

**SUPPORTING STATEMENT**  
**For the Paperwork Reduction Act Information Collection Submission for**  
**Rule 30b1-10 and Form N-LIQUID**

**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...” Rule 30b1-10 under the Act [17 CFR 270.30b1-10], entitled “Current report for open-end management investment companies,” provides that every registered open-end management investment company, or series thereof but not a fund that is regulated as a money market fund under § 270.2a-7, that experiences any event specified on Form N-LIQUID, must file with the Commission a current report on Form N-LIQUID within the period specified in that form. Similar to Form 8-K under the Securities Exchange Act of 1934 [17 CFR 249.308] or Form N-CR under the Investment Company Act [17 CFR 270.30b1-8] for money market funds, Form N-LIQUID requires disclosure, by means of a current report filed with the Commission, of certain specific reportable events.

On October 13, 2016, the Commission adopted a new form N-LIQUID under the Act.<sup>1</sup> Rule 30b1-10 and Form N-LIQUID require open-end investment companies, including exchange-traded funds that redeem in kind (“In-Kind ETFs”) but not including money market funds, to file a current report on Form N-LIQUID on a non-public basis when certain events

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<sup>1</sup> Investment Company Act Release No. 33-10233 (Oct. 13, 2016) (the “Adopting Release”).

related to their liquidity occur. The information reported on Form N-LIQUID concerns events under which more than 15% of a fund's or In-Kind ETF's net assets are, or become, illiquid investments that are assets as defined in rule 22e-4 and when holdings in illiquid investments are assets that previously exceeded 15% of a fund's net assets have changed to be less than or equal to 15% of the fund's net assets.<sup>2</sup> The information reported on Form N-LIQUID also regards events under which a fund's holdings in assets that are highly liquid investments fall below the fund's highly liquid investment minimum for more than 7 consecutive calendar days. A report on Form N-LIQUID is required to be filed, as applicable, within one business day of the occurrence of one or more of these events.<sup>3</sup> Compliance with rule 30b1-10 will be mandatory for all funds other than money market funds. Responses to the disclosure requirements will be kept confidential.

## **2. Purpose and Use of the Information Collection**

Certain provisions of the amended rule and form contain "collection of information" requirements within the meaning of the Paperwork Reduction Act of 1995 [44 U.S.C. 3501, et seq.], 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 information collection requirements for amended rule 30b1-10 and Form N-LIQUID are designed to enable the Commission to receive information on fund liquidity events more uniformly and efficiently, and will enhance the Commission's oversight of funds when significant liquidity events occur and its ability to respond to market events. The Commission

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<sup>2</sup> See Item C.1 and Item C.2 of Part A of Form N-LIQUID.

<sup>3</sup> See General Instruction A.2 of Form N-LIQUID.

will be able to use the information provided on Form N-LIQUID in its regulatory, disclosure review, inspection, and policymaking roles.

### **3. Consideration Given to Information Technology**

The Commission's Electronic Data Gathering, Analysis and Retrieval System ("EDGAR") is designed to automate the filing, processing and dissemination of full disclosure filings. The system permits publicly-held companies to transmit their filings to the Commission electronically. EDGAR has increased the speed, accuracy and availability of information, generating benefits to investors and financial markets. All funds have been required to use EDGAR for their disclosure filings since November 6, 1995. Form N-LIQUID is required to be filed with the Commission electronically on EDGAR.

### **4. Duplication**

The Commission periodically evaluates rule-based reporting and recordkeeping requirements for duplication, and reevaluates them whenever it adopts changes in its rules. The requirements of Form N-LIQUID are not generally duplicated elsewhere.

### **5. Effect on Small Entities**

The information collection requirements of amended rule 30b1-10 and Form N-LIQUID 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 30b1-10 and Form N-LIQUID set forth the disclosure requirements for current reports filed by funds to enable the Commission to receive information on fund liquidity events more uniformly and efficiently and will enhance the Commission’s oversight of funds when significant liquidity events occur and its ability to respond to market events. Less frequent collection would mean that timely disclosure of information regarding significant liquidity events would not be available to the Commission.

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

Under applicable federal regulations, OMB generally will not approve a collection of information that includes a pledge of confidentiality unless the pledge is “supported by disclosure and data security policies that are consistent with the pledge....”<sup>4</sup> In addition, if an agency proposes to collect confidential information, it must be able to “demonstrate that it has instituted procedures to protect the information’s confidentiality to the extent permitted by law.”<sup>5</sup>

Form N-LIQUID elicits non-public information about circumstances when a fund breaches the 15% illiquid investment limit, returns to compliance with the 15% illiquid investment limit, or breaches its highly liquid investment minimum for longer than 7 consecutive calendar days. When these events occur, reporting to the Commission is necessary to provide the Commission with timely information that may prompt the Commission to inquire further into the circumstances that gave rise to the requirement to file Form N-LIQUID. The Commission finds that it is neither necessary nor appropriate in the public interest or for the protection of investors

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<sup>4</sup> 5 CFR 1320.5(d)(2)(vii).

<sup>5</sup> 5 CFR 1320.5(d)(2)(viii).

to make the information filed on Form N-LIQUID publicly available and, therefore, does not intend to make public Form N-LIQUID.<sup>6</sup>

In addition, the Commission recognizes the importance of sound data security practices and protocols for non-public information, including information that may be competitively sensitive. The Commission has substantial experience with storage and use of non-public information reported on Form PF and delayed public disclosure of information on Form N-MFP (although the Commission no longer delays public disclosure of reports on Form N-MFP), as well as other non-public information that the Commission handles in its ordinary course of business. Commission staff is carefully evaluating the data security protocols that will apply to non-public data reported on Form N-LIQUID in light of the specific recommendations and concerns raised by commenters. Drawing on its experience, the staff is working to design controls and systems for the use and handling of Form N-LIQUID data in a manner that reflects the sensitivity of the data and is consistent with the maintenance of its confidentiality. In advance of the compliance date, we expect that the staff will have reviewed the controls and systems in place for the use and handling of non-public information reported on Form N-LIQUID.

## **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

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<sup>6</sup> See section 45(a) of the Investment Company Act, which requires information in investment company forms to be made available to the public, unless we find that public disclosure is neither necessary nor appropriate in the public interest or for the protection of investors.

industry. The Commission requested public comment on the collection requirements in rule 30b1-10 and Form N-LIQUID before it submitted this request for revision and approval to the Office of Management and Budget. The Commission received no comments in response to its request.<sup>7</sup>

**9. Payment or Gift**

Not applicable.

**10. Confidentiality**

See section A.7 of this supporting statement.

**11. Sensitive Questions**

The form does not request Social Security Numbers. A System of Records Notice has been published in the Federal Register and can also be found at <http://www.sec.gov/about/privacy/sorn/secsorn6.pdf>.

No information of a sensitive nature, including social security numbers, will be required under this collection of information.

**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 30b1-10 and Form N-LIQUID would be mandatory. The staff estimates that the

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<sup>7</sup> In the Proposing Release, the Commission proposed that the contents of Form N-LIQUID be reported on Form N-PORT. The Commission made the decision to require funds to separately report liquidity events on Form N-LIQUID in response to commenters who supported this early notification process to the Commission, but expressed their concerns regarding allowing a fund to wait until its Form N-PORT filing deadline to notify the Commission of liquidity events.

Commission will receive, in the aggregate, an average of 30 reports<sup>8</sup> per year filed in response to an event specified on Part B (“Above 15% Illiquid Investments”), an average of 30 reports<sup>9</sup> per year filed in response to an event specified on Part C (“At or Below 15% Illiquid Investments”), and an average of 30 reports<sup>10</sup> per year filed in response to an event specified on Part D (“Highly Liquid Investments Below the Highly Liquid Investment Minimum”) of the form.

When filing a report on Form N-LIQUID,<sup>11</sup> staff estimates that a fund will spend on average approximately 4 hours<sup>12</sup> of an in-house attorney’s time and one<sup>13</sup> hour of an in-house accountant’s time to prepare, review, and submit Form N-LIQUID, at a total time cost of \$1,745.<sup>14</sup> Accordingly, in the aggregate, staff estimates that compliance with new rule 30b1-10 and Form N-LIQUID will result in a total annual burden of approximately 450 burden hours and total annual time costs of approximately \$157,050.<sup>15</sup> Given an estimated 10,633 funds will be

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<sup>8</sup> Commission staff estimates this figure based, in part, by reference to the total of 28 Form N-CR filings received by the Commission from mid-July 2015 to mid-July 2016. We recognize that the circumstances under which money market funds report events on Form N-CR are not the same as the liquidity events reported on Form N-LIQUID and that reported occurrences may be less than or more than 30. We believe, however, that Form N-CR provides a helpful guidepost for estimation purposes and believe an estimation of 30 reports is appropriate for purposes of this PRA.

<sup>9</sup> *See id.*

<sup>10</sup> *See id.*

<sup>11</sup> For purposes of this estimate, the staff expects that it would take approximately the same amount of time to prepare and file a report on Form N-LIQUID, regardless under which Part of Form N-LIQUID it is filed.

<sup>12</sup> This estimate is derived in part from our current PRA estimate for Form N-CR and Form 8-K.

<sup>13</sup> *Id.*

<sup>14</sup> This estimate is based on the following calculations: (4 hours x \$386/hour for an attorney = \$1,544), plus (1 hour x \$201/hour for a senior accountant = \$201), for a combined total of 5 hours at total time costs of \$1,745.

<sup>15</sup> This estimate is based on the following calculations: (30 reports filed per year with respect to Part B) + (30 reports filed per year with respect to Part C) + (30 reports filed per year with respect to Part D) = 90 reports filed per year. 90 reports filed per year x 5 hours per report = approximately 450 total annual burden hours. 90 reports filed per year x \$1,745 in costs per report = \$157,050 total annual costs.

required to comply with new rule 30b1-10 and Form N-LIQUID,<sup>16</sup> this would result in an annual burden of approximately 0.04 burden hours and annual time costs of approximately \$15 on a per-fund basis.

### **13. Cost to Respondents**

Cost burden is the cost of goods and services purchased to comply with rule 30b1-10 and Form N-LIQUID, such as licensing software solutions or for the services of external service providers. The cost burden does not include the hour burden discussed in Item 12. Estimates are based on the Commission's experience with the filing of registration forms. The Commission estimates that there will be no external costs associated with this collection of information.

### **14. Cost to the Federal Government**

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. A portion of those costs will relate to processing and reviewing Form N-LIQUID filings submitted to the Commission for compliance with rule 30b1-10.

### **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.

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<sup>16</sup> This estimate is based on the number of funds the staff estimates will be required to file reports on Form N-PORT with the Commission. For purposes of this PRA, the staff assumes that the universe of funds affected by rule 30b1-9 for Form N-PORT would be similar to the universe of funds affected by rule 30b1-10 for Form N-LIQUID.



**17. Approval to Omit OMB Expiration Date**

We request authorization to omit the expiration date on the electronic version of the form, although the OMB control number will be displayed. Including the expiration date on the electronic version of this form will result in increased costs, because the need to make changes to the form may not follow the application's scheduled version release dates.

**18. Exceptions to Certification for Paperwork Reduction Act Submission**

Not applicable.

**B. COLLECTIONS OF INFORMATION EMPLOYING STATISTICAL METHODS**

Not applicable.