

SUPPORTING STATEMENT
For the Paperwork Reduction Act Information Collection Submission for
Rule 30e-2

A. JUSTIFICATION

1. Necessity for the Information Collection

Section 30(e) of the Investment Company Act of 1940 (the “Investment Company Act”)¹ requires every registered investment company to transmit to its stockholders, at least semiannually, reports containing such information and financial statements or their equivalent, as of a reasonably current date, as the Commission may prescribe by rules and regulations.² Rule 30e-2 under the Investment Company Act requires registered unit investment trusts (“UITs”) that invest substantially all of their assets in shares of a management investment company³ (“fund”) to send their unitholders annual and semiannual reports containing financial information on the underlying company.⁴ Specifically, rule 30e-2 requires that the report contain all the applicable information and financial statements or their equivalent, required by rule 30e-1 under the Investment Company Act⁵ to be included in reports of the underlying fund for the same fiscal period. Rule 30e-1 requires that the underlying fund’s report contain, among other things, the information that is required to be included in such report by the fund’s registration statement form under the Investment Company Act.

¹ 15 U.S.C. 80a-1 et seq.

² 15 U.S.C. 80a-29(e).

³ Management investment companies are defined in Section 4 of the Investment Company Act as any investment company other than a face-amount certificate company or a UIT, as those terms are defined in Section 4 of the Investment Company Act. See 15 U.S.C. 80a-4.

⁴ 17 CFR 270.30e-2. Rule 30e-2 was originally adopted as rule 30d-2, but was redesignated as rule 30e-2 effective February 15, 2001. See Investment Company Act Release No. 24816 (Jan. 2, 2001) [66 FR 3734 (Jan. 16, 2001)].

⁵ 17 CFR 270.30e-1.

Rule 30e-2, however, permits, under certain conditions, delivery of a single shareholder report to investors who share an address (“householding”). The purpose of the householding provisions of the rule is to reduce the amount of duplicative reports delivered to investors sharing the same address. Specifically, rule 30e-2 permits householding of annual and semi-annual reports by UITs to satisfy the delivery requirements of rule 30e-2 if, in addition to the other conditions set forth in the rule, the UIT has obtained from each applicable investor written or implied consent to the householding of shareholder reports at such address. The rule requires UITs that wish to household shareholder reports with implied consent to send a notice to each applicable investor stating 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, UITs relying on the rule for householding must explain to investors who have provided written or implied consent how they can revoke their consent. Preparing and sending the initial notice and the annual explanation of the right to revoke consent are collections of information.

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

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

presented; (3) amend the rules regarding the general form and content of fund financial 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 UIT 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 UIT 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 UITs relying on the rule. The Commission expects 90% of funds to rely on rule 30e-3.

Compliance with the disclosure requirements of rule 30e-2 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-2 is to provide UIT unitholders with current information about the operations of their UITs in accordance with Section 30 of the Investment Company Act.

3. Consideration Given to Information Technology

Rule 30e-2 does not require filing of the shareholder report with the Commission, but instead the transmission of reports to unitholders. Shareholder reports are typically sent in paper; however, investors may currently consent to the delivery of electronic versions. If adopted,

⁷ 17 CFR 210.1-01 et seq.

⁸ 17 CFR 270.30e-3.

proposed rule 30e-3 would permit funds to transmit reports to unitholders by posting them on its website.

4. 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-2 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 UITs. The burden on smaller UITs may be greater than for larger UITs. This burden includes the cost of producing, printing, and transmitting the shareholder reports. The Commission believes, however, that imposing different requirements on smaller UITs 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-2 is collected is semi-annual, as set out in Section 30(e) of the Investment Company Act and rule 30e-2. Less frequent collection of information would impede the amount of current information provided to unitholders about their UITs.

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.

9. Payment or Gift

Not applicable.

10. Confidentiality

Not applicable.

11. Sensitive Questions

No questions of a sensitive nature are asked. The information collection does not collect any Personally Identifiable Information.

12. Burden of Information Collection

We estimate that there are 727 UITs that may be subject to the 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 UIT's burden increases as a result of the proposed amendments would depend

on the extent to which an underlying fund invests in the instruments covered by many of the amendments.

We estimate that, on an annual basis, UITs generally will annually 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. Amortized over three years, we estimate that the average annual hour burden associated with the proposed amendments would be 5 hours per fund.¹⁰ Accordingly, we estimate that the total average annual hour burden associated with the proposed amendments to Regulation S-X would be 3,635 hours.¹¹

We estimate that a UIT would spend on average approximately 126 hours¹² annually 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-2, at a total annual paperwork related cost of \$45,801 per fund.¹³ In the aggregate, the staff estimates that compliance with rule 30e-2

⁹ This estimate is based on the number of UITs that filed Form N-SAR with the Commission as of December 31, 2014.

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: $5 \text{ hours} \times 727 \text{ UITs} = 3,635$.

¹² Based on staff experience and conversations with fund representatives, the Commission previously estimated that it would take approximately 121 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 from the current proposed rulemaking to rule 30e-2's previous burden of 121 hours.

¹³ This estimate is based on annual ongoing burden hour estimate of 126 hours burden for portfolio. 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 ($\$363.50 \times 126 = \$33,297,327$). 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*.

would result in a total annual aggregate burden of approximately 91,602 hours¹⁴ and total annual time costs of approximately \$33,297,327.¹⁵

13. Costs to Respondents

We estimate that the annual external cost burden of compliance with the information collection requirements of rule 30e-2, which are currently \$20,000 per respondent, will not change as a result of the proposed amendments to Regulation S-X.¹⁶ External costs include, for example, the costs for the UIT to prepare, print, and mail the reports. However, as discussed above, we estimate that 90% of all UITs will rely on proposed rule 30e-3. In addition, we estimate that a UIT's hourly burden associated with rule 30e-2 will not change as result of proposed rule 30e-3. However, we estimate that, for those UITs that rely on proposed rule 30e-3, the UIT's external cost burden would decrease. In this regard, we estimate that for the 90% of UITs relying on rule 30e-3, their annual cost burden related to rule 30e-2 would decrease from \$20,000 to \$13,333.¹⁷ Accordingly, if proposed rule 30e-3 is adopted, we estimate that for 90%

¹⁴ This estimate is based on the following calculation: 126 hours per UIT x 727 UITs = 91,602 hours.

¹⁵ This estimate is based on annual ongoing burden hour estimate of 91,602 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 91,602 = \$33,297,327). 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.

of UITs the total annual external cost burden for rule 30e-2 would be \$8,719,782¹⁸ and the total annual external cost burden for all UITs under rule 30e-2 would be \$10,179,782.¹⁹

14. Cost to the Federal Government

There are no costs to the federal government associated with rule 30e-2. 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. Changes in Burden

The estimates represent an increase from 84,700 hours to 91,602 hours in internal burden and a decrease from \$14,000,000 to \$10,179,782 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-2, 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

¹⁷ As discussed above, we estimate that one-third of the external costs currently attributed to rule 30e-2 relate to printing and mailing costs, which would not be applicable to UITs relying on proposed rule 30e-3. Accordingly, our estimate is based on the following calculation: $\$20,000 / 3 = \$6,667$; $\$20,000 - \$6,667 = \$13,333$.

¹⁸ This estimate is based on the following calculation: $727 \text{ UITs} \times 90\% = 654$; $654 \text{ UITs} \times \$13,333 = \$8,719,782$.

¹⁹ This estimate is based on the following calculation: $727 \text{ UITs} - 654 \text{ UITs} = 73 \text{ UITs}$; $73 \text{ UITs} \times \$20,000 = \$1,460,000$; $\$8,719,782 + \$1,460,000 = \$10,179,782$.

mailing shareholder reports for the approximately 90% of funds that would rely on proposed rule 30e-3.

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. COLLECTION OF INFORMATION EMPLOYING STATISTICAL METHODS

Not applicable.