

SUPPORTING STATEMENT
For the Paperwork Reduction Act Information Collection Submission for
Rule 17f-7

A. JUSTIFICATION

1. Necessity for the Information Collection

Rule 17f-7 under the Investment Company Act of 1940 (the “Act”)¹ governs the custody of the assets of registered management investment companies (“funds”) with a foreign securities depository outside the United States.² Rule 17f-7 permits a fund under certain conditions to maintain its foreign assets with an eligible securities depository, which has to meet minimum standards for a depository. The fund or its investment adviser generally determines whether the depository complies with those requirements based on information provided by the fund’s primary custodian (a bank that acts as global custodian). The depository custody arrangement also must meet certain conditions. The fund or its adviser must receive from the primary custodian (or its agent) an initial risk analysis of the depository arrangements, and the fund’s contract with its primary custodian must state that the custodian will monitor risks and promptly notify the fund or its adviser of material changes in risks. The primary custodian and other custodians also are required to agree to exercise at least reasonable care, prudence, and diligence.

2. Purpose and Use of the Information Collection

The collection of information requirements in rule 17f-7 are intended to provide workable standards that protect funds from the risks of using foreign securities depositories while assigning appropriate responsibilities to the fund’s primary custodian and investment adviser based on their capabilities. The requirement that the foreign securities depository meet specified minimum

¹ 15 U.S.C. 80a.

standards is intended to ensure that the depository is subject to basic safeguards deemed appropriate for all depositories. The requirement that the fund or its adviser must receive from the primary custodian (or its agent) an initial risk analysis of the depository arrangements, and that the fund's contract with its primary custodian must state that the custodian will monitor risks and promptly notify the fund or its adviser of material changes in risks, is intended to provide essential information about custody risks to the fund's investment adviser as necessary for it to approve the continued use of the depository. The requirement that the primary custodian agree to exercise reasonable care is intended to provide assurances that its services and the information it provides will meet an appropriate standard of care.

3. Consideration Given to Information Technology

Rule 31a-2(f) under the Act permits funds to maintain many types of records on micrographic and electronic storage media.

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.

5. Effect on Small Entities

The current requirements do not distinguish between small entities and other entities. The proportionate burden on small entities may be greater than for larger entities due to economies of scale. This burden would include, for example, the preparation of a risk analysis and ongoing risk monitoring. The Commission considered special requirements for small entities. The Commission believes, however, that imposing different requirements on smaller

² 17 CFR 270.17f-7.

entities would not be consistent with investor protection. 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 17f-7's reporting requirements apply only upon the occurrence of material changes in the custody risks associated with maintaining the fund's assets with a foreign securities depository. Some custody arrangements, such as arrangements with less established foreign depositories, may require more frequent reporting than other arrangements. Less frequent collection could lead to increased risks related to foreign custody arrangements.

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

The collection is not inconsistent with 5 CFR 1320.5(d)(2).

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 fund 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 of rule 17f-7 before it submitted this request for extension and approval to the Office of Management and Budget ("OMB"). The Commission received no comments in response to its request.

9. Payment or Gift

No payment or gift to respondents was provided.

10. Confidentiality

No assurance of confidentiality was provided.

11. Sensitive Questions

No questions of a sensitive nature are involved. The information collection does not include personally identifiable information.

12. Burden of Information Collection

The following estimates of average burden hours are made solely for the purposes of the Paperwork Reduction Act of 1995³ and are not derived from a comprehensive or even representative survey or study of the costs of Commission rules and forms. Compliance with the collection of information requirements of rule 17f-7 is necessary to obtain the benefit of relying on the rule's permission for funds to maintain their assets in foreign custodians. No assurance of confidentiality is provided.

The burden hour estimate is based on consultations with industry representatives and on the Commission's experience. The number of burden hours may vary depending on, among other things, the number of foreign custodians. The staff estimates that each of approximately 992 investment advisers⁴ will make an average of 8 responses annually under the rule to address depository compliance with minimum requirements, any indemnification or insurance arrangements, and reviews of risk analyses or notifications. The staff estimates each response will take 6 hours, requiring a total of approximately 48 hours for each adviser.⁵ Thus the total annual burden associated with these requirements of the rule is approximately 47,616 hours.⁶

³ 44 U.S.C. 3501 – 3521.

⁴ In October 2016, Commission staff estimated that, as of June 2016, 992 investment advisers managed or sponsored open-end registered funds (including exchange-traded funds) and closed-end registered funds.

⁵ 8 responses per adviser x 6 hours per response = 48 hours per adviser.

⁶ 992 advisers x 48 hours per adviser = 47,616 hours.

Based on a Commission estimate of 47,616 hours and an estimated wage rate of approximately \$306 per hour,⁷ the total cost to the industry of this hour burden is approximately \$14,570,496.⁸

The staff further estimates that during each year, each of approximately 15 global custodians will make an average of 4 responses to analyze custody risks and provide notice of any material changes to custody risk under the rule. The staff estimates that each response will take 260 hours, requiring approximately 1,040 hours annually per global custodian.⁹ Thus the total annual burden associated with these requirements is approximately 15,600 hours.¹⁰ Based on this estimate of 15,600 hours and an estimated wage rate of approximately \$217 per hour, the total cost to the industry of this hour burden is approximately \$3,385,200.¹¹

The total annual hour burden associated with all collection of information requirements of the rule is therefore 63,216 hours,¹² and the total cost to the industry of the hour burden is approximately \$17,955,696.¹³

13. Cost to Respondents

Cost burden is the cost of services purchased to comply with rule 17f-7, such as for the services of computer programmers or outside legal counsel. The cost burden does not include

⁷ The Commission's estimated relevant wage rates are from SIFMA's Management & Professional Earnings in the Securities Industry 2013, modified to account for an 1800-hour work-year and inflation (as of January 2016) and multiplied by 5.35 to account for bonuses, firm size, employee benefits, and overhead. These estimates yield effective hourly wage figures for senior portfolio managers and trust administrators of \$306 and \$217, respectively.

⁸ 47,616 hours x \$306 per hour = \$14,570,496.

⁹ 260 hours per response x 4 responses per global custodian = 1,040 hours per global custodian.

¹⁰ 15 global custodians x 1,040 hours per global custodian = 15,600 hours.

¹¹ 15,600 hours x \$217 per hour = \$3,385,200.

¹² 47,616 hours + 15,600 hours = 63,216 hours.

¹³ \$14,570,496 + \$3,385,200 = \$17,955,696.

the cost of the hour burden discussed in Item 12 above. Estimates are based on the Commission's experience. The Commission currently attributes no external cost burden to rule 17f-7.

14. Cost to the Federal Government

The rule imposes no costs associated with filing reports or any other costs to the Federal government.

15. Change in Burden

The estimated hourly burden associated with rule 17f-7 has increased from 60,624 to 63,216 (an increase of 2,592 hours). The increase is due to an increase in the estimated number of investment advisers making responses under rule 17f-7.

16. Information Collection Planned for Statistical Purposes

The results of any information collection will not be published.

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 Statement for Paperwork Reduction Act

Submission

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.