

**SUPPORTING STATEMENT**  
**For the Paperwork Reduction Act Information Collection Submission for**  
**Form N-1A**

**A. JUSTIFICATION**

**1. Necessity for the Information Collection**

Form N-1A (17 CFR 239.15A and 274.11A) is the form used by open-end management investment companies (“funds”) to register under the Investment Company Act of 1940 (15 U.S.C. 80a-1 et seq.) (“Investment Company Act”) and/or to register their securities under the Securities Act of 1933 (15 U.S.C. 77a et seq.) (“Securities Act”). Section 5 of the Securities Act (15 U.S.C. 77e) requires the filing of a registration statement prior to the offer of securities to the public and that the statement be effective before any securities are sold, and Section 8 of the Investment Company Act (15 U.S.C. 80a-8) requires a fund to register as an investment company. Form N-1A also permits funds to provide investors with a prospectus and a statement of additional information (“SAI”) covering essential information about the fund when it makes an initial or additional offering of its securities. Section 5(b) of the Securities Act requires that investors be provided with a prospectus containing the information required in a registration statement prior to the sale or at the time of confirmation or delivery of the securities.

On September 22, 2015, the Commission issued a release proposing amendments to Form N-1A.<sup>1</sup> The Commission proposed amendments to Form N-1A that would require funds that use “swing pricing ” in reliance on the proposed amendments to rule 22c-1 under the Investment Company Act, to disclose that they use swing pricing, and, if applicable, an explanation of the circumstances under which swing pricing is used, and

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<sup>1</sup> Investment Company Act Release No. 31835 (Sept. 22, 2015) (the “Proposing Release”).

the effects of using swing pricing.<sup>2</sup> We also proposed amendments to Form N-1A that would require funds to disclose on their balance sheet the net asset value as adjusted pursuant to swing pricing policies and procedures.

The proposed amendments to Form N-1A also would require funds to disclose additional information concerning the procedures for redeeming a fund's shares. Funds would be required to describe the number of days following receipt of shareholder redemption requests in which the fund will pay redemption proceeds to redeeming shareholders. Funds also would be required to describe the methods used to meet redemption requests, and whether those methods are used regularly, or only in stressed market conditions. Finally, funds would be required to file as exhibits to their registration statements credit agreements for the benefit of the funds.

Overall, we believe that requiring funds to provide this additional disclosure regarding swing pricing and redemption procedures, and requiring the filing of credit agreements would provide Commission staff, investors, and market participants with improved information about the procedures funds use to meet their redemption obligations and the conditions under which swing pricing procedures will be used to mitigate the effects of dilution as a result of shareholder purchase or redemption activity.

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

The title for the collection of information is: Form N-1A under the Investment Company Act of 1940 and Securities Act of 1933, Registration Statement of Open-End Management Investment Companies.” The purpose of Form N-1A is to meet the filing

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<sup>2</sup> See proposed Item 6(d) of Form N-1A. Proposed amendments to rule 22c-1 under the Investment Company Act would permit, but not require, registered open-end management investment companies (except money market funds and exchange-traded funds) to use swing pricing, a process of adjusting the net asset value of a fund's shares to pass on to purchasing or redeeming shareholders costs associated with their trading activity.

and disclosure requirements of the Securities Act and the Investment Company Act and to enable funds to provide investors with information necessary to evaluate an investment in the fund. Unlike many other federal information collections, which are primarily for the use and benefit of the collecting agency, this information collection is primarily for the use and benefit of investors. The information filed with the Commission also permits the verification of compliance with securities law requirements and assures the public availability and dissemination of the information.

### **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. EDGAR has increased the speed, accuracy and availability of information, generating benefits to investors and financial markets. All funds have been required to use EDGAR for their disclosure filings since November 6, 1995. Form N-1A is required to be filed with the Commission electronically on EDGAR. (17 CFR 232.101(a)(1)(i) and (iv)). 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. Prospectuses and SAIs may be sent to investors by electronic means so long as the fund meets certain requirements.<sup>3</sup>

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<sup>3</sup> See Use of Electronic Media for Delivery Purposes, Securities Act Release No. 7233, Exchange Act Release No. 36345, Investment Company Act Release No. 21399 (Oct. 6, 1995) (60 FR 53458 (Oct. 13, 1995)).

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

The Commission periodically evaluates rule-based reporting and recordkeeping requirements for duplication, and reevaluates them whenever it adopts changes in its rules. The requirements of Form N-1A are not generally duplicated elsewhere.

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

The current disclosure requirements for reports on Form N-1A do not distinguish between small entities and other funds. The burden on smaller funds, however, to prepare and file registration statements may be greater than for larger funds. The Commission believes, however, that imposing different requirements on smaller investment companies would not be consistent with investor protection and the purposes of the registration statements. 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 Investment Company Act requires that funds file annual amendments to their registration statements. Less frequent collection would mean that current information might not be available to fund investors.

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

Not Applicable.

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

Before adopting the proposed amendments to Form N-1A, the Commission will receive and evaluate public comments on the proposal 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 through public conferences, meetings, and information exchanges. These various forums provide the Commission and staff with a means of ascertaining and acting upon the paperwork burdens confronting the industry.

**9. Payment of Gift to Respondents**

Not Applicable.

**10. Assurance of Confidentiality**

Not Applicable.

**11. Sensitive Questions**

Form N-1A collects Personally Identifiable Information (PII). Records include information on officers, directors, principal shareholders, and certain other persons having a relationship with or transaction with a registrant. The records describe the individual's relationship to a registrant and other relevant material business information about the individual. The records do not include Social Security Numbers. A System of Records Notice has been published in the Federal Register at 4 FR 4550 and can also be found at <http://www.sec.gov/about/privacy/sorn/secsorn1.pdf>.

**12. Estimate of Hour Burden**

Open-end funds register as investment companies under the Investment Company Act and register their securities under the Securities Act on Form N-1A. Compliance with the disclosure requirements of Form N-1A is mandatory. Form N-1A generally imposes two types of reporting burdens on investment companies: (i) the burden of preparing and filing the initial registration statement; and (ii) the burden of preparing and filing post-effective amendments to a previously effective registration statement (including post-effective amendments filed pursuant to rule 485(a) or 485(b) under the

Securities Act, as applicable). In our most recent Paperwork Reduction Act submission for Form N-1A, Commission staff estimated the annual compliance burden to comply with the collection of information requirement of Form N-1A is 1,579,974 hours.<sup>4</sup>

We estimate that each fund would incur a one-time burden of an additional 2 hours,<sup>5</sup> at a time cost of an additional \$637,<sup>6</sup> to draft and finalize the required disclosure and amend its registration statement in connection with the proposed amendments to Form N-1A. In aggregate, we estimate that funds would incur a one-time burden of an additional 17,468 hours,<sup>7</sup> at a time cost of an additional \$5,563,558,<sup>8</sup> to comply with the proposed Form N-1A disclosure requirements. Amortizing the one-time burden over a three-year period results in an average annual burden of an additional 5,823 hours at a time cost of an additional \$1,854,519.<sup>9</sup>

We estimate that each fund would incur an ongoing burden of an additional 0.25 hours, at a time cost of an additional \$80,<sup>10</sup> each year to review and update the proposed disclosure in response to Item 11 and Item 28 of Form N-1A regarding the pricing and redemption of fund shares and the inclusion of credit agreements as exhibits, respectively. In aggregate, we estimate that funds would incur an annual burden of an

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<sup>4</sup> This estimate is based on the last time the rule's information collection was submitted for PRA renewal in 2014.

<sup>5</sup> This estimate is based on the following calculation: 1 hour to update registration statement to include swing pricing-related disclosure statements + 1 hour to update registration statement disclosure about redemption procedures = 2 hours.

<sup>6</sup> This estimate is based on the following calculation: 2 hours x \$318.5 (blended rate for a compliance attorney (\$334) and a senior programmer (\$303)) = \$637.

<sup>7</sup> This estimate is based on the following calculations: 2 hours x 8,734 funds = 17,468 hours.

<sup>8</sup> This estimate is based on the following calculation: 17,468 hours x \$318.50 (blended rate for a compliance attorney (\$334) and a senior programmer (\$303)) = \$5,563,558.

<sup>9</sup> This estimate is based on the following calculation: 17,468 hours ÷ 3 = 5,823 average annual burden hours; \$5,563,558 burden costs ÷ 3 = \$1,854,519 average annual burden cost.

<sup>10</sup> This estimate is based on the following calculations: 0.25 hours x \$318.50 (blended hourly rate for a compliance attorney (\$334) and a senior programmer (\$303)) = \$79.63.

additional 2,184 hours,<sup>11</sup> at a time cost of an additional \$695,604,<sup>12</sup> to comply with the proposed Form N-1A disclosure requirements.

Amortizing these one-time and ongoing hour and cost burdens over three years results in an average annual increased burden of approximately 0.50 hours per fund,<sup>13</sup> at a time cost of \$265.42 per fund.<sup>14</sup>

In total, we estimate that funds would incur an average annual increased burden of approximately 8,007 hours,<sup>15</sup> at a time cost of approximately \$2,550,123,<sup>16</sup> to comply with the proposed Form N-1A disclosure requirements.

### **13. Estimate of Total Annual Cost Burden**

In our most recent Paperwork Reduction Act submission for Form N-1A, Commission staff estimated the annual cost burden to comply with the collection of information requirement of Form N-1A is \$124,820,197.<sup>17</sup> The staff estimates that the proposed amendments to Form N-1A do not impose any material cost burdens on funds, apart from the cost of the burden hours discussed above.

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

The annual cost of reviewing and processing new registration statements, post-effective amendments, proxy statements, and shareholder reports of investment

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<sup>11</sup> This estimate is based on the following calculation: 0.25 hours x 8,734 funds = 2,183.5 hours.

<sup>12</sup> This estimate is based on the following calculation: 2,184 hours x \$318.50 (blended hourly rate for a compliance attorney (\$334) and a senior programmer (\$303)) = \$695,604.

<sup>13</sup> This estimate is based on the following calculation: 1 burden hour (year 1) + 0.25 burden hour (year 2) + 0.25 burden hour (year 3) ÷ 3 = 0.50 hours.

<sup>14</sup> This estimate is based on the following calculation: \$637 (year 1 monetized burden hours) + \$79.63 (year 2 monetized burden hours) + \$79.63 (year 3 monetized burden hours) ÷ 3 = \$265.42.

<sup>15</sup> This estimate is based on the following calculation: 5,823 hours + 2,184 hours = 8,007 hours.

<sup>16</sup> This estimate is based on the following calculation: \$1,854,519 + \$695,604 = \$2,550,123.

<sup>17</sup> This estimate is based on the last time the rule's information collection was submitted for PRA renewal in 2014.

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.

**15. Explanation of Changes in Burden**

The total annual hour burden of 1,587,981 hours represents an increase of 8,007 hours over the previous burden hour estimate of 1,579,974 hours. In addition, the annual external cost burden of \$127,370,320 represents an increase of \$2,550,123 over the previous annual external cost burden estimate of \$124,820,197. The changes in burden hours and external cost burdens are due to the staff's estimates of the time costs and external costs that would result from our proposed amendments.

**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. COLLECTIONS OF INFORMATION EMPLOYING STATISTICAL METHODS**

Not Applicable.