

SUPPORTING STATEMENT
Rule 30e-1

A. JUSTIFICATION

1. Necessity for the Information Collection

Section 30(e) (15 U.S.C. 80a-29(e)) of the Investment Company Act of 1940 (“Investment Company Act”) (15 U.S.C. 80a-1 et seq.) requires a registered investment company to transmit to its shareholders, at least semi-annually, reports containing financial statements and other financial information as the Commission may prescribe by rules and regulations. In addition, Section 30(f) permits the Commission to require by rule that semi-annual reports include such other information as the Commission deems necessary or appropriate in the public interest or for the protection of investors. Rule 30e-1 generally requires a registered management investment company (“fund”) to transmit to its shareholders, at least semi-annually, reports containing the information that is required to be included in such reports by the fund’s registration statement form under the Investment Company Act. Failure to require the collection of this information would seriously impede the amount of current information available to shareholders and the public about funds and would prevent the Commission from implementing the regulatory program required by statute.

On July 21, 2010, the Dodd-Frank Wall Street Reform and Consumer Protection Act (“Dodd-Frank Act”) was enacted.¹ Section 939A of the Dodd-Frank Act requires the Commission to review its regulations for any references to or requirements regarding credit ratings that require the use of an assessment of the credit-worthiness of a security or money market instrument, remove these references or requirements and substitute other appropriate standards of credit-worthiness in place of the credit ratings. Section 939A further requires the Commission to seek to make these standards, to the extent feasible, uniform, taking into account

¹ Pub. L. No. 111-203, 124 Stat. 1376 (2010).

the entities regulated by the Commission and the purposes for which the regulated entities would rely on the standards. As directed by section 939A of the Dodd-Frank Act, the Commission has reviewed its regulations for any references to or requirements regarding credit ratings in regulations that require the use of an assessment of the credit-worthiness of a security or money market instrument. In light of the Commission's review, and as further directed by the Dodd-Frank Act, the Commission is proposing amendments to Forms N-1A, N-2 and N-3 to remove the required use of credit ratings assigned by a nationally recognized statistical rating organization ("NRSRO").

Forms N-1A, N-2 and N-3, among other things, contain the requirements for shareholder reports of funds. Currently, Forms N-1A, N-2 and N-3 each require shareholder reports to include a table, chart or graph depicting portfolio holdings by reasonably identifiable categories (*e.g.*, type of security, industry sector, geographic region, credit quality or maturity).² The forms require the categories to be selected in a manner reasonably designed to depict clearly the types of investments made by the fund, given its investment objectives. If credit quality is used to present portfolio holdings, the forms require that credit quality be depicted using the credit ratings assigned by a single NRSRO.

The Commission is proposing to amend Forms N-1A, N-2 and N-3 to eliminate the required use of NRSRO credit ratings by funds that choose to use credit quality categorizations in the required table, chart, or graph of portfolio holdings. If a fund chooses to use NRSRO credit ratings to depict credit quality of portfolio holdings, the proposed amendments, like the current forms, generally would require the fund to use the credit ratings of a single NRSRO. The proposed amendments would clarify that, if credit ratings of the NRSRO selected by a fund are not available for certain holdings, the fund must briefly discuss the methodology for determining

² Item 27(d)(2) of Form N-1A; Instruction 6(a) to Item 24 of Form N-2; Instruction 6(i) to Item 28 of Form N-3.

credit quality for those holdings, including, if applicable, the use of credit ratings assigned by another NRSRO.

Because the proposed amendments to Forms N-1A, N-2 and N-3 relate solely to the contents of fund shareholder reports, the collection of information requirements is included in the burden associated with rule 30e-1 rather than Forms N-1A, N-2 and N-3.

2. Purpose of the Information Collection

The purpose of the collection of information required by rule 30e-1 is to provide fund shareholders with current information about the operation of their funds in accordance with Section 30 of the Investment Company Act. If the proposed amendments are adopted, funds would remain obligated to provide a table, chart or graph of portfolio holdings by reasonably identifiable categories in their shareholder reports, and funds that choose to use credit quality categorizations would not be required to use NRSRO credit ratings. If credit ratings of the NRSRO selected by a fund are not available for certain holdings, the fund would be required to briefly discuss the methodology for determining credit quality for those holdings, including, if applicable, the use of credit ratings assigned by another NRSRO.

3. Role of Improved Information Technology

Rule 30e-1 does not require filing of the shareholder report with the Commission, but instead the transmission of reports to shareholders. Shareholder reports are typically sent in paper; however, investors may consent to the delivery of electronic versions. The proposed amendments would not affect the transmission of reports to shareholders.

4. Efforts to Identify Duplication

To ensure the relevance of the information filed by each fund and to avoid unnecessary paperwork and duplicative reporting, the Commission has promulgated specific rules and designed specific forms or items of forms for each type of investment company. The information required by rule 30e-1 is not generally duplicated elsewhere. 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 current disclosure requirements for shareholder reports do not distinguish between small entities and other funds. The burden on smaller funds may be greater than for larger funds. This burden includes the cost of producing, printing, and transmitting the shareholder reports. The Commission believes, however, that imposing different requirements on smaller investment companies would not be consistent with investor protection and the purposes of shareholder reports. 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.

The proposed form amendments, if adopted, would apply to all funds that use Forms N-1A, N-2 and N-3. If the Commission excluded small entities from the proposed form amendments, small entities would be required to use NRSRO credit ratings if they choose to depict credit quality, while other entities would not be subject to that requirement. The Commission believes this outcome is inconsistent with Section 939A of the Dodd-Frank Act. The Commission believes that special compliance or reporting requirements, or an exemption, for small entities with respect to the use of a single NRSRO is not appropriate because the

proposed requirement is intended to eliminate the possibility that a fund of any size could select the most favorable ratings among credit ratings assigned by multiple NRSROs.

6. Consequences of Less Frequent Collection

The frequency with which information in compliance with rule 30e-1 is collected is semi-annual, as set out Section 30(e) of the Investment Company Act and rule 30e-1. Less frequent collection of information would impede the amount of current information provided to shareholders about their funds.

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

The information collection is not conducted in any of the manners set out under 5 CFR 1320.5(d)(2).

8. Consultation Outside the Agency

The Commission and the staff of the Division of Investment Management participate in an ongoing dialogue with representatives of the investment company industry and 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 confronting the industry. The Commission has solicited and will consider comment on the proposed amendments, and on the collection of information that would be imposed by the amendments.

9. Payment or Gift to Respondents

No payment or gift to respondents was provided.

10. Assurance of Confidentiality

No assurance of confidentiality was provided.

11. Sensitive Questions

No questions of a sensitive nature are involved.

12. Estimate of Hour Burden

Rule 30e-1 under the Investment Company Act of 1940 requires each fund to include in its shareholder reports the information that is required by the fund's registration statement form. Compliance with the disclosure requirements of rule 30e-1 is mandatory. Responses to the disclosure requirements will not be kept confidential.

The Commission believes that the proposed amendments to Forms N-1A, N-2 and N-3 would not affect the current approved internal hour burden under rule 30e-1, because funds would remain obligated to provide a table, chart, or graph of portfolio holdings by reasonably identifiable categories. The proposed amendments only eliminate the required use of NRSRO credit ratings by funds that choose to use credit quality categorizations. The Commission further believes that the proposed clarification for cases when credit ratings of the NRSRO selected by a fund are not available for certain holdings would not impose any additional hour burden because funds typically provide this disclosure in their shareholder reports today.³

The current approved internal hour burden for preparing and filing semi-annual or annual shareholder reports in compliance with rule 30e-1 is 1,194,532 hours. We now estimate that 2,600 funds, with a total of approximately 10,060 portfolios, respond to rule 30e-1 annually. Using an estimate of 114.2 hours per portfolio, we calculate the total estimated annual internal burden of responding to rule 30e-1 to be approximately 1,148,852 hours (114.2 hours x 10,060 portfolios). This represents a decrease of 45,680 hours per year under the current approved burden.

Of the 1,148,852 hours spent annually to comply with rule 30e-1, the Commission estimates that:

³ This assessment is based on a staff review of a sample of fund shareholder reports filed with the Commission.

- Fifty percent (574,426 hours) are spent by in-house legal counsel at an estimated hourly wage of \$354, for a total of approximately \$203,300,000 per year;⁴ and
- Fifty percent (574,426 hours) are spent by internal fund accountants at an estimated hourly wage of \$165, for a total of \$94,800,000 per year.⁵

Based on these estimated wage rates,⁶ the total cost to the industry of the hour burden for complying with the annual and semi-annual shareholder report requirements of rule 30e-1 is approximately \$298,100,000.⁷

13. Estimate of Total Annual Cost Burden

The Commission believes that the proposed amendments to Forms N-1A, N-2 and N-3 would not affect the current cost burden of rule 30e-1 because funds would remain obligated to provide a table, chart or graph of portfolio holdings by reasonably identifiable categories. The proposed amendments only eliminate the required use of NRSRO credit ratings by funds that choose to use credit quality categorizations. The Commission further believes that the proposed clarification for cases when credit ratings of the NRSRO selected by a fund are not available for certain holdings would not impose any additional cost burden because funds typically provide this disclosure in their shareholder reports today.⁸

⁴ 574,426 hours x \$354 per hour = \$203,346,804.

⁵ 574,426 hours x \$165 per hour = \$94,780,290.

⁶ The Commission's estimates concerning the allocation of burden hours and the relevant wage rates are based on consultations with industry representatives and on salary information for the securities industry compiled by the Securities Industry and Financial Markets Association. The estimated wage figures are also based on published rates for compliance attorneys and internal accountants, 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 \$354 and \$165, respectively. See Securities Industry and Financial Markets Association, Report on Management & Professional Earnings in the Securities Industry 2010.

⁷ \$203,300,000 + \$94,800,000 = \$298,100,000. The cost to the industry is calculated by multiplying the total annual hour burden by the estimated hourly wage rate.

⁸ This assessment is based on a staff review of a sample of fund shareholder reports filed with the Commission.

The current cost burden of rule 30e-1 is \$328,444,000.⁹ Adjusting for the effects of inflation since 2009, we now estimate that the total cost burden is approximately \$31,900 per portfolio.¹⁰ Basing our calculation on the approximately 10,060 portfolios now subject to rule 30e-1, we estimate the annual external cost burden associated with rule 30e-1 to be approximately \$321,000,000.¹¹ This represents a decrease of approximately \$7,444,000 per year.

14. Estimate of Cost to the Federal Government

The annual cost of reviewing and processing registration statements, post-effective amendments, proxy statements, shareholder reports, and other filings 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. We note, however, that shareholder reports are filed with the Commission to comply with the requirements of Form N-CSR, and not rule 30e-1, which requires the transmission of the reports to shareholders.

15. Explanation of Changes in Burden

As noted in sections A.12 and A.13 above, the new estimates represent decreases of 45,680 hours in internal burden and approximately \$7,444,000 in external costs per year. These net decreases are due to the decrease in the number of portfolios responding to rule 30e-1, and with respect to the external cost burden, an increase in the estimated cost burden per portfolio to account for the effect of inflation since 2009.

⁹ In 2009, we estimated the total cost burden for the 2,800 funds with 10,460 portfolios then subject to rule 30e-1 to be approximately \$328,444,000, or an average of approximately \$31,400 per portfolio ($\$328,444,000 \div 10,460$ portfolios).

¹⁰ This estimate is based on the \$31,400 estimate in 2009 (discussed in footnote 9) and the Consumer Price Index inflationary adjustment for 2010.

¹¹ $\$31,900$ per portfolio x 10,060 portfolios = \$320,914,000.

The Commission believes that the proposed amendments to Forms N-1A, N-2 and N-3 would not affect the current burdens under rule 30e-1 because funds would remain obligated to provide a table, chart, or graph of portfolio holdings by reasonably identifiable categories. The Commission further believes that the proposed clarification for cases when credit ratings of the NRSRO selected by a fund are not available for certain holdings would not impose any additional burdens because funds typically provide this disclosure in their shareholder reports today.

16. Information Collection Planned for Statistical Purposes

The results of any information collected will not be published.

17. Approval to not Display Expiration Date

The Commission is not seeking approval to not display the expiration date for OMB approval.

18. Exceptions to Certification Statement

The Commission is not seeking an exception to the certification statement.

B. COLLECTION OF INFORMATION EMPLOYING STATISTICAL METHODS

The collection of information will not employ statistical methods.