

SUPPORTING STATEMENT
For the Paperwork Reduction Act Information Collection Submission for
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 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.³ Rule 30e-1 under the Investment Company Act generally requires a registered management company (“fund”) to transmit to its shareholders, at least semi-annually, a report containing the information that is required to be included in such reports by the fund’s registration statement form under the Investment Company Act.⁴ 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.

¹ 15 U.S.C. 80a-1 et seq.

² 15 U.S.C. 80a-29(e).

³ 15 U.S.C. 80a-29(f).

⁴ 17 CFR 270.30e-1.

Rule 30e-1 also permits, under certain conditions, delivery of a single shareholder report to investors who share an address (“householding”).⁵ Specifically, rule 30e-1 permits householding of annual and semi-annual reports by management companies to satisfy the transmission requirements of rule 30e-1 if, in addition to the other conditions set forth in the rule, the management company has obtained from each applicable investor written or implied consent to the householding of shareholder reports at such address. The rule requires management companies that wish to household shareholder reports with implied consent to send a notice to each applicable investor stating, among other things, that the investors in the household will receive one report in the future unless the investors provide contrary instructions. In addition, at least once a year, management companies relying on the householding provision must explain to investors who have provided written or implied consent how they can revoke their consent.

On May 20, 2015, the Commission issued a release proposing certain changes to the investment company reporting and disclosure regime.⁶ Among other things, the proposal would include certain amendments to Articles 6 and 12 of Regulation S-X⁷ – the regulation that prescribes the form and content for fund financial statements. Among other things, the proposed amendments would: (1) require new, standardized disclosures regarding fund holdings in open futures contracts, open forward foreign currency contracts, and open swap contracts, and additional disclosures regarding fund holdings of written and purchased options; (2) update the disclosures for other investments, as well as reorganize the order in which some investments are presented; (3) amend the rules regarding the general form and content of fund financial

⁵ See rule 30e-1(f).

⁶ See Investment Company Reporting Modernization, Investment Company Act Release No. 31610 (May 20, 2015) (“Reporting Modernization Proposal”).

⁷ 17 CFR 210.1-01 et seq.

statements; and (iv) require a new disclosure in the notes to the financial statements relating to a fund's securities lending activities.

Additionally, the Commission proposed new rule 30e-3,⁸ which would permit, but not require, a fund to transmit its reports to shareholders by posting them on its website, rather than printing and mailing the reports to shareholders, as long as the fund meets certain other conditions of the rule regarding (a) availability of the report and other materials; (b) shareholder consent; (c) notice to shareholders; and (d) delivery of materials upon request of the shareholder. Reliance on proposed rule 30e-3 would be voluntary; however, compliance with its conditions would be mandatory for funds relying on the rule. The Commission expects 90% of funds to rely on rule 30e-3.

Compliance with the disclosure requirements of rule 30e-1 is mandatory. Responses to the disclosure requirements are not be kept confidential.

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 operations 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 currently consent to the delivery of electronic versions. If adopted, proposed rule 30e-3 would permit funds to transmit reports to shareholders by posting them on its website.

⁸ 17 CFR 270.30e-3.

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 in 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

Before adopting the amendments to Regulation S-X and proposed rule 30e-3, the Commission will receive and evaluate public comments on the proposals and its collection of information requirements. Moreover, 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.

<http://www.sec.gov/comments/s7-08-15/s70815.shtml>

9. Payment or Gift to Respondents

Not applicable.

10. Assurance of Confidentiality

Not applicable.

11. Sensitive Questions

No PII collected/Not applicable.

12. Estimate of Hour Burden

We estimate that there are 11,230 management companies that would have to comply with our proposed amendments to Regulation S-X.⁹ In addition, we estimate that the proposed amendments to Regulation S-X would likely increase the time spent preparing, reviewing and certifying reports, if adopted. The extent to which a fund's burden would increase as a result of

⁹ This estimate includes 9,259 mutual funds (including money market funds), 1,403 ETFs (1,411 ETFs – 8 UIT ETFs) and 568 closed-end funds and is based on internal SEC data as well as ICI statistics as of December 31, 2014 available at <http://www.ici.org/research/stats>.

the proposed amendments would depend on the extent to which the fund invests in the instruments covered by many of the amendments to Regulation S-X.

We estimate that, on an annual basis, funds generally will incur an additional 9 burden hours in the first year and an additional 3 burden hours for filings in subsequent years in order to comply with the proposed amendments to Regulation S-X. Amortized over three years, the average annual hour burden associated with the proposed amendments to Regulation S-X would be 5 hours per fund.¹⁰ Accordingly, the estimated total annual average hour burden associated with the amendments would be 56,150.¹¹

We estimate that a fund would spend on average 89¹² hours per fund of an in-house attorney's and accountant's time associated with preparing, reviewing, and filing semi-annual reports in accordance with rule 30e-1, at a total annual paperwork related cost of \$32,351.50 per fund.¹³ In the aggregate, the staff estimates that compliance with rule 30e-1 would result in a

¹⁰ The estimate is based on the following calculation: $(9 \text{ hours} + (3 \text{ hours} \times 2)) / 3 = 5$.

¹¹ The estimate is based on the following calculation: $5 \text{ hours} \times 11,230 \text{ management investment companies} = 56,150$.

¹² Based on staff experience and conversations with fund representatives, the Commission previously estimated that it would take 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. The current burden calculation adds the five additional burden hours to the current proposed rulemaking to rule 30e-1's previous burden of 84 hours.

¹³ This estimate is based on annual ongoing burden hour estimate of 89 hours burden per fund. This was then multiplied by a blended hourly wage of \$363.50 per hour, \$157 per hour for Intermediate Accountant and \$570 per hour for an Attorneys ($\$363.50 \times 89 = \$32,351.50$). The estimated wage figures are based on published rates for in-house attorneys, 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 \$363.50. See Securities Industry and Financial Markets Association, *Report on Management & Professional Earnings in the Securities Industry 2013*.

total annual aggregate burden of approximately 999,470 hours¹⁴ and total annual time costs of \$363,307,345.¹⁵

13. Estimate of Total Annual Cost Burden

We estimate that the annual external cost burden of compliance with the information collection requirements of rule 30e-1, which is currently \$31,061 per fund, will not change as a result of the proposed amendments to Regulation S-X.¹⁶ However, as discussed above, we estimate that 90% of all funds will rely on proposed rule 30e-3. In addition, we estimate that a fund's hourly burden associated with rule 30e-1 will not change as result of proposed rule 30e-3. However, we estimate that, for those funds that rely on proposed rule 30e-3, the fund's external cost burden would decrease. In this regard, we estimate that for 90% of funds relying on rule 30e-3, their annual cost burden related to rule 30e-1 would decrease from \$31,061 to \$20,707.¹⁷

Accordingly, if proposed rule 30e-3 is adopted, we estimate that for 90% of management

¹⁴ This estimate is based on the following calculation: 89 hours per fund x 11,230 management investment companies = 999,470 hours.

¹⁵ This estimate is based on annual ongoing burden hour estimate of 999,470 hours burden for management companies. This was then multiplied by a blended hourly wage of \$363.50 per hour, \$157 per hour for Intermediate Accountant and \$570 per hour for an Attorneys (\$363.50 x 999,470 = \$363,307,345). The estimated wage figures are based on published rates for in-house attorneys, 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 \$363.50. *See Securities Industry and Financial Markets Association, Report on Management & Professional Earnings in the Securities Industry 2013.*

¹⁶ Because the proposed amendments would largely reorganize information currently reported by funds in their financial statements, either voluntarily or because it is required, we do not believe the external costs, such as printing and mailing costs, will increase as a result of the amendments.

¹⁷ We estimate that one-third of the external costs currently attributed to rule 30e-1 relate to printing and mailing costs, which would not be applicable to management companies relying on proposed rule 30e-3. Accordingly, our estimate is based on the following calculation: $\$31,061 / 3 = \$10,354$; $\$31,061 - \$10,354 = \$20,707$.

companies the total annual external cost burden for rule 30e-1 would be \$209,285,649¹⁸ and the total annual external cost burden for all management companies under rule 30e-1 would be \$244,167,152.¹⁹

14. Estimate of Cost to the Federal Government

There are no costs to the federal government associated with rule 30e-1. 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 \$19.2 million in fiscal year 2014, 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

The estimates represent an increase from 935,049 hours to 999,470 hours in internal burden and a decrease from \$332,414,822 to \$244,167,152 in external costs per year. The increase in internal burden hours is due to both the increase in the number of portfolios estimated to respond to rule 30e-1, the increased burden our proposed amendments to Regulation S-X, and the inapplicability of one-time hour burdens that were associated with amendments to Forms N-1A, N-2 and N-3. The decrease in external costs per year is due to the reduced costs of printing and mailing shareholder reports for the approximately 90% of funds that would rely on proposed rule 30e-3.

¹⁸ This estimate is based on the following calculation: $11,230 \text{ funds} \times 90\% = 10,107$; $10,107 \text{ funds} \times \$20,707 = \$209,285,649$.

¹⁹ This estimate is based on the following calculation: $11,230 \text{ funds} - 10,107 \text{ funds} = 1,123 \text{ funds}$; $1,123 \text{ funds} \times \$31,061 = \$34,881,503$; $\$209,285,649 + \$34,881,503 = \$244,167,152$.

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.