

per UIT of \$146.¹²³⁴ We also estimate that the total burden for recordkeeping related to the liquidity risk management program will be 3,230 hours, at an aggregate cost of \$235,790.¹²³⁵ We estimate that there are no external costs associated with this collection of information.

C. Form N-PORT

Today, the Commission is adopting Form N-PORT, which will require funds to report information within thirty days after the end of each month about their monthly portfolio holdings to the Commission in a structured data format.¹²³⁶ Preparing a report on Form N-PORT is mandatory and a collection of information under the PRA, and the information required by Form N-PORT will be data-tagged in XML format. Except for certain reporting items specified in the form, responses to the reporting requirements will be kept confidential for reports filed with respect to the first two months of each quarter; the third month of the quarter will not be kept confidential, but made public sixty days after the quarter end.

In the Investment Company Reporting Modernization Adopting Release, we estimate that, for the 35% of funds that would file reports on Form N-PORT in house, the per fund average aggregate annual hour burden will be 144 hours per fund, and the average cost to license a third-party software solution will be \$4,805 per fund per year.¹²³⁷ For the remaining 65% of funds that would retain the services of a third party to prepare and file reports on Form N-PORT on the fund's behalf, we estimate that the average aggregate annual hour burden will be 125 hours per fund, and each fund will pay an average fee of \$11,440 per fund per year for the services of third-party service provider. In sum, we estimate that filing reports on Form N-PORT will impose an average total annual hour burden of 144 hours on applicable funds, and all applicable funds will incur on average, in the aggregate, external annual costs of \$103,787,680, or \$9,118 per fund.¹²³⁸

Today, we are also adopting amendments to Form N-PORT concerning liquidity information that require a fund to report information

about the fund's highly liquid investment minimum (if applicable),¹²³⁹ the liquidity classification for each portfolio investment among four liquidity categories (with the fourth category covering investments that qualify as "illiquid investments" under the 15% illiquid investment limit),¹²⁴⁰ certain information on the percentage of the fund's highly liquid investments that is segregated to cover, or pledged to satisfy margin requirements in connection with, fund's derivatives transactions in each of the other liquidity categories,¹²⁴¹ and the aggregate percentage of the fund representing each of the four liquidity categories.¹²⁴² Unlike the proposal, the amendments adopted today will not require funds to indicate the dollar amount attributable to different classifications for different portions within a given holding.¹²⁴³ We believe that requiring funds to report information about the liquidity of portfolio investments will enhance the Commission's ability to assess liquidity risk in the open-end fund industry and assist in our regulatory oversight efforts. Moreover, we believe that this information will help investors and other potential users of information on Form N-PORT better understand the liquidity risks in funds.

1. Liquidity Classification

Under rule 22e-4(b)(1)(ii), an open-end management investment company (other than a money market fund or an In-Kind ETF) is required as part of its liquidity risk management program to classify the liquidity of each of its portfolio investments (including each of the fund's derivatives transactions) as a highly liquid investment, moderately liquid investment, less liquid investment, or illiquid investment.

Under the proposal, all open-end funds would be required to classify portfolio assets under a days-to-cash framework and report such classifications on Form N-PORT.¹²⁴⁴ In the Proposing Release, we estimated that 8,734 funds would be required to file, on a monthly basis, additional information on Form N-PORT as a result of the proposed amendments to N-PORT to require funds provide

additional liquidity information.¹²⁴⁵ We stated our expectation that funds would incur a one-time internal burden to initially classify a fund's portfolio securities and program existing systems to conduct the ongoing classifications and reviews required under the proposal for reporting purposes. We estimated that each fund would incur an average one-time burden of 54 hours at a time cost of \$15,330.¹²⁴⁶ Amortized over a three-year period, we estimated that this would result in an average annual hour burden of approximately 18 burden hours and a time cost of \$5,110.¹²⁴⁷

Many commenters expressed concerns over the operational costs associated with the assignment of liquidity classifications and the reporting of this information on Form N-PORT. Several commenters expressed the belief that the liquidity classification requirement could impose significant direct costs to a fund and its shareholders (e.g., new operational systems, trade order management systems, and other processes to handle complex classification schemes), which commenters anticipated to be in excess of the Commission's estimates under the proposal.¹²⁴⁸ One commenter estimated that the costs associated with building a liquidity classification system could range in the millions of dollars for fund complexes that have large numbers of portfolio positions.¹²⁴⁹ Another commenter estimated \$2 million in initial implementation costs and more than \$650,000 in annual recurring costs in connection with automating the classification process for over 63,000 portfolio positions.¹²⁵⁰ This commenter also expressed the belief that substantial resources, including additional investment professionals and

¹²⁴⁵ See Proposing Release, *supra* footnote 9, at n.850 and accompanying text. This was based on estimates that there were 8,734 open-end funds (excluding money market funds, and including ETFs (for purposes of these calculations, we excluded non-1940 Act ETFs)) as of the end of 2014.

¹²⁴⁶ See Proposing Release, *supra* footnote 9, n.851 and accompanying text. We estimated that these systems modifications would include the following costs: (i) Project planning and systems design (24 hours × \$260 (hourly rate for a senior systems analyst) = \$6,240) and (ii) systems modification integration, testing, installation and deployment (30 hours × \$303 (hourly rate for a senior programmer) = \$9,090. \$6,240 + \$9,090 = \$15,330.

¹²⁴⁷ \$15,330 ÷ 3 = \$5,110. See Proposing Release, *supra* footnote 9, at n.852 and accompanying text.

¹²⁴⁸ See, e.g., CFA Comment Letter; Federated Comment Letter; ICI Comment Letter; Voya Comment Letter.

¹²⁴⁹ See T. Rowe Comment Letter (noting that its fund complex has just under 44,000 portfolio positions combined as of December 31, 2015).

¹²⁵⁰ See Invesco Comment Letter.

¹²³⁴ This estimate is based on the following calculations: 1 hour × \$58 (hourly rate for a general clerk) = \$58; 1 hours × \$88 (hour rate for a senior computer operator) = \$88. \$58 + \$88 = \$146.

¹²³⁵ This estimate is based on the following calculations: 1615 UITs × 2 hours = 3,230 hours. 1615 UITs × \$146 = \$235,790.

¹²³⁶ See Investment Company Reporting Modernization Adopting Release, *supra* footnote 120.

¹²³⁷ See *id.* at n. 1426 and accompanying text.

¹²³⁸ See *id.* at n. 1499 and accompanying text.

¹²³⁹ See Item B.7 of Form N-PORT.

¹²⁴⁰ See Item C.7.a of Form N-PORT.

¹²⁴¹ See Item C.7.b of Form N-PORT. The fourth classification category incorporates data that, under the proposal, would have been reported as a 15% standard asset in response to proposed Item C.7 of proposed Form N-PORT.

¹²⁴² See Item C.7.c of Form N-PORT.

¹²⁴³ See *supra* section III.C.

¹²⁴⁴ See *id.*; see also Proposing Release, *supra* footnote 9, at section III.B.

compliance personnel, and additional expenses associated with third-party service providers would increase costs associated with the classification requirement.¹²⁵¹ Some commenters also expressed concern that the costs of diverting resources and key personnel were not considered in the Commission's cost estimates.¹²⁵²

As discussed above, we are adopting a liquidity classification requirement under rule 22e-4 with a number of modifications to address commenters' concerns. Unlike the proposal which would have applied to all open-end funds, In-Kind ETFs are not subject to the classification requirements under rule 22e-4(b)(ii). The classification categories have been reduced from six to four and the timeframe for projections substantially reduced, with the fourth category designated for those investments that qualify as "illiquid investments" harmonized with the codified 15% illiquid investment limit. Furthermore, a fund may classify portfolio investments based on asset class, rather than position-by-position, so long as the fund or its adviser does not have information about any market, trading, or investment-specific considerations that are reasonably expected to significantly affect the liquidity characteristics of an investment and would suggest a different classification for that investment.

We believe that these modifications to the liquidity classification requirements will reduce the number of funds subject to the liquidity classification requirements and will address some of the costs commenters anticipate funds and fund shareholders would bear to establish new operational, trade, and other systems to process and report fund liquidity classification information. However, we recognize, as discussed above, that several commenters suggested that implementation of liquidity classification systems would be more costly than we estimated. Accordingly, we believe, on balance, that the per fund estimates that we proposed are reasonable and are not reducing them, despite having adopted some modifications to rule 22e-4 that we believe reduce the burden relative to the proposal.

We estimate that 9,347 funds, rather than 8,734 funds, will be required to file, on a monthly basis, additional information on Form N-PORT as a result of the modifications to Form N-

PORT to require additional liquidity information.¹²⁵³ We continue to expect that funds will incur a one-time internal burden to initially classify a fund's portfolio securities and program new and/or existing systems to conduct the ongoing classifications and reviews required under rule 22e-4 for reporting purposes. We continue to estimate that each fund will incur an average one-time burden of 54 hours, at a time cost of \$15,576, rather than \$15,330 based on updated data concerning funds and fund personnel salaries.¹²⁵⁴ Amortized over a three-year period, we estimate that this will result in an average annual hour burden of approximately 18 burden hours, and a time cost of \$5,192, rather than \$5,110.¹²⁵⁵

2. Reporting on Form N-PORT

In addition to the classification and review of securities, we estimated in the Proposing Release that 8,734¹²⁵⁶ funds would be required to file, on a monthly basis, additional information on Form N-PORT. We estimated that each fund that files reports on Form N-PORT in house (35%, or 3,057 funds) would require an average of approximately 3 burden hours to compile (including review of the information), tag, and electronically file the additional information in light of the proposed additions regarding liquidity information for the first time and an average of approximately 1 burden hour for subsequent filings. Therefore, we estimated the per fund average annual hour burden associated with the incremental changes to Form N-PORT as a result of the proposed additions for these funds would be an additional 14 hours for the first year¹²⁵⁷ and an additional 12 hours for each subsequent

¹²⁵³ This is based on estimates that there are 9,039 open-end mutual funds (excluding money market funds) and 1,594 ETFs as of the end of 2015. See *supra* footnote 1045 and accompanying text. Based on staff experience, we estimate that more than 75% of ETFs or 1,196 ETFs will identify as In-Kind ETFs and thus will not be subject to the classification requirement. $9,039 + (1,594 - 1,196) = 9,437$.

¹²⁵⁴ We estimate that these systems modifications will include the following costs: (i) Project planning and systems design (24 hours \times \$264 (hourly rate for a senior systems analyst) = \$6,336) and (ii) systems modification integration, testing, installation and deployment (30 hours \times \$308 (hourly rate for a senior programmer) = \$9,240. $\$6,336 + \$9,240 = \$15,576$.

¹²⁵⁵ $\$15,576 \div 3 = \$5,192$.

¹²⁵⁶ See Proposing Release, *supra* footnote 9, at section V.E. There were 8,734 open-end funds (excluding money market funds, and including ETFs) as of the end of 2014. See 2016 ICI Fact Book, *supra* footnote 11, at 177, 184.

¹²⁵⁷ The estimate was based on the following calculation: (1 filing \times 3 hours) + (11 filings \times 1 hour) = 14 burden hours in the first year.

year.¹²⁵⁸ Amortized over three years, we estimated that the average annual hour burden would be an additional 12.67 hours per fund.¹²⁵⁹

In the Proposing Release, we also estimated that 65% of funds (5,677) would retain the services of a third party to provide data aggregation, validation and/or filing services as part of the preparation and filing of reports on proposed Form N-PORT on the fund's behalf.¹²⁶⁰ For these funds, we estimated that each fund would require an average of approximately 4 hours to compile and review the information with the service provider prior to electronically filing the report for the first time and an average of 0.5 burden hours for subsequent filings.

Therefore, in the Proposing Release, we estimated that the per-fund average annual hour burden associated with the incremental changes to proposed Form N-PORT as a result of the proposed additions related to liquidity information for these funds would be an additional 9.5 hours for the first year¹²⁶¹ and an additional 6 hours for each subsequent year.¹²⁶² Amortized over three years, we estimated that the average aggregate annual hour burden would be an additional 7.17 hours per fund.¹²⁶³ In sum, we estimated that the proposed additions to Form N-PORT would impose an average total annual hour burden of an additional 79,436.28 hours on applicable funds.¹²⁶⁴ We did not anticipate any change to the total external annual costs of \$97,674,221 associated with Form N-PORT.¹²⁶⁵

As discussed in section V.E.2 above, many commenters expressed concerns over the operational costs associated with the assignment of liquidity classifications and the reporting of this information on Form N-PORT. In addition, one commenter recommended that estimated costs to purchase third-party liquidity assessment data be included in the total estimated costs to comply with proposed rule given the

¹²⁵⁸ This estimate was based on the following calculation: $12 \text{ filings} \times 1 \text{ hour} = 12 \text{ burden hours}$ in each subsequent year.

¹²⁵⁹ The estimate was based on the following calculation: $(14 + (12 \times 2)) \div 3 = 12.67$.

¹²⁶⁰ Proposing Release, *supra* footnote 9.

¹²⁶¹ The estimate was based on the following calculation: $(1 \text{ filing} \times 4 \text{ hours}) + (11 \text{ filings} \times 0.5 \text{ hour}) = 9.5 \text{ burden hours}$ in the first year.

¹²⁶² This estimate was based on the following calculation: $12 \text{ filings} \times 0.5 \text{ hour} = 6 \text{ burden hours}$ in each subsequent year.

¹²⁶³ The estimate was based on the following calculation: $(9.5 + (6 \times 2)) \div 3 = 7.17$.

¹²⁶⁴ The estimate was based on the following calculation: $(3,057 \text{ funds} \times 12.67 \text{ hours}) + (5,677 \text{ funds} \times 7.17 \text{ hours}) = 79,436.28 \text{ hours}$.

¹²⁶⁵ See Proposing Release, *supra* footnote 9; see also Investment Company Reporting Modernization Adopting Release, *supra* footnote 120.

¹²⁵¹ *Id.*

¹²⁵² See, e.g., Dechert Comment Letter; ICI Comment Letter I; Nuveen Comment Letter; Wells Fargo Comment Letter.

likelihood that many funds will subscribe to such services to operationally comply with the rule 22e-4.¹²⁶⁶

The Commission has modified the estimated increase in annual burden hours and total time costs that will result from Form N-PORT and the liquidity related amendments to Form N-PORT in consideration of commenters' concerns that the Commission underestimated the operational requirements for reporting and to reflect updates to the industry data figures that were utilized in the Proposing Release. We estimate that 9,347 funds would be required to file, on a monthly basis, additional information on Form N-PORT as a result of the additional liquidity-related reporting items adopted today.¹²⁶⁷

We estimate that each fund that files reports on Form N-PORT in house (35%, or 3,271) will require an average of approximately 6 burden hours, rather than 3 burden hours, to compile (including review of the information), tag, and electronically file the additional liquidity information required on Form N-PORT for the first time and an average of approximately 2 burden hours, rather than 1 burden hour, for subsequent filings. Therefore, we estimate the per fund average annual hour burden associated with the incremental changes to Form N-PORT as a result of the added liquidity information for these funds would be an additional 28 hours, rather than 14 hours for the first year¹²⁶⁸ and an additional 24 hours for each subsequent year.¹²⁶⁹ Amortized over three years, the average annual hour burden would be an additional 25.33 hours per fund.¹²⁷⁰

We further estimate that 65% of funds (9,076) will retain the services of a third party to provide data aggregation, validation and/or filing services as part of the preparation and filing of reports on Form N-PORT on the fund's behalf. For these funds, we estimate that each fund will require an average of approximately 8 hours, rather than 4 hours, to compile and review the added liquidity-related information with the service provider prior to electronically filing the report for the first time and an average of 1 burden hour, rather than 0.5 burden hours, for subsequent filings.

¹²⁶⁶ See Interactive Data Comment Letter.

¹²⁶⁷ See footnote 1253 and accompanying text.

¹²⁶⁸ The estimate is based on the following calculation: (1 filing × 6 hours) + (11 filings × 2 hour) = 28 burden hours in the first year.

¹²⁶⁹ This estimate is based on the following calculation: 12 filings × 2 hour = 24 burden hours in each subsequent year.

¹²⁷⁰ The estimate is based on the following calculation: (28 + (24 × 2)) + 3 = 25.33.

Therefore, we estimate the per fund average annual hour burden associated with the liquidity-related changes to Form N-PORT for these funds would be an additional 19 hours, rather than 9.5 hours, for the first year¹²⁷¹ and an additional 12 hours, rather than 6 hours, for each subsequent year.¹²⁷² Amortized over three years, the average aggregate annual hour burden would be an additional 14.33 hours per fund, rather than 7.17 hours per fund.¹²⁷³

In sum, we estimate that the adopted additional liquidity reporting information on Form N-PORT will impose an average total annual hour burden of an additional 169,923.51 hours, rather than 79,436.28 hours, on applicable funds.¹²⁷⁴ As we stated in the Proposing Release, we believe that the changes to Form N-PORT associated with reporting liquidity classifications will not result in third party service providers charging additional fees above those estimated in the Investment Company Modernization Proposing Release. Therefore, we have revised our estimates of number of funds affected as discussed previously, but are continuing to estimate the same external costs for hiring third party service providers as in the Investment Company Modernization Adopting Release. Accordingly, we estimate that the total external annual cost burden of compliance with the information collection requirements of Form N-PORT will be \$103,787,680, or \$9,118 per fund.¹²⁷⁵

D. Form N-LIQUID and Rule 30b1-10

As discussed above, we are adopting a new requirement that open-end investment companies, including In-Kind ETFs but not including money market funds, file a current report on Form N-LIQUID on a non-public basis when certain events related to their liquidity occur.¹²⁷⁶ Similar to Form 8-

¹²⁷¹ The estimate is based on the following calculation: (1 filing × 8 hours) + (11 filings × 1 hour) = 19 burden hours in the first year.

¹²⁷² This estimate is based on the following calculation: 12 filings × 1 hour = 12 burden hours in each subsequent year.

¹²⁷³ The estimate is based on the following calculation: (19 + (12 × 2)) + 3 = 14.33.

¹²⁷⁴ The estimate is based on the following calculation: (3,271 funds × 25.33 hours) + (6,076 funds × 14.33 hours) = 169,923.51 hours.

¹²⁷⁵ See Investment Company Reporting Modernization Adopting Release, *supra* footnote 120.

¹²⁷⁶ This requirement will be implemented through our adoption of new rule 30b1-10, which requires funds to file a report on new Form N-LIQUID in certain circumstances. See rule 30b1-10; Form N-LIQUID. For purposes of the PRA analysis, therefore, the burden associated with the requirements of rule 30b1-10 is included in the collection of information requirements of Form N-LIQUID.

K under the Exchange Act,¹²⁷⁷ or Form N-CR under the Investment Company Act for money market funds,¹²⁷⁸ Form N-LIQUID requires disclosure, by means of a current report filed with the Commission, of certain specific reportable events. The information reported on Form N-LIQUID concerns events under which more than 15% of a fund's or In-Kind ETF's net assets are, or become, illiquid investments that are assets as defined in rule 22e-4 and when holdings in illiquid investments are assets that previously exceeded 15% of a fund's net assets have changed to be less than or equal to 15% of the fund's net assets.¹²⁷⁹ The information reported on Form N-LIQUID also regards events under which a fund's holdings in assets that are highly liquid investments fall below the fund's highly liquid investment minimum for more than 7 consecutive calendar days. A report on Form N-LIQUID is required to be filed, as applicable, within one business day of the occurrence of one or more of these events.¹²⁸⁰

This reporting requirement on Form N-LIQUID is a collection of information under the PRA. The information provided on Form N-LIQUID will enable the Commission to receive information on fund liquidity events more uniformly and efficiently and will enhance the Commission's oversight of funds when significant liquidity events occur and its ability to respond to market events. The Commission will be able to use the information provided on Form N-LIQUID in its regulatory, disclosure review, inspection, and policymaking roles. This collection of information will be kept confidential.

The staff estimates that the Commission will receive, in the aggregate, an average of 30 reports¹²⁸¹ per year filed in response to an event specified on Part B ("Above 15% Illiquid Investments"), an average of 30 reports¹²⁸² per year filed in response to an event specified on Part C ("At or Below 15% Illiquid Investments"), and

¹²⁷⁷ 17 CFR 249.308.

¹²⁷⁸ 17 CFR 270.30b1-8.

¹²⁷⁹ See Item C.1 and Item C.2 of Part A of Form N-LIQUID.

¹²⁸⁰ See General Instruction A.2 of Form N-LIQUID.

¹²⁸¹ Commission staff estimates this figure based, in part, by reference to the total of 28 Form N-CR filings received by the Commission from mid-July 2015 to mid-July 2016. We recognize that the circumstances under which money market funds report events on Form N-CR are not the same as the liquidity events reported on Form N-LIQUID and that reported occurrences may be less than or more than 30. We believe, however, that Form N-CR provides a helpful guidepost for estimation purposes and believe an estimation of 30 reports is appropriate for purposes of this PRA.

¹²⁸² See id.