

SUPPORTING STATEMENT
For the Paperwork Reduction Act Information Collection Submission for
Rule 30b1-9 and Form N-PORT

A. JUSTIFICATION

1. Necessity for the Information Collection

Section 30(b) of the Investment Company Act of 1940 [15 U.S.C. 80a-30(b)] (“Act”) provides that “[e]very registered investment company shall file with the Commission...such information, documents, and reports (other than financial statements), as the Commission may require to keep reasonably current the information and documents contained in the registration statement of such company...” Proposed rule 30b1-9 under the Act [17 CFR 270.30b1-9], entitled “Monthly Report,” provides that each registered management investment company or exchange-traded fund organized as a unit investment trust, or series thereof, other than a registered open-end management investment company that is regulated as a money market fund under rule 2a-7 [17 CFR 270.2a-7] or a small business investment company registered on Form N-5 [17 CFR 239.24 and 274.5], must file a monthly report of portfolio holdings on Form N-PORT [17 CFR 274.150], current as of the last business day, or last calendar day, of the month.

On May 20, 2015, the Commission proposed Form N-PORT, which would require funds to report information within thirty days after the end of each month about their monthly portfolio holdings to the Commission in a structured data format.¹ Preparing a report on Form N-PORT is mandatory and a collection of information under the PRA, and the information required by Form N-PORT would be data-tagged in XML format. Responses to the reporting requirements would be kept confidential for reports filed with respect to the first

¹ Investment Company Reporting Modernization, Investment Company Act Release No. 31610 (May 20, 2015) [80 FR 33590] (June 12, 2015)] (“Investment Company Reporting Modernization Release”).

two months of each quarter; the third month of the quarter would not be kept confidential, but made public sixty days after the quarter end.

On September 22, 2015, the Commission issued a release proposing new rule and amendments to its rules and forms designed to promote effective liquidity risk management throughout the open-end fund industry, thereby reducing the risk that funds will be unable to meet redemption obligations and mitigating dilution of the interests of fund shareholders in accordance with section 22(e) and rule 22c-1 under the Investment Company Act.² The proposed amendments also seek to enhance disclosure regarding fund liquidity and redemption practices. With respect to report and disclosure, among other things, the Commission proposed amendments to proposed Form N-PORT that would require disclosure of certain information regarding the liquidity of a fund's holdings and the fund's liquidity risk management practices.

2. Purpose of the Information Collection

The information provided in reports on Form N-PORT could be used by the Commission in its regulatory, disclosure review, inspection, and policymaking roles. Unlike many other federal information collections, which are primarily for the use and benefit of the collecting agency, this information collection would also be for the use and benefit of investors. As discussed above, the Commission would make information reported for the third month of each fund's fiscal quarter on Form N-PORT publicly available. The Commission expects that investors would be able to use this information to make more informed investment decisions either through direct use or through analyses prepared by third-party users that provide services to investors.

² See Open-End Fund Liquidity Risk Management Programs; Swing Pricing; Re-Opening of Comment Period for Investment Company Reporting Modernization Release, Securities Act Release No. 33-9922 (September 22, 2015) ("Liquidity Proposal").

3. Role of Improved Information Technology

The Commission's EDGAR electronic filing system is designed to automate the filing, processing and dissemination of full disclosure filings. The system permits filers to transmit filings to the Commission electronically. This automation has increased the speed, accuracy and availability of information, generating benefits to investors and financial markets. Reports on Form N-PORT are filed with the Commission electronically on EDGAR. 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.

4. Duplication

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. Although reports of portfolio holdings on Form N-PORT for the first and third fiscal quarters of each fund's fiscal year would be largely redundant with similar reports on Form N-Q, the Commission has proposed to rescind Form N-Q to avoid such duplication.³ Funds would also report certain information on Form N-PORT in a structured format that may be similarly disclosed or reported elsewhere in a non-structured format (*e.g.*, portfolio investments are also currently included as part of the schedules of investments contained in shareholder reports, and filed on a semi-annual basis with the Commission on Form N-CSR). Because collecting information in a structured format would enhance the ability of the Commission as well as investors and

³ See Investment Company Reporting Modernization Release, *supra* note 1.

other potential users to analyze portfolio data, the Commission believes it is appropriate to require this information to be reported on Form N-PORT.

5. Effect on Small Entities

The Commission would provide smaller entities (*i.e.*, funds that together with other investment companies in the same “group of related investment companies” have net assets of less than \$1 billion as of the end of the most recent fiscal year) an extra 12 months (or 30 months after the effective date) to comply with the new reporting requirements for Form N-PORT.

However, the proposed requirements for reports on Form N-PORT would not distinguish between small entities and other funds in terms of what information would be required to be reported. The Commission believes that imposing different reporting requirements on smaller funds would not be consistent with investor protection and the purposes of portfolio holdings reports. Differing reporting requirements would not provide comparable information about portfolio holdings held by small entities and other funds that could be used by Commission staff to identify trends and outliers and by investors to make informed investment decisions.

The Commission reviews all rules periodically, as required by the Regulatory Flexibility Act, to identify methods to minimize recordkeeping or reporting requirements affecting small entities.

6. Consequences of Less Frequent Collection

Funds would be required to file reports on Form N-PORT with the Commission no later than 30 days after the end of each month. Less frequent collection would mean that current information would not be available to the Commission.

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

Rule 30b1-9 requires funds to submit reports on Form N-PORT on a monthly basis. Given the rapidly changing composition of fund portfolios, monthly reports are necessary to ensure that the Commission receives timely and accurate portfolio holdings information.

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 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 Form N-PORT before it submitted this request for extension and approval to the Office of Management and Budget.

9. Payment or Gift

Not applicable.

10. Confidentiality

Not applicable.

11. Sensitive Questions

No information of a sensitive nature will be required in the information collection. The (these) information collection (s) collect basic Personally Identifiable Information (PII) that may include name, business address, and residential address (for sole proprietor only), telephone/cellular/facsimile numbers, and email address. The information collection is covered under the following System of Records Notice (SORN) <https://www.sec.gov/about/privacy/sorn/secsorn6.pdf>

12. Burden of Information Collection

In the Investment Company Reporting Modernization Release, we estimated that, for the 35% of funds that would file reports on proposed Form N-PORT in house, the per fund average aggregate annual hour burden was estimated to be 178 hours per fund.⁴ For the remaining 65% of funds that would retain the services of a third party to prepare and file reports on proposed Form N-PORT on the fund's behalf, we estimated the average aggregate annual hour burden to be 125 hours per fund. In sum, we estimated that filing reports on proposed Form N-PORT would impose an average total annual hour burden of 1,537,572 hours on applicable funds.⁵

We are proposing amendments to Form N-PORT that would require each fund to report its three-day liquid asset minimum,⁶ the liquidity classification for each portfolio asset position (or portion thereof),⁷ and whether an asset is a 15% standard asset.⁸ For

⁴ See Investment Company Reporting Modernization Release, *supra* note 1, at nn.736-741, 749 and accompanying text.

⁵ See *id.*, at nn.748 and 751 and accompanying text.

⁶ See proposed Item B.7 of proposed Form N-PORT.

⁷ See proposed Item C.13 of proposed Form N-PORT.

⁸ See proposed Item C.7 of proposed Form N-PORT.

portfolio assets with multiple liquidity classifications, the proposed amendments would require funds to indicate the dollar amount attributable to each classification. We believe that requiring funds to report information about the liquidity of portfolio investments would assist the Commission in better assessing liquidity risk in the open-end fund industry. Moreover, we believe that this information would help investors and potential users better understand the liquidity risks in funds.

We estimate that 8,734⁹ funds would be required to file, on a monthly basis, additional information on Form N-PORT as a result of the proposed amendments. We estimate that each fund that files reports on Form N-PORT in house (35%, or 3,057 funds) would require an average of approximately 3 burden hours to compile (including review of the information), tag, and electronically file the additional information in light of the proposed amendments for the first time and an average of approximately 1 burden hours for subsequent filings. Therefore, we estimate the per fund average annual hour burden associated with the incremental changes to Form N-PORT as a result of the proposed amendments for these funds would be an additional 14 hours for the first year¹⁰ and an additional 12 hours for each subsequent year.¹¹ Amortized over three years, the average annual hour burden would be an additional 12.67 hours per fund.¹²

We estimate that 65% of funds (5,677) would retain the services of a third party to provide data aggregation, validation and/or filing services as part of the preparation and

⁹ There were 8,734 open-end funds (excluding money market funds, and including ETFs) as of the end of 2014. See 2015 ICI Fact Book, *supra* note 9, at 177, 184.

¹⁰ The estimate is based on the following calculation: (1 filing x 3 hours) + (11 filings x 1 hour) = 14 burden hours in the first year.

¹¹ This estimate is based on the following calculation: 12 filings x 1 hour = 12 burden hours in each subsequent year.

¹² The estimate is based on the following calculation: (14 + (12 x 2)) ÷ 3 = 12.67.

filing of reports on proposed Form N-PORT on the fund's behalf. For these funds, we estimate that each fund would require an average of approximately 4 hours to compile and review the information with the service provider prior to electronically filing the report for the first time and an average of 0.5 burden hours for subsequent filings. Therefore, we estimate the per fund average annual hour burden associated with the incremental changes to proposed Form N-PORT as a result of the proposed amendments for these funds would be an additional 9.5 hours for the first year¹³ and an additional 6 hours for each subsequent year.¹⁴ Amortized over three years, the average aggregate annual hour burden would be an additional 7.17 hours per fund.¹⁵ In sum, we estimate that the proposed amendments to Form N-PORT would impose an average total annual hour burden of an additional 79,436 hours on applicable funds.¹⁶

13. Costs to Respondents

We do not estimate any change to the external costs associated with the proposed amendments to proposed Form N-PORT.

14. Costs to the Federal Government

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

¹³ The estimate is based on the following calculation: (1 filing x 4 hours) + (11 filings x 0.5 hour) = 9.5 burden hours in the first year.

¹⁴ This estimate is based on the following calculation: 12 filings x 0.5 hour = 6 burden hours in each subsequent year.

¹⁵ The estimate is based on the following calculation: $(9.5 + (6 \times 2)) \div 3 = 7.17$.

¹⁶ The estimate is based on the following calculation: $(3,057 \text{ funds} \times 12.67 \text{ hours}) + (5,677 \text{ funds} \times 7.17 \text{ hours}) = 79,436.28 \text{ hours}$.

overhead. The RIN numbers for the Liquidity Proposals are 3235-AL61, and 3235-AL42.¹⁷

15. Changes in Burden

Not applicable. This request for approval of the collection of information for this rule and form has not been previously approved by OMB. This submission does not include other Form N-PORT collection of information requirements, which were proposed by the Commission in the Investment Company Reporting Modernization Release and submitted to OMB on July 22, 2015.

16. Information Collection Planned for Statistical Purposes

Not applicable.

17. Approval to Omit OMB Expiration Date

We request authorization to omit the expiration date on the electronic version of the form for design and IT project scheduling reasons. The OMB control number will be displayed.

18. Exceptions to Certification Statement

Not applicable.

B. COLLECTIONS OF INFORMATION EMPLOYING STATISTICAL METHODS

Not applicable.

¹⁷ See Liquidity Proposal, *supra* note 2.