

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

A. JUSTIFICATION

1. Necessity for the Information Collection

Conflicts of interest between investment company personnel (such as portfolio managers) and their funds can arise when these persons buy and sell securities for their own accounts (“personal investment activities”). These conflicts arise because fund personnel have the opportunity to profit from information about fund transactions, often to the detriment of fund investors. Section 17(j) of the Investment Company Act of 1940 (the “Investment Company Act”) (15 U.S.C. 80a-17(j)) makes it unlawful for persons affiliated with a registered investment company (“fund”) or with the fund’s investment adviser or principal underwriter (each a “17j-1 organization”), in connection with the purchase or sale of securities held or to be acquired by the investment company, to engage in any fraudulent, deceptive, or manipulative act or practice in contravention of the Commission’s rules and regulations. Section 17(j) also authorizes the Commission to promulgate rules requiring 17j-1 organizations to adopt codes of ethics.

In order to implement section 17(j), rule 17j-1 imposes certain requirements on 17j-1 organizations and “Access Persons”¹ of those organizations. The rule prohibits fraudulent, deceptive or manipulative acts by persons affiliated with a 17j-1 organization in connection with their personal securities transactions in securities held or to be acquired by the fund. The rule requires each 17j-1 organization, unless it is a money market fund or a fund that does not invest

¹ Rule 17j-1(a)(1) defines an “access person” as “Any Advisory Person of a Fund or of a Fund’s investment adviser. If an investment adviser’s primary business is advising Funds or other advisory clients, all of the investment adviser’s directors, officers, and general partners are presumed to be Access Persons of any Fund advised by the investment adviser. All of a Fund’s directors, officers, and general partners are presumed to be Access Persons of the Fund.” The definition of Access Person also includes “Any director, officer or general partner of a principal underwriter who, in the ordinary course of business, makes, participates in or obtains information regarding, the purchase or sale of Covered Securities by the Fund for which the principal underwriter acts, or whose functions or duties in the ordinary course of business relate to the making of any recommendation to the Fund regarding the purchase or sale of Covered Securities.” Rule

in Covered Securities,² to: (i) adopt a written codes of ethics; (ii) submit the code and any material changes to the code, along with a certification that it has adopted procedures reasonably necessary to prevent Access Persons from violating the code of ethics, to the fund board for approval; (iii) use reasonable diligence and institute procedures reasonably necessary to prevent violations of the code; (iv) submit a written report to the fund describing any issues arising under the code and procedures and certifying that the 17j-1 entity has adopted procedures reasonably necessary to prevent Access Persons form violating the code; (v) identify Access Persons and notify them of their reporting obligations; and (vi) maintain and make available to the Commission for review certain records related to the code of ethics and transaction reporting by Access Persons.

The rule requires each Access Person of a fund (other than a money market fund or a fund that does not invest in Covered Securities) and of an investment adviser or principal underwriter of the fund, who is not subject to an exception,³ to file: (i) within 10 days of becoming an Access

17j-1(a)(1).

² A “Covered Security” is any security that falls within the definition in section 2(a)(36) of the Act, except for direct obligations of the U.S. Government, bankers’ acceptances, bank certificates of deposit, commercial paper and high quality short-term debt instruments, including repurchase agreements, and shares issued by open-end funds. Rule 17j-1(a)(4).

³ Rule 17j-1(d)(2) contains the following exceptions: (i) an Access Person need not file a report for transactions effected for, and securities held in, any account over which the Access Person does not have control; (ii) an independent director of the fund, who would otherwise be required to report solely by reason of being a fund director and who does not have information with respect to the fund’s transactions in a particular security, does not have to file an initial holdings report or a quarterly transaction report; (iii) an Access Person of a principal underwriter of the fund does not have to file reports if the principal underwriter is not affiliated with the fund (unless the fund is a unit investment trust) or any investment adviser of the fund and the principal underwriter of the fund does not have any officer, director, or general partner who serves in one of those capacities for the fund or any investment adviser of the fund; (iv) an Access Person to an investment adviser need not make quarterly reports if the report would duplicate information provided under the reporting provisions of the Investment Adviser’s Act of 1940; (v) an Access Person need not make quarterly transaction reports if the information provided in the report would duplicate information received by the 17j-1 organization in the form of broker trade confirmations or

Person, a dated initial holdings report that sets forth certain information with respect to the Access Person's securities and accounts; (ii) dated quarterly transaction reports within 30 days of the end of each calendar quarter providing certain information with respect to any securities transactions during the quarter and any account established by the Access Person in which any securities were held during the quarter; and (iii) dated annual holding reports providing information with respect to each Covered Security the Access Person beneficially owns and accounts in which securities are held for his or her benefit. In addition, rule 17j-1 requires investment personnel of a fund or its investment adviser, before acquiring beneficial ownership in securities through an initial public offering (IPO) or in a private placement, to obtain approval from the fund or the fund's investment adviser.

2. Purpose and Use of the Information Collection

Rule 17j-1 provides for oversight by a fund's board of directors of the codes of ethics and procedures employed by the fund, its investment advisers and underwriters to prevent fraudulent, deceptive, or manipulative acts in connection with the purchase or sale by persons associated with those entities of securities held or to be acquired by the fund. Without the rule, fund boards and the Commission would be hampered in their ability to monitor fully the conduct of such persons for activities that are fraudulent, deceptive or manipulative.

3. Consideration Given to Information Technology

Some 17j-1 entities employ computerized transaction reporting and recordkeeping

account statements or information otherwise in the records of the 17j-1 organization; and (vi) an Access Person need not make quarterly transaction reports with respect to transactions effected pursuant to an Automatic Investment Plan.

systems to reduce the burden in connection with rule 17j-1. Although these systems can impose substantial start-up and maintenance costs, they can help to reduce the information collection burdens arising under rule 17j-1. The Commission permits the use of such technologies to comply with rule 17j-1.

4. Duplication

The Commission is not aware of any duplicate reporting or recordkeeping requirements. Rule 17j-1(d)(2)(iv) under the Investment Company Act relieves an Access Person of the duty to file reports if those reports would duplicate reports required by rules under the Investment Advisers Act of 1940.⁴ Rule 17j-1(d)(2)(v) exempts an Access Person from filing the quarterly transaction report if it would duplicate information already received by the 17j-1 organization in the form of broker trade confirmations or account statements or information otherwise in the records of the 17j-1 organization.

Information collected under the rule is intended to improve board oversight of personal investment activities of fund personnel. Similar information would not achieve that goal.

5. Effect on Small Entities

All rule 17j-1 organizations, regardless of size, must adopt a code of ethics and keep records of reports submitted by Access Persons. The reporting and recordkeeping requirements for small entities could not be reduced without risking harm to investors' interests.

6. Consequences of Not Conducting Collection

In order for fund boards to play a meaningful oversight role, it is necessary for them to

⁴ Investment Adviser Codes of Ethics, Investment Advisers Act Release No. 2256 (Jul. 2, 2004) (69 FR 41696 (Jul. 9, 2004)).

receive no less frequently than annually reports from the fund, its investment advisers and underwriters regarding issues arising under the code of ethics. Rule 17j-1, by requiring Access Persons to provide initial holdings reports, quarterly transactions reports, and annual holdings reports, enables rule 17j-1 organizations to monitor the securities transactions of Access Persons to ensure compliance with their codes of ethics. Less frequent collection of such reports would hinder these organizations from enforcing their codes.

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 of information requirements in rule 17j-1 before it submitted this request for approval to the Office of Management and Budget. The Commission received no comments in response to this request.

More generally, the Commission and the staff 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 the staff with a means of ascertaining and acting upon the 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.

12. Burden of Information Collection

Based upon the staff's conversations with representatives of a number of 17j-1 organizations and its experience with the industry, the staff has made the following estimates with respect to the reporting burden. As noted above, Access Persons must file initial and annual holdings reports and quarterly transaction reports. Investment personnel must obtain approval before acquiring beneficial ownership in any securities through an IPO or private placement. In addition, rule 17j-1 organizations have a number of responsibilities, most of which are carried out at the fund complex level,⁵ arising from information collection requirements under rule 17j-1. The organizations must notify Access Persons of their reporting obligations, prepare an annual rule 17j-1 report and certification for the board, document their approval or rejection of IPO and private placement requests, maintain annual rule 17j-1 records, maintain electronic reporting and recordkeeping systems, amend their codes of ethics as necessary, and, for new fund complexes, adopt a code of ethics.

The estimated burdens associated with these information collections are set forth in the table below.

⁵ The staff estimates that there are 783 fund complexes currently operating.

Table 1: Updated Annual Burden Hours and Annual Burden-Hour Costs Estimates for Information Collections

Information Collection	Annual Hours Per Person or Complex	Annual Aggregate Hours	Person Responsible	Hourly Rate (\$) ⁶	Annual Aggregate Cost (\$)
Initial Holdings Report	2	12,528 ⁷	New Access Person	225 ⁸	2,818,800 ⁹
Quarterly Transaction Report	.25	6,250 ¹⁰	Access Person	225	1,406,250 ¹¹
Annual Holdings Report	.75	52,500 ¹²	Access Person	225	11,812,500 ¹³
IPO/Private Placement Preapproval Request	1	4,698 ¹⁴	Investment Personnel	225	1,057,050 ¹⁵

⁶ All hourly rates used in this analysis are derived from SIFMA’s Management and Professional Earnings in the Securities Industry (2013), modified by Commission staff to account for an 1800-hour work-year and inflation, and multiplied by 2.93 or 5.35 to account for bonuses, firm size, employee benefits and overhead.

⁷ We estimate that there are approximately 8 new Access Persons per fund complex each year and 6,264 total new Access Persons each year (8 new Access Persons × 783 fund complexes = 6,264 new Access Persons). In addition, we estimate that the total number of Access Persons remains approximately steady due to attrition. This is based on the following calculation: (6,264 new Access Persons × 2 hours = 12,528 hours).

⁸ Although hourly rates of Access Persons differ, we estimate that, on average, the time for Access Persons required to complete initial holdings reports and other transaction reports costs \$225 per hour. Access Persons would include portfolio managers, directors and other officers of the fund. The \$225 rate is that of a typical mid-level portfolio manager.

⁹ This is based on the following calculations: (6,264 new Access Persons × 2 hours = 12,528 hours; 12,528 hours × \$225 rate = \$2,818,800).

¹⁰ We estimate that annually 25,000 quarterly transactions reports are filed. Access Persons do not have to file such reports in certain instances including, for example, when they have not engaged in any securities transactions during a particular quarter, or when the relevant information is contained in duplicate broker trade confirmations or account statements received by the firm. This is based on the following calculation: (25,000 quarterly reports × .25 hour) = 6,250 hours.

¹¹ This is based on the following calculations: (25,000 quarterly reports × .25 hour = 6,250 hours; 6,250 hours × \$225 rate = \$1,406,250).

¹² Each of the approximately 70,000 Access Persons must file an annual holdings report. This is based on the following calculation: (70,000 Access Persons × .75 hour = 52,500 hours).

¹³ This is based on the following calculation: (52,500 hours × \$225 rate = \$11,812,500).

¹⁴ We estimate that each of the 783 fund complexes receives approximately 6 such requests each year, for a total of approximately 4,698 such requests filed each year.

Information Collection	Annual Hours Per Person or Complex	Annual Aggregate Hours	Person Responsible	Hourly Rate (\$) ⁶	Annual Aggregate Cost (\$)
Informing Access Persons of Reporting Obligation	3	2,349	Compliance Manager	298	700,002 ¹⁶
Preparation of Annual Report to Board and Certification	8.5	6,656	Chief Compliance Officer (50%)	511	3,035,136 ¹⁷
			Attorney for Fund Complex (50%)	401	
Documentation of IPO/Private Placement Approval/Rejection	3 (.5 hours per request)	2,349	Chief Compliance Officer	511	1,200,339 ¹⁸
Rule 17j-1 Recordkeeping, Review and Analysis	300	234,900	Chief Compliance Officer (5%)	511	20,953,080 ¹⁹
			Compliance Clerk (95%)	67	
Maintenance of Computer Systems for Use in 17j-1 Reporting and Recordkeeping	50	39,150	Programmer Analyst	232	9,082,800 ²⁰

¹⁵ This is based on the following calculations: (4,698 IPO requests × 1 hour = 4,698 hours; 4,698 hours × \$225 rate (for intermediate portfolio manager) = \$1,057,050).

¹⁶ This is based on the following calculations: (783 fund complexes × 3 hours = 2,349 hours; 2,349 hours × \$298 rate (for compliance manager) = \$700,002).

¹⁷ This is based on the following calculations: (783 fund complexes × 8.5 hours = 6,656 hours (rounded to nearest hour); 6,656 ÷ 2 = 3,327.75 hours (50% division between CCO and attorney); 3,328 hours × \$511 rate = \$1,700,608 CCO costs; 3,328 hours × \$401 rate = \$1,334,528 attorney costs; \$1,700,608 CCO costs + \$1,334,528 attorney costs = \$3,035,136 total costs).

¹⁸ This is based on the following calculations: (4,698 IPO requests × .5 hour for processing each request = 2,349 hours; 2,349 hours × \$511 rate = \$1,200,339).

¹⁹ This is based on the following calculations: (783 fund complexes × 300 hours = 234,900 hours; 234,900 × .95 = 223,155 hours clerk time (11,745 hours CCO time with a 95% and 5% division between clerk and CCO); 11,745 CCO hours × \$511 rate = \$6,001,695 CCO costs; 223,155 clerk hours × \$67 rate = \$14,951,385 clerk costs; \$6,001,695 CCO costs + \$14,951,385 clerk costs = \$20,953,080 total costs).

²⁰ This is based on the following calculations: (783 fund complexes × 50 hours = 39,150 hours; 39,150 hours × \$232 rate = \$9,082,800).

Information Collection	Annual Hours Per Person or Complex	Annual Aggregate Hours	Person Responsible	Hourly Rate (\$) ⁶	Annual Aggregate Cost (\$)
Preparation and Board Approval of New Code of Ethics for New Fund Complex	25	450 ²¹	Chief Compliance Officer (40%)	511	566,010 ²³
			Attorney for Fund Complex (40%)	401	
			Board of Directors (20%)	4,465 ²²	
Preparation and Board approval of Material Amendments to Existing Codes of Ethics, Implementing Policies and Procedures, and Board Review and Certification	8	6,264	Chief Compliance Officer (25%)	511	9,048,348 ²⁴
			Attorney for Fund Complex (50%)	401	
			Board of Directors (25%)	4,465	
TOTAL		368,094			61,680,315

We estimate that annually there are approximately 75,316 respondents under rule 17j-1, of which

²¹ We estimate that there are 18 new fund complexes formed each year.

²² Commission staff estimates that a fund board's hourly rate is \$4,465 per hour (this estimate is based on 2009 data adjusted for inflation).

²³ This is based on the following calculations: (18 new fund complexes × 25 hours = 450 hours; 450 hours × .40 = 180 hours (40% division each for CCO and attorney); 450 hours × .20 = 90 hours (board time); 180 hours × \$511 rate = \$91,980 CCO costs; 180 hours × \$401 rate = \$72,180 attorney costs; 90 hours × \$4,465 rate = \$401,850, \$91,980 CCO costs + \$72,180 attorney costs + \$401,850 board costs = \$566,010 total costs).

²⁴ This is based on the following calculations: (783 fund complexes × 8 hours = 6,264 hours, 6,264 hours × .25 = 1,566 hours (25% division each for CCO and Board); 6,264 hours × .50 = 3,132 hours (attorney time); 1,566 hours × \$511 rate = \$800,226 CCO costs; 3,132 hours × \$401 rate = \$1,255,932 attorney costs; 1,566 hours × \$4465 rate = \$6,992,190, \$800,226 CCO costs + \$1,255,932 attorney costs + \$6,992,190 board costs = \$ 9,048,348 total costs).

5,316 are rule 17j-1 organizations²⁵ and 70,000 are Access Persons. In the aggregate, these respondents make approximately 107,038 responses annually.²⁶ As the above table shows, we estimate that the total annual burden of complying with the information collection requirements in rule 17j-1 is approximately 368,094 hours and the cost of those hours is approximately \$61,680,315.

²⁵ As of September 2018, there were approximately 3,975 active funds, approximately 984 investment advisers to funds, and approximately 357 principal underwriters to funds, for a total of 5,316 17j-1 organizations.

²⁶ This estimate is based on the following calculation: (6,264 initial holdings reports by Access Persons + 25,000 quarterly transaction reports by Access Persons + 70,000 annual holdings reports by Access Persons + 4,698 preapproval requests by Access Persons for purchases of initial public offerings and private placements + 783 annual certifications by fund boards + 275 annual material amendments + 18 new codes of ethics for new fund complexes = 107,038 annual responses).

Table 2: Summary of Revisions to Annual Responses, Burden Hours, and Burden-Hour Costs Estimates for Information Collections

Information Collection	Annual No. of Responses			Annual Time Burden (Hrs.)			Burden Cost Burden (\$)		
	<i>Previously approved</i>	<i>Requested</i>	<i>Change</i>	<i>Previously approved</i>	<i>Requested</i>	<i>Change</i>	<i>Previously approved</i>	<i>Requested</i>	<i>Change</i>
Initial Holdings Report	6,936	6,264	-672	13,872	12,528	-1,344	2,954,736	2,818,800	-135,936
Quarterly Transaction Report	25,000	25,000	0	6,250	6,250	0	1,331,250	1,406,250	75,000
Annual Holdings Report	70,000	70,000	0	52,500	52,500	0	11,182,500	11,812,500	630,000
IPO/Private Placement Preapproval Request	5,202	4,698	-504	5,202	4,698	-504	1,108,026	1,057,050	-50,976
Informing Access Persons of Reporting Obligation	n/a ²⁷	n/a	n/a	2,601	2,349	-252	736,083	700,002	-36,081
Preparation of Annual Report to Board and Certification	867	783	-84	7,370	6,656	-714	3,187,525	3,035,136	-152,132
Documentation of IPO/Private Placement Approval/Rejection	n/a	n/a	n/a	2,601	2,349	-252	1,261,485	1,200,339	-61,146
Rule 17j-1 Recordkeeping, Review and Analysis	n/a	n/a	n/a	260,100	234,900	-25,200	22,121,505	20,953,080	-1,168,425
Maintenance of Computer Systems for Use in 17j-1 Reporting and Recordkeeping	n/a	n/a	n/a	43,350	39,150	-4,200	9,537,000	9,082,800	-454,200
Preparation and Board Approval of New Code of Ethics for New Fund Complex	25	18	-7	625	450	-175	778,750	566,010	-212,740
Preparation and Board approval of Material Amendments to Existing Codes of Ethics,	275	275	0	6,936	6,264	-672	9,961,830	9,048,348	-913,482

²⁷ Table 1 (above) includes several specific collections of information that arise from the same annual response. The number of responses for those collections, therefore, are delineated with “n/a” because they are already accounted for under other items in Table 2.

Information Collection	Annual No. of Responses			Annual Time Burden (Hrs.)			Burden Cost Burden (\$)		
Implementing Policies and Procedures, and Board Review and Certification									
TOTAL	108,305	107,038	-1,267	401,407	368,094	-33,313	64,160,090	61,680,315	-2,479,775

The estimate of average burden hours is made solely for the purposes of the Paperwork Reduction Act. The estimate is not derived from a comprehensive or even a representative survey or study of Commission rules. Reporting burdens may differ substantially across respondents.

13. Cost to Respondents

We estimate that there is an annual cost burden of approximately \$5,000 per fund complex, for a total of \$3,915,000,²⁸ associated with complying with the information collection requirements in rule 17j-1, aside from the cost of the burden hours discussed above.²⁹ This represents the costs of purchasing and maintaining computers and software to assist funds in carrying out rule 17j-1 recordkeeping. The estimate of the average cost burden is made solely for the purposes of the Paperwork Reduction Act. The estimate is not derived from a comprehensive or even a representative survey or study of Commission rules. Reporting burdens may differ substantially across respondents.

14. Cost to the Federal Government

There is no cost to the federal government of administering the information collection requirements in rule 17j-1 under the Investment Company Act.

15. Changes in Burden

The decrease from to 401,407 burden hours to 368,094 hours (a decrease of 33,313 hours)

²⁸ This estimate is based on the following calculation: (\$5,000 software costs × 783 fund complexes = \$3,915,000 total costs).

²⁹ The cost burden associated with filing of new and amended codes of ethics on the Commission's Electronic Data Gathering, Analysis, and Retrieval system (EDGAR) is included in the Paperwork Reduction Act estimates for the relevant forms to which these codes must be appended.

reflects a change in the estimated number of fund complexes currently operating. The decrease in costs from \$4,335,000 to \$3,915,000 (a decrease of \$420,000) associated with the collections of information is attributable to a decrease in the number of fund complexes currently operating.

16. Information Collection Planned for Statistical Purposes

Not applicable.

17. Approval to Omit OMB Expiration Date

Not applicable.

18. Exception to Certification Statement for Paperwork Reduction Act Submissions

Not applicable.

B. COLLECTIONS OF INFORMATION EMPLOYING STATISTICAL METHODS

Not applicable.