

SUPPORTING STATEMENT
Rule 30e-1

A. JUSTIFICATION

1. Necessity for the Information Collection

Section 30(e) of the Investment Company Act of 1940 (“Investment Company Act”)¹ requires a registered investment company (“fund”) 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.² 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 under the Investment Company Act generally requires a 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.³ 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 December 27, 2013, the Commission adopted amendments to Forms N-1A, N-2, and N-3 under the Investment Company Act. 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, such as industry sector, geographic region or credit quality. If credit quality is used, the forms require that credit quality be depicted using credit ratings from a single

¹ 15 U.S.C. 80a-1 et seq.

² 15 U.S.C. 80a-29(e).

³ 17 CFR 270.30e-1.

NRSRO. As amended, the forms no longer require the use of credit ratings by funds that choose to use credit quality categorizations in the table, chart or graph. Funds that choose to use credit ratings may use credit ratings from more than one credit rating agency (*e.g.*, split-rated securities). In addition, under the amended forms, funds must also describe in the shareholder report how the credit quality of the portfolio holdings was determined, and if credit ratings are used, describe how they were identified and selected. As discussed below, the amendments to the forms require that certain funds make new disclosures that qualify as collections of information.

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.

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.

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 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 required by rule 30e-1 is not generally duplicated elsewhere.

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.

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)

This collection is not inconsistent with 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 requested public comment on the collection of information

requirements in rule 30e-1 before it submitted this request for revision 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 was provided.

10. Assurance of Confidentiality

No assurance of confidentiality was provided.

11. Sensitive Questions

No PII collected/Not applicable.

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.

We estimate that approximately 2,490 funds, with a total of approximately 10,750 portfolios, respond to rule 30e-1 annually. Based on conversations with fund representatives, we estimate that it takes approximately 84 hours to comply with the collection of information associated with rule 30e-1 per portfolio. This time is spent, for example, preparing, reviewing, and certifying the reports.

Accordingly, we calculate the total estimated annual internal burden of responding to rule 30e-1 to be approximately 903,000 hours.⁴

Of the 903,000 hours spent annually to comply with rule 30e-1, the Commission estimates that:

⁴ 84 hours per portfolio x 10,750 portfolios = 903,000 hours.

- Fifty percent (451,500 hours) are spent by in-house attorneys at an estimated hourly wage of \$378⁵, for a total of approximately \$170,667,000 per year;⁶ and
- Fifty percent (451,500 hours) are spent by internal intermediate accountants at an estimated hourly wage of \$154, for a total of \$69,531,000 per year.⁷

Based on these estimated wage rates, 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 \$240,198,000.⁸

Finally, the staff estimates that, as a result of the amendments to Forms N-1A, N-2, and N-3, it will take, on average, 3 hours of an attorney's time to perform a review of the fund's disclosures and make any technical changes. The staff estimates a one-time additional burden of 32,049 hours for all funds and an aggregate annual cost of the burden hours associated with amended Forms N-1A, N-2, and N-3 of \$12,146,571.⁹ Amortized over three years, the staff

⁵ 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 in-house attorneys and internal intermediate 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 \$378 and \$154, respectively. See Securities Industry and Financial Markets Association, Report on Management & Professional Earnings in the Securities Industry 2011.

⁶ 451,500 hours x \$378 per hour = \$170,667,000.

⁷ 451,500 hours x \$154 per hour = \$69,531,000.

⁸ \$170,667,000 + \$69,531,000 = \$240,198,000. The cost to the industry is calculated by multiplying the total annual hour burden by the estimated hourly wage rate.

⁹ The staff's estimate of the number of funds is based on staff examination of industry data as of August 31, 2013 and includes 10,683 funds that collectively file reports on Forms N-1A, N-2, and N-3 each year. We note that this estimate is conservative because it is likely that some fund complexes will achieve economies of scale when revising their disclosures, do not use credit quality when describing portfolio holdings, or whose current disclosures already satisfy the requirements of the amended rule and thus would not need to make any changes. The amount is calculated as follows: 10,683 funds x 3 hours = 32,049 one-time additional burden hours for all funds. We estimate that the one-time additional annual burden is 3 hours per respondent.

estimates that the estimated annual aggregate time burden will be 10,683 burden hours.¹⁰ In sum, the staff estimates the new annual time burden to be 935,049 hours.¹¹

13. Estimate of Total Annual Cost Burden

Based on conversations with fund representatives, we estimate that the total cost burden of compliance with the information collection requirements of rule 30e-1 is approximately \$31,061 per portfolio. This includes, for example, the costs for funds to prepare, print, and mail the reports. Basing our calculation on the approximately 10,750 portfolios now subject to rule 30e-1, we estimate the annual external cost burden associated with rule 30e-1 to be approximately \$333,905,750.¹²

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 \$19.8 million in fiscal year 2012, 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.

The monetized burden hours are calculated as follows: 32,049 hours x \$379 per hour = \$12,146,571 one-time additional costs. The staff estimates that the internal cost for time spent by an in-house attorney is \$379 per hour. This estimate is derived from SIFMA's Management and Professional Earnings in the Securities Industry 2012, modified by Commission staff to account for an 1800-hour work week and multiplied by 5.35 to account for bonuses, firm size, employee benefits and overhead.

¹⁰ The amount is calculated as follows: 32,049 burden hours / 3 = 10,683 burden hours.

¹¹ The burden hours are calculated as follows: 903,000 hours (*supra* note 4) + 32,049 hours (*supra* note 9) = 935,049 hours.

15. Explanation of Changes in Burden

The estimates represent a one-time increase of 32,049 hours in internal burden. These changes are due to the recently adopted amendments to Forms N-1A, N-2, and N-3.

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.

¹² \$31,061 per portfolio x 10,750 portfolios = \$333,905,750.