

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

**A. JUSTIFICATION**

**1. Necessity for the Information Collection**

Form N-CSR<sup>1</sup> 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”)<sup>2</sup> and the Securities Exchange Act of 1934 (“Exchange Act”).<sup>3</sup> Specifically, Form N-CSR is to be used for reports under section 30(b)(2) of the Investment Company Act<sup>4</sup> and section 13(a) or 15(d) of the Exchange Act,<sup>5</sup> filed pursuant to rule 30b2-1(a) under the Investment Company Act.<sup>6</sup> 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.<sup>7</sup>

On October 11, 2017, the Commission issued a release proposing amendments to certain of the Commission’s forms that are used by investment companies, including Form N-CSR.<sup>8</sup> The Commission proposed amendments to Rule 102 of Regulation S-T to apply hyperlinking and HyperText Markup Language (“HTML”) format requirements to registrants filing Form N-CSR to facilitate access to the Form’s exhibits for investors and other users of the information. Under the proposed amendments, affected registrants would be required to include a hyperlink to each exhibit identified in a filing’s exhibit index, unless the exhibit is filed in paper pursuant to a temporary or continuing hardship exemption under Rule 201 or Rule 202 of Regulation S-T, or pursuant to Rule 311 of Regulation S-T. This requirement would apply to registration statements on Form N-CSR. Consistent with our rules

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<sup>1</sup> 17 CFR 249.331 and 274.128.

<sup>2</sup> 15 U.S.C. 80a-1 *et seq.*

<sup>3</sup> 15 U.S.C. 78a *et seq.*

<sup>4</sup> 15 U.S.C. 80a-29(b)(2).

<sup>5</sup> 15 U.S.C. 78m(a) and 78o(d).

<sup>6</sup> 17 CFR 270.30b2-1(a).

<sup>7</sup> 17 CFR 270.30e-1.

<sup>8</sup> Investment Company Act Release No. 32858 (Oct. 11, 2017) (the “Proposing Release”).

for operating companies, we are not proposing to require registrants to refile electronically any exhibits filed only in paper. Under the proposed amendments, an electronic filer would also be required to correct an inaccurate or nonfunctioning link or hyperlink to an exhibit.<sup>9</sup>

In connection with the proposed exhibit hyperlinking requirements, the Commission is also proposing amendments to Rule 105 of Regulation S-T to require investment company registrants to make Form N-CSR filings that include exhibits in HTML format. Currently, investment company registrants must submit electronic filings to the Commission using the EDGAR system in either American Standard Code for Information Interchange (“ASCII”) format or HTML format. Because the ASCII format does not support hyperlink functionality, the exhibit hyperlinking requirement would be feasible only if registrants are required to file in HTML. Under the proposed requirement, registrants would be required to file Form N-6 in HTML format. While the affected Form N-CSR filings would be required to be filed in HTML pursuant to the proposed amendments to Rule 105, registrants would continue to be permitted to file in ASCII any schedules or forms that are not subject to the exhibit filing requirements, such as proxy statements, or other documents included with a filing, such as an exhibit.

The proposed amendments are intended to facilitate access to these exhibits for investors and other users of the information.

## **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 Data Gathering, Analysis, and Retrieval (“EDGAR”) system automates the filing, processing, and dissemination of full

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<sup>9</sup> See Proposing Release at footnotes 315-18.

disclosure filings. 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.<sup>10</sup> 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,<sup>11</sup> 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).

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<sup>10</sup> See rule 101(a)(1)(iii)–(iv) of Regulation S-T [17 CFR 232.101(a)(1)(iii)–(iv)].

<sup>11</sup> 5 U.S.C. 601 *et seq.*

## **8. Consultation Outside the Agency**

Before adopting the proposed amendments to Form N-CSR, the Commission will receive and evaluate public comments on the proposal and its collection of information requirements. Moreover, 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.

## **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. Estimate of Hour and Cost Burden of Information Collection**

The following estimates of average burden hours and costs are made solely for purposes of the Paperwork Reduction Act of 1995<sup>12</sup> and are not derived from a comprehensive or even representative survey or study of the cost of Commission rules and forms. Compliance with Form N-CSR is mandatory. Responses to the collection of information will not be kept confidential.

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<sup>12</sup> 44 U.S.C. 3501 *et seq.*

In our most recent Paperwork Reduction Act submission for Form N-CSR, Commission staff estimated the annual compliance burden to comply with the collection of information requirement of Form N-CSR is 174,085 burden hours with an internal cost burden of \$56,000,000, and an external cost burden estimate of \$3,129,984.<sup>13</sup> The hour burden estimates for preparing and filing reports on Form N-CSR are based on the Commission's experience with the contents of the form. The number of burden hours may vary depending on, among other things, the complexity of the filing and whether preparation of the reports is performed by internal staff or outside counsel.

The proposed amendments to Form N-CSR are expected to increase the burdens and costs for registrants to prepare and file registration statements and reports on the affected forms, but we believe the burdens associated with hyperlinking exhibits would be small.<sup>14</sup> We assume that the average burden hours of requiring exhibit hyperlinks would vary based on the number of exhibits that are included with a filing. For purposes of the PRA, based on an estimated average and median number of exhibits filed with Form N-CSR and the staff's experience, we estimate that the average burden for a registrant to hyperlink to exhibits would be one hour per response for each of the affected forms. As discussed in the Proposing Release, we are not making any adjustments to the paperwork burden of affected forms due to the proposed amendments to simplify and modernize the rules and forms governing incorporation by reference.<sup>15</sup>

The table below shows the total annual compliance burden, in hours and in costs, of the collection of information on Form N-CSR resulting from the proposed amendments.<sup>16</sup> The burden estimates were calculated by multiplying the estimated number of responses by the estimated average amount of time it would take an issuer to prepare and review the exhibit hyperlinks. The portion of the burden carried by outside professionals is reflected as a cost, while the portion of the burden carried by the issuer internally is reflected in hours. For purposes of the PRA, we estimate that 25% of the burden of preparation is carried by the registrant internally and that 75%

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<sup>13</sup> This estimate is based on the last time the rule's information collection was submitted for PRA renewal in 2016.

<sup>14</sup> See Proposing Release at Section IV.B.2.c.

<sup>15</sup> See Proposing Release at Section IV.B.3.b.

<sup>16</sup> For convenience, the estimated hour and cost burdens in the table have been rounded to the nearest whole number.

of the burden of preparation is carried by outside professionals retained by the company at an average cost of \$400 per hour.<sup>17</sup>

Form	Proposed number of affected responses (A)	Incremental burden hours/form (B)	Total incremental burden hours (C) = (A) × (B)	25% internal burden (D) = (C) × 0.25	75% outside professional (E) = (C) × 0.75	Professional costs (F) = E × \$400
Form N-CSR	6,898	1	6,898	1,725	5,174	\$2,069,600

The figures above reflect our estimated increase of approximately 0.25 internal burden hours per fund. Given an estimated time cost of \$329 per fund (based on updated data concerning funds and fund personnel salaries),<sup>18</sup> we estimate that in the aggregate, funds will annually incur an additional internal burden of 1,724.5 hours<sup>19</sup> and time cost of \$567,360.5<sup>20</sup> to comply with the proposed amendments to Form N-CSR.

<sup>17</sup> We recognize that the costs of retaining outside professionals may vary depending on the nature of the professional services, but for purposes of this PRA analysis, we estimate that such costs would be an average of \$400 per hour. These estimates are based on our estimates for the parallel requirement for operating companies

<sup>18</sup> The Commission’s estimates concerning the allocation of burden hours and the relevant wage rates are based on consultations with industry representatives and on salary information for the securities industry compiled by the Securities Industry and Financial Markets Association’s Office Salaries in the Securities Industry 2013. The estimated wage figures are modified by Commission staff to account for an 1800-hour work-year and multiplied by 2.93 to account for bonuses, firm size, employee benefits, overhead, and adjusted to account for the effects of inflation, yielding effective hourly rates of \$345 and \$313, respectively. See Securities Industry and Financial Markets Association, Report on Management & Professional Earnings in the Securities Industry 2013. We estimate that compliance attorneys and senior programmers would divide their time equally, yielding an estimated hourly wage rate of \$329. (\$345 per hour for compliance attorneys + \$313 per hour for senior programmers) ÷ 2 = \$329 per hour.

<sup>19</sup> This estimate is based on the following calculation: 0.25 internal burden hours x 6,898 responses = 1,724.5 hours.

<sup>20</sup> This estimate is based on the following calculation: 1,724.5 hours x \$329 (blended rate for a compliance attorney (\$345) and a senior programmer (\$313)) = \$567,360.5.

We estimate that, with the additional hour burdens and time costs associated with the proposed amendments, the total annual internal burden to comply would be 175,809.5 burden hours,<sup>21</sup> and time costs of \$3,697,344,<sup>22</sup> for Form N-CSR.

### **13. 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.

### **14. Change in Burden**

The estimated hourly burden associated with Form N-CSR has increased from 174,085 hours to 175,809.5 hours (an increase of 1,724.5 hours). In addition, the annual external cost burden has increased from \$3,129,984 to \$5,199,584 (an increase of \$2,069,600). This increase is primarily due to the staff's estimates of the time costs that would result from our proposed amendments to Form N-6 regarding hyperlinking.

### **15. Information Collection Planned for Statistical Purposes**

The results of any information collection will not be published.

### **16. Approval to Omit OMB Expiration Date**

The Commission is not seeking approval to not display the expiration date for OMB approval.

### **17. 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.

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<sup>21</sup> This estimate is based on the following calculation:  $174,085 + 1,724.5 = 175,809.5$  hours.

<sup>22</sup> This estimate is based on the following calculation:  $\$56,000,000 + \$567,360.5 = \$56,567,360.5$ .