

**SUPPORTING STATEMENT**  
**For the Paperwork Reduction Act Information Collection Submission for**  
**Rule 18f-1 and Form N-18f-1**

**A. JUSTIFICATION**

**1. Necessity for the Information Collection**

An open-end investment company is a managed investment company that offers for sale or has outstanding any redeemable security of which it is the issuer. Section 2(a)(32) of the Investment Company Act (the “Act”) [15 U.S.C. 80a-2(a)(32)] defines a “redeemable security” as any security (other than short-term paper) under the terms of which the holder, upon presentation to the issuer, is entitled to a proportionate share of the issuer’s current net assets or the cash equivalent thereof. Because the assets of an investment company consist primarily of the securities of other companies, satisfaction of a redemption request could be made by delivery of a portion of those securities (“redemption in-kind”). Although redemptions in-kind are rarely made, the ability of an investment company to make redemptions in this manner is important because the sale of sizable blocks of securities to effect redemptions in cash would have the tendency to depress the market price of those securities.

The securities administrators of several states (as well as those of certain foreign countries) in the past have required or have considered requiring, as a condition to doing business in their respective jurisdictions, that open-end investment companies that have the right to redeem in-kind file an undertaking that, as to residents within their respective jurisdictions, redemptions will be effected in cash only, or that redemptions in-kind will not be effected unless specific approval for such redemption is first obtained from the securities regulator. Under section 22(e) of the Act [15 U.S.C. 80a-22(e)], however, an open-end investment company may not postpone the payment of redemptions beyond seven days after the date of tender of securities

for payment, except in extraordinary circumstances. In addition, an agreement by an open-end investment company to make payments to certain of its shareholders in a manner different from payments to other shareholders (*e.g.*, cash only rather than cash or in-kind) would be deemed to be the creation of a class of senior securities with priority as to the distribution of an investment company's assets. Section 18(f)(1) of the Act [15 U.S.C. 80a-18(f)(1)] expressly prohibits the creation of classes of senior securities. Therefore, absent exemptive relief from the requirements of the Act, an open-end investment company could not retain the ability to redeem in-kind and also sell its securities in jurisdictions that require limitations on in-kind redemptions.

Rule 18f-1 [17 CFR 270.18f-1] enables funds to limit redemptions in-kind, in the manner prescribed by the rule. In brief, a fund may elect to commit to pay in cash all requests for redemptions by any shareholder of record, limited in amount during any 90-day period to the lesser of \$250,000 or one percent of the net asset value of the fund at the beginning of such period. The fund must file Form N-18F-1 [17 CFR 274.51] to notify the Commission of its election to limit redemptions in-kind. The rule also requires the fund to disclose that election in either its prospectus or Statement of Additional Information.<sup>1</sup>

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

Rule 18f-1 provides investment companies that wish to limit redemptions in-kind with an exemption from section 18 of the Act, which would otherwise prohibit them from doing so. Form N-18F-1 notifies the Commission that a fund has elected to limit redemptions in-kind. The Commission does not review the Form, but uses it as appropriate to monitor compliance with the Investment Company Act.

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<sup>1</sup> See Form N-1A, Item 18 (OMB No. 3234-0307). The burdens associated with this collection of information requirement have been addressed separately in the Paperwork Reduction Act submissions relating to Form N-1A.

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

The Commission's Electronic Data Gathering, Analysis, and Retrieval system ("EDGAR") is designed to automate the filing, processing, and dissemination of full disclosure filings. The system permits publicly held companies to transmit their filings to the Commission electronically. This automation has increased the speed, accuracy, and public availability of information, generating benefits to investors and financial markets. Form N-18F-1 is filed with the Commission electronically on EDGAR. The public may access filings on EDGAR through the Commission's Internet Web site (<http://www.sec.gov>) or at EDGAR terminals located at the Commission's public reference rooms.

### **4. Duplication**

The Commission periodically evaluates rule-based reporting and recordkeeping requirements for duplication, and reevaluates those requirements whenever it proposes a rule or form, or a change in either. Rule 18f-1 requires a fund that elects to use the exemption provided by the rule to file Form N-18F-1 and subsequently disclose that election in either its prospectus or Statement of Additional Information.<sup>2</sup> Neither of these reporting requirements is duplicated in other rules or forms.

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

The Commission believes that compliance with rule 18f-1 is not unduly burdensome for large or small entities. Rule 18f-1 gives funds, including those that are small entities, the flexibility to elect to limit redemptions in-kind. Although the rule imposes certain notification requirements on funds that elect to rely on the rule, as discussed in Item 12 below, those notification requirements are minimal.

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<sup>2</sup> See Form N-1A, Item 18 ("Purchase, Redemption and Pricing of Shares").

**6. Consequences of Not Conducting Collection**

The collection of information requirements of rule 18f-1 do not recur periodically, but only once, when a fund elects to limit redemptions in-kind. Failure to collect this information could harm the Commission's ability to determine whether a fund is in compliance with the Act and could make it difficult for shareholders to learn of a fund's election to limit redemptions in-kind.

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

Not applicable.

**8. Consultations Outside the Agency**

The Commission requested public comment on the collection of information requirement of rule 18f-1 before it submitted this request for extension and approval to the Office of Management and Budget. The Commission received no comments in response to this request. The Commission and the 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 forums provide the Commission and the 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 collects basic Personally

Identifiable Information (PII) that may include names and job titles. 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. Burden of Information Collection**

The Commission staff estimates that Form N-18F-1 takes approximately one hour to complete. Based on the number of investment companies that filed Form N-18F-1 from 2016 through 2018, Commission staff estimates that 22 investment companies file Form N-18F-1 annually for an estimated 22 responses each year.<sup>3</sup> At an estimated cost of \$62.00 per hour for clerical or administrative costs associated with preparing and filing the Form, the total cost of the Form is estimated to be \$62.00 per respondent.<sup>4</sup> This cost is nonrecurring because each investment company must file Form N-18F-1 only once with the Commission.<sup>5</sup> The total annual burden estimate is 22 hours annually. The total estimated annual cost associated with the

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<sup>3</sup> The estimate of 22 funds filing Form 18F-1 per year is based on the following: 17 funds filed Form 18F-1 in 2016, 20 filed in 2017, and 28 filed in 2018, for a total of 65 funds filing Form 18F-1 during this 3-year period ( $17 + 20 + 28 = 65$ ). Amortized over 3 years, there were 21.7 funds ( $65 / 3 = 21.7$ ) filing Form 18F-1, which we rounded to 22 funds per year. This estimate is based on data reported on Form 18F-1 filed with the Commission.

<sup>4</sup> The \$62 per hour figure for a General Clerk is from SIFMA's Office Salaries in the Securities Industry 2013, modified by Commission staff to account for an 1800-hour work-year and inflation, and multiplied by 2.93 to account for bonuses, firm size, employee benefits and overhead.

<sup>5</sup> As noted above, the hour burdens associated with the rule's requirement that a fund disclose its election to limit redemptions in kind in either its prospectus or Statement of Additional Information have been addressed separately in the Paperwork Reduction Act submissions relating to Form N-1A. See *supra* note 1.

estimated burden hours is \$1,364.00. There is no external cost burden associated with this collection of information.

**TABLE 1: ESTIMATED COST AND HOURLY BURDENS TO FILE FORM N-18F-1**

	Burden per response			Aggregate Burden			
	Hourly burden	Cost burden		Responses	Internal hourly burden	Internal cost burden	External cost burden
Filing Form 18F-1	1 hour	\$62		22	22	\$1,364	\$0

### 13. Cost to Respondents

Rule 18f-1 does not appear to impose any paperwork related cost burden that is not described above in Item 12.

### 14. Cost to the Federal Government

Form N-18F-1 is required to be filed with the Commission, but the staff does not generally review the Form. The rule and Form do not entail any costs on the federal government.

### 15. Changes in Burden

The estimated burden hours associated with rule 18f-1 and Form 18F-1 have decreased by 16 hours from the current allocation of 38 hours. This decrease is due to a decrease in the estimated number of investment companies filing Form N-18F-1 annually. There is no external cost associated with this collection of information.

**TABLE 2: ESTIMATED CHANGE IN COST AND HOURLY BURDENS**

	Requested	Program Change Due	Program Change Due	Change Due to Adjustment	Change Due to Potential	Previously Approved
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		to New Statute	to Agency Discretion	in Agency Estimate	Violation of the PRA	
Annual Number of Responses	22			-16		38
Annual Time Burden (Hr)	22			-16		38
Annual Cost Burden (\$)	0			0		0

**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.

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

Not applicable.