

**SUPPORTING STATEMENT**  
**For the Paperwork Reduction Act Information Collection Submission for**  
**Rule 30b1-9 and Form N-PORT**

**A. JUSTIFICATION**

**1. Necessity for the Information Collection**

Section 30(b) of the Investment Company Act of 1940 [15 U.S.C. 80a-30(b)] (“Act”) provides that “[e]very registered investment company shall file with the Commission...such information, documents, and reports (other than financial statements), as the Commission may require to keep reasonably current the information and documents contained in the registration statement of such company....” Final rule 30b1-9 under the Act [17 CFR 270.30b1-9], entitled “Monthly Report,” provides that each registered management investment company or exchange-traded fund organized as a unit investment trust, or series thereof, other than a registered open-end management investment company that is regulated as a money market fund under rule 2a-7 [17 CFR 270.2a-7] or a small business investment company registered on Form N-5 [17 CFR 239.24 and 274.5], must file a monthly report of portfolio holdings on Form N-PORT [17 CFR 274.150], current as of the last business day, or last calendar day, of the month.

On November 25, 2019, the Commission proposed rule 18f-4 under the Act.<sup>1</sup> The proposed rule would apply to mutual funds (other than money market funds), exchange-traded funds, registered closed-end funds, and companies that have elected to be treated as business development companies under the Act (collectively, “funds”). It would permit these funds to enter into derivatives transactions and certain other transactions,

---

<sup>1</sup> See Use of Derivatives by Registered Investment Companies and Business Development Companies; Required Due Diligence by Broker-Dealers and Registered Investment Advisers Regarding Retail Customers’ Transactions in Certain Leveraged/Inverse Investment Vehicles, Investment Company Act Release No. 33704 (Nov. 25, 2019) (“Derivatives Proposing Release”).

notwithstanding the restrictions under sections 18 and 61 of the Act, provided that the funds comply with the conditions of the rule. Funds that are not “limited derivatives users” under the proposed rule would be required to comply with an outer limit on fund leverage risk based on value at risk (“VaR”). The outer limit would be based on a relative VaR test that compares the fund’s VaR to the VaR of a designated reference index for that fund. If the fund is unable to identify an appropriate designated reference index, the fund would be required to comply with an absolute VaR test. Proposed rule 18f-4 would also require a fund to backtest the results of the VaR calculation model used by the fund in connection with the relative VaR or absolute VaR test, as applicable.

In addition to proposed rule 18f-4, the Commission proposed to amend Form N-PORT to add new items to Part B (“Information About the Fund”) and to make certain amendments to the form’s General Instructions. Form N-PORT, as amended, would require funds to provide information about their exposure to derivatives instruments and short sales as of the end of the reporting period. Funds that are subject to the limit on fund leverage risk would have to report on Form N-PORT their highest daily VaR during the reporting period and its corresponding date, as well as their median daily VaR for the monthly reporting period. Funds subject to the relative VaR test during the reporting period would report the name of the fund’s designated reference index and index identifier. These funds also would have to report the fund’s highest daily VaR ratio (that is, the value of the VaR of the fund’s portfolio divided by the VaR of the designated reference index) during the reporting period and its corresponding date, as well as the fund’s median daily VaR ratio for the reporting period. A fund that is subject to the proposed limit on fund leverage risk also would have to report the number of exceptions

the fund identified during the reporting period arising from backtesting the fund's VaR calculation model.

The information would be publicly available for the third month of each fund's quarter and would provide market-wide insight into the levels of funds' derivatives exposure to the Commission, its staff, and market participants. It also would allow the Commission and its staff to oversee and monitor compliance with the proposed rule 18f-4.

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

The title for the collection of information is: Rule 30b1-9 and Form N-PORT. The information provided in reports on Form N-PORT will be used by the Commission in its regulatory, disclosure review, inspection, and policymaking roles. Unlike many other federal information collections, which are primarily for the use and benefit of the collecting agency, this information collection will also be for the use and benefit of investors. The Commission will make information reported for the third month of each fund's fiscal quarter on Form N-PORT publicly available

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

The Commission's EDGAR electronic filing system is designed to automate the filing, processing and dissemination of full disclosure filings. The system permits filers to transmit filings to the Commission electronically. This automation has increased the speed, accuracy and availability of information, generating benefits to investors and financial markets. Reports on Form N-PORT are 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 them whenever it proposes a rule or a change in a rule. The information collection required by the proposed amendments to Form N-PORT is not duplicated elsewhere.

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

The information collection required by the proposed amendments to Form N-PORT would not distinguish between small entities and other funds in terms of what information would be required to be reported, including the information required by the amendments. The Commission believes that imposing different reporting requirements on smaller funds would not be consistent with investor protection and the purposes of the reports. Differing reporting requirements would not provide comparable information about derivatives exposure of small entities and other funds that could be used by Commission staff to identify trends and outliers and by investors to make informed investment decisions.

The Commission reviews all rules periodically, as required by the Regulatory Flexibility Act, to identify methods to minimize recordkeeping or reporting requirements affecting small entities.

#### **6. Consequences of Not Conducting Collection**

Funds will be required to file reports on Form N-PORT with the Commission no later than 30 days after the end of each month. Less frequent collection would mean that current information will not be available to the Commission.

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

Rule 30b1-9 requires funds to submit reports on Form N-PORT for each month in the fund's fiscal quarter not later than 60 days after the end of that fiscal quarter. The collections of information required by the proposed amendments to Form N-PORT, which require monthly portfolio investment information, also are required to be filed with the Commission on a quarterly basis. Given the rapidly changing composition of fund portfolios, including fund derivatives exposures, monthly portfolio information filed on a quarterly basis is necessary to ensure that the Commission receives timely and accurate derivatives exposure and VaR-related information.

**8. Consultation Outside the Agency**

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 the staff with a means of ascertaining and acting upon paperwork burdens confronting the industry. Before adopting the proposed amendments to Form N-PORT, the Commission will receive and evaluate public comments on the proposal and its collection of information requirements.

**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 required by the proposed amendments to Form N-PORT will 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 that would be required by the amendments to Form N-PORT.

## **12. Burden of Information Collection**

The following estimates of average burden hours and costs are made solely for purposes of the Paperwork Reduction Act (“PRA”) and are not derived from a comprehensive or even representative survey or study of the cost of the Commission rules and forms.<sup>2</sup>

Form N-PORT, as amended, would require funds to provide information about their derivatives exposure. We estimate that 5,091 funds would be subject to this exposure-related disclosure requirement.<sup>3</sup>

In addition, funds that are subject to the limit on fund leverage risk in proposed rule 18f-4 would have to report certain VaR-related information, including: (1) the fund’s highest daily VaR during the reporting period and its corresponding date; and (2) the fund’s median daily VaR for the reporting period. Funds subject to the relative VaR test

---

<sup>2</sup> The Commission’s estimates of the relevant wage rates in the tables below are based on salary information for the securities industry compiled by the Securities Industry and Financial Markets Association’s Office Salaries in the Securities Industry 2013. The estimated wage figures are modified by Commission staff to account for an 1,800-hour work-year and multiplied by 2.93 to account for bonuses, firm size, employee benefits, overhead, and adjusted to account for the effects of inflation. *See* Securities Industry and Financial Markets Association, Report on Management & Professional Earnings in the Securities Industry 2013.

<sup>3</sup> *See* Derivatives Proposing Release, *supra* note 1, at nn.467, 498 and accompanying text, and paragraph following n.525.

during the reporting period also would have to report: (1) the name of the fund's designated reference index, (2) the index identifier, (3) the fund's highest daily VaR ratio during the reporting period and its corresponding date; and (4) the fund's median daily VaR ratio for the reporting period. Finally, all funds that are subject to the proposed limit on fund leverage risk also would have to report the number of exceptions that the fund identified as a result of the backtesting of its VaR calculation model. We estimate that 2,424 funds would be subject to these VaR-related disclosure requirements.<sup>4</sup>

The information required by Form N-PORT must be data-tagged in XML format. Responses to the reporting requirements will be kept confidential, subject to the provisions of applicable law, for reports filed with respect to the first two months of each quarter; the third month of the quarter will not be kept confidential, but made public 60 days after the quarter end. Form N-PORT is designed to assist the Commission its regulatory, disclosure review, inspection, and policymaking roles, and to help investors and other market participants better assess different fund products.

Based on current PRA estimates, we estimate that funds prepare and file their reports on Form N-PORT either by (1) licensing a software solution and preparing and filing the reports in house, or (2) retaining a service provider to provide data aggregation, validation and/or filing services as part of the preparation and filing of reports on behalf of the fund. We estimate that 35% of funds subject to the proposed N-PORT filing requirements would license a software solution and file reports on Form N-PORT in house, and the remainder would retain a service provider to file reports on behalf of the fund.

---

<sup>4</sup> See Derivatives Proposing Release, *supra* note 1, at paragraph following n.525.

Table 1 below summarizes our PRA initial and ongoing annual burden estimates associated with the proposed amendments to Form N-PORT.

**Table 1: Form N-PORT PRA Estimates**

	Internal initial burden hours	Internal annual burden hours <sup>1</sup>	Wage rate <sup>2</sup>	Internal time costs	Initial external cost burden	Annual external cost burden
<b>PROPOSED ESTIMATES</b>						
Report derivatives exposure information	2 hours	4.33 hours <sup>3</sup>	× \$365 (compliance attorney)	\$1,580		
	2 hours	4.33 hours	× \$331 (senior programmer)	\$1,433		
<b>Total new burden for derivatives exposure information</b>		<b>8.66 hours</b>		<b>\$3,013</b>		
Number of funds for derivatives exposure information		× 5,091		× 5,091		
<b>Total new annual burden for derivatives exposure information (I)</b>		<b>44,088 hours</b>		<b>\$15,339,183</b>		
Report VaR-related information	2 hours	4.33 hours	× \$365 (compliance attorney)	\$1,580	\$5,590	\$4,210
	2 hours	4.33 hours	× \$331 (senior programmer)	\$1,433		
<b>Total new burden for VaR-related information</b>		<b>8.66 hours</b>		<b>\$3,013</b>		
Number of funds for VaR-related information		× 2,424		× 2,424		
<b>Total new annual burden for VaR- related information (II)</b>		<b>20,992 hours</b>		<b>\$7,303,512</b>		
<b>Total new annual burden (I + II)</b>		<b>65,080 hours</b>		<b>\$22,642,695</b>		<b>\$21,433,110*</b>
Current burden estimates		1,803,826 hours				\$103,776,240
<b>Revised burden estimates</b>		<b>1,868,906 hours</b>				<b>\$125,209,350</b>

Notes:

1. Includes initial burden estimates annualized over a three-year period.
2. See *supra* note 2. These PRA estimates assume that the same types of professionals would be involved in the proposed reporting requirements that we believe otherwise would be involved in preparing and filing reports on Form N-PORT.
3. This estimate assumes that, annually after the initial 2 hours to comply with the new N-PORT requirements, each of a compliance attorney and a senior programmer would incur 1 burden hours per filing associated with the new reporting requirements. The estimate of 4.33 hours is based on the following calculation:  $((2 \text{ hours for the first filing} \times 1 = 2) + (3 \text{ additional filings in year 1} \times 1 \text{ hour for each of the additional 3 filings in year 1} = 3) + (4 \text{ filings in years 2 and 3} \times 1 \text{ hour per filing} \times 2 \text{ years}) = 8) / 3 = 4.33$ .
4. This estimate is based on the following calculation: \$4,210 (average costs for funds reporting the proposed information on Form N-PORT) \* 5,091 funds (which includes funds reporting derivative exposure information and VaR-related information).

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

Cost burden is the cost of goods and services purchased to prepare and update filings on Form N-PORT. As discussed above, based on current PRA estimates, we estimate that funds prepare and file their reports on Form N-PORT either by (1) licensing a software solution and preparing and filing the reports in house, or (2) retaining a service provider to provide data aggregation, validation and/or filing services as part of the preparation and filing of reports on behalf of the fund. We estimate that 35% of funds subject to the proposed N-PORT filing requirements would license a software solution and file reports on Form N-PORT in house, and the remainder would retain a service provider to file reports on behalf of the fund.

### **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 \$22.2 million in fiscal year 2018, based on the Commission's computation of the value of staff time devoted to this activity and related overhead.

### **15. Change in Burden**

The total annual hour burden of 1,868,906 hours represents an increase of 65,080 hours over the previous burden hour estimate of 1,803,826 hours. In addition, the annual external cost burden of \$125,209,350 represents an increase of \$22,642,695 over the previous annual external cost burden estimate of \$103,776,240. 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-PORT.

**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 Statement for Paperwork Reduction Act Submission**

Not applicable.

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

Not applicable.