

**SUPPORTING STATEMENT**  
**For the Paperwork Reduction Act Information Collection Submission for**  
**RULE 17F-1**

**A. JUSTIFICATION**

**1. Necessity for the Information Collection**

Section 17(f) of the Investment Company Act of 1940 ("Act") (15 U.S.C. 80a-17(f)) provides in part that a registered management investment company ("fund") may maintain its securities and similar investments in the custody of a "company which is a member of a national securities exchange as defined in the Securities Exchange Act of 1934, subject to such rules and regulations as the Commission may from time to time prescribe for the protection of investors."

Rule 17f-1 (17 CFR 270.17f-1) under the Act, entitled "Custody of Securities with Members of National Securities Exchanges," sets forth the conditions under which a fund may place its assets in the custody of a member of a national securities exchange. Rule 17f-1 permits a fund to place its assets in the custody of a member of a national securities exchange only under a written contract approved by a majority of the fund's board of directors. The rule requires the contract to contain certain provisions, and requires the fund's board to ratify the contract at least once a year thereafter. In addition, the fund must submit a copy of the custodial contract to the Commission. This requirement assures that Commission staff can review the contract for compliance with the Act.

Rule 17f-1 also requires, among other things, that an independent public accountant verify the fund's assets at the end of every annual and semi-annual fiscal period, and at least one other time during the fiscal year as chosen by the independent accountant. Requiring an independent accountant to examine the fund's assets in the custody of a member of a national

securities exchange assists Commission staff in its inspection program and helps to ensure that the fund assets are subject to proper auditing procedures. The accountant's certificate stating that it has made an examination, and describing the nature and the extent of the examination, must be attached to Form N-17f-1 and filed with the Commission promptly after each examination.<sup>1</sup>

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

The requirements of rule 17f-1 are designed to ensure safekeeping of fund assets and to assist Commission staff in monitoring funds' compliance with federal securities laws. Requiring a copy of the custodial contract to be submitted to the Commission assures that Commission staff can review the contract for compliance with the Act. Although Commission inspections staff conducts periodic reviews of all funds, due to staffing constraints, funds are not inspected annually. Thus, the periodic examination by the accountants required by rule 17f-1 help to ensure that the fund's assets are continuously subject to proper auditing procedures. Less frequent periodic examinations by a fund's accountants could impair the ability of the Commission's examination staff to ascertain a fund's compliance with the rule.

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

The Commission's Electronic Data Gathering, Analysis and Retrieval System ("EDGAR") provides for the automated filing, processing, and dissemination of full disclosure filings. The automation provides for speed, accuracy and public availability of information, generating benefits to investors and financial markets. Currently, the accountant's certificates are required to be filed electronically. Rule 17f-1 requires the custody agreement to be filed as an

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<sup>1</sup> Form N-17f-1 is entitled "Certificate of Accounting of Securities and Similar Investments of a Management Investment Company in the Custody of Members of National Securities Exchanges." The form serves as a cover sheet to the accountant's certificate, and does not require any additional information to be gathered or filed with the Commission.

exhibit to a fund's registration statement under the Act, and each form of registration statement must be filed electronically through EDGAR.

#### **4. Duplication**

Rule 17f-1 does not impose any duplicative requirements, and the information collected under the rule is not available elsewhere.

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

The requirements of rule 17f-1 apply to all funds, including funds that are small entities, that maintain their assets in the custody of a member of a national securities exchange. Rule 17f-1 is not mandatory, and funds may choose alternative custody arrangements. If a fund chooses to maintain its assets in the custody of a national securities exchange member, then regardless of its size, it must comply with rule 17f-1.

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

The requirements of rule 17f-1 are designed to ensure the safekeeping of fund assets and assist Commission staff in monitoring fund custodial arrangements. Less frequent collection of the information required by the rule would inhibit the dissemination of timely information that enables Commission staff to ensure the safekeeping of client funds and investment company securities.

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

Not applicable.

#### **8. Consultation Outside the Agency**

The Commission requested public comment on the collection of information requirements of rule 17f-1 before it submitted this request for extension and approval to the Office of Management and Budget. The Commission received no comments in response to this

request. 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 and the staff with a means of ascertaining and acting upon paperwork burdens confronting the industry.

**9. Payment or Gift**

Not applicable.

**10. Confidentiality**

Not applicable.

**11. Sensitive Questions**

No personally identifiable information (PII) collected/not applicable.

**12. Burden of Information Collection**

The estimate of average burden hours is made solely for the purposes of the Paperwork Reduction Act and is not derived from a comprehensive or even representative survey or study of the cost of Commission rules and forms. Commission staff estimates that each fund makes 1 response and spends an average of 3.5 hours annually in complying with the rule's requirements.<sup>2</sup>

Commission staff estimates that on an annual basis it takes: (i) 0.5 hours for the board of directors<sup>3</sup> at a total cost of approximately \$2,200<sup>4</sup> to review and ratify the custodial contracts; and (ii) 3 hours for the fund's controller or administrator at a total cost of approximately \$1,338

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<sup>2</sup> The 1 response is the board's approval of the contract.

<sup>3</sup> Estimates of the number of hours are based on conversations with representatives of mutual funds that comply with the rule. The actual number of hours may vary significantly depending on individual fund assets. The hour burden for rule 17f-1 does not include preparing the custody contract because that would be part of customary and usual business practice.

<sup>4</sup> The staff has estimated the average cost of board of director time as \$4,400 per hour for the board as a whole, based on information received from funds and their counsel.

to assist the fund's independent public auditors in verifying the fund's assets, for a total of 3.5 hours at a cost of \$3,538.<sup>5</sup> Commission staff estimates that 4 funds rely on the rule annually, with a total of 4 responses.<sup>6</sup> Thus, the staff estimates that the total annual hour burden for rule 17f-1 is 14 hours.<sup>7</sup> Based on the total costs per fund listed above, the staff estimates that the total cost of rule 17f-1's collection of information requirement is \$14,152.<sup>8</sup>

### **13. Cost to Respondents**

Funds that rely on rule 17f-1 generally use outside counsel to prepare the custodial contract for the board's review and to transmit the contract to the Commission. Commission staff estimates the cost of outside counsel to perform these tasks for a fund each year is \$800.<sup>9</sup> Funds also must have an independent public accountant verify the fund's assets three times each year and prepare the certificate of examination. Commission staff estimates the annual cost for an independent public accountant to perform this service is \$8,500.<sup>10</sup> Therefore, the total annual

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<sup>5</sup> These estimates are based on the following calculations: (3 x \$446 = \$1,338); (\$2,200 + \$1,338 = \$3,538). The estimated costs for professional staff time is based on SIFMA's Management & Professional Earnings in the Securities Industry 2013, modified by Commission staff to account for an 1800-hour work-year and multiplied by 5.35 to account for bonuses, firm size, employee benefits and overhead.

<sup>6</sup> This estimate is based on a review of Form N-17f-1 filings over the last three years.

<sup>7</sup> This estimate is based on the following calculation: (4 respondents x 3.5 hours = 14 hours). The annual burden for rule 17f-1 does not include time spent preparing Form N-17f-1. The burden for Form N-17f-1 is included in a separate collection of information.

<sup>8</sup> This estimate is based on the following calculation: (4 funds x \$3,538 (total annual cost per fund) = \$14,152).

<sup>9</sup> This estimate is based on the following calculation: (2 hours of outside counsel time x \$400 = \$800). The staff has estimated the average cost of outside counsel at \$400 per hour, based on information received from funds and their counsel.

<sup>10</sup> This estimate is based on information received from fund representatives estimating the aggregate annual cost of an independent public accountant's periodic verification of assets and preparation of the certificate of examination.

cost burden for a fund that relies on rule 17f-1 would be approximately \$9,300.<sup>11</sup> As noted above, the staff estimates that 4 funds rely on rule 17f-1 each year, for an estimated total annualized cost burden of \$37,200.<sup>12</sup>

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

The federal government does not incur any direct costs in connection with the requirements of rule 17f-1.

**15. Explanation of Changes in Burden**

The estimated total annual burden has decreased from 17.5 hours to 14 hours. Based on a review of filings, the number of funds relying on rule 17f-1 has decreased slightly and the time to prepare the filings has not changed. The annual cost burden has decreased from \$44,000 to \$37,200. This \$6,800 decrease is primarily attributable to changes in the number of funds relying on rule 17f-1.

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

Not applicable.

**17. Approval to Omit OMB Expiration Date**

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

**18. Exceptions to Certification Statement**

Not applicable.

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

Not applicable.

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<sup>11</sup> This estimate is based on the following calculation: ( $\$800 + \$8,500 = \$9,300$ ).

<sup>12</sup> This estimate is based on the following calculation: ( $4 \text{ funds} \times \$9,300 = \$37,200$ ).