

**SUPPORTING STATEMENT**  
**For the Paperwork Reduction Act Information Collection Submission for**  
**Rule 17g-1**

**A. JUSTIFICATION**

**1. Necessity for the Information Collection**

Section 17(g) of the Investment Company Act of 1940 (the “Act”) (15 U.S.C. 80a-17(g)) authorizes the Commission to require by rules and regulations, for the protection of investors, that officers and employees of registered management investment companies (“funds”) who may singly, or jointly with others, have access to securities or funds of any registered management investment company, either directly or through authority to draw upon such funds or to direct generally the disposition of such securities, to be bonded by a reputable fidelity insurance company against larceny and embezzlement. The Commission, pursuant to this provision, adopted rule 17g-1 (17 CFR 270.17g-1) in 1947 and has subsequently amended the rule on numerous occasions. Rule 17g-1 provides, in substance, the following requirements:

Independent Directors’ Approval

The form and amount of the fidelity bond must be approved by a majority of the fund’s independent directors at least once annually, and the amount of any premium paid by the fund for any “joint insured bond,” covering multiple funds or certain affiliates, must be approved by a majority of the fund’s independent directors.

Terms and Provisions of the Bond

The amount of the bond may not be less than the minimum amounts of coverage set forth in a schedule based on the fund’s gross assets. The bond must provide that it shall not be cancelled, terminated, or modified except upon 60-days written notice to the affected party and to the Commission. In the case of a joint insured bond, 60-days written notice must also be given to

each fund covered by the bond. A joint insured bond must provide that the fidelity insurance company will provide all funds covered by the bond with a copy of the agreement, a copy of any claim on the bond, and notification of the terms of the settlement of any claim prior to execution of that settlement. Finally, a fund that is insured by a joint bond must enter into an agreement with all other parties insured by the joint bond regarding recovery under the bond.

#### Filings with the Commission

Upon the execution of a fidelity bond or any amendment thereto, a fund must file with the Commission within 10 days: (i) a copy of the executed bond or any amendment to the bond, (ii) the independent directors' resolution approving the bond, and (iii) a statement as to the period for which premiums have been paid on the bond. In the case of a joint insured bond, a fund must also file: (i) a statement showing the amount the fund would have been required to maintain under the rule if it were insured under a single insured bond; and (ii) the agreement between the fund and all other insured parties regarding recovery under the bond. A fund must also notify the Commission in writing within five days of any claim or settlement on a claim under the fidelity bond.

#### Notices to Directors

A fund must notify by registered mail each member of its board of directors of: (i) any cancellation, termination, or modification of the fidelity bond at least 45 days prior to the effective date; and (ii) the filing or settlement of any claim under the fidelity bond when notification is filed with the Commission.

The Commission amended rule 17g-1 most recently in 2004 to require that the fund's board of directors satisfy the fund governance standards defined in rule 0-1(a)(7)

(17 CFR 270.0-1(a)(7)).<sup>1</sup> This amendment was designed to enhance the independence of fund boards and enable them to more effectively manage the conflicts investment advisers have with the funds they manage.

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

The requirements of rule 17g-1 are designed to protect fund shareholders from losses due to larceny and embezzlement. As discussed above, the rule contains two sets of filing and reporting requirements that constitute collections of information. The first set of requirements pertains to filings made to the Commission. The second set requires that notices be given to the fund's directors.

### Filings with the Commission

Rule 17g-1 requires funds to file with the Commission copies of the executed bond agreement, the independent directors' resolution of approval, and a statement of paid premiums. The rule also requires Commission notice if a filed fidelity bond is cancelled, terminated, or modified. Funds are also required to file written notification with the Commission of any claim or settlement on a claim under the fidelity bond. Finally, for joint insured bonds, funds must file a statement showing the amount the fund would have been required to maintain under the rule for a single insured bond and the agreement between the fund and all other insured parties regarding recovery under the bond. These filing requirements assure that Commission staff can review the executed fidelity bond and other documents for compliance with the Act. The filing requirements also inform the Commission staff of potential problem areas, especially when

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<sup>1</sup> Investment Company Governance, Investment Company Act Release No. 26520 (July 27, 2004) (69 FR 46378 (Aug. 2, 2004)).

modifications in the bond result in an increase or decrease in fidelity coverage. Having the fidelity bond and other documents available for ready reference by the staff facilitates a determination as to whether, for example, a fund has acted properly in not seeking recovery for a loss.

### Notices to Directors

The rule also requires that a fund notify each member of its board when there has been a cancellation, termination, or modification of the fidelity bond or a claim has been filed, or a settlement of any claim has been made under the fidelity bond. The notices to fund directors enable fund boards to monitor and provide oversight on the adequacy of the fund's fidelity bond coverage. Without these notices it would be difficult for directors to meet this responsibility, and it would be difficult for the Commission staff to verify that directors receive timely information.

### **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. In order to keep EDGAR current and make it useful for investors and the Commission staff, the Commission in 2005 adopted an amendment requiring funds to submit filings under rule 17g-1 electronically using the EDGAR system.<sup>2</sup>

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<sup>2</sup> Rulemaking for EDGAR System, Investment Company Act Release No. 26990 (July 18, 2005) (70 FR 43558 (July 27, 2005)).

#### **4. Duplication**

The Commission periodically evaluates rule-based reporting and recordkeeping requirements for duplication, and reevaluates them whenever it proposes a rule or form, or a change in either. The requirements of rule 17g-1 are not duplicated elsewhere in federal securities laws, and similar information is not available from other sources.

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

The information collection requirements of rule 17g-1 apply to all funds, including those that are small entities. These requirements are necessary for the safety of fund assets and investor protection.

#### **6. Consequences of Not Conducting Collection**

Rule 17g-1's required notices to fund directors are designed to facilitate board oversight of the fund's fidelity bond. The rule's required filings with the Commission are designed to assist the Commission in monitoring the funds' compliance with the rule's fidelity bond requirements. Both sets of requirements seek to assure that information is provided in a timely manner for effective investor protection.

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

The rule's required filings with the Commission may require certain information to be provided to the Commission more often than quarterly, depending on the circumstances of a particular fund's fidelity bond arrangements and whether the fund makes any claim(s) under the fidelity bond within a given quarter. The Commission believes that such circumstances are highly unlikely. Rule 17g-1's reporting requirements are designed to permit the Commission to timely monitor compliance with the fidelity bond requirements.

## **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 fund industry through public conferences, meetings, and informal exchanges. These various forums provide the Commission and its staff with a means of ascertaining and acting upon paperwork burdens confronting the industry.

The Commission requested public comment on the collection of information requirements of rule 17g-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.

## **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 may collect personally identifiable information (PII) that may include names or job titles. 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**

After a fund's fidelity bond is executed, the fund enters into any agreements relating to a joint bond and files copies of these and related documents with the Commission. Following this initial filing, the ongoing requirements of the rule are: (i) notification to the Commission of amendments to, and claims and settlements on, the fidelity bond; (ii) annual approval of the fidelity bond by the fund's independent directors; and (iii) notification to the fund's directors regarding claims and settlements on the fidelity bond. Depending on a fund's circumstances, particularly whether the fund makes a claim under its bond, the burden hours associated with complying with these requirements could vary widely.

Based on conversations with representatives in the fund industry, the Commission staff estimates that for each of the estimated 3,173 active funds (respondents),<sup>3</sup> the average annual paperwork burden associated with rule 17g-1's requirements is two hours, one hour each for a compliance attorney and the board of directors as a whole. The time spent by a compliance attorney includes time spent filing reports with the Commission for fidelity losses (if any) as well as paperwork associated with any notices to directors, and managing any updates to the bond and the joint agreement (if one exists). The time spent by the board of directors as a whole includes any time spent initially establishing the bond, as well as time spent on annual updates and approvals. The Commission staff therefore estimates the total ongoing paperwork burden hours

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<sup>3</sup> Based on statistics compiled by Commission staff, we estimate that there are approximately 3,173 funds that must comply with the collections of information under rule 17g-1 and have made a filing within the last 12 months.

per year for all funds required by rule 17g-1 to be 6,346 hours (3,173 funds x 2 hours = 6,346 hours).

The Commission staff further estimates that the burden cost for internal counsel is \$352 per hour,<sup>4</sup> for a total attorney cost of \$1,116,896 (3,173 attorney hours x \$352 = \$1,116,896), and the burden cost for time spent by the board of directors as a whole is \$4,465 per hour,<sup>5</sup> for a total director cost of \$14,167,445 (3,173 board hours x \$4,465 = \$14,167,445), which equals a total annual cost for all funds of \$15,284,341 (\$1,116,896 + \$14,167,445 = \$15,284,341). This estimate of average burden hours is made solely for the purposes of the Paperwork Reduction Act and is not derived from a comprehensive or even representative survey or study of the cost of Commission rules.

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

The filing and reporting requirements of rule 17g-1 do not entail any annual cost burden in addition to the hourly burden discussed above.

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

The Commission staff may review filings made pursuant to rule 17g-1 in connection with its examination program or when an issue arises concerning a fund's fidelity bond. The

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<sup>4</sup> The \$334 per hour figure for a compliance attorney is from SIFMA's Management & Professional Earnings in the Securities Industry 2013, modified by Commission staff to account for an 1800-hour work-year and multiplied by 5.35 to account for bonuses, firm size, employee benefits and overhead, and adjusted for inflation.

<sup>5</sup> Commission staff previously estimated in 2011 that the average cost of board of director time was \$4,000 per hour for the board as a whole, based on information received from funds and their counsel. Adjusting for inflation as of 2016, Commission staff estimates that the current average cost of board of director time is approximately \$4,465 per hour.

Commission staff, however, does not review filings made pursuant to rule 17g-1 on a regular basis. Therefore, the ongoing cost to the federal government of rule 17g-1 is negligible.

**15. Changes in Burden**

The change in estimated total annual burden hours, from 6,638 hours to 6,346 hours (a decrease of 292 hours) is based on a change in the number of active funds registered with the Commission (from 3,319 to 3,173).

**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. Including the expiration date on the electronic version of the 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. The OMB control number will be displayed."

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

**Submission**

Not applicable.

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

Not applicable.