

SUPPORTING STATEMENT
For the Paperwork Reduction Act Information Collection Submission for
Rule 30b1-10 and Form N-LIQUID

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...”

Rule 30b1-10 [17 CFR 270.30b1-10] and Form N-LIQUID [17 CFR 274.223] require open-end investment companies, including exchange-traded funds that redeem in kind (“In-Kind ETFs”) but not including money market funds, to file a current report on Form N-LIQUID on a non-public basis when certain events related to their liquidity occur. The information reported on Form N-LIQUID concerns events under which more than 15% of a fund’s or In-Kind ETF’s net assets are, or become, illiquid investments that are assets as defined in rule 22e-4 under the Act and when holdings in illiquid investments are assets that previously exceeded 15% of a fund’s net assets have changed to be less than or equal to 15% of the fund’s net assets.¹ The information reported on Form N-LIQUID also regards events under which a fund’s holdings in assets that are highly liquid investments fall below the fund’s highly liquid investment minimum for more than 7 consecutive calendar days. A report on Form N-LIQUID is required to be filed,

¹ See Item C.1 and Item C.2 of Part A of Form N-LIQUID.

as applicable, within one business day of the occurrence of one or more of these events.²

Compliance with rule 30b1-10 is mandatory for all funds other than money market funds.

Responses to the disclosure requirements will be kept confidential.

2. Purpose and Use of the Information Collection

Certain provisions of the rule and form contain “collection of information” requirements within the meaning of the Paperwork Reduction Act of 1995 [44 U.S.C. 3501, et seq.], and 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(d) and 5 CFR 1320.11. The information collection requirements for rule 30b1-10 and Form N-LIQUID are designed to enable the Commission to receive information on fund liquidity events more uniformly and efficiently, and to enhance the Commission’s oversight of funds when significant liquidity events occur and its ability to respond to market events. The Commission will be able to use the information provided on Form N-LIQUID in its regulatory, disclosure review, inspection, and policymaking roles.

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 disclosure filings. The system permits publicly-held companies to transmit their filings to the Commission electronically. EDGAR has increased the speed, accuracy and availability of information, generating benefits to investors and financial markets. All funds have been required to use

² See General Instruction A.2 of Form N-LIQUID.

EDGAR for their disclosure filings since November 6, 1995. Form N-LIQUID is required to be filed with the Commission electronically on EDGAR.

4. 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-LIQUID are not generally duplicated elsewhere.

5. Effect on Small Entities

The information collection requirements of rule 30b1-10 and Form N-LIQUID 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 30b1-10 and Form N-LIQUID set forth the disclosure requirements for current reports filed by funds to enable the Commission to receive information on fund liquidity events more uniformly and efficiently and to enhance the Commission's oversight of funds when significant liquidity events occur and its ability to respond to market events. Less frequent collection would mean that timely disclosure of information regarding significant liquidity events would not be available to the Commission.

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

Under applicable federal regulations, OMB generally will not approve a collection of information that includes a pledge of confidentiality unless the pledge is “supported by disclosure and data security policies that are consistent with the pledge...”³ In addition, if an agency proposes to collect confidential information, it must be able to “demonstrate that it has instituted procedures to protect the information’s confidentiality to the extent permitted by law.”⁴

Form N-LIQUID elicits non-public information about circumstances when a fund breaches the 15% illiquid investment limit, returns to compliance with the 15% illiquid investment limit, or breaches its highly liquid investment minimum for longer than 7 consecutive calendar days. When these events occur, reporting to the Commission is necessary to provide the Commission with timely information that may prompt the Commission to inquire further into the circumstances that gave rise to the requirement to file Form N-LIQUID. The Commission finds that it is neither necessary nor appropriate in the public interest or for the protection of investors to make the information filed on Form N-LIQUID publicly available and, therefore, does not intend to make public Form N-LIQUID.⁵

In addition, the Commission recognizes the importance of sound data security practices and protocols for non-public information, including information that may be competitively sensitive. The Commission has substantial experience with storage and use of non-public information reported on Form PF and delayed public disclosure of information on Form N-MFP

³ 5 CFR 1320.5(d)(2)(vii).

⁴ 5 CFR 1320.5(d)(2)(viii).

⁵ *See* section 45(a) of the Act, which requires information in investment company forms to be made available to the public, unless the Commission finds that public disclosure is neither necessary nor appropriate in the public interest or for the protection of investors.

(although the Commission no longer delays public disclosure of reports on Form N-MFP), as well as other non-public information that the Commission handles in its ordinary course of business. Commission staff has in place controls and systems for the use and handling of non-public information reported on Form N-LIQUID.

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. The Commission requested public comment on the collection of information requirements of rule 30b1-10 and Form N-LIQUID before it submitted this request for extension to the Office of Management and Budget. The Commission received no comments in response to this request.

9. Payment or Gift

No payment or gift to respondents was provided.

10. Confidentiality

See section A.7 of this supporting statement.

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 the name, email address, and phone number of persons authorized to receive information about and respond to questions about a Form N-LIQUID filing. 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 and are not derived from a comprehensive or even representative survey or study of the cost of Commission rules and forms. Compliance with rule 30b1-10 and Form N-LIQUID is mandatory. The staff estimates that the Commission receives an average of 30 reports per year on Form N-LIQUID.⁶

When filing a report on Form N-LIQUID,⁷ staff estimates that a fund will spend on average approximately 4 hours of an in-house attorney's time and 1 hour of an in-house accountant's time to prepare, review, and submit Form N-LIQUID reports, at a total time cost of \$1,894.⁸ Accordingly, in the aggregate, staff estimates that compliance with rule 30b1-10 and

⁶ The estimated number of annual filings is based on the number of filings in 2019, adjusted because certain of these filings would no longer be necessary going forward and a subset of funds were not subject to the filing requirement for all of 2019.

⁷ For purposes of this estimate, the staff expects that it would take approximately the same amount of time to prepare and file a report on Form N-LIQUID, regardless under which Part of Form N-LIQUID it is filed.

⁸ This estimate is based on the following calculations: (4 hours x \$419/hour for an attorney = \$1,676), plus (1 hour x \$218/hour for a senior accountant = \$218), for a combined total of 5 hours at total time costs of \$1,894. The estimates concerning the wage rates for attorney and senior accountant time are based on salary information for the securities industry compiled by the Securities Industry and Financial Markets Association. The estimated wage figure is based on published rates for in-house attorneys and senior accountants, modified to account for a 1,800-hour work-year and inflation, and multiplied by 5.35 to account for bonuses, firm size, employee benefits, and overhead. See Securities Industry and Financial Markets Association, Report on Management & Professional Earnings in the Securities Industry 2013.

Form N-LIQUID will result in a total annual burden of approximately 150 burden hours and total annual time costs of approximately \$56,820.⁹

Table 1: Change in Burden Estimates

| | Annual Number of Responses | | | Annual Time Burden (hours) | | | Cost Burden (dollars) | | |
|--------------|----------------------------|-------------------|--------|----------------------------|-------------------|--------|-----------------------|-------------------|--------|
| | Previously approved | Proposed estimate | Change | Previously approved | Proposed estimate | Change | Previously approved | Proposed estimate | Change |
| Rule 30b1-10 | 69 | 30 | -39 | 941 | 150 | -791 | \$0 | \$0 | \$0 |

13. Cost to Respondents

Cost burden is the cost of goods and services purchased to comply with rule 30b1-10 and Form N-LIQUID, such as licensing software solutions or for the services of external service providers. The cost burden does not include the hour burden discussed in Item 12. Estimates are based on the Commission's experience with the filing of registration forms. The Commission estimates that there will be no external costs associated with this collection of information.

14. Cost to the Federal Government

The annual cost of reviewing and processing registration statements, post-effective amendments, proxy statements, shareholder reports, and other filings of investment companies amounted to approximately \$22.2 million in fiscal year 2019, based on the Commission's computation of the value of staff time devoted to this activity and related overhead. A portion of those costs will relate to processing and reviewing Form N-LIQUID filings submitted to the Commission for compliance with rule 30b1-10.

15. Change in Burden

⁹ This estimate is based on the following calculations: 30 reports filed per year x 5 hours per report = approximately 150 total annual burden hours. 30 reports filed per year x \$1,894 in costs per report = \$56,820 total annual costs.

Rule 30b1-10 has a current annual burden of 941 hours. The hour burden associated with rule 30b1-10 has decreased by 791 hours to a total of 150 hours since our last burden analysis. This decrease is due to a change in our estimate of the number of annual responses from 69 to 30.

16. Information Collection Planned for Statistical Purposes

Not applicable.

17. Approval to Omit OMB Expiration Date

Not applicable.

18. Exceptions to Certification for Paperwork Reduction Act Submission

Not applicable.

B. COLLECTIONS OF INFORMATION EMPLOYING STATISTICAL METHODS

Not applicable.