

**SUPPORTING STATEMENT**  
**For the Paperwork Reduction Act Information Collection Submission for**  
**Form N-1A**

**A. JUSTIFICATION**

**1. Necessity for the Information Collection**

Form N-1A (17 CFR 239.15A and 274.11A) is the form used by open-end management investment companies (“funds”) to register under the Investment Company Act of 1940 (15 U.S.C. 80a-1 et seq.) (“Investment Company Act”) and/or 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, and Section 8 of the Investment Company Act (15 U.S.C. 80a-8) requires a fund to register as an investment company. Form N-1A also permits funds to provide investors with a prospectus and a statement of additional information (“SAI”) covering essential information about the fund when it makes an initial or additional offering of its securities. 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.

On June 28, 2018, the Commission issued a release proposing amendments to Form N-1A to include disclosures designed to provide investors who purchase exchange-traded fund (“ETF”) shares in secondary market transactions with information regarding ETFs, including information regarding costs associated with an investment in ETFs.<sup>1</sup> Specifically, the proposed amendments to Form N-1A would require new disclosures regarding ETF-related fees and expenses, such as brokerage commissions and financial intermediary fees, and certain trading costs.<sup>2</sup> In addition, the proposed amendments would include instructions in Form N-1A requiring an ETF to provide bid-ask spread information on the ETF’s website and an interactive calculator to allow investors to customize certain hypothetical calculations to their specific investing situation. The proposed amendments also would eliminate certain disclosures for ETFs that are duplicative of other proposed disclosures set forth in the Proposing Release.<sup>3</sup>

The Commission believes that the proposed amendments will provide effective disclosure that better informs investors regarding the risks and costs of investing in ETFs.

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<sup>1</sup> Exchange-Traded Funds, Investment Company Act Release No. 33-10515 (June 28, 2018) [83 FR 37332 (June 28, 2018)] (the “Proposing Release”).

<sup>2</sup> See generally Proposing Release, section II.H (“Amendments to Form N-1A”).

<sup>3</sup> *Id.*

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

The purpose of Form N-1A 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 the fund. Unlike many other federal information collections, which are primarily for the use and benefit of the collecting agency, this information collection is primarily for the use and benefit of investors. The information filed with the Commission also permits the 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 (Electronic Data Gathering, Analysis, and Retrieval or "EDGAR") provides for automated filing, processing, and dissemination of full disclosure filings. This automation has increased the speed, accuracy, and availability of information, generating benefits to investors and financial markets. Form N-1A is required to be filed with the Commission electronically on EDGAR.<sup>4</sup> 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. Prospectuses and SAIs may be sent to investors by electronic means so long as the fund meets certain requirements.<sup>5</sup>

## **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-1A are not generally duplicated elsewhere.

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

The Commission reviews all rules periodically, as required by the Regulatory Flexibility Act,<sup>6</sup> to identify methods to minimize recordkeeping or reporting requirements affecting small businesses. The current disclosure requirements for reports on Form N-1A do not distinguish between small entities and other funds. The burden on smaller funds, however, to prepare and file registration statements may be proportionally greater than for larger funds. The Commission believes, however, that imposing different requirements on smaller

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<sup>4</sup> See rule 101(a)(iv) of Regulation S-T [17 CFR 232.101(a)(iv)].

<sup>5</sup> See Use of Electronic Media for Delivery Purposes, Securities Act Release No. 7233, Exchange Act Release No. 36345, Investment Company Act Release No. 21399 (Oct. 6, 1995) (60 FR 53458 (Oct. 13, 1995)).

<sup>6</sup> 5 U.S.C. 601 *et seq.*

investment companies would not be consistent with investor protection and the purposes of the registration statements.

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

The Investment Company Act requires that funds file annual amendments to their registration statements. Less frequent collection would mean that current information might not be available to fund investors.

#### **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 amendments affecting Form N-8B-2, the Commission solicited and evaluated public comments on the proposal's collection of information requirements. The Commission did not receive public comment on its proposed estimates, but the Commission revised its estimates as a result of updated industry data and modifications from the proposal. 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 information 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, will be required under this collection of information. The information collection collects basic Personally Identifiable Information ("PII") that may include names, job titles, and work addresses. 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 January 29, 2016, is provided as a supplemental document and is also available at <https://www.sec.gov/privacy>.

## 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>7</sup> and are not derived from a comprehensive, or even representative, survey or study of the cost of Commission rules and forms. Compliance with Form N-1A is mandatory. Responses to the collection of information will not be kept confidential.

Form N-1A is the registration form used by open-end management investment companies. The respondents to the amendments to Form N-1A are open-end management investment companies registered or registering with the Commission. We currently estimate for Form N-1A a total hour burden of 1,642,490 burden hours and external cost of \$131,139,208.<sup>8</sup>

The Commission adopted amendments to Form N-1A designed to provide investors who purchase open-end ETF shares in secondary market transactions with tailored information regarding ETFs, including information regarding purchasing and selling shares of ETFs. Specifically, the amendments to Form N-1A will require new narrative disclosures regarding ETF trading and associated costs. In addition, the Commission requires an ETF that does not rely on new rule 6c-11 to disclose median bid-ask spread information on their websites or in their prospectuses. The amendments also exclude ETFs that provide premium/discount disclosures on their websites in accordance with rule 6c-11 from the premium discount disclosure requirements in Form N-1A. The Commission also adopted amendments to Form N-1A designed to eliminate certain disclosures for ETFs that are no longer necessary.

Form N-1A generally imposes two types of reporting burdens on investment companies: (i) the burden of preparing and filing the initial registration statement; and (ii) the burden of preparing and filing post-effective amendments to a previously effective registration statement (including post-effective amendments filed pursuant to rule 485(a) or 485(b) under the Securities Act, as applicable).

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<sup>7</sup> 44 U.S.C. 3501 *et seq.*

<sup>8</sup> This estimate is based on the last time the form's information collection was submitted for PRA approval in 2019.

**TABLE 1: FORM N-1A PRA ESTIMATES**

	Initial hours	Annual hours <sup>1</sup>		Wage rate <sup>2</sup>	Internal time costs	Annual external cost burden
Draft and finalize disclosure and amend registration statement	5 hours	1.67 hours	×	\$365 (compliance attorney)	\$609.55	
	5 hours	1.67 hours	×	\$331 (senior programmer)	\$552.77	
Bid-ask spread and premium or discount requirements	1 hour	0.33 hours	×	\$365 (compliance attorney)	\$121.67	
	1 hour	0.33 hours	×	\$331 (senior programmer)	\$110.33	
Review and update disclosures		2.5 hours	×	\$365 (compliance attorney)	\$912.50	
		2.5 hours	×	\$331 (senior programmer)	\$827.50	
Maintain bid-ask spread requirements		0.5 hours	×	\$365 (compliance attorney)	\$182.50	
		0.5 hours	×	\$331 (senior programmer)	\$165.50	
<b>Total new annual burden per ETF</b>	<b>7 hours</b>	<b>10 hours</b>			<b>\$3,482.32</b>	
Number of ETFs		× 1,970			× 1,970	
<b>Total new annual burden</b>		<b>19,700 hours</b>			<b>\$6,860,170.40</b>	<b>\$ 0</b>
<b>Current burden estimates</b>		<b>+ 1,642,490 hours</b>				<b>+ \$131,139,208</b>
<b>Revised burden estimates</b>		<b>1,662,190 hours</b>				<b>\$131,139,208</b>

**Notes:**

1. Includes initial burden estimates annualized over a three-year period.
2. The Commission's estimates of the relevant wage rates 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 figures are modified by 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.

**TABLE 2: CHANGE IN BURDEN ESTIMATES**

	Annual Number of Responses			Annual Time Burden (hours)			Cost Burden (dollars)		
	Previously Approved	Revised Estimate	Change	Previously Approved	Revised Estimate	Change	Previously Approved	Revised Estimate	Change
Form N-1A	6,002	6,002	0	1,642,490	1,662,190	+ 19,700	\$131,139,208	\$131,139,208	0

Table 1 above summarizes the final PRA estimates associated Form N-1A. We estimate that the total hour burdens and time costs associated with the amendments to Form N-1A will result in an average aggregate annual burden of 19,700 hours at an average aggregate time cost of \$6,860,170.40. Therefore, the revised aggregate estimate for Form N-1A, including the new amendments, is 1,662,190 hours.

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

Cost burden is the cost of goods and services purchased to prepare and update filings on Form N-1A, such as for the services of independent auditors and outside counsel. The cost burden does not include the cost of the hour burden discussed in Item 12. The Commission currently estimates for Form N-1A a total external cost burden of \$131,139,208. As summarized in Table 1 above, the Commission does not estimate any change in external cost. Therefore, the revised aggregate estimate for Form N-1A, including the new amendments, is \$131,338,208 in external costs.

### **14. Costs to the Federal Government**

The annual cost of reviewing and processing disclosure documents, including new registration statements, post-effective amendments, proxy statements, shareholder reports, and other filings 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. Changes in Burden**

As summarized in Table 2 above, the estimated hourly burden associated with Form N-1A has increased from 1,642,490 hours to 1,662,190 hours (an increase of 19,700 hours). The change in burden hours is due to the estimates of the time burden that will result from our amendments affecting Form N-1A. The Commission does not estimate any change in cost burden.

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

The results of any information collection will not be published.

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

We request authorization to omit the expiration date on the electronic version of the form for design and IT project scheduling reasons. The OMB control number will be displayed.

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

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.