

**SUPPORTING STATEMENT**  
**For the Paperwork Reduction Act Information Collection Submission for**  
**FORM N-2**

**A. JUSTIFICATION**

**1. Necessity for the Information Collection**

Form N-2 (17 CFR 239.14 and 274.11a-1) is the form used by closed-end management investment companies (“closed-end funds”) to register as investment companies under the Investment Company Act of 1940 (15 U.S.C. 80a-1 et seq.) (“Investment Company Act”) and to register their securities under the Securities Act of 1933 (15 U.S.C. 77a et seq.) (“Securities Act”). Section 5 of the Securities Act (15 U.S.C. 77e) requires the filing of a registration statement prior to the offer of securities to the public and that the statement be effective before any securities are sold. The primary purpose of the registration process is to provide disclosure of financial and other information to current and potential investors for the purpose of evaluating an investment in a security. Section 5(b) of the Securities Act requires that investors be provided with a prospectus containing the information required in a registration statement prior to the sale, or at the time of confirmation or delivery, of the securities.

A closed-end fund is required to register as an investment company under Section 8(a) of the Investment Company Act (15 U.S.C. 80a-8(a)). Form N-2 permits a closed-end fund to provide investors with a prospectus covering essential information about the fund when the fund makes an initial or additional offering of its securities. More detailed information is provided to interested investors in the Statement of Additional Information (“SAI”). The SAI is provided to investors upon request and without charge.

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>1</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. In connection with our adoption of rule 30e-3, the Commission is amending certain rules and forms including Form N-2. Form N-2 is amended to require certain legend requirements on the prospectuses and annual and semi-annual reports if relying on rule 30e-3. Responses to the disclosure requirements are not kept confidential.

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

The purpose of Form N-2 is to meet the filing and disclosure requirements of the Securities Act and the Investment Company Act and to enable funds to provide investors with information necessary to evaluate an investment in a fund. This information collection differs significantly from many other federal information collections, which are primarily for the use and benefit of the collecting agency. The information required to be filed with the Commission permits 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, EDGAR, is designed to automate the filing, processing, and dissemination of all disclosure filings. The system permits

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<sup>1</sup> See Securities Act Release No. 10506 (June 5, 2018) [83 FR 29158 (June 22, 2018)] (“Adopting Release”).

publicly held companies to transmit their filings to the Commission electronically. This automation has increased the speed, accuracy, and availability of information, generating benefits to investors and financial markets. All registered investment companies filing Form N-2 with the Commission are required to use EDGAR.

#### **4. Efforts to Identify Duplication**

The Commission periodically evaluates rule-based reporting and recordkeeping requirements for duplication, and reevaluates them whenever it adopts changes in its rules. For closed-end funds filing on Form N-2 for purposes of registering their fund, these requirements are not duplicated elsewhere. Form N-2, not specifically duplicated elsewhere with respect to its registrants, sets forth the filing and disclosure requirements for closed-end funds.

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

Form N-2 must be filed by all closed-end funds, regardless of size. The burden on smaller funds to prepare and file registration statements may be greater than for larger funds. The Commission believes, however, that imposing different requirements on smaller investment companies would not be consistent with investor protections for consistent levels of disclosure information regardless of fund size and for the purposes of registering closed-end funds securities to comply with the Investment Company Act and the Securities Act. For example, it would not be in the best interest of investors to reduce the reporting and recordkeeping requirements for small entities because the information is provided to investors to evaluate an investment in a fund, regardless of size. 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**

In the absence of the disclosure requirements in Form N-2, investors in closed-end funds may not receive information necessary to make informed investment decisions, and consumer confidence in the securities industry could be adversely affected. Form N-2 also satisfies the Investment Company Act requirement that investment companies register with the Commission before they conduct business. In the absence of a Form N-2 registration statement, closed-end funds would not be able to comply with the filing requirements of the Investment Company Act.

A closed-end fund must file its registration statement on Form N-2 only when making initial or additional offerings of securities or when amending its registration statement. Less frequent collection would mean that information current to a particular offering would not be available to fund investors and the Commission would not have current information to perform its regulatory functions.

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

Not applicable.

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

The Commission requested public comment on the collection requirements for conditioning reliance on rule 30e-3 with requirements to require legends on prospectuses and semi-annual and annual reports before it submitted this request for revision and approval to the Office of Management and Budget. The Commission did not receive comments regarding these collection requirements with respect to Form N-2. The Commission and 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. Assurance of 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 collects basic Personally Identifiable Information (PII) that may include names, job titles and work addresses. 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>.

**12/13. Estimate of Hour and Cost Burden of Information Collection**

Form N-2 generally imposes two types of reporting burdens on investment companies: (1) the burden of preparing and filing the initial registration statement; and (2) the burden of preparing and filing post-effective amendments to a previously effective registration statement. Compliance with the disclosure requirements of Form N-2 is mandatory. Responses to the disclosure requirements will not be kept confidential. The following estimates of average burden hours and costs are made solely for purposes of

the Paperwork Reduction Act and are not derived from a quantitative, comprehensive, or even representative survey or study of the burdens and costs associated with Commission rules and forms.

In our most recent Paperwork Reduction Act submission for Form N-2, Commission staff estimated the annual compliance burden to comply with the collection of information of Form N-2 to be 73,250 burden hours and an external cost burden estimate of \$4,668,396.<sup>2</sup>

Pursuant to the amendments in connection with the rule 30e-3 adoption, we estimate that these funds will incur 1 burden hour for the first summary prospectus, statutory prospectus, or shareholder report reflecting these requirements and 0.5 hours for each additional summary prospectus, statutory prospectus, or annual and semi-annual report reflecting these requirements. These related disclosure requirements will only apply during the extended transition period. In light of the short period during which these additional requirements will be effective and the modest impact they are likely to have on external service providers such as website hosting services, outside counsel and auditors, and printing and mailing services, we do not expect them to result in additional expenses passed on to funds by their service providers in the form of additional external cost burden. Thus, we do not estimate there will be any external costs to comply with these disclosure requirements.

We estimate that there are 711 funds that could file registration statements or amendments to registration statements on Form N-2.<sup>3</sup> Of this group, we estimate that 640

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<sup>2</sup> These estimates are based on the last time the form's information collection was submitted for PRA renewal in 2016.

<sup>3</sup> This estimate is based on data from Commission filings as well as Investment Company Institute statistics as of December 31, 2017, available at <http://www.ici.org/research/stats>.

funds will rely on rule 30e-3.<sup>4</sup> Consequently, we estimate that the total annual hour burden associated with the amendments to Form N-2 and relating to prospectuses is 320 hours.<sup>5</sup> In addition, we estimate that the total annual hour burden associated with the amendments to Form N-2 is 533 hours.<sup>6</sup> In total, we estimate that the aggregate annual hour burden associated with the amendments to Form N-2 will be 853 hours per year.<sup>7</sup>

We estimate that with the additional hour burdens associated with the amendments the total annual internal burden to comply would be 74,103 burden hours for Form N-2.<sup>8</sup> Based on the Commission's estimate of 74,103 hours and an estimated wage rate of about \$284 per hour,<sup>9</sup> the total annual cost to registrants of the hour burden for complying with the amendments to Form N-2 is about \$21 million.<sup>10</sup>

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<sup>4</sup> 711 funds  $\times$  0.9 = 640 funds.

<sup>5</sup> 640 funds  $\times$  1 hour in the first year = 640 hours. 640 funds  $\times$  0.5 hours in the second year = 320 hours. 640 funds  $\times$  0 hours in the third year = 0 hours.  $(640 + 320 + 0) \div 3$  years = 320 hours per year on an amortized basis. The Commission notes that this is a conservative estimate because funds registered on Form N-2, in reliance of Investment Company Act rule 8b-16(b), on average prepare and file prospectuses less frequently than funds registered on Form N-1A.

<sup>6</sup> 640 funds  $\times$  (1 hour for the first report in the first year + 0.5 hours for the second report in the first year) = 960 hours. 640 funds  $\times$  0.5 hours  $\times$  2 reports in the second year = 640 hours. 640 funds  $\times$  0 hours in the third year = 0 hours.  $(960 + 640 + 0 \text{ hours}) \div 3$  years = 533 hours per year on an amortized basis.

<sup>7</sup> 853 hours = 320 hours + 533 hours.

<sup>8</sup> This estimate is based on the following calculation: 73,250 + 853 = 74,103 hours.

<sup>9</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>10</sup> 74,103 hours per year  $\times$  \$284 per hour = \$21,045,252 per year.

**Table 1: Summary of Revised Annual Responses, Burden Hours, and Burden Hour Costs for Form N-2**

<b>No. of Responses<sup>11</sup></b>	<b>Burden Hours</b>	<b>Burden Hour Costs</b>
<b>640</b>	<b>74,103</b>	<b>\$21,045,252</b>

**14. Cost to the Federal Government**

The annual cost of reviewing and processing new registration statements, post-effective amendments, proxy statements, and shareholder reports 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.

**15. Change in Burden**

The total annual hour burden of 74,103 hours represents an increase of 853 hours over the previous burden hour estimate of 73,250 hours. In addition, the annual external cost burden of \$4,668,396 has not changed. The changes in burden hours are due to the staff's estimates of the time costs that would result from our amendments to Form N-2 in connection with the adoption of rule 30e-3.

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

Not Applicable.

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

Not Applicable.

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

Not Applicable.

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<sup>11</sup> We note that the number of responses estimated for Form N-2 burdens is unchanged from the PRA extension approved in 2017, which is 166. However, this PRA revision only for purposes of calculating the PRA burden changes related to the adoption of rule 30e-3 estimates 640 responses.



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

Not Applicable.