SUPPORTING STATEMENT
For the Paperwork Reduction Act Information Collection Submission for Rule 22e-4

A. JUSTIFICATION

1. Necessity for the Information Collection

Section 22(e) of the Investment Company Act of 1940 ("Investment Company Act") [15 U.S.C. 80a-22)e) provides that no registered investment company shall suspend the right of redemption or postpone the date of payment of redemption proceeds for more than seven days after tender of the security absent specified unusual circumstances. The provision was designed to prevent funds and their investment advisers from interfering with the redemption rights of shareholders for improper purposes, such as the preservation of management fees. Although section 22(e) permits funds to postpone the date of payment or satisfaction upon redemption for up to seven days, it does not permit funds to suspend the right of redemption for any amount of time, absent certain specified circumstances or a Commission order.

Rule 22e-4 under the Act [17 CFR 270.22e-4] requires an open-end fund[1] and an exchange-traded fund that redeems in kind ("In-Kind ETF") to establish a written liquidity risk management program that is reasonably designed to assess and manage the fund's or In-Kind ETF's liquidity risk.[2] This program includes policies and procedures

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[1] The term "fund" is defined under rule 22e-4(a)(4) to mean an open-end management investment company that is registered or required to be registered under section 8 of the Act and includes a separate series of such an investment company, *but does not include* a registered open-end management investment company that is regulated as a money market fund under § 270.2a-7 or an In-Kind ETF, as defined under rule 22e-4(a)(9).

[2] *See* Investment Company Liquidity Risk Management Programs, Investment Company Act Release No. 32315 (Oct. 13, 2016) [81 FR 82142 (Nov. 18, 2016)]; *see also* Investment

that incorporate certain program elements, including: (i) for funds and In-Kind ETFs, the assessment, management, and periodic review of liquidity risk (with such review occurring no less frequently than annually); (ii) for funds, the classification of the liquidity of a fund's portfolio investments, as well as at-least-monthly reviews of the fund's liquidity classifications; (iii) for funds that do not primarily hold assets that are highly liquid investments, the determination of and periodic review of the fund's highly liquid investment minimum and establishment of policies and procedures for responding to a shortfall of the fund's highly liquid investment minimum, which includes reporting to the fund's board of directors; (iv) for funds and In-Kind ETFs, the limitation of the fund's or In-Kind ETF's investment in illiquid investments that are assets to no more than 15% of the fund's or In-Kind ETF's net assets; and (iv) for funds and In-Kind ETFs, the establishment of policies and procedures regarding redemptions in kind, to the extent that the fund engages in or reserves the right to engage in redemptions in kind. The rule also requires board approval and oversight of a fund's or In-Kind ETF's liquidity risk management program and recordkeeping.

Rule 22e-4 also requires a limited liquidity review, under which a UIT's principal underwriter or depositor determines, on or before the date of the initial deposit of portfolio securities into the UIT, that the portion of the illiquid investments that the UIT holds or will hold at the date of deposit that are assets is consistent with the redeemable nature of the securities it issues and retains a record of such determination for the life of the UIT and for five years thereafter.

Company Liquidity Disclosure, Investment Company Act Rel. No. 33142 (Jun. 28, 2018) [83 FR 31859 (July 10, 2018)].

The requirements under rule 22e-4 that a fund and In-Kind ETF adopt a written liquidity risk management program, report to the board, maintain a written record of how the highly liquid investment minimum was determined and written policies and procedures for responding to a shortfall of the fund's highly liquid investment minimum, which includes reporting to the fund's board of directors (for funds that do not primarily hold highly liquid investments), establish written policies and procedures regarding how the fund will engage in redemptions in kind, and retain certain other records are all collections of information under the PRA. In addition, the requirement under rule 22e-4 that the principal underwriter or depositor of a UIT assess the liquidity of the UIT on or before the date of the initial deposit of portfolio securities into the UIT and retain a record of such determination for the life of the UIT, and for five years thereafter, is also a collection of information under the PRA. The respondents to rule 22e-4 are open-end management investment companies (including, under certain circumstances, In-Kind ETFs but excluding money market funds), and the principal underwriters or depositors of UITs under certain circumstances. Compliance with rule 22e-4 is mandatory for funds.

2. Purpose and Use of the Information Collection

Certain of the provisions of rule 22e-4 contain "collection of information" requirements within the meaning on the Paperwork Reduction Act of 1995 [4 U.S.C. 3501, et seq.]. The Commission is submitting the collection of information to the Office of Management and Budget ("OMB") for review in accordance with 44 U.S.C. 3507 and 5 CFR 1320.12. The rule is intended to improve investor protection by decreasing the likelihood that a fund will be unable to meet its redemption obligations, or would meet such obligations only with significant dilution of remaining investors' interests or changes to the fund's risk profile.

The information collection requirements of rule 22e-4 are designed to ensure that funds maintain comprehensive, written liquidity risk management programs that promote compliance with the federal securities laws and protect investors. The information collections also assist the Commission's examination staff in assessing the adequacy of funds' liquidity risk management programs and identifying weaknesses in a fund's liquidity risk management if violations occur or are uncorrected.

3. Consideration Given to Information Technology

Rule 22e-4 requires that each fund maintain a written copy of the policies and procedures adopted as part of its liquidity risk management program for five years, in an easily accessible place. Additionally, each fund is required to maintain copies of any materials provided to its board in connection with the board's initial approval of the fund's liquidity risk management program, and copies of written reports provided to the board on the adequacy of the fund's liquidity risk management program, including the fund's highly liquid investment minimum, and the effectiveness of its implementation for at least five years after the end of the fiscal year in which the documents were provided to the board, the first two years in an easily accessible place.

Funds must keep records of any materials provided to the board related to the fund dropping below its highly liquid investment minimum. Each fund must also keep a written record of how its highly liquid investment minimum, and any adjustments thereto, were determined, including the fund's assessment and periodic review of its liquidity risk for a period of not less than five years, the first two years in an easily accessible place, following the determination of, and each change to, the fund's highly liquid investment minimum.[3] The Electronic Signatures in Global and National Commerce Act[4] and the conforming amendments to rules under the Investment Company Act permit funds to maintain records electronically.

4. Duplication

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. Rule 22e-4 imposes a requirement that funds have in place written liquidity risk management policies and procedures. The information required by rule 22e-4 is not generally duplicated elsewhere.

5. Effect on Small Entities

The information collection requirements of rule 22e-4 do not distinguish between small entities and other funds. The burden of the conditions on smaller funds may be proportionally 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 rule's conditions and could potentially jeopardize the interests of investors in small funds. 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

Rule 22e-4 requires funds to have and maintain a written liquidity risk management program. Under the rule, a fund's investment adviser or officer(s)

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3 *See* rule 22e-4(b)(3)(iii).

4 P.L. 106-229, 114 Stat. 464 (June 30, 2000).

designated to administer the liquidity risk management program must provide a written report to the fund's board at least annually that describes the adequacy and effectiveness of the fund's liquidity risk management program, including, if applicable, the operation of the highly liquid investment minimum. In addition, the fund must adopt and implement policies and procedures for responding to a shortfall of the fund's assets that are highly liquid investments below its highly liquid investment minimum, which must include reporting to the fund's board of directors with a brief explanation of the causes of the shortfall, the extent of the shortfall, and any actions taken in response, and, if the shortfall lasts more than 7 consecutive calendar days, an explanation of how the fund plans to come back into compliance with its minimum within a reasonable period of time.

Not collecting information or collecting such information less frequently would be incompatible with the objectives of rule 22e-4. The reporting of information and the establishment of written policies and procedures and maintaining written reports are integral parts to detecting and correcting any gaps in a fund's liquidity risk management programs before irrevocable or widespread harm is inflicted upon investors. Not requiring the collection of information increases the likelihood that such harm could go unchecked.

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

Rule 22e-4 requires a fund to maintain for at least five years: (i) a written copy of its liquidity risk management policies and procedures, (ii) any materials provided to its board in connection with the board's initial approval of the fund's liquidity risk management program, any materials provided to the board related to the fund dropping below its highly liquid investment minimum, and copies of written reports provided to the board on the adequacy of the fund's liquidity risk management program, including the fund's highly liquid investment minimum, and the effectiveness of its implementation (the first two years in an easily accessible place), and (iii) a written record of how a fund's highly liquid investment minimum, and any adjustments thereto, were determined, including the fund's assessment and periodic review of its liquidity risk. Although this five-year period exceeds the three-year guideline for most kinds of records under 5 CFR 1320.5(d)(2), the staff believes that this is warranted because the rule contributes to the effectiveness of the Commission's examination and inspection program. Because the period between examinations may be as long as five years, it is important that the Commission have access to records that cover the entire period between examinations.

The five-year retention period in rule 22e-4 is consistent with that in rule 38a-1(d) under the Investment Company Act. We believe that consistency in these retention periods is appropriate because funds currently have program-related recordkeeping procedures in place incorporating a five-year retention period. Furthermore, we believe that a five-year retention period would lessen the compliance burden of rule 22e-4 slightly, compared to choosing a different retention period, such as the six-year recordkeeping retention period under rule 31a-2 of the Investment Company Act.

8. Consultation Outside the Agency

Before adopting rule 22e-4 the Commission received and evaluated public comments on the proposal and its collection of information requirements. Moreover, 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 various forums provide the

Commission and staff with a means of ascertaining and acting upon the paperwork burdens confronting the industry.

The Commission requested public comment on this collection of information before it submitted this request for extension to the Office of Management and Budget. The Commission received no comments in response to its request.

9. Payment or Gift

Not applicable.

10. Confidentiality

Information regarding a fund’s monthly position-level liquidity classification and its highly liquid investment minimum reported on Form N-PORT will be kept confidential. Other information provided to the Commission in connection with staff examinations or investigations is kept confidential subject to the provisions of applicable law. If information collected pursuant to rule 22e-4 is reviewed by the Commission’s examination staff, it is accorded the same level of confidentiality accorded to other responses provided to the Commission in the context of its examination and oversight program.

11. Sensitive Questions

No information of a sensitive nature, including social security numbers, will be required under this collection of information. The information collection does not collect personally identifiable information (PII). The agency has determined that a system of records notice (SORN) and privacy impact assessment (PIA) are not 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 and are not derived from a comprehensive or even representative survey or study of the cost of Commission rules and forms. Compliance with rule 22e-4 is mandatory.

A. Preparation of Written Liquidity Risk Management Program

Rule 22e-4 requires funds and In-Kind ETFs to have a written liquidity risk management program. This requirement is designed to minimize dilution of shareholder interests by promoting stronger and more effective liquidity risk management across open-end funds and reduce the risk that a fund or In-Kind ETF will be unable to meet redemption obligations.

Based upon our review of industry data, Commission staff estimates that funds within 846 fund complexes are subject to rule 22e-4.[5] Compliance with rule 22e-4 is mandatory for all such funds and In-Kind ETFs, with certain program elements applicable to certain funds within a fund complex based upon whether the fund is an In-Kind ETF or does not primarily hold assets that are highly liquid investments. We discuss mandatory compliance with rule 22e-4 with respect to principal underwriters and depositors of UITs below.

The Commission estimates that a fund complex will incur a one-time average burden of 40 hours associated with documenting the liquidity risk management programs adopted by each fund within a fund complex. In light of the requirement that a fund subject to the highly liquid investment minimum requirement adopt and implement

[5] *See* 2019 Investment Company Institute Fact Book,at 43, Fig. 1.8.

policies and procedures for responding to a shortfall of the fund's highly liquid investment minimum, and responding to any potential excesses of the 15% illiquid asset limit, both of which include reporting to the fund's board of directors, we estimate a one-time burden of 10 hours per fund complex associated with fund boards' review and approval of the funds' liquidity risk management programs and preparation of board materials. Amortized over a 3-year period, we estimate this will be an annual burden per fund complex of about 16.67 hours.

As reflected in the table below, we estimate that the total burden for initial documentation and review of funds' written liquidity risk management program will be 42,300 hours. We also estimate that it will cost a fund complex approximately $42,740 to document, review, and initially approve these policies and procedures, for a total cost of approximately $36,158,040.

PREPARATION OF WRITTEN LIQUIDITY RISK MANAGEMENT PROGRAM

	Internal Burden		Wage Rate[6]	Cost of Internal Burden
Initial documentation and board review of liquidity risk management program	20 hours	×	$329 (senior portfolio manager)	$6,580
	10 hours	×	$466 (assistant general counsel)	$4,660
	10 hours	×	$530 (chief compliance officer)	$5,300
	5.5 hours	×	$4,465 (board of 8 directors)	$24,558
	4,5 hours	×	$365 (compliance attorney)	$1,643
Total one-time burden	50 hours			$42,740
Number of Fund Complexes	X 846			X 846
Total estimated burden	**42,300**			**$36,158,040**

6 The hourly wages used are from SIFMA's Management & Professional Earnings in the Securities Industry 2013, modified by Commission staff to account for an 1800-hour work-year and inflation, and multiplied by 5.35 to account for bonuses, firm size, employee benefits, and overhead.

B. Reporting Regarding the Highly Liquid Investment Minimum

Rule 22e-4 requires any fund that does not primarily hold assets that are highly liquid investments to determine a highly liquid investment minimum for the fund, which must be reviewed at least annually, and may not be changed during any period of time that a fund's assets that are highly liquid investments are below the determined minimum without approval from the fund's board of directors. The fund's investment adviser or officers designated to administer the liquidity risk management program must provide a written report to the fund's board at least annually that describes a review of the adequacy and effectiveness of the fund's liquidity risk management program, including, if applicable, the operation of the highly liquid investment minimum. In addition, the fund must adopt and implement policies and procedures for responding to a shortfall of the fund's assets that are highly liquid investments below its highly liquid investment minimum, which must include reporting to the fund's board of directors with a brief explanation of the causes of the shortfall, the extent of the shortfall, and any actions taken in response, and, if the shortfall lasts more than 7 consecutive calendar days, an explanation of how the fund plans to come back into compliance with its minimum within a reasonable period of time.

As reflected in the table below, we estimate that, for each fund complex, compliance with the reporting requirement will entail: (i) 4 hours of portfolio management time; (ii) 4 hours of compliance time; (iii) 4 hours of professional legal time; and (iv) 2 hours of support staff time, requiring an additional 14 burden hours at a time cost of approximately $4,796 per fund complex to draft the required report to the board. We estimate that fund complexes will have at least one fund that will be subject to the highly liquid investment minimum requirement. Thus, we estimate that 846 fund complexes will be subject to this requirement under rule 22e-4 and that the total burden for preparation of the board report associated will be 11,844 hours, at an aggregate cost of $ $4,057,416.

REPORTING REGARDING THE HIGHLY LIQUID INVESTMENT MINIMUM

	Internal Burden		Wage Rate[7]	Cost of Internal Burden
Compliance with reporting of highly liquid investment minimum	4 hours	×	$329 (senior portfolio manager)	$1,316
	4 hours	×	$309 (compliance manager)	$1,236
	4 hours	×	$530 (asst. general counsel)	$2,120
	2 hours	×	$62 (general clerk)	$124
Total one-time burden	14 hours			$4,796
Number of Fund Complexes	X 846			X 846
Total estimated burden	**11,844 hours**			**$4,057,416**

<u>Recordkeeping</u>

Rule 22e-4 requires a fund or In-Kind ETF to maintain a written copy of the policies and procedures adopted pursuant to its liquidity risk management program for five years in an easily accessible place. The rule also requires a fund to maintain copies of materials provided to the board in connection with its initial approval of the liquidity risk management program and any written reports provided to the board, for at least five years, the first two years in an easily accessible place. If applicable, a fund must also maintain a written record of how its highly liquid investment minimum and any adjustments to the minimum were determined, as well as any reports to the board regarding a shortfall in the fund's highly liquid investment minimum, for five years, the first two years in an easily accessible place. The retention of these records is necessary to

[7] *See supra* note 6.

allow the staff during examinations of funds to determine whether a fund is in compliance with the liquidity risk management program requirements.

As reflected in the table below, we estimate that, on an annual basis, the burden to retain records in connection with rule 22e-4 will be four hours per fund complex, with 2 hours spent by a general clerk, and 2 hours spent by a senior computer operator, with an estimated time cost per fund complex of $314, based on updated data concerning funds and fund personnel salaries. In addition, we estimate that the total burden for recordkeeping related to the liquidity risk management program requirement of rule 22e-4 will be 3,384 hours at an aggregate cost of $ $265,644.

RECORDKEEPING

	Internal Burden		Wage Rate[8]	Cost of Internal Burden
Compliance with reporting of highly liquid investment minimum	2 hours	×	$95 (senior computer operator)	$190
	2 hours	×	$62 (general clerk)	$124
Total one-time burden	4 hours			$314
Number of Fund Complexes	X 846			X 846
Total estimated burden	**3,384 hours**			**$265,644**

<u>Estimated Total Burden</u>

Amortized over a three-year period, we estimate that the hour burdens and time costs associated with rule 22e-4 for open-end funds, including the burden associated with (1) funds' initial documentation and review of the required written liquidity risk management program, (2) reporting to a fund's board regarding the fund's highly liquid investment minimum, and (3) recordkeeping requirements will result in an average aggregate annual burden of 25,380 hours, and average aggregate time costs of

8 *See supra* note 6.

$14,846,172.[9] We continue to estimate that there are no external costs associated with this collection of information.

C. UIT Liquidity Determination

UITs may in some circumstances be subject to liquidity risk (particularly where the UIT is not a pass-through vehicle and the sponsor does not maintain an active secondary market for UIT shares). On or before the date of initial deposit of portfolio securities into a registered UIT, the UIT's principal underwriter or depositor is required to determine that the portion of the illiquid investments that the UIT holds or will hold at the date of deposit that are assets is consistent with the redeemable nature of the securities it issues, and maintain a record of that determination for the life of the UIT and for five years thereafter. The retention of these records is necessary to allow the staff during examinations to determine whether a UIT is in compliance with the liquidity risk assessment required under rule 22e-4. This assessment would occur on or before the initial deposit of portfolio securities of a new UIT and thus only need to occur once. Maintenance of the records is required for the life of the UIT and for five years thereafter.

As reflected in the chart below, we estimate that 1,385 newly registered UITs will be subject to the UIT liquidity determination requirement under rule 22e-4 each year.[10] Compliance with rule 22e-4(c) is mandatory for all principal underwriters or depositors of such UITs. We estimate that the principal underwriter or depositor of a UIT will incur a one-time average burden of 10 hours to document its determination that the portion of

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9 These estimates are based on the following calculations: 42,300 hours (year 1) + (2 x 11,844 hours) (years 2 and 3) + (3 x 3,384 hours) (years 1, 2 and 3) ÷ 3 = 25,380 hours; $36,158,040 (year 1) + (2 x $4,057,416) (years 2 and 3) + (3 x $265,644) (years 1, 2 and 3) ÷ 3 = $14,846,172.

10 This estimate is based on staff review of new UIT registration statement information reported on Form N-CEN, filed annually with the Commission.

the illiquid investments that the UIT holds or will hold at the date of deposit that are assets is consistent with the redeemable nature of the securities it issues. Amortized over a 3-year period, we estimate this would be an annual burden per UIT of about 3 hours. Accordingly, we estimate that the total burden for the initial documentation and review of UIT funds' written liquidity risk management program would be 13,850 hours. We also estimate that it will cost the principal underwriter or depositor of a UIT approximately $2,651 hours to perform and document this review, for a total cost of approximately $3,671,635.

We estimate that the burden to retain these records will be two hours per UIT, with 1 hour spent by a general clerk and 1 hour spent by a senior computer operator, with an estimated time cost per UIT of $146. We also estimate that the total burden for recordkeeping related to UIT liquidity risk management programs will be 2,770 hours, at an aggregate cost of $217,445. We continue to estimate that there are no external costs associated with this collection of information.

UIT LIQUIDITY DETERMINATION

	Internal Burden		Wage Rate	Cost of Internal Burden
Preparation of Written Liquidity Risk Management Program	10 hours			
Number of newly-registered UITs	X 1,385			
Total estimated burden	13,850 hours			
Perform and document that illiquid holdings are consistent with redemption requirements (done by UIT's principal underwriter or depositor)	5 hours	×	$331 (senior programmer)	$1,655
	1 hours	×	$466 (assistant general counsel)	$466
	1 hours	×	$530 (chief compliance officer)	$530
			Subtotal:	$2,651
Number of newly-registered UITs				× 1,385
Total estimated burden				$3,671,635

Recordkeeping	1 hour	×	$95 (senior computer operator)	$95
	1 hour	×	$62 (general clerk)	$62
Total burden	2 hours			$157
Number of newly-registered UITs	× 1,385			× 1,385
Total estimated burden	**2,770 hours**			**$217,445**

13. Cost to Respondents

The staff estimates that rule 22e-4 does not impose any material cost burdens on funds, apart from the cost of the burden hours discussed above. Although rule 22e-4 requires funds to maintain records for five years, these records may be maintained electronically and, even if maintained in hard copy, are unlikely to be voluminous. The staff has not estimated a capital cost in connection with the recordkeeping requirements because funds and their advisers would likely use existing recordkeeping systems to maintain the required records.

14. Costs to Federal Government

Rule 22e-4 does not impose a cost to the federal government. Commission staff may, however, review records produced pursuant to the rule in order to assist the Commission in carrying out its examination and oversight program.

15. Change in Burden

Currently, the approved total annual hour burden for complying with rule 22e-4 is 28,809 hours. The new estimate of the total annual hour burden is **28,150** hours. The decrease is due to a reduction in estimates of the number of fund complexes and UITs subject to the rule. We continue to estimate that there is no external cost burden associated with this collection of information.

16. Information Collection Planned for Statistical Purposes

Not applicable.

17. Approval to Omit OMB Expiration Date

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

18. Exceptions to Certification for Paperwork Reduction Act Submissions

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

B. COLLECTIONS OF INFORMATION EMPLOYING STATISTICAL METHODS

The collection of information will not employ statistical methods.