

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 October 11, 2017, the Commission issued a release proposing amendments to certain of the Commission's forms that are used by investment companies, including Form N-2. The Commission proposed amendments to Rule 102 of Regulation S-T to apply hyperlinking and HyperText Markup Language ("HTML") format requirements to registrants filing Form N-2 to facilitate access to the Form's exhibits for investors and other users of the information. Under the proposed amendments, affected registrants would be required to include a hyperlink to each exhibit identified in a filing's exhibit index, unless the exhibit is filed in paper pursuant to a temporary or continuing hardship exemption under Rule 201 or Rule 202 of Regulation S-T, or pursuant to Rule 311 of Regulation S-T. This requirement would apply to registration statements on Form N-2. Consistent with our rules for operating companies, we are not proposing to require registrants to refile electronically any exhibits filed only in paper. Under the proposed amendments, an electronic filer would also be required to correct an inaccurate or nonfunctioning link or hyperlink to an exhibit.

In connection with the proposed exhibit hyperlinking requirements, the Commission is also proposing amendments to Rule 105 of Regulation S-T to require investment company registrants to make Form N-2 filings that include exhibits in HTML format. Currently, investment company registrants must submit electronic filings to the Commission using the EDGAR system in either American Standard Code for Information Interchange ("ASCII") format or HTML format. Because the ASCII format does not support hyperlink functionality, the exhibit hyperlinking requirement would be feasible only if registrants are required to file in HTML. Under the proposed requirement, registrants would be required to file Form N-2 in HTML format. While the

affected Form N-2 filings would be required to be filed in HTML pursuant to the proposed amendments to Rule 105, registrants would continue to be permitted to file in ASCII any schedules or forms that are not subject to the exhibit filing requirements, such as proxy statements, or other documents included with a filing, such as an exhibit. The proposed amendments are intended to facilitate access to these exhibits for investors and other users of the information.

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 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. The requirements of Form N-2 are not generally duplicated elsewhere.

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 protection and the purposes of the registration statements. 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

Form N-2 has previously been amended through rulemaking actions pursuant to the Administrative Procedure Act. Comments are generally received from registrants, trade associations, the legal and accounting professions, and other interested parties. In addition, the Commission and staff of the Commission's Division of Investment Management participate in an ongoing dialogue with representatives of the investment company industry through public conferences, meetings, and informal exchanges. The Commission requested public comment on the proposed amendments to Form N-2 and related collection of information requirements in Form N-2 before it submitted this request for extension and approval to the Office of Management and Budget. Before adopting the proposed amendments to Form N-2, the Commission will receive and evaluate public comments on the proposal and its collection of information requirements.

9. Payment or Gift

Not applicable.

10. Assurance of Confidentiality

Not applicable.

11. Sensitive Questions

Form N-2 collects Personally Identifiable Information (PII). Records include information on officers, directors, principal shareholders, and certain other persons

having a relationship with or transaction with a registrant. The records describe the individual's relationship to a registrant and other relevant material business information about the individual. The records do not include Social Security Numbers. 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, with an internal cost burden of approximately \$24.9 million, and an external cost burden estimate of \$4,668,396.¹

The proposed amendments to Form N-2 are expected to increase the burdens and costs for registrants to prepare and file registration statements and reports on the affected forms, but we believe the burdens associated with hyperlinking exhibits would be small.² We assume that the average burden hours of requiring exhibit hyperlinks would vary based on the number of exhibits that are included with a filing. For purposes of the PRA, based on an estimated average and median number of exhibits filed with Form N-2 and the staff's experience, we estimate that the average burden for a registrant to hyperlink to exhibits would be one hour per response for each of the affected forms. As discussed in the Proposing Release, we are not making any adjustments to the paperwork burden of affected forms due to the proposed amendments to simplify and modernize the rules and forms governing incorporation by reference.³

The table below shows the total annual compliance burden, in hours and in costs, of the collections of information on Form N-2 resulting from the proposed amendments.⁴ The burden estimates were calculated by multiplying the estimated number of responses by the estimated average amount of time it would take an issuer to prepare and review the exhibit hyperlinks. The portion of the burden carried by outside professionals is reflected as a cost, while the portion of the burden carried by the issuer internally is reflected in

¹ These estimates are based on the last time the form's information collection was submitted for PRA renewal in 2016.

² See Proposing Release at Section IV.B.2.c.

³ See Proposing Release at Section IV.B.3.b.

⁴ For convenience, the estimated hour and cost burdens in the table have been rounded to the nearest whole number.

hours. For purposes of the PRA, we estimate that 25% of the burden of preparation is carried by the registrant internally and that 75% of the burden of preparation is carried by outside professionals retained by the company at an average cost of \$400 per hour.⁵

Forms	Proposed number of affected responses (A)	Incremental burden hours/form (B)	Total incremental burden hours (C) = (A) × (B)	25% internal burden (D) = (C) × 0.25	75% outside professional (E) = (C) × 0.75	Professional costs (F) = E × \$400
Form N-2	166	1	166	42	125	\$50,000

The figures above reflect our estimated increase of approximately 0.25 internal burden hours per fund. Given an estimated time cost of \$329 per fund (based on updated data concerning funds and fund personnel salaries),⁶ we estimate that in the aggregate, funds will annually incur an additional internal burden of 41.5 hours⁷ and time cost of \$13,653.50⁸ to comply with the proposed amendments to Form N-2.

⁵ 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. These estimates are based on our estimates for the parallel requirement for operating companies.

⁶ This estimate is based on the following calculation: Blended rate for a compliance attorney (\$345) and a senior programmer (\$313) = \$329. The Commission estimates the wage rate associated with these burden hours based on salary information for the securities industry compiled by the Securities Industry and Financial Markets Association. *See* Securities Industry and Financial Markets Association, Report on Management & Professional Earnings in the Securities Industry 2013 (adjusted to account for the effects of inflation).

⁷ This estimate is based on the following calculation: 0.25 internal burden hours x 166 responses = 41.5 hours.

⁸ This estimate is based on the following calculation: 41.5 hours x \$329 (blended rate for a compliance attorney (\$345) and a senior programmer (\$313)) = \$13,653.50.

We estimate that with the additional hour burdens and time costs associated with the proposed amendments, the total annual hour burden to comply would be 73,291.5⁹ burden hours and time costs of \$24,918,654¹⁰ for Form N-2.

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 \$22.9 million in fiscal year 2016, based on the Commission's computation of the value of staff time devoted to this activity and related overhead.

15. Change in Burden

Currently, the approved annual hour burden for preparing and filing registration statements on Form N-2 is 73,250. The new estimated total annual hour burden of 73,291.5 hours reflects an increase in total annual hour burden of 41.5 hours. The annual cost burden of \$4,718,396 represents an increase of \$50,000 over the previous external cost burden estimate of \$4,668,396. The changes in burden hours and external cost burdens are due to the staff's estimates of the time costs and external costs that would result from our proposed amendments to Form N-2 regarding hyperlinking.

16. Information Collection Planned for Statistical Purposes

Not Applicable.

17. Approval to Omit OMB Expiration Date

⁹ This estimate is based on the following calculation: 73,250 (current hourly burden) + 41.5 (additional hourly burden) = 73,291.5 hours.

¹⁰ This estimate is based on the following calculation: \$2,490,500 (current cost burden) + \$13,653.50 (additional cost burden) = \$24,918,654.

Not Applicable.

18. Exceptions to Certification Statement for Paperwork Reduction Act Submission

Not Applicable.

B. COLLECTIONS OF INFORMATION EMPLOYING STATISTICAL METHODS

Not Applicable.