

**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 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.

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

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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.

<sup>5</sup> *See* 17 CFR 270.30e-1(f).

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 March 20, 2019, the Commission issued a release proposing amendments that would modify the registration, communications, and offering processes for registered closed-end investment companies (“registered CEFs”) and business development companies.<sup>6</sup> This proposal would include new annual report requirements for registered CEFs. Under the proposal, all registered CEFs would be required to provide management’s discussion of fund performance (“MDFP”) in their annual reports to shareholders. In addition, registered CEFs using a short-form registration statement under the proposal would be required to include in their annual reports information regarding fees and expenses, premiums and discounts, and outstanding senior securities. These funds also would be required to disclose material unresolved staff comments in their annual shareholder reports. Finally, registered CEFs that currently are required to describe certain changes in their annual reports (because they choose to rely on rule 8b-16 under the Investment Company Act) would be required to describe such

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<sup>6</sup> Securities Offering Reform for Closed-End Investment Companies, Investment Company Act Release No. 33427 (Mar. 20, 2019).

changes in enough detail to allow investors to understand each change and how it may affect the fund.

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. The proposed amendments to the content of registered CEFs' shareholder reports are designed to tailor the disclosure framework for registered CEFs in light of the proposed amendments to the offering rules applicable to them. For example, we expect that the proposed offering rule reforms would elevate the importance of registered CEFs' shareholder reports, relative to prospectus disclosure, with investors looking to the annual reports for key information. The proposed amendments also would modernize and harmonize disclosure requirements for registered CEFs with those applicable to operating companies and mutual funds and exchange-traded funds.

## **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. Once rule 30e-3 is in effect,<sup>7</sup> certain registered investment companies will have the option to satisfy their obligation to transmit shareholder reports by making such reports and other materials available at a website address specified in a notice to investors.

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<sup>7</sup> 17 CFR 270.30e-3. *See* Optional Internet Availability of Investment Company Shareholder Reports, Investment Company Act Release No. 33115 (June 5, 2018) [83 FR 29158 (June 22, 2018)].

#### **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.

Information about fees and expenses, premiums and discounts, and outstanding senior securities that certain registered CEFs would be required to disclose in their annual shareholder reports under the proposal is also required in these funds' prospectuses. However, because the annual report will be incorporated by reference into the fund's prospectus under the proposal, requiring disclosure in both the prospectus and annual report should not require duplicative disclosure.

Under the proposal, registered CEFs would be required to report information on Form 8-K that is the same as or similar to information currently required in the annual and semi-annual shareholder reports. This would result in more current disclosure of the relevant information on Form 8-K. Registered CEFs would continue to be required to provide the relevant disclosure in their shareholder reports. We do not believe that requiring similar disclosure on Form 8-K and in a registered CEF's annual or semi-annual reports should result in significant burdens for registered CEFs (including small registered CEFs) since, absent significant changes, they should be able to use their Form 8-K disclosure to more efficiently prepare the corresponding disclosure in any shareholder reports that follow funds' issuance of reports on Form 8-K. This approach also may reduce potential disruptions to shareholders who are accustomed to finding certain

information in the shareholder reports, and who may not regularly monitor for reports on Form 8-K. It should also limit discrepancies between different types of funds' shareholder reports.

#### **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. This burden includes the cost of producing 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.

Under the proposal, smaller registered CEFs generally would not be able to file short-form registration statements, so these funds would not be required to disclose in their annual reports: (1) information regarding fees and expenses, premiums and discounts, and outstanding senior securities; and (2) material unresolved staff comments. The other proposed annual report requirements would apply to all registered CEFs because we believe investors in both large and small registered CEFs would benefit from the additional disclosure.

#### **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 the proposed amendments, the Commission will receive and evaluate public comments on the proposal and its collection of information requirements. Moreover, 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**

No payment or gift to respondents was provided.

#### **10. Confidentiality**

No assurance of confidentiality was provided.

#### **11. Sensitive Questions**

No information of a sensitive nature, including social security numbers, would be required under this collection of information. The information collection would not collect personally identifiable information (PII). The agency has determined that a system of records notice (SORN) and privacy impact assessment (PIA) would not be 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>8</sup> and are not derived from a comprehensive or even representative survey or study of the cost of Commission rules and forms.

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<sup>8</sup> 44 U.S.C. 3501 *et seq.*

We have previously estimated that it takes approximately 86.5 hours and costs \$10,354 per registered investment company to comply with the collection of information associated with rule 30e-1.<sup>9</sup> We estimate that there are 704 registered CEFs that would be required to disclose certain information in their shareholder reports under the proposal,<sup>10</sup> including 457 registered CEFs that would be able to file short-form registration statements under the proposal and that would be subject to additional disclosure requirements under the proposal.<sup>11</sup>

We estimate that the proposed amendments to require registered CEFs filing a short-form registration statement to disclose fee and expense table, share price data, a senior securities table, and unresolved staff comments would incrementally increase the compliance burden on these funds by 3 hours per registered CEF that would be eligible to use the short-form registration statement. We estimate that the proposed amendment to require MDFP would incrementally increase the paperwork burden associated with rule 30e-1 by 16 hours and that the proposed amendment to rule 8b-16 would incrementally increase the paperwork burden associated with rule 30e-1 by 4 hours.

For purposes of the PRA, we estimate the proposed amendments would result in 15,451 hours of total incremental burden under rule 30e-1.<sup>12</sup> In connection with our estimate of the total incremental burden of the proposed amendments, we have allocated a portion of those burdens as internal burden hours and a portion as costs of outside professionals. Based on consultations

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<sup>9</sup> The estimated aggregate annual hour and cost burden of rule 30e-1 is approximately 1,028,658 hours and \$147,750,391. These estimates are based on the last time the rule's information collections were approved, pursuant to a submission for a PRA extension in 2018.

<sup>10</sup> This estimate is based on SEC filings and Morningstar data as of September 2018.

<sup>11</sup> This estimate is based on trading data as of June 30, 2018.

<sup>12</sup> We calculated the total incremental burden as follows: (457 registered CEFs eligible to use the short-form registration statement x 3 hours = 1,371 hours) + (704 registered CEFs required to disclose MDFP and rule 8b-16 changes x 20 hours = 14,080 hours) = 15,451 burden hours.

with companies, law firms, fund representatives, and other persons who regularly assist funds in preparing and filing reports with the Commission, the staff estimates that 75% of the burden of preparing annual reports under rule 30e-1 is undertaken by the fund internally. Accordingly, we estimate for purposes of the PRA that the incremental burden for rule 30e-1 under the proposal would be 11,588 hours for internal time.<sup>13</sup> At an estimated wage rate of \$294 per hour,<sup>14</sup> we estimate that the incremental annual cost to registrants of the hour burden for complying with the proposed amendments would be \$3,406,872.<sup>15</sup>

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

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.

Based on consultations with companies, law firms, fund representatives, and other persons who regularly assist funds in preparing and filing reports with the Commission, the staff estimates that 25% of the burden of preparing annual reports under rule 30e-1 is undertaken by outside professionals, such as outside counsel and independent auditors, retained by the fund at

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<sup>13</sup> 15,451 total incremental burden hours  $\times$  0.75 = 11,588 burden hours for internal time.

<sup>14</sup> This wage rate estimate 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 by Commission staff 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 \$172 and \$415, 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 \$294. ( $\$172 \text{ per hour for intermediate accountants} + \$415 \text{ per hour for attorneys}$ )  $\div$  2 = \$294 per hour.

<sup>15</sup> 11,588 hours per year  $\times$  \$294 per hour = \$3,406,872 per year.



an average cost of \$400 per hour.<sup>16</sup> Thus, we estimate that under the proposal the annual cost burden related to rule 30e-1 would increase by \$1,545,100 for the services of outside professionals.<sup>17</sup>

**TABLE 1: CHANGE IN BURDEN ESTIMATES**

	Annual Number of Responses			Annual Time Burden (hours)			Cost Burden (dollars)		
	Previously Approved	Proposed Estimate	Change	Previously Approved	Proposed Estimate	Change	Previously Approved	Proposed Estimate	Change
Rule 30e-1	23,784	23,784	0	1,028,658	1,040,246	+11,588	\$147,750,391	\$149,295,491	+\$1,545,100

#### **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 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**

As summarized in Table 1 above, the estimated hourly burden associated with rule 30e-1 would increase from 1,028,658 hours to 1,040,246 hours (an increase of 11,588 hours). The estimated cost burden associated with rule 30e-1 would increase from \$147,750,391 to

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<sup>16</sup> We recognize that the costs of retaining outside professionals may vary depending on the nature of the professional services, but for purposes of this PRA analysis, we estimate that such costs would be an average of \$400 per hour. This estimate is based on discussions the staff has had with several law and accounting firms to estimate an hourly rate of \$400 as the cost to operating companies and funds for the services of outside professionals retained to assist in the preparation of these and similar reports.

\$149,295,491 (an increase of \$1,545,100). This increase is due to an increase in the estimated burden for registered CEFs that would be required to disclose additional information in their shareholder reports under the proposal.

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

The results of any information collection will not be published.

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

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

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

The Commission is not seeking an exception to the certification statement.

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

The collection of information will not employ statistical methods.

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<sup>17</sup> 15,451 total incremental burden hours x 0.25 x \$400 = \$1,545,100.