

SUPPORTING STATEMENT
For the Paperwork Reduction Act Information Collection Submission for
Form N-CSR

A. JUSTIFICATION

1. Necessity for the Information Collection

Form N-CSR¹ is a combined reporting form used by registered management investment companies (“funds”) to file certified shareholder reports under the Investment Company Act of 1940 (“Investment Company Act”)² and the Securities Exchange Act of 1934 (“Exchange Act”).³ Specifically, Form N-CSR is to be used for reports under section 30(b)(2) of the Investment Company Act⁴ and section 13(a) or 15(d) of the Exchange Act,⁵ filed pursuant to rule 30b2-1(a) under the Investment Company Act.⁶ Reports on Form N-CSR are to be filed with the Securities and Exchange Commission (“Commission”) no later than 10 days after the transmission to stockholders of any report that is required to be transmitted to stockholders under rule 30e-1 under the Investment Company Act.⁷

On October 13, 2016, the Commission issued a release adopting, among other things, amendments to Form N-CSR.⁸

In connection with this adoption, the Commission adopted amendments to require closed-end funds to report on Form N-CSR certain disclosures regarding securities lending activities.⁹ Specifically, the Commission adopted amendments to Form N-CSR to require funds to disclose the dollar amounts of income and fees and compensation paid to service providers related to their securities lending activities during their most recent fiscal year, as illustrated in Table 1 below.¹⁰

¹ 17 CFR 249.331 and 274.128.

² 15 U.S.C. 80a-1 *et seq.*

³ 15 U.S.C. 78a *et seq.*

⁴ 15 U.S.C. 80a-29(b)(2).

⁵ 15 U.S.C. 78m(a) and 78o(d).

⁶ 17 CFR 270.30b2-1(a).

⁷ 17 CFR 270.30e-1.

⁸ *See* Investment Company Reporting Modernization, Investment Company Act Release No. 32314 (October 13, 2016).

⁹ *See* Investment Company Reporting Modernization, Investment Company Act Release No. 32314 (October 13, 2016).

¹⁰ *See* Item 19(i)(1) of Form N-1A. The disclosure need not be presented in a tabular format.

SECURITIES LENDING ACTIVITIES

Gross income from securities lending activities	\$ _____
<i>Fees and/or compensation for securities lending activities and related services</i>	
Fees paid to securities lending agent from a revenue split	\$ _____
Fees paid for any cash collateral management service (including fees deducted from a pooled cash collateral reinvestment vehicle) that are not included in the revenue split	\$ _____
Administrative fees not included in revenue split	\$ _____
Indemnification fee not included in revenue split	\$ _____
Rebate (paid to borrower)	\$ _____
Other fees not included in revenue split (specify)	\$ _____
Aggregate fees/compensation for securities lending activities	\$ _____
Net income from securities lending activities	\$ _____

Table 1

In addition, the Commission adopted amendments to Form N-CSR to require an independent public accountant attachment to the form.

2. Purpose and Use of the Information Collection

A registrant is required to disclose the information specified by Form N-CSR, and the Commission will make this information public. The information provided in reports on Form N-CSR may be used by the Commission in its regulatory, disclosure review, inspection, and policymaking roles. Unlike many other federal information collections, which are primarily for the use and benefit of the collecting agency, this information collection is also for the use and benefit of investors. The information filed with the Commission permits the verification of compliance with securities law requirements and assures the public availability and dissemination of the information.

3. Consideration Given to Information Technology

The Commission's electronic filing system (Electronic Data Gathering, Analysis and Retrieval or "EDGAR") is designed to automate the filing, processing, and dissemination of full disclosure filings. The system permits publicly held companies to transmit filings to the Commission electronically. This automation has increased the speed, accuracy, and availability of information, generating benefits to investors and financial markets. Reports on Form N-CSR are filed with the Commission electronically.

on EDGAR.¹¹ The public may access filings on EDGAR through the Commission's Internet Web site (<http://www.sec.gov>) or at EDGAR terminals located at the Commission's public reference rooms.

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 requirements of Form N-CSR are not generally duplicated elsewhere.

5. Effect on Small Entities

The Commission reviews all rules periodically, as required by the Regulatory Flexibility Act,¹² to identify methods to minimize recordkeeping or reporting requirements affecting small businesses. The current disclosure requirements for reports on Form N-CSR do not distinguish between small entities and other funds. The burden on smaller funds, however, to prepare reports on Form N-CSR may be proportionally greater than for larger funds. The Commission believes, however, that imposing different requirements on smaller funds would not be consistent with investor protection and the purposes of certified shareholder reports.

6. Consequences of Not Conducting Collection

Funds are required to file reports on Form N-CSR with the Commission no later than 10 days after the transmission to stockholders of any report that is required to be transmitted to stockholders under rule 30e-1 under the Investment Company Act. Less frequent collection would mean that current information might not be available to fund investors.

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

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 staff with a means of ascertaining and acting upon paperwork burdens confronting the industry. The Commission requested public comment

¹¹ See rule 101(a)(1)(iii)-(iv) of Regulation S-T [17 CFR 232.101(a)(1)(iii)-(iv)].

¹² 5 U.S.C. 601 *et seq.*

on its burden estimates for the proposed amendments to Regulation S-X regarding securities lending activities disclosures and related information collection requirements that were adopted in Form N-CSR before it submitted this request for revision and approval to the Office of Management and Budget. The Commission received no comments on this aspect of the proposal 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 information of a sensitive nature, including social security numbers, will be required under this collection of information.

The information collection collects basic Personally Identifiable Information (PII) that may include name and job title. However, the agency has determined that the information collection does not constitute a system of record for purposes of the Privacy Act. Information is not retrieved by a personal identifier.

In accordance with Section 208 of the E-Government Act of 2002, the agency has conducted a Privacy Impact Assessment (PIA) of the EDGAR system, in connection with this collection of information. The EDGAR PIA, published on 1/29/2016, is provided as a supplemental document and is also available at <https://www.sec.gov/privacy>.

12. Burden of Information Collection

As discussed above, we are adopting amendments to modify Form N-CSR so that an accountant's letter regarding a change in accountant will become available to the public semi-annually pursuant to an exhibit filing on Form N-CSR rather than annually as an attachment to Form N-CEN, as proposed.¹³ We believe that this modification from the proposal will increase the hour burden associated with Form N-CSR by one-tenth of an hour¹⁴ with an additional internal cost burden of \$32.40 per fund.¹⁵

¹³ See *supra* section III.B.3.

¹⁴ Paralleling this modification, we believe that the modification to move the change in independent public accountant exhibit from Form N-CEN as proposed to Form N-CSR will also reduce the hour burden requirement associated with Form N-CEN by one-tenth of an hour. See *supra* section IV.B.1.

In addition, as noted above, we are adopting an amendment to require closed-end funds include in their annual reports on Form N-CSR information concerning securities lending activities. We estimate that these amendments will increase the hour burdens associated with Form N-CSR for closed-end funds by an additional 2 burden hours with an additional internal cost burden of \$648 per fund in the first year,¹⁶ and an additional 0.5 hours with an additional internal cost burden of \$162 per fund for filings in subsequent years.¹⁷ Amortized over three years, the average additional annual hour burden will therefore be 1 hour per closed-end fund¹⁸ with an additional cost burden of \$324.¹⁹

Accordingly, we estimate that, for closed-end funds, the total annual average hour burden associated with the amendments to Form N-CSR for closed-end funds is 750 hours,²⁰ at a time cost of approximately \$243,000.²¹ We therefore estimate a total annual hour burden for Form N-CSR is 172,899 hours²² and total annual cost of \$56,019,276.²³

¹⁵ This estimate is based on the following calculation: 0.10 hour x \$324 (blended hourly rate for compliance attorney (\$340) and senior programmer (\$308)) = \$32.40.

¹⁶ This estimate is based on the following calculation: 2 hours x \$324 (blended hourly rate for compliance attorney (\$340) and senior programmer (\$308)) = \$648. The Commission's estimate concerning the wage rate is based on salary information for the securities industry compiled by the Securities Industry and Financial Markets Association. The estimated wage figure is based on published rates for compliance attorneys and senior programmers, modified to account for an 1,800-hour work year; multiplied by 5.35 to account for bonuses, firm size, employee benefits, and overhead; and adjusted to account for the effects of inflation. See Securities Industry and Financial Markets Association, Report on Management & Professional Earnings in the Securities Industry 2013

¹⁷ This estimate is based on the following calculation: 0.5 hour x \$324 (blended hourly rate for compliance attorney (\$340) and senior programmer (\$308)) = \$162.

¹⁸ This estimate is based on the following calculation: 2 hours in first year + (0.5 hours per year thereafter x 2 years) = 2 hours + 1 hour = 3 hours total. 3 hours total ÷ 3 years = 1 hour per year.

¹⁹ This estimate is based on the following calculation: \$648 + \$162 + \$162 / 3 = \$324.

²⁰ This estimate is based on the following calculation: 1 hour per fund x 750 closed-end funds per year = 750 hours per year.

²¹ This estimate is based on the following calculation: 1 hour per fund x 750 closed-end funds x \$324 per year total cost = \$243,000.

13. Cost to Respondents

Cost burden is the cost of goods and services purchased to prepare and update filings on Form N-CSR, such as for the services of independent auditors and outside counsel. The cost burden does not include the hour burden discussed in Item 12 above. Estimates are based on the Commission's experience with the filing of reports on Form N-CSR.

We estimate that the annual cost of outside services associated with Form N-CSR is left unchanged at approximately \$132 per fund and the total annual external cost burden for Form N-CSR is \$3,129,984.²⁴

14. Cost to Federal Government

The annual cost of reviewing and processing disclosure documents, including new registration statements, post-effective amendments, proxy statements, shareholder reports, and other filings of investment companies amounted to approximately \$22.9 million in fiscal year 2016, based on the Commission's computation of the value of staff time devoted to this activity and related overhead.

15. Changes in Burden

The estimated hourly burden associated with Form N-CSR has increased from 167,878 hours to 172,899 (an increase of 5,021). This increase is due, in part, to a increase in the burdens for closed-end funds. The estimated cost burden associated with Form N-CSR has increased from \$3,081,637 to \$3,129,984 (an increase of \$48,347). This increase is due to an increase in the number of annual filings.

16. Information Collection Planned for Statistical Purposes

The results of any information collection will not be published.

²² This estimate is based on the following calculation: $172,899 = (750 \text{ hours (closed-end funds)}) + (172,149 \text{ hours (14.52 hours} \times (1,594 \text{ exchange-traded funds} - \text{eight organized as UITs} + 750 \text{ closed-end funds} + 481 \text{ money market funds} + 9,039 \text{ other mutual funds})))$.

²³ This estimate is based on the following calculation $172,899 \text{ hours} \times \$324 = 56,019,276$

²⁴ This estimate is based on the following calculation: $11,856 \text{ portfolios} \times \$132 \text{ per filing} \times 2 \text{ filings} = \$3,129,984$

17. Approval to Omit OMB Expiration Date

We request authorization to omit the expiration date on the electronic version of the form for design and IT project scheduling reasons. The OMB control number will be displayed.

18. Exceptions to Certification Statement for Paperwork Reduction Act Submission

The Commission is not seeking an exception to the certification statement.

B. COLLECTION OF INFORMATION EMPLOYING STATISTICAL METHODS

The collection of information will not employ statistical methods.