

**SUPPORTING STATEMENT**  
**For the Paperwork Reduction Act Information Collection Submission for**  
**Rule 30e-1**

**A. JUSTIFICATION**

**1. Necessity for the Information Collection**

Section 30(e) of the Investment Company Act of 1940 (“Investment Company Act”)<sup>1</sup> requires a registered investment company to transmit to its shareholders, at least semi-annually, reports containing financial statements and other financial information as the Commission may prescribe by rules and regulations.<sup>2</sup> In addition, Section 30(f) permits the Commission to require by rule that semi-annual reports include such other information as the Commission deems necessary or appropriate in the public interest or for the protection of investors.<sup>3</sup> Rule 30e-1 under the Investment Company Act generally requires a registered management company (“fund”) to transmit to its shareholders, at least semi-annually, a report containing the information that is required to be included in such reports by the fund’s registration statement form under the Investment Company Act.<sup>4</sup> Failure to require the collection of this information would seriously impede the amount of current information available to shareholders and the public about funds and would prevent the Commission from implementing the regulatory program required by statute.

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

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

<sup>3</sup> 15 U.S.C. 80a-29(f).

<sup>4</sup> 17 CFR 270.30e-1.

Rule 30e-1 also permits, under certain conditions, delivery of a single shareholder report to investors who share an address (“householding”).<sup>5</sup> Specifically, rule 30e-1 permits householding of annual and semi-annual reports by management companies to satisfy the transmission requirements of rule 30e-1 if, in addition to the other conditions set forth in the rule, the management company has obtained from each applicable investor written or implied consent to the householding of shareholder reports at such address. The rule requires management companies that wish to household shareholder reports with implied consent to send a notice to each applicable investor stating, among other things, that the investors in the household will receive one report in the future unless the investors provide contrary instructions. In addition, at least once a year, management companies relying on the householding provision must explain to investors who have provided written or implied consent how they can revoke their consent.

On June 5, 2018, the Commission issued a release adopting new rule 30e-3 under the Investment Company Act and certain amendments to other rules and forms.<sup>6</sup> New rule 30e-3 will provide certain funds and unit investment trusts with an optional method to satisfy shareholder report transmission requirements by making such reports and certain other materials publicly accessible on a website, as long as they satisfy certain other conditions of the rule regarding (a) availability of the report and other materials; (b) notice to investors of the website availability of the report; and (c) delivery of paper copies of materials upon request. Reliance on the rule will be voluntary. We expect that rule 30e-3 will have the effect of reducing external

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<sup>5</sup> See rule 30e-1(f).

<sup>6</sup> See Securities Act release no. 10506 (June 5, 2018) [83 FR 29158 (June 22, 2018)].

cost burden associated with rule 30e-1.<sup>7</sup> Compliance with the disclosure requirements of rule 30e-1 is mandatory. Responses to the disclosure requirements are not kept confidential.

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

The purpose of the collection of information required by rule 30e-1 is to provide fund shareholders with current information about the operations of their funds in accordance with Section 30 of the Investment Company Act.

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

Rule 30e-1 requires transmission of reports to shareholders. Shareholder reports have historically been sent in paper; however, investors may currently consent to the delivery of electronic versions. Rule 30e-3, which we expect will reduce the external cost burden associated with rule 30e-1, is intended to modernize and enhance the manner in which shareholder reports are made available to investors.

## **4. Duplication**

To ensure the relevance of the information filed by each fund and to avoid unnecessary paperwork and duplicative reporting, the Commission has promulgated specific rules and designed specific forms or items of forms for each type of investment company. 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 information required by rule 30e-1 is not generally duplicated elsewhere.

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

The current disclosure requirements for shareholder reports do not distinguish between small entities and other funds. The burden on smaller funds may be greater than for larger funds.

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<sup>7</sup> See rule 30e-3 [to be codified at 17 CFR 270.30e-3].

This burden includes the cost of producing, printing, and transmitting the shareholder reports. The Commission believes, however, that imposing different requirements on smaller investment companies would not be consistent with investor protection and the purposes of shareholder reports. The Commission reviews all rules periodically, as required by the Regulatory Flexibility Act, to identify methods to minimize recordkeeping or reporting requirements affecting small businesses.

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

The frequency with which information in compliance with rule 30e-1 is collected is semi-annual, as set out in Section 30(e) of the Investment Company Act and rule 30e-1. Less frequent collection of information would impede the amount of current information provided to shareholders about their funds.

#### **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**

Before adopting rule 30e-3, the Commission received and evaluated public comments on the proposal and its collection of information requirements. The Commission received comments on this aspect of the proposal. Although commenters did not opine on the proposed estimate of the proportion of total external costs associated with rule 30e-1 associated with printing and mailing expenses, some did provide estimates of the total costs of print and mail delivery that suggest that our previously estimated proportion of those costs may be understated, and we have revised our estimates to yield overall printing and mailing estimates more similar to those estimated by commenters than did the estimates in the Proposing Release.<sup>8</sup> The Commission and

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<sup>8</sup> See, e.g., Comment Letter of Investment Company Institute (Aug. 12, 2015).

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**

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 does not collect personally identifiable information (PII). The agency has determined that a system of records notice (SORN) and privacy impact assessment (PIA) are not required in connection with the collection of information.

**12. 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>9</sup> and are not derived from a comprehensive or even representative survey or study of the cost of Commission rules and forms. Compliance with the disclosure requirements of rule 30e-1 is mandatory. Responses to the disclosure requirements are not kept confidential.

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<sup>9</sup> 44 U.S.C. 3501 *et seq.*

We estimate that there are 11,892 funds that are required to comply with rule 30e-1.<sup>10</sup> We estimate that each fund incurs an annual hourly burden of 86.5 hours based on current and previously adopted requirements.<sup>11</sup> We estimate that the hourly burden associated with rule 30e-1 will not change as a result of rule 30e-3. Thus, in the aggregate, the Commission estimates that compliance with rule 30e-1 will result in a total annual burden of about 1,028,658 hours.<sup>12</sup> Based on the Commission's estimate of 1,028,658 hours and an estimated wage rate of about \$284 per hour,<sup>13</sup> the total annual cost to registrants of the hour burden for complying with the requirements of rule 30e-1 is about \$292 million.<sup>14</sup>

### 13. Cost to Respondents

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<sup>10</sup> There are 9,360 mutual funds, 1,821 exchange-traded funds (1,829 ETFs less 8 unit investment trust ETFs), and 711 closed-end funds. This estimate is based on data reported on Form N-SAR filed with the Commission as well as Investment Company Institute statistics as of December 31, 2017, *available at* <http://www.ici.org/research/stats>. 9,360 mutual funds + 1,821 ETFs + 711 closed-end funds = 11,892 funds.

<sup>11</sup> 84 hours per fund per year current burden + 2.5 hours per fund per year for recently adopted amendments to the requirements of Regulation S-X = 86.5 hours per fund per year. *See* Investment Company Reporting Modernization, Investment Company Act Release No. 32314 (Oct. 13, 2016) [81 FR 81870, at text following n.1562 (Nov. 18, 2016)].

<sup>12</sup>  $11,892 \text{ funds} \times 86.5 \text{ hours per fund per year} = \sim 1,028,658 \text{ hours per year}$ .

<sup>13</sup> 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 intermediate accountants and attorneys, 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, yielding effective hourly rates of \$166 and \$401, respectively. *See* Securities Industry and Financial Markets Association, Report on Management & Professional Earnings in the Securities Industry 2013. We estimate that intermediate accountants and attorneys will divide their time equally, yielding an estimated hourly wage rate of \$284.  $(\$166 \text{ per hour for intermediate accountants} + \$401 \text{ per hour for attorneys}) \div 2 = \$284 \text{ per hour}$ .

<sup>14</sup>  $1,028,658 \text{ hours per year} \times \$284 \text{ per hour} = \$292,138,872 \text{ per year}$ .

Cost burden is the cost of goods and services purchased to prepare, print, and transmit reports under rule 30e-1, 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.

We estimate that each fund currently incurs an annual cost burden of \$31,061 per fund. We estimate that 90 percent of funds required to comply with rule 30e-1 (or about 10,703 funds) will rely on new rule 30e-3.<sup>15</sup> We estimate that for the 90 percent of funds relying on rule 30e-3, two-thirds of the external costs currently attributed to rule 30e-1 relate to printing and mailing costs, which would not be applicable to funds relying on rule 30e-3. Thus, their annual cost burden related to rule 30e-1 would decrease from \$31,061 to about \$10,354 per fund.<sup>16</sup> Therefore, we estimate that the total annual external cost burden for all funds under rule 30e-1 will be \$147,750,391.<sup>17</sup>

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

There are no costs to the federal government associated with rule 30e-1. The annual cost of reviewing and processing registration statements, post-effective amendments, proxy statements, shareholder reports, and other filings of investment companies amounted to approximately \$22.2 million in fiscal year 2017, based on the Commission's computation of the value of staff time devoted to this activity and related overhead. We note, however, that

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<sup>15</sup> 11,892 funds  $\times$  0.90 proportion estimated to rely = ~10,703 funds relying.

<sup>16</sup> \$31,061 per fund per year in external costs  $\times$   $\frac{1}{3}$  proportion not attributable to printing and mailing expenses = ~\$10,354 per fund per year in external costs.

<sup>17</sup> 10,703 funds expected to rely  $\times$  \$10,354 external costs per fund expected to rely = \$110,818,862 in external costs for funds expected to rely. \$110,818,862 in external costs for funds expected to rely + ((11,892 total funds – 10,703 funds expected to rely)  $\times$  \$31,061 in external costs for funds not expected to rely) = \$147,750,391 in external costs.

shareholder reports are filed with the Commission to comply with the requirements of Form N-CSR, and not rule 30e-1, which requires the transmission of the reports to shareholders.

**15. Change in Burden**

The estimated hourly burden associated with rule 30e-1 has decreased from 1,043,592 hours to 1,028,658 hours (a decrease of 14,934 hours). The estimated cost burden associated with rule 30e-1 has decreased from \$368,352,399 to \$147,750,391 (a decrease of \$220,602,008). This decrease is due to a decrease in the estimated burden for those funds that rely on new rule 30e-3.

**16. Information Collection Planned for Statistical Purposes**

Not applicable.

**17. Approval to Omit OMB Expiration Date**

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

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

Not applicable.

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

Not applicable.