours) by the estimated hourly wage rate \$251.50. The estimated wage rate figure is based on hourly wage rates for compliance attorneys (\$310) and senior accountants (\$193), and the estimate that attorneys and accountants will divide time equally on compliance with the proxy voting disclosure requirements, yielding a weighted wage rate of \$251.50 ( $(\$310 \times .50) + (\$193 \times .50) = \$251.50$ ).

of the Paperwork Reduction Act of 1995 (44 U.S.C. 3501-3520) 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**

Preparing, filing, and distributing proxy materials will not require any investment in capital equipment. Proxy solicitation activities will typically involve costs for purchased services such as outside legal counsel, proxy statement mailing, and proxy tabulation services not included in Item 12 of this Supporting Statement. The staff estimates these to be approximately \$30,000 per proxy solicitation. This estimate is based on a range of costs depending upon the nature and complexity of the matters disclosed in the proxy materials and the number of Fund shareholders receiving proxy materials. Estimates range from \$7,500 to in excess of \$117,000. Based on the staff's estimate, the total annual cost to the Fund industry (not including Item 12 costs) for preparing, filing and distributing proxy materials is approximately \$33,240,000 (1,108 response x \$30,000 per response = \$33,240,000).

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

Not applicable.

### **15. Explanation of Changes in Burden**

The decrease in the total annual hour burden is due to the decrease in the number of proxy solicitations filed annually as well as the decreased estimate of the average

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Hourly wage estimates are based upon SIFMA's report on Management & Professional Earnings in the Securities Industry 2012, modified to account for an 1800-hour work-year and multiplied by 5.35 to account for bonuses, firm size, employee benefits, and overhead.

annual burden associated with the preparation and submission of proxy statements. The number of proxy solicitations filed annually decreased from 1,225 to 1,108 and the staff's estimate of the average annual hour burden decreased from 106.2 to 85. The increase in the total annual cost burden is due to the increased estimate of the costs associated with proxy solicitations, from \$15,000 per solicitation to \$30,000.

**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.