

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 October 13, 2016, the Commission issued a release adopting certain changes to the investment company reporting and disclosure regime.⁶ Among other things, the final rules will 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 amendments will: (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; and (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. 32314 (October 13, 2016) (“Reporting Modernization Adoption”).

⁷ 17 CFR 210.1-01 et seq.

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

2. Purpose and Use 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. Consideration Given to 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.

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-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 Not Conducting 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, the Commission received and evaluated public comments on the proposals and its collection of information requirements. The Commission received no comments on this aspect of the proposal. The Commission and 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 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 PII collected/Not applicable.

12. Burden of Information Collection

We estimate that that there are 11,859 management companies that will have to comply with our amendments to Regulation S-X.⁸ In addition, we estimate that the amendments to Regulation S-X will likely increase the time spent preparing, reviewing and certifying reports. The extent to which a fund's burden will increase as a result of the amendments will 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 7 burden hours in the first year and an additional 2.5 burden hours for filings in subsequent years in order to comply with the 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 4 hours per fund.⁹ Accordingly, the estimated total annual average hour burden associated with the amendments will be 47,436.¹⁰

We estimate that a fund would spend on average 88¹¹ hours per fund of an in-house attorney's and accountant's time associated with preparing, reviewing, and filing semi-annual

⁸ This estimate includes 9,252 mutual funds (including money market funds), 1,589 ETFs (1,594 ETFs – 5 UIT ETFs) and 750 closed-end funds and is based on internal SEC data as well as ICI statistics as of December 31, 2015 *available at* <http://www.ici.org/research/stats>.

⁹ The estimate is based on the following calculation: $(7 \text{ hours} + (2.5 \text{ hours} \times 2)) / 3 = 4$.

¹⁰ The estimate is based on the following calculation: $4 \text{ hours} \times 11,859 \text{ management investment companies} = 47,436$.

¹¹ Based on staff experience and conversations with fund representatives, the Commission previously estimated that it would take approximately 88 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 four additional burden hours from the current rulemaking to rule 30e-1's previous burden of 84 hours.

reports in accordance with rule 30e-1, at a total annual paperwork related cost of \$28,292 per fund.¹² In the aggregate, the staff estimates that compliance with rule 30e-1 would result in a total annual burden of approximately 1,043,592 hours¹³ and total annual time costs of \$335,514,828.¹⁴

13. Cost to Respondents

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 amendments to Regulation S-X.¹⁵ We further estimate that the total annual external cost burden for rule 30e-1 will be \$368,352,399.¹⁶

¹² This estimate is based on annual ongoing burden hour estimate of 88 hours burden per fund. This was then multiplied by a blended hourly wage of \$321.50 per hour, \$160 per hour for Intermediate Accountant and \$483 per hour for an Attorneys ($\$321.50 \times 88 = \$28,292$). The estimated wage figures are based on published rates for in-house attorneys, modified 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, yielding effective hourly rates of \$321.50. See Securities Industry and Financial Markets Association, *Report on Management & Professional Earnings in the Securities Industry 2013*.

¹³ This estimate is based on the following calculation: 88 hours per fund x 11,859 management investment companies = 1,043,592 hours.

¹⁴ This estimate is based on annual ongoing burden hour estimate of 1,043,592 hours burden for management companies. This was then multiplied by a blended hourly wage of \$321.50 per hour, \$160 per hour for Intermediate Accountant and \$386 per hour for an Attorney ($\$321.50 \times 1,043,592 = \$335,514,828$). 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*.

¹⁵ 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.

¹⁶ This estimate is based on the following calculation: 11,859 funds x \$31,061 = \$368,352,399.

14. 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 \$19.5 million in fiscal year 2015, 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. Change in Burden

The estimates represent an increase from 935,049 hours to 1,043,592 hours in internal burden and an increase from \$333,905,750 to \$368,352,399 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 of our 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 increase in external costs per year is also due to the increase in the number of portfolios estimated to respond to rule 30e-1.

16. Information Collection Planned for Statistical Purposes

Not applicable.

17. Approval to Omit OMB Expiration Date

Not applicable.

18. Exceptions to Certification Statement for Paperwork Reduction Act

Submission

Not applicable.

B. COLLECTION OF INFORMATION EMPLOYING STATISTICAL METHODS

Not applicable.