

**SUPPORTING STATEMENT**  
**For the Paperwork Reduction Act Information Collection Submission for**  
**Rule 19a-1**

**A. JUSTIFICATION**

**1. Necessity for the Information Collection**

Section 19(a) of the Investment Company Act of 1940 (15 U.S.C. 80a-19(a)) (the “Act”) makes it unlawful for any registered investment company to pay any dividend or similar distribution from any source other than the company’s net income, unless the payment is accompanied by a written statement to the company’s shareholders that adequately discloses the sources of the payment. Section 19(a) authorizes the Commission to prescribe the form of such statement by rule.

Rule 19a-1 (17 CFR 270.19a-1) under the Act, entitled “Written Statement to Accompany Dividend Payments by Management Companies,” sets forth specific requirements for the information that must be included in statements made pursuant to section 19(a) by or on behalf of management companies.<sup>1</sup> The rule requires that the statement indicate what portions of distribution payments are made from net income, net profits from the sale of a security or other property (“capital gains”), and paid-in capital. When any part of the payment is made from capital gains, rule 19a-1 also requires that the statement disclose certain other information relating to the appreciation or depreciation of portfolio securities. If an estimated portion is subsequently determined to be significantly inaccurate, a correction must be made on a statement made pursuant to section 19(a) or in the first report to shareholders following the discovery of the inaccuracy.

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<sup>1</sup> Section 4(3) of the Act (15 U.S.C. 80a-4(3)) defines “management company” as “any investment company other than a face-amount certificate company or a unit investment trust.”

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

The purpose of rule 19a-1 is to afford fund shareholders adequate disclosure of the sources from which distribution payments are made. The rule is intended to prevent shareholders from confusing income dividends with distributions made from capital sources. Absent rule 19a-1, shareholders might receive a false impression of fund gains.

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

The Commission's Electronic Data Gathering, Analysis and Retrieval System ("EDGAR") provides for the automated filing, processing, and dissemination of full disclosure filings. The automation provides for speed, accuracy and public availability of information, generating benefits to investors and financial markets. Rule 19a-1 does not require the filing of any documents with the Commission. The Commission's Division of Investment Management has issued guidance clarifying that, under certain circumstances, funds may electronically deliver to shareholders the written statement made pursuant to rule 19a-1.<sup>2</sup>

## **4. Duplication**

The Commission periodically evaluates rule-based reporting and recordkeeping requirements for duplication, and reevaluates those requirements whenever it proposes a rule or form or a change in either. The requirements of rule 19a-1 are not duplicated elsewhere in the federal securities laws, although certain state securities laws and the Internal Revenue Code may contain information collection requirements similar to those found in rule 19a-1.

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

The information collection requirements of rule 19a-1 are the same for all investment

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<sup>2</sup> See IM Guidance Update No. 2013-11, Shareholder Notices of the Sources of Fund Distributions – Electronic Delivery (Nov. 2013), *available at* <http://www.sec.gov/divisions/investment/guidance/im-guidance-2013-11.pdf>.

companies subject to the rule, including small entities. The written statement requirement of rule 19a-1 is necessary to provide fund shareholders with disclosure of the sources from which funds make distribution payments. The Commission believes that compliance with rule 19a-1 is not unduly burdensome for large or small entities, and that the shareholders of small entities, along with the shareholders of large entities, are entitled to the protections that give rise to the paperwork burdens.

**6. Consequences of Not Conducting Collection**

It would not be practicable for rule 19a-1 to require less frequent disclosure to fund shareholders. If all distributions from net capital gains and paid-in capital were not accompanied simultaneously by statements disclosing the sources of the distribution, investors might confuse these payments with distributions from net income. Furthermore, section 19(a) of the Act makes it unlawful for any registered investment company to pay any distribution from any source other than net income unless such payment is accompanied by a written statement disclosing the sources of the payment.

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

None.

**8. Consultation Outside the Agency**

The Commission requested public comment on the collection of information requirements of rule 19a-1 before it submitted this request for extension and approval to the Office of Management and Budget. The Commission received no comments in response to this request. In addition, the Commission and 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 forums provide the Commission and the staff useful means to identify and address paperwork burdens that may affect the industry.

**9. Payment or Gift**

Not applicable.

**10 Confidentiality**

Not applicable.

**11. Sensitive Questions**

No information of a sensitive nature, including social security numbers, will be required under this collection of information. The information collection does not collect personally identifiable information (PII). The agency has determined that a system of records notice (SORN) and privacy impact assessment (PIA) are not required in connection with the collection of information.

**12. Burden of Information Collection**

The staff estimates that there are 11,818 series of registered investment companies that are management companies that may be subject to rule 19a-1 each year,<sup>3</sup> and that each portfolio on average mails two statements per year to meet the requirements of the rule.<sup>4</sup> The staff further estimates that the time needed to make the determinations required by the rule and to prepare the

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<sup>3</sup> This estimate is based on statistics compiled by Commission staff as of April 30, 2017. The number of management investment company portfolios that make distributions for which compliance with rule 19a-1 is required depends on a wide range of factors and can vary greatly across years. Therefore, the calculation of estimated burden hours below is based on the total number of management investment company portfolios, each of which may be subject to rule 19a-1.

<sup>4</sup> A few portfolios make monthly distributions from sources other than net income, so the rule requires them to send out a statement 12 times a year. Other portfolios never make such distributions.

statement required under the rule is approximately 1 hour per statement. The total annual burden for all portfolios therefore is estimated to be approximately 23,636 burden hours.<sup>5</sup>

The staff estimates that approximately one-third of the total annual burden (7,879 hours) would be incurred by a paralegal with an average hourly wage rate of approximately \$205 per hour,<sup>6</sup> and approximately two-thirds of the annual burden (15,757 hours) would be incurred by a compliance clerk with an average hourly wage rate of \$66 per hour.<sup>7</sup> The staff therefore estimates that the aggregate annual cost of complying with the paperwork requirements of the rule is approximately \$2,655,157 ((7,879 hours x \$205 = \$1,615,195) + (15,757 hours x \$66 = \$1,039,962)).

To comply with state law, many investment companies already must distinguish the different sources from which a shareholder distribution is paid and disclose that information to shareholders. Thus, many investment companies would be required to distinguish the sources of shareholder dividends whether or not the Commission required them to do so under rule 19a-1.

The estimate of average burden hours is made solely for the purposes of the Paperwork Reduction Act. The estimate is not derived from a comprehensive or even a representative survey or study of the costs of Commission rules.

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<sup>5</sup> This estimate is based on the following calculation: 11,818 management investment company portfolios x 2 statements per year x 1 hour per statement = 23,636 burden hours.

<sup>6</sup> Hourly rates are derived from the Securities Industry and Financial Markets Association (“SIFMA”), Management and Professional Earnings in the Securities Industry 2013, 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.

<sup>7</sup> Hourly rates are derived 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.

**13. Cost to Respondents**

It is estimated that there is no cost burden of rule 19a-1 other than the cost of the respondent hour burden identified in Item 12 of this Supporting Statement.

**14. Cost to the Federal Government**

There are no costs to the Federal Government associated with rule 19a-1.

**15. Changes in Burden**

The estimated annual burden of 23,636 hours represents an increase of 1,504 hours over the prior estimate of 22,132 hours. The increase in estimated burden hours results from an increase in the estimated number of series of registered investment companies that may be subject to rule 19a-1.

**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, 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 Statement for Paperwork Reduction Act**

**Submission**

Not applicable.

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

Not applicable.