

**SUPPORTING STATEMENT**  
**For the Paperwork Reduction Act Information Collection Submission for**  
**RULE 31a-1**

**A. JUSTIFICATION**

**1. Necessity for the Information Collection**

Rule 31a-1 (17 CFR 270.31a-1) under the Investment Company Act of 1940 (15 U.S.C. 80a) (the “Act”) requires registered investment companies (“funds”) and certain of their majority-owned subsidiaries to maintain and keep current the accounts, books, auditors’ certificates, and other documents that underlie and support the financial statements these entities are required to file with the Commission under section 30 of the Act (15 U.S.C. 80a-30). Rule 31a-1(a) defines the entities that must comply with the rule. As mentioned, the rule encompasses funds as well as every underwriter, broker, dealer, or investment adviser that is a majority-owned subsidiary of a fund. Rule 31a-1(b) describes the specific records that must be maintained and kept current by the entities identified in rule 31a-1(a). These records consist of the following: (i) journals detailing purchases and sales of securities; (ii) general and auxiliary ledgers reflecting all asset, liability, reserve, capital income, and expense accounts; (iii) a record of all “long” and “short” positions carried by the fund for its own account; (iv) corporate charters, certificates of incorporation or trust agreements, bylaws, shareholder and director meeting minutes; (v) a record of each brokerage order made by the fund for the purchase or sale of securities; (vi) a record of all other portfolio purchases or sales; (vii) a record of all options and contractual commitments to purchase or sell securities or other property; (viii) a record of the money balances in all ledger accounts in the form of trial balances; (ix) a quarterly record of the specific basis for the allocation of orders to brokerages for the purchase or sale of portfolio securities and for the division of commissions among brokerages and record of the persons

responsible for such allocation and division; (x) a record identifying the person or persons who authorized the purchase or sale of portfolio securities; and (xi) files of advisory material received from the investment adviser or other person from whom the fund accepts investment advice.

Rule 31a-1(c) requires underwriters, brokers, and dealers that are majority-owned subsidiaries of a fund to maintain the accounts, books, and other documents that are required to be maintained by brokers and dealers by rule adopted under section 17 of the Securities Exchange Act of 1934 (15 U.S.C. 78q) (the “1934 Act”). Rule 31a-1(d) requires depositors and principal underwriters for any fund other than a closed-end fund to maintain the accounts, books, and other documents that are required to be maintained by brokers and dealers by rule adopted under section 17 of the 1934 Act, to the extent those records are necessary or appropriate to record such persons’ transactions with such funds.

Rule 31a-1(e) requires investment advisers that are majority-owned subsidiaries of funds to maintain the accounts, books, and other documents that are required to be maintained by investment advisers under section 204 of the Investment Advisers Act of 1940 (15 U.S.C. 80b-4) (the “Advisers Act”). Finally, rule 31a-1(f) requires investment advisers that are not majority-owned subsidiaries of funds to maintain the accounts, books, and other documents that are required under section 204 of the Advisers Act, to the extent those records are necessary or appropriate to record such persons’ transactions with such funds.

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

The Commission regularly conducts inspections and examinations of funds and other regulated entities to foster compliance with the securities laws, to detect violations of the law, and to keep the Commission informed of developments in the regulated community. The books and records required to be maintained by rule 31a-1 constitute a major focus of the

Commission's inspection and examination programs. Without the information contained in the records required by rule 31a-1, the Commission could not readily determine whether funds are in compliance with the Act's provisions. The rule's requirement to maintain such records avoids the need for potentially more burdensome requirements such as mandatory filings of similar information with the Commission.

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

The records required by rule 31a-1 are required to be preserved pursuant to rule 31a-2 under the Investment Company Act (17 CFR 270.31a-2). Rule 31a-2(f) permits funds to maintain many types of records (and produce them for the Commission's inspections and examinations as necessary) on photographic film, magnetic tape, disk, or other computer 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. The recordkeeping required by rule 31a-1 is not duplicated elsewhere in the Commission's rules. To the extent the rule requires the maintenance of books and records by underwriters, brokers, dealers, and investment advisers to funds, the requirements are consistent with those that apply to these entities under other federal securities laws and do not require the entities to maintain duplicate records.

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

The Commission does not believe that compliance with rule 31a-1 is unduly burdensome for large or small entities. The information collection requirements of rule 31a-1 are the same for all funds, including those that are small entities. Most of the information required to be

maintained is the type that generally would be maintained as a matter of good business practice and to prepare the fund's financial statements. The Commission reviews all rules periodically, as required by the Regulatory Flexibility Act (5 U.S.C. 610), to identify methods to minimize recordkeeping or filing requirements affecting small businesses.

**6. Consequences of Not Conducting Collection**

As noted above, without the information contained in the records required to be maintained and kept current by rule 31a-1, it would be difficult or impossible to determine if a fund was in compliance with the provisions of the Act. Funds' maintenance of these records avoids the need for potentially more burdensome requirements such as mandatory filings with the Commission.

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

Not applicable.

**8. Consultation Outside the Agency**

The Commission requested public comment on the collection of information requirements in rule 31a-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 its request.

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.

**9. Payment or Gift**

Not applicable.

**10. Confidentiality**

Not applicable.

**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**

There are approximately 4,029 active investment companies registered with the Commission, all of which are required to comply with rule 31a-1.<sup>1</sup> For purposes of estimating the burden imposed on the industry by rule 31a-1, the Commission staff estimates that, on average, each of the registered investment companies has four series and that each series is required to comply with the recordkeeping requirements of rule 31a-1. Thus, the Commission staff estimates that a total of approximately 16,116 series must comply with the recordkeeping requirements of rule 31a-1 (4029 registrants x 4 series per registrant = 16,116 series).

Based on conversations with fund representatives, the Commission staff estimates that each series spends approximately 1750 hours per year complying with rule 31a-1, for a total of 7000 hours annually per registrant (1750 per year/per series x 4 series per registrant = 7000 hours). The estimated total annual hours all investment companies spend in maintaining the records required under the rule therefore is approximately 28,203,000 hours (7000 hours per registrant x 4029 registrants = 28,203,000 hours).

Of the 1750 hours spent annually by each series to comply with rule 31a-1, the Commission staff estimates that:

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<sup>1</sup> This represents an estimate of the number of active investment companies registered with the Commission as of March 31, 2017, based on data compiled by Commission staff.

- Ten percent (175 hours) are spent by clerical staff at an estimated hourly wage of \$59, for a total of \$10,325 per year (175 hours x \$59 per hour = \$10,325 per year);<sup>2</sup>
- Seventy-five percent (1312.5 hours) are spent by fund accountants at an estimated hourly wage of \$162, for a total of \$212,625 per year (1312.5 hours x \$162 per hour = \$212,625 per year);
- Five percent (87.5 hours) are spent by attorneys at an estimated hourly wage of \$392, for a total of \$34,300 per year (87.5 hours x \$392 per hour = \$34,300 per year).<sup>3</sup>
- 10 percent (175 hours) are spent by operations staff at an estimated hourly wage of \$345, for a total of \$60,375 per year (175 hours x \$345 per hour = \$60,375 per year).<sup>4</sup>

Thus, the estimated annual cost each series spends to maintain the records required under rule 31a-1 is \$317,625 (\$10,325 + \$212,625 + \$34,300 + \$60,375), for a total annual cost per registrant of \$1,270,500 (\$317,625 per series x 4 series per registrant = \$1,270,500), and a total annual cost to the industry of \$5.12 billion (\$1,270,500 per registrant x 4029 registrants = \$5,118,844,500).

However, based on conversations with fund representatives, the Commission staff estimates that at least 90% of the total annual burden hours and total annual costs would be incurred by funds in any case to keep books and records that are necessary to prepare financial

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<sup>2</sup> The estimated hourly wages used in this analysis were derived from reports prepared by the Securities Industry and Financial Markets Association. *See* Securities Industry and Financial Markets Association, *Office Salaries in the Securities Industry – 2013* (2013), modified by Commission staff to account for an 1800-hour work-year and inflation, and multiplied by 2.93 to account for bonuses, firm size, employee benefits and overhead.

<sup>3</sup> *See* Securities Industry and Financial Markets Association, *Report on Management and Professional Earnings in the Securities Industry – 2013* (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.

<sup>4</sup> Specifically, the operation manager functions involved are security holder record keeping and transfer. *See* Securities Industry and Financial Markets Association, *Report on Management and Professional Earnings in the Securities Industry – 2013* (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.

statements for shareholders, to prepare their annual income tax returns, and as a normal business practice. Therefore, the Commission staff estimates that the actual total annual burden hours and costs associated with rule 31a-1 are approximately 2,820,300 hours (28,203,000 hours – 25,382,700 hours = 2,820,300 hours) and \$512 million (\$5,118,844,500 – \$4,606,960,050 = \$511,884,450).<sup>5</sup> These estimates are made solely for the 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.

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

The Commission staff estimates that there is no cost burden of rule 31a-1 other than the costs of the respondent recordkeeping burden identified in section 12 above. Although funds may rely on computer systems to assist with the creation of records required by rule 31a-1, funds likely would need to acquire and maintain these computer systems in any event for the normal functioning of their daily operations and as part of the customary and usual investment company business practice.

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

There are no costs to the Federal Government associated with rule 31a-1.

### **15. Changes in Burden**

The estimated total annual hour burden has decreased from 2,892,400 hours to 2,820,300 hours. This decrease is the result of a decrease in the number of registered funds from 4132 to 4029. This estimate is based on statistics compiled by Commission staff.

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<sup>5</sup> We have subtracted the hours and costs that staff estimates funds maintain as a matter of normal business practice and to prepare financial statements. These estimates are: 28,203,000 hours x 0.9 = 25,382,700; and \$5,118,844,500 x 0.9 = \$4,606,960,050.

**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. COLLECTIONS OF INFORMATION EMPLOYING STATISTICAL METHODS**

Not applicable.