

SUPPORTING STATEMENT
For the Paperwork Reduction Act Information Collection Submission for
Rule 22e-4

A. JUSTIFICATION

1. Necessity for the Information Collection

Section 22(e) of the Investment Company Act of 1940 (“Investment Company Act”)¹ provides that no registered investment company shall suspend the right of redemption or postpone the date of payment of redemption proceeds for more than seven days after tender of the security absent specified unusual circumstances.² Rule 22e-1 provides an exemption from section 22(e) during the annuity payment period of variable annuity contracts participating in certain registered separate accounts.³ Rule 22e-2 provides that an investment company shall not be deemed to suspend the right of redemption if the fund prices a redemption request by computing the fund’s net asset value (“NAV”) in accordance with rule 22c-1 under the Investment Company Act (the “forward pricing rule”).⁴ Furthermore, rule 22e-3 provides an exemption from the requirements of section 22(e) for a money market fund to suspend redemptions and postpone payment of redemption proceeds in an orderly liquidation of the fund if, subject to requirements outlined in the rule, the fund’s board makes certain findings.⁵

¹ 15 U.S.C. 80a-1 *et seq.*

² *See* 15 U.S.C. 80a-22(e).

³ *See* 17 CFR 270.22e-1.

⁴ *See* 17 CFR 270.22e-2. The forward pricing rule requires funds, their principal underwriters, dealers in fund shares, and other persons designated in a fund’s prospectus, to sell and redeem fund shares at a price based on the current NAV next computed after receipt of an order to purchase or redeem.

⁵ *See* 17 CFR 270.22e-3(a).

On October 13, 2016, the Commission adopted new rule 22e-4, new rule 30b1-10, new Form N-LIQUID, and amendments to Form N-1A.⁶ The Commission also is adopting new items to Form N-CEN and Form N-PORT. The new rules and amendments are designed to promote effective liquidity risk management throughout the open-end fund industry and enhance disclosure and Commission oversight of fund liquidity and shareholder redemption practices. We discuss below the collection of information burdens associated with rule 22e-4. In the Proposing Release, the Commission solicited comment on the collection of information requirements and the accuracy of the Commission's statements in the Proposing Release.⁷

Rule 22e-4 requires an open-end fund⁸ and an exchange-traded fund that redeems in kind ("In-Kind ETF"), to establish a written liquidity risk management program that is reasonably designed to assess and manage the fund's or In-Kind ETF's liquidity risk. This program includes policies and procedures that incorporate certain program elements, including: (i) for funds and In-Kind ETFs, the assessment, management, and periodic review of liquidity risk (with such review occurring no less frequently than annually); (ii) for funds, the classification of the liquidity of a fund's portfolio investments, as well as at-least-monthly reviews of the fund's liquidity classifications; (iii) for funds that do not primarily hold assets that are highly liquid investments, the determination of and periodic

⁶ Investment Company Act Release No. 33-10233 (Oct. 13, 2016) (the "Adopting Release").

⁷ See Open-End Fund Liquidity Risk Management Programs; Swing Pricing; Re-Opening of Comment Period for Investment Company Reporting Modernization Release, Investment Company Act Release No. 31835 (Sept. 22, 2015) [80 FR 62274 (Oct. 15, 2015)] ("Proposing Release")

⁸ The term "fund" is defined under rule 22e-4(a)(4) to mean an open-end management investment company that is registered or required to be registered under section 8 of the Act and includes a separate series of such an investment company, *but does not include* a registered open-end management investment company that is regulated as a money market fund under § 270.2a-7 or an In-Kind ETF, as defined under rule 22e-4(a)(9).

review of the fund's highly liquid investment minimum and establishment of policies and procedures for responding to a shortfall of the fund's highly liquid investment minimum, which includes reporting to the fund's board of directors; (iv) for funds and In-Kind ETFs, the limitation of the fund's or In-Kind ETF's investment in illiquid investments that are assets to no more than 15% of the fund's or In-Kind ETF's net assets; and (iv) for funds and In-Kind ETFs, the establishment of policies and procedures regarding redemptions in kind, to the extent that the fund engages in or reserves the right to engage in redemptions in kind. The rule also requires board approval and oversight of a fund's or In-Kind ETF's liquidity risk management program and recordkeeping. Rule 22e-4 also requires a limited liquidity review, under which a UIT's principal underwriter or depositor determines, on or before the date of the initial deposit of portfolio securities into the UIT, that the portion of the illiquid investments that the UIT holds or will hold at the date of deposit that are assets is consistent with the redeemable nature of the securities it issues and retains a record of such determination for the life of the UIT and for five years thereafter.

The requirements under rule 22e-4 that a fund and In-Kind ETF adopt a written liquidity risk management program, report to the board, maintain a written record of how the highly liquid investment minimum was determined and written policies and procedures for responding to a shortfall of the fund's highly liquid investment minimum, which includes reporting to the fund's board of directors (for funds that do not primarily hold highly liquid investments), establish written policies and procedures regarding how the fund will engage in redemptions in kind, and retain certain other records are all collections of information under the PRA. In addition, the requirement under rule 22e-4

that the principal underwriter or depositor of a UIT assess the liquidity of the UIT on or before the date of the initial deposit of portfolio securities into the UIT and retain a record of such determination for the life of the UIT, and for five years thereafter, is also a collection of information under the PRA. The respondents to rule 22e-4 will be open-end management investment companies (including, under certain circumstances, In-Kind ETFs but excluding money market funds), and the principal underwriters or depositors of UITs under certain circumstances. Compliance with rule 22e-4 would be mandatory for funds.⁹

2. Purpose and Use of the Information Collection

Certain of the provisions of the rule contain “collection of information” requirements within the meaning on the Paperwork Reduction Act of 1995 (“Paperwork Reduction Act”),¹⁰ and the Commission is submitting the collection of information to the Office of Management and Budget (“OMB”) for review in accordance with 44 U.S.C. 3507(d) and 5 CFR 1320.11. The rule is intended to improve investor protection by decreasing the likelihood that a fund will be unable to meet its redemption obligations, or would meet such obligations only with significant dilution of remaining investors’ interests or changes to the fund’s risk profile.

The information collection requirements of rule 22e-4 are designed to ensure that funds maintain comprehensive, written liquidity risk management programs that promote compliance with the federal securities laws and protect investors. The information collections also assist the Commission’s examination staff in assessing the adequacy of

⁹ *See id.*

¹⁰ 44 U.S.C. 3501 *et seq.*

funds' liquidity risk management programs and identifying weaknesses in a fund's liquidity risk management if violations occur or are uncorrected.

3. Consideration Given to Information Technology

Rule 22e-4 requires that each fund maintain a written copy of the policies and procedures adopted as part of its liquidity risk management program for five years, in an easily accessible place. Additionally, each fund will be required to maintain copies of any materials provided to its board in connection with the board's initial approval of the fund's liquidity risk management program, and copies of written reports provided to the board on the adequacy of the fund's liquidity risk management program, including the fund's highly liquid investment minimum, and the effectiveness of its implementation for at least five years after the end of the fiscal year in which the documents were provided to the board, the first two years in an easily accessible place. Funds will also need to keep records of any materials provided to the board related to the fund dropping below its highly liquid investment minimum. Each fund must also keep a written record of how its highly liquid investment minimum, and any adjustments thereto, were determined, including the fund's assessment and periodic review of its liquidity risk for a period of not less than five years, the first two years in an easily accessible place, following the determination of, and each change to, the fund's highly liquid investment minimum.¹¹ The Electronic Signatures in Global and National Commerce Act¹² and the conforming amendments to rules under the Investment Company Act permit funds to maintain records electronically.

¹¹ See rule 22e-4(b)(3)(iii).

¹² P.L. 106-229, 114 Stat. 464 (June 30, 2000).

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. Rule 22e-4 imposes a requirement that funds have in place written liquidity risk management policies and procedures. The information required by rule 22e-4 is not generally duplicated elsewhere.

5. Effect on Small Entities

The information collection requirements of rule 22e-4 do not distinguish between small entities and other funds. The burden of the conditions on smaller funds may be proportionally 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 rule's conditions and could potentially jeopardize the interests of investors in small funds. 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 Not Conducting Collection

Rule 22e-4 requires funds to have and maintain a written liquidity risk management program. Under the rule, a fund's investment adviser or officer(s) designated to administer the liquidity risk management program must provide a written report to the fund's board at least annually that reviews describes a review of the adequacy and effectiveness of the fund's liquidity risk management program, including, if applicable, the operation of the highly liquid investment minimum. In addition, the fund must adopt and implement policies and procedures for responding to a shortfall of

the fund's assets that are highly liquid investments below its highly liquid investment minimum, which must include reporting to the fund's board of directors with a brief explanation of the causes of the shortfall, the extent of the shortfall, and any actions taken in response, and, if the shortfall lasts more than 7 consecutive calendar days, an explanation of how the fund plans to come back into compliance with its minimum within a reasonable period of time.

Not collecting information or collecting such information less frequently would be incompatible with the objectives of rule 22e-4. The reporting of information and the establishment of written policies and procedures and maintaining written reports are integral parts to detecting and correcting any gaps in a fund's liquidity risk management programs before irrevocable or widespread harm is inflicted upon investors. Not requiring the collection of information increases the likelihood that such harm could go unchecked.

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

Rule 22e-4 would require a fund to maintain for at least five years: (i) a written copy of its liquidity risk management policies and procedures, (ii) any materials provided to its board in connection with the board's initial approval of the fund's liquidity risk management program, any materials provided to the board related to the fund dropping below its highly liquid investment minimum, and copies of written reports provided to the board on the adequacy of the fund's liquidity risk management program, including the fund's highly liquid investment minimum, and the effectiveness of its implementation (the first two years in an easily accessible place), and (iii) a written record of how a fund's highly liquid investment minimum, and any adjustments thereto, were determined,

including the fund's assessment and periodic review of its liquidity risk. Although this five-year period exceeds the three-year guideline for most kinds of records under 5 CFR 1320.5(d)(2), the staff believes that this is warranted because the rule contributes to the effectiveness of the Commission's examination and inspection program. Because the period between examinations may be as long as five years, it is important that the Commission have access to records that cover the entire period between examinations.

The five-year retention period in rule 22e-4 is consistent with that in rule 38a-1(d) under the Investment Company Act. We believe that consistency in these retention periods is appropriate because funds currently have program-related recordkeeping procedures in place incorporating a five-year retention period. Furthermore, we believe that a five-year retention period would lessen the compliance burden of rule 22e-4 slightly, compared to choosing a different retention period, such as the six-year recordkeeping retention period under rule 31a-2 of the Investment Company Act.

8. Consultation Outside the Agency

The Commission requested public comment on the collection requirements of rule 22e-4 before it submitted this request for revision and approval to the Office of Management and Budget. The Commission did not receive any comments on the collection requirements associated with the overall preparation of written liquidity risk management programs under rule 22e-4. 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 or Gift

No payment or gift to respondents was provided.

10. Confidentiality

Information regarding a fund's monthly position-level liquidity classification and its highly liquid investment minimum would be confidential until publicly reported on Form N-PORT. Other information provided to the Commission in connection with staff examinations or investigations would be kept confidential subject to the provisions of applicable law. If information collected pursuant to rule 22e-4 is reviewed by the Commission's examination staff, it will be accorded the same level of confidentiality accorded to other responses provided to the Commission in the context of its examination and oversight program.

11. Sensitive Questions

No PII collected/Not applicable.

12. Burden of Information Collection

The following estimates of average burden hours and costs are made solely for purposes of the Paperwork Reduction Act and are not derived from a comprehensive or even representative survey or study of the cost of Commission rules and forms.

Compliance with rule 22e-4 would be mandatory.

A. Preparation of Written Liquidity Risk Management Program

We believe that some open-end funds regularly monitor the liquidity of their portfolios as part of the portfolio management function, but they may not have written

policies and procedures regarding liquidity management. Rule 22e-4 requires funds and In-Kind ETFs to have a written liquidity risk management program. We believe such a program will minimize dilution of shareholder interests by promoting stronger and more effective liquidity risk management across open-end funds and will reduce the risk that a fund or In-Kind ETF will be unable to meet redemption obligations.

In the Proposing Release, we estimated that funds within 867 fund complexes would be subject to rule 22e-4.¹³ Compliance with rule 22e-4 would have been mandatory for all such funds. We further estimated that a fund complex would incur a one-time average burden of 40 hours associated with documenting the liquidity risk management programs adopted by each fund within the complex. Under the proposal, rule 22e-4 would have required fund boards to approve the liquidity risk management program and any material changes to the program, and we estimated a one-time burden of nine hours per fund complex associated with fund boards' review and approval of the funds' liquidity risk management programs and preparation of board materials. Amortized over a 3-year period, we estimated this would be an annual burden per fund complex of about 16 hours. Accordingly, we estimated that the total burden for initial documentation and review of funds' written liquidity risk management program would be 42,483 hours.¹⁴ We also estimated that it would cost a fund complex approximately \$38,791 to document, review and initially approve these policies and procedures, for a total cost of approximately \$33,631,797.¹⁵

¹³ See Proposing Release, *supra* footnote **Error! Bookmark not defined.**, at n.819 and accompanying text. This estimate excluded ETFs and UITs. See also 2016 ICI Fact Book, *supra* footnote **Error! Bookmark not defined.**, at Fig. 1.8.

¹⁴ This estimate was based on the following calculation: (40 + 9) hours x 867 fund complexes = 42,483 hours.

¹⁵ These estimates were based on the following calculations: 20 hours x \$301 (hourly rate for a senior

We did not receive any comments on the estimated hour and costs burdens associated with the overall preparation of written liquidity risk management programs under rule 22e-4 discussed above. We did, however, receive comments on the costs associated with the classification of the liquidity of a fund's portfolio positions, which we address below in connection with Form N-PORT. The Commission has modified the estimated increase in annual burden hours and total time costs that will result from the new written liquidity risk management requirements of rule 22e-4 based on certain modifications made to rule 22e-4 and updates to the industry data figures that were utilized in the Proposing Release. Based upon our review of industry data, we estimate that funds within 873 fund complexes would be subject to rule 22e-4,¹⁶ updated from 867 in our proposal. Compliance with rule 22e-4 will be mandatory for all such funds and In-Kind ETFs, with certain program elements applicable to certain funds within a fund complex based upon whether the fund is an In-Kind ETF or does not primarily hold assets that are highly liquid investments, as noted above. We discuss mandatory compliance with rule 22e-4 with respect to principal underwriters and depositors of UITs below.

The Commission continues to estimate that a fund complex will incur a one-time average burden of 40 hours associated with documenting the liquidity risk management

portfolio manager) = \$6,020; 20 hours x \$455.5 (blended hourly rate for assistant general counsel (\$426) and chief compliance officer (\$485)) = \$9,110; 5 hours x \$4,465 (hourly rate for a board of 8 directors) = \$22,325; 4 hours (for a fund attorney's time to prepare materials for the board's determinations) x \$334 (hourly rate for a compliance attorney) = \$1,336. \$6,020 + \$9,110 + \$22,325 + \$1,336 = \$38,791; \$38,791 x 867 fund complexes = \$33,631,797. The hourly wages used are from SIFMA's Management & Professional Earnings in the Securities Industry 2013, modified to account for an 1800-hour work-year and multiplied by 5.35 to account for bonuses, firm size, employee benefits, and overhead. The staff previously estimated in 2009 that the average cost of board of director time was \$4,000 per hour for the board as a whole, based on information received from funds and their counsel. Adjusting for inflation, the staff estimates that the current average cost of board of director time is approximately \$4,465.

¹⁶ See 2016 ICI Fact Book, *supra* footnote **Error! Bookmark not defined.**, at Fig. 1.8.

programs adopted by each fund within a fund complex. In light of the requirement that a fund subject to the highly liquid investment minimum requirement adopt and implement policies and procedures for responding to a shortfall of the fund's highly liquid investment minimum, and responding to any potential excesses of the 15% illiquid asset limit, both of which include reporting to the fund's board of directors, we estimate a one-time burden of 10 hours, rather than 9 hours, per fund complex associated with fund boards' review and approval of the funds' liquidity risk management programs and preparation of board materials. Amortized over a 3-year period, we estimate this will be an annual burden per fund complex of about 16.67 hours. Accordingly, we estimate that the total burden for initial documentation and review of funds' written liquidity risk management program will be 43,650 hours.¹⁷ We also estimate that it will cost a fund complex approximately \$41,467.5 to document, review, and initially approve these policies and procedures, for a total cost of approximately \$36,201,127.5.¹⁸

B. Reporting Regarding the Highly Liquid Investment Minimum

Rule 22e-4 requires any fund that does not primarily hold assets that are highly liquid investments to determine a highly liquid investment minimum for the fund, which must be reviewed at least annually, and may not be changed during any period of time

¹⁷ This estimate is based on the following calculation: (40 +10) hours x 873 fund complexes = 43,650 hours.

¹⁸ These estimates are based on the following calculations: 20 hours x \$306 (hourly rate for a senior portfolio manager) = \$6,120; 20 hours x \$463 (blended hourly rate for assistant general counsel (\$433) and chief compliance officer (\$493)) = \$9,260; 5.5 hours x \$4,465 (hourly rate for a board of 8 directors) = \$24,557.5; 4.5 hours (for a fund attorney's time to prepare materials for the board's determinations) x \$340 (hourly rate for a compliance attorney) = \$1,530. \$6,120 + \$9,260 + \$24,557.5 + \$1,530 = \$41,467.5; \$41,467.5 x 873 fund complexes = \$36,201,127.5. The hourly wages used are from SIFMA's Management & Professional Earnings in the Securities Industry 2013, modified by Commission staff to account for an 1800-hour work-year and inflation, and multiplied by 5.35 to account for bonuses, firm size, employee benefits, and overhead. The staff previously estimated in 2009 that the average cost of board of director time was \$4,000 per hour for the board as a whole, based on information received from funds and their counsel. Adjusting for inflation, the staff estimates that the current average cost of board of director time is approximately \$4,465.

that a fund's assets that are highly liquid investments are below the determined minimum without approval from the fund's board of directors.¹⁹ The fund's investment adviser or officers designated to administer the liquidity risk management program must provide a written report to the fund's board at least annually that describes a review of the adequacy and effectiveness of the fund's liquidity risk management program, including, if applicable, the operation of the highly liquid investment minimum.²⁰ In addition, the fund must adopt and implement policies and procedures for responding to a shortfall of the fund's assets that are highly liquid investments below its highly liquid investment minimum, which must include reporting to the fund's board of directors with a brief explanation of the causes of the shortfall, the extent of the shortfall, and any actions taken in response, and, if the shortfall lasts more than 7 consecutive calendar days, an explanation of how the fund plans to come back into compliance with its minimum within a reasonable period of time.²¹

Similar to the highly liquid investment minimum, in the Proposing Release, we proposed that funds be required to establish a three-day liquid asset minimum as part of a fund's liquidity risk management program, subject to board review, and we estimated that, for each fund complex, compliance with this reporting requirement would entail: (i) five hours of portfolio management time, (ii) five hours of compliance time, (iii) five hours of professional legal time and (iv) 2.5 hours of support staff time, requiring an additional 17.5 burden hours at a time cost of approximately \$5,193 per fund complex to

¹⁹ See rule 22e-4(b)(1)(iii)(A).

²⁰ See rule 22e-4(b)(3)(iii).

²¹ See rule 22e-4(b)(1)(iii)(A)(3).

draft the required report to the board.²² We estimated that the total burden for preparation of the board report would be 15,173 hours, at an aggregate cost of \$4,502,331.²³

We received several comments addressing, in general, the potential costs associated with a fund establishing and implementing a liquid asset minimum. To minimize the costs of implementing a liquid asset minimum, one commenter recommended that funds that have demonstrated a history of investing in only three-day liquid assets be excluded from the proposed three-day liquid asset minimum requirements and thus not incur the costs of related board reporting requirements.²⁴ Other commenters characterized the program requirements under the proposal as a one-size-fits-all approach to liquidity risk management and expressed the belief that such requirements were expensive and unsuitable for many funds.²⁵

As discussed above, the Commission has modified the proposed three-day liquid asset minimum requirement to a highly liquid investment minimum requirement that is tailored to apply only to funds that do not primarily hold highly liquid investments,

²² This estimate was based on the following calculation: 5 hours x \$301 (hourly rate for a senior portfolio manager) = \$1,505; 5 hours x \$283 (hourly rate for compliance manager) = \$1,415; 5 hours x \$426 (hourly rate for assistant general counsel) = \$2,130; and 2.5 hours x \$57 (hourly rate for general clerk) = \$143. \$1,505 + \$1,415 + \$2,130 + \$143 = \$5,193. The hourly wages used were from SIFMA's Management & Professional Earnings in the Securities Industry 2013, modified to account for an 1800-hour work-year and multiplied by 5.35 to account for bonuses, firm size, employee benefits, and overhead. The hourly wage used for the general clerk was from SIFMA's Office Salaries in the Securities Industry 2013, modified to account for an 1800-hour work-year and multiplied by 2.93 to account for bonuses, firm size, employee benefits, and overhead.

Because, under the proposal, each fund within a fund complex would be required to determine its own three-day liquid asset minimum, this estimate assumed that the report at issue would incorporate an assessment of the three-day liquid asset minimum for each fund within the fund complex.

²³ These estimates were based on the following calculations: 867 fund complexes x 17.5 hours = 15,173 hours; and \$5,193 x 867 fund complexes = \$4,502,331.

²⁴ See CFA Comment Letter.

²⁵ See, e.g., Dechert Comment Letter; Federated Comment Letter.

thereby potentially reducing the number of funds required to establish, maintain, and report a highly liquid investment minimum. In addition, the final rule retains a role for the board in overseeing the fund's liquidity risk management program, but eliminates certain of the more specific and detailed approval requirements originally proposed.²⁶ Unlike the proposal, however, rule 22e-4 requires a fund that is subject to the highly liquid investment minimum requirement to also adopt and implement policies and procedures to respond to a shortfall of assets that are highly liquid investments below the fund's highly liquid investment minimum, which includes reporting to the fund's board of directors.

In light of these modifications, we estimate that the burdens associated with board reporting will decrease overall in comparison to the proposal due to the elimination of certain board oversight requirements originally proposed and the potential reduction in the number of funds that would require board oversight of a highly liquid investment minimum. Therefore, we have modified the estimated annual burden hours and total costs that will result from the highly liquid investment minimum requirement under rule 22e-4.²⁷ We estimate that, for each fund complex, compliance with the reporting requirement would entail: (i) 4 hours, rather than five hours, of portfolio management time; (ii) 4 hours, rather than five hours, of compliance time; (iii) 4 hours, rather than five hours, of professional legal time; and (iv) 2 hours, rather than 2.5 hours, of support staff time, requiring an additional 14 burden hours at a time cost of approximately \$4,224 per

²⁶ See *supra* section III.H.3.

²⁷ Under the proposal, because each fund within a fund complex would have been required to determine its own three-day liquid asset minimum, the estimate under the proposal assumed that the report at issue would incorporate an assessment of the three-day liquid asset minimum for each fund within the fund complex. As adopted, rule 22e-4 only requires the assessment of the highly liquid investment minimum for funds that do not primarily hold assets that are highly liquid investments.

fund complex to draft the required report to the board.²⁸ We estimate that fund complexes will have at least one fund that will be subject to the highly liquid investment minimum requirement. Thus, we estimate that 873 fund complexes will be subject to this requirement under rule 22e-4 and that the total burden for preparation of the board report associated will be 12,222 hours, at an aggregate cost of \$3,687,552.²⁹

Recordkeeping

Final rule 22e-4 requires a fund or In-Kind ETF to maintain a written copy of the policies and procedures adopted pursuant to its liquidity risk management program for five years in an easily accessible place.³⁰ The rule also requires a fund to maintain copies of materials provided to the board in connection with its initial approval of the liquidity risk management program and any written reports provided to the board, for at least five years, the first two years in an easily accessible place.³¹ If applicable, a fund must also maintain a written record of how its highly liquid investment minimum and any adjustments to the minimum were determined, as well as any reports to the board regarding a shortfall in the fund's highly liquid investment minimum, for five years, the

²⁸ The estimate is based on the following calculation: 4 hours x \$306 (hourly rate for a senior portfolio manager) = \$1,224; 4 hours x \$288 (hourly rate for compliance manager) = \$1,152; 4 hours x \$433 (hourly rate for assistant general counsel) = \$1,732; and 2 hours x \$58 (hourly rate for general clerk) = \$116. \$1,224 + \$1,152 + \$1,732 + \$116 = \$4,224. The hourly wages used are from SIFMA's Management & Professional Earnings in the Securities Industry 2013, modified by Commission staff to account for an 1800-hour work-year and inflation, and multiplied by 5.35 to account for bonuses, firm size, employee benefits, and overhead. The hourly wage used for the general clerk is from SIFMA's Office Salaries in the Securities Industry 2013, modified by Commission staff to account for an 1800-hour work-year and inflation, and multiplied by 5.35 to account for bonuses, firm size, employee benefits, and overhead.

²⁹ These estimates are based on the following calculations: 873 fund complexes x 14 hours = 12,222 hours; and \$4,224 x 873 fund complexes = \$3,687,552.

³⁰ See rule 22e-4(b)(4)(i).

³¹ See rule 22e-4(b)(4)(ii).

first two years in an easily accessible place.³² The retention of these records would be necessary to allow the staff during examinations of funds to determine whether a fund is in compliance with the liquidity risk management program requirements.

Under the proposal, the recordkeeping requirements were substantially similar to those being adopted. In the Proposing Release, we estimated that the burden to retain these records would be five hours per fund complex, with 2.5 hours spent by a general clerk and 2.5 hours spent by a senior computer operator, with an estimated time cost per fund complex of \$361.³³ We also estimated that the total burden for recordkeeping related to the liquidity risk management program would be 4,335 hours, at an aggregate cost of \$312,987.³⁴

We did not receive any comments on the estimated hour and cost burdens associated with the recordkeeping requirements of rule 22e-4. We did, however, receive comments on the costs associated with the classification of the liquidity of a fund's portfolio positions.³⁵ The Commission has modified the estimated increase in annual burden hours and total time costs that will result from these requirements in light of modifications to change those subject to the requirements to funds and In-Kind ETFs and to require them to maintain reports to boards concerning a shortfall of the fund's highly liquid investment minimum, and the new requirement to retain records submitted to the board related to shortfalls of the minimum. We believe that, on an annual basis, the

³² See rule 22e-4(b)(4)(iii).

³³ This estimate was based on the following calculations: 2.5 hours x \$57 (hourly rate for a general clerk) = \$143; 2.5 hours x \$87 (hour rate for a senior computer operator) = \$218. \$143 + \$218 = \$361.

³⁴ This estimate was based on the following calculations: 867 fund complexes x 5 hours = 4,335 hours. 867 fund complexes x \$361 = \$312,987.

³⁵ The burdens associated with the classification requirement are covered under a separate PRA submission for Form N-PORT.

burden to retain records in connection with rule 22e-4 will be four hours, rather than five hours per fund complex, with 2 hours, rather than 2.5 hours, spent by a general clerk, and 2 hours, rather than 2.5 hours, spent by a senior computer operator, with an estimated time cost per fund complex of \$292, rather than \$361, based on updated data concerning funds and fund personnel salaries.³⁶ In addition, we estimate that the total burden for recordkeeping related to the liquidity risk management program requirement of rule 22e-4 will be 3,492 hours, rather than 4,335 hours, at an aggregate cost of \$254,916, rather than \$312,987.³⁷

C. Estimated Total Burden

Amortized over a three-year period, we estimate that the hour burdens and time costs associated with rule 22e-4 for open-end funds, including the burden associated with (1) funds' initial documentation and review of the required written liquidity risk management program, (2) reporting to a fund's board regarding the fund's highly liquid investment minimum, and (3) recordkeeping requirements will result in an average aggregate annual burden of 26,190 hours, rather than 28,611 hours as proposed, and average aggregate time costs of \$14,780,326.5, rather than \$14,431,215 as proposed.³⁸ We continue to estimate that there are no external costs associated with this collection of information.

D. UIT Liquidity Determination

³⁶ This estimate is based on the following calculations: 2 hours x \$58 (hourly rate for a general clerk) = \$116; 2 hours x \$88 (hour rate for a senior computer operator) = \$176. \$116 + \$176 = \$292.

³⁷ This estimate is based on the following calculations: 873 fund complexes x 4 hours = 3,492 hours. 873 fund complexes x \$292 = \$254,916.

³⁸ These estimates are based on the following calculations: 43,650 hours (year 1) + (2 x 12,222 hours) (years 2 and 3) + (3 x 3,492 hours) (years 1, 2 and 3) ÷ 3 = 26,190 hours; \$36,201,127.5 (year 1) + (2 x \$3,687,552) (years 2 and 3) + (3 x \$254,916) (years 1, 2 and 3) ÷ 3 = \$14,780,326.5.

As discussed above, we recognize that UITs may in some circumstances be subject to liquidity risk (particularly where the UIT is not a pass-through vehicle and the sponsor does not maintain an active secondary market for UIT shares). We believe that UITs may not have written policies and procedures regarding liquidity management and are adopting a new requirement under rule 22e-4 with respect to UITs. On or before the date of initial deposit of portfolio securities into a registered UIT, the UIT's principal underwriter or depositor is required to determine that the portion of the illiquid investments that the UIT holds or will hold at the date of deposit that are assets is consistent with the redeemable nature of the securities it issues, and maintain a record of that determination for the life of the UIT and for five years thereafter. The retention of these records would be necessary to allow the staff during examinations to determine whether a UIT is in compliance with the liquidity risk assessment required under rule 22e-4. This assessment would occur on or before the initial deposit of portfolio securities of a new UIT and thus would only need to occur once. Maintenance of the records would be required for the life of the UIT and for five years thereafter.

We estimate that 1615 newly registered UITs will be subject to the UIT liquidity determination requirement under rule 22e-4 each year.³⁹ Compliance with rule 22e-4(c) will be mandatory for all principal underwriters or depositors of such UITs. We estimate that the principal underwriter or depositor of a UIT will incur a one-time average burden of 10 hours to document its determination that the portion of the illiquid investments that the UIT holds or will hold at the date of deposit that are assets is consistent with the

³⁹ This estimate is based upon staff review of new UIT registration statements and semi-annual reporting on Form N-SAR filed with the Commission and Monthly Unit Investment Trust Data released by the Investment Company Institute, *available at* <https://www.ici.org/research/stats>, for the months of January through December of 2015.

redeemable nature of the securities it issues. Amortized over a 3 year period, we estimate this would be an annual burden per UIT of about 3 hours. Accordingly, we estimate that the total burden for the initial documentation and review of funds' written liquidity risk management program would be 16,150 hours.⁴⁰ We also estimate that it will cost the principal underwriter or depositor of a UIT approximately \$2,466 to perform and document this review, for a total cost of approximately \$3,982,590.⁴¹

We estimate that the burden to retain these records will be two hours per UIT, with 1 hour spent by a general clerk and 1 hour spent by a senior computer operator, with an estimated time cost per UIT of \$146.⁴² We also estimate that the total burden for recordkeeping related to the liquidity risk management program will be 3,230 hours, at an aggregate cost of \$235,790.⁴³ We estimate that there are no external costs associated with this collection of information.

13. Cost to Respondents

The staff estimates that rule 22e-4 does not impose any material cost burdens on funds, apart from the cost of the burden hours discussed above. Although rule 22e-4 requires funds to maintain records for five years, these records may be maintained electronically and, even if maintained in hard copy, are unlikely to be voluminous. The staff has not estimated a capital cost in connection with the recordkeeping requirements

⁴⁰ This estimate is based on the following calculation: 10 hours x 1615 new UITs = 16,150 hours.

⁴¹ These estimates are based on the following calculations: 5 hours x \$308 (hourly rate for a senior programmer) = \$1540; 2 hours x \$463 (blended hourly rate for assistant general counsel (\$433) and chief compliance officer (\$493)) = \$926. \$1,540 + \$926 = \$2,466; \$2,466 x 1615 estimated new UITs = \$3,982,590. The hourly wages used are from SIFMA's Management & Professional Earnings in the Securities Industry 2013, modified by Commission staff to account for an 1800-hour work-year and inflation, and multiplied by 5.35 to account for bonuses, firm size, employee benefits, and overhead.

⁴² This estimate is based on the following calculations: 1 hour x \$58 (hourly rate for a general clerk) = \$58; 1 hours x \$88 (hour rate for a senior computer operator) = \$88. \$58 + 88 = \$146.

⁴³ This estimate is based on the following calculations: 1615 UITs x 2 hours = 3,230 hours. 1615 UITs x \$146 = \$235,790.

because funds and their advisers would likely use existing recordkeeping systems to maintain the required records.

14. Costs to Federal Government

Rule 22e-4 does not impose a cost to the federal government. Commission staff may, however, review records produced pursuant to the rule in order to assist the Commission in carrying out its examination and oversight program.

15. Change in Burden

Not applicable. This is the first request for approval of the collection of information for this rule.

16. Information Collection Planned for Statistical Purposes

Not applicable.

17. Approval to Omit OMB Expiration Date

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

18. Exceptions to Certification for Paperwork Reduction Act Submissions

The Commission is not seeking an exception to the certification statement.

B. COLLECTIONS OF INFORMATION EMPLOYING STATISTICAL METHODS

The collection of information will not employ statistical methods.