

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

**A. JUSTIFICATION**

**1. Necessity for the Information Collection**

Form N-CSR<sup>1</sup> is a combined reporting form used by registered management investment companies (“funds”) to file certified shareholder reports under the Investment Company Act of 1940 (“Investment Company Act”)<sup>2</sup> and the Securities Exchange Act of 1934 (“Exchange Act”).<sup>3</sup> Specifically, Form N-CSR is to be used for reports under section 30(b)(2) of the Investment Company Act<sup>4</sup> and section 13(a) or 15(d) of the Exchange Act,<sup>5</sup> filed pursuant to rule 30b2-1(a) under the Investment Company Act.<sup>6</sup> Reports on Form N-CSR are to be filed with the Securities and Exchange Commission (“Commission”) no later than 10 days after the transmission to stockholders of any report that is required to be transmitted to stockholders under rule 30e-1 under the Investment Company Act.<sup>7</sup>

On August 5, 2020, the Commission proposed rule and form amendments that would modernize the disclosure framework for open-end management

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<sup>1</sup> 17 CFR 249.331 and 274.128.

<sup>2</sup> 15 U.S.C. 80a-1 *et seq.*

<sup>3</sup> 15 U.S.C. 78a *et seq.*

<sup>4</sup> 15 U.S.C. 80a-29(b)(2).

<sup>5</sup> 15 U.S.C. 78m(a) and 78o(d).

<sup>6</sup> 17 CFR 270.30b2-1(a).

<sup>7</sup> 17 CFR 270.30e-1.

investment companies.<sup>8</sup> The disclosure framework would feature concise and visually engaging shareholder reports that would highlight key information that is particularly important for retail investors to assess and monitor their fund<sup>9</sup> investments. Certain information that may be less relevant to retail investors—and of more interest to financial professionals and investors who desire more in-depth information—would no longer appear in funds’ shareholder reports but would be available online, delivered free of charge upon request, and also filed on a semi-annual basis on Form N-CSR.

As part of the proposed layered disclosure framework, the Commission proposed amendments to Form N-CSR to require funds to continue to file certain information, which is currently included in fund shareholder reports, on Form N-CSR. Under the proposed amendments, funds would have to file the following (in addition to the current filing requirements) on Form N-CSR: financial statements for funds; financial highlights for funds; remuneration paid by directors, officers and others of funds; changes in and disagreement with accountants for funds; matters submitted to fund shareholders for a vote; and statement regarding the basis for the

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<sup>8</sup> *Tailored Shareholder Reports, Treatment of Annual Prospectus Updates for Existing Investors, and Improved Fee and Risk Disclosure for Mutual Funds and Exchange-Traded Funds; Fee Information in Investment Company Advertisements*, Securities Act Release No. 10814 (Aug. 5, 2020) available at <https://www.sec.gov/rules/proposed/2020/33-10814.pdf> (the “Tailored Shareholder Report Proposal”).

<sup>9</sup> For the purposes of the discussion of the proposed amendments to Form N-CSR in this PRA renewal, a “fund” is an open-end management investment company registered on Form N-1A or a series thereof, unless otherwise specified. Mutual funds and most exchange-traded funds (“ETFs”) are open-end management companies registered on Form N-1A.

board's approval of investment advisory contract. These Form N-CSR filing requirements would further the proposed layered disclosure framework by making available a broader set of fund information than the information that would appear in funds' annual and semi-annual reports under the Commission's proposal. The information that would be filed on Form N-CSR is less retail-focused than the information that would appear in funds' annual and semi-annual reports, but would be available for investors who desire more in-depth information, financial professionals, and other market participants.

The Commission proposed a requirement for funds to file this information on Form N-CSR, instead of proposing a different approach (for example, proposing that funds would only have to make this information available on their websites and not also have to file it on Form N-CSR) for several reasons. The information included on Form N-CSR would continue to provide shareholders and other market participants with access to historical, immutable data regarding the fund on the Commission's Electronic Data Gathering, Analysis, and Retrieval ("EDGAR") system. This historical information also would facilitate the Commission's fund monitoring responsibilities and could create significant efficiencies in the location of information for data gathering, search, and alert functions used in those monitoring activities.<sup>10</sup> Additionally, because Form N-CSR is filed with the Commission on EDGAR, a fund can incorporate by reference information that is disclosed on Form N-CSR,

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<sup>10</sup> For example, filing on EDGAR facilitates the financial statement reviews that section 408 of the Sarbanes-Oxley Act mandates. *See infra* footnote 12.

including the fund's financial statements, into a fund's registration statement, subject to certain limitations.<sup>11</sup> Finally, a fund's principal executive and financial officer(s) are required to certify the financial and other information included on Form N-CSR, and are subject to liability for material misstatements or omissions on Form N-CSR.<sup>12</sup>

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

A registrant is required to disclose the information specified by Form N-CSR, and the Commission will make this information public. The information provided in reports on Form N-CSR may 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 is also for the use and benefit of investors. The information

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<sup>11</sup> See rule 0-4 under the Investment Company Act [17 CFR 270.0-4] (additional rules on incorporation by reference for funds); rule 411 under the Securities Act [17 CFR 230.411] (general rules on incorporation by reference in a prospectus); rule 303 of Regulation S-T [17 CFR 232.303] (specific requirements for electronically filed documents); General Instruction D to Form N-1A.

<sup>12</sup> See rule 30a-2 under the Investment Company Act [17 CFR 270.30a-2] and Item 13(a)(2) of Form N-CSR; *see also* Certification of Disclosure in Companies' Quarterly and Annual Reports, Investment Company Act Release No. 25722 (Aug. 28, 2002) [67 FR 57275 (Sept. 09, 2002)].

The Sarbanes-Oxley Act of 2002, Pub. L. 107-204, 116 Stat. 745 (2002) (the "Sarbanes-Oxley Act") requires the principal executive and principal financial officer of most management investment companies to provide two different certifications in their periodic reports. Section 302 of the Sarbanes-Oxley Act requires a certification that, among other things, relates to the accuracy of the information included in the N-CSR filing. Section 906 of the Sarbanes-Oxley Act added new Section 1350 to Title 18 of the United States Code, which requires a certification that, among other things, represents that the N-CSR filing fairly presents, in all material respects, the fund's financial condition and results of operations, and is subject to specific Federal criminal provisions.

filed with the Commission 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 EDGAR system automates the 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. Reports on Form N-CSR are filed with the Commission electronically on EDGAR.<sup>13</sup> The public may access filings on EDGAR through the Commission's website (<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 requirements of Form N-CSR are not generally duplicated elsewhere. While the Commission's 2020 proposal would require funds to file the same information on Form N-CSR that they would have to make available online (on a website other than EDGAR), we believe that the proposed Form N-CSR filing

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<sup>13</sup> See rule 101(a)(1)(iii)–(iv) of Regulation S-T [17 CFR 232.101(a)(1)(iii)–(iv)].

requirement is not duplicative with the proposed website availability requirement for the reasons discussed in the final paragraph of section A.1. above.

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

The Commission reviews all rules periodically, as required by the Regulatory Flexibility Act,<sup>14</sup> to identify methods to minimize recordkeeping or reporting requirements affecting small businesses. The current disclosure requirements for reports on Form N-CSR do not distinguish between small entities and other funds. The burden on smaller funds, however, to prepare reports on Form N-CSR may be proportionally greater than for larger funds. The Commission believes, however, that imposing different requirements on smaller funds would not be consistent with investor protection and the purposes of certified shareholder reports.

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

Funds are required to file reports on Form N-CSR with the Commission no later than 10 days after the transmission to stockholders of any report that is required to be transmitted to stockholders under rule 30e-1 under the Investment Company Act. Less frequent collection would mean that current information might not be available to fund investors.

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<sup>14</sup> 5 U.S.C. 601 *et seq.*

**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**

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 the paperwork burdens confronting the industry. The Commission has requested public comment on the collection of information requirements on the proposed amendments to Form N-CSR. Before the Commission submits a final request for approval to the Office of Management and Budget, the Commission will consider all comments received and address them in any adopting release.

**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 name and job title. 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. Estimate of Hour and Cost 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>15</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-CSR is mandatory. Responses to the collection of information will not be kept confidential.

In our most recent Paperwork Reduction Act submission for Form N-CSR, Commission staff estimated the annual compliance burden to comply with the

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<sup>15</sup> 44 U.S.C. 3501 *et seq.*

collection of information requirement of Form N-CSR is 181,167 burden hours with an internal cost burden of \$58,290,931.5, and an external cost burden estimate of \$5,199,584.<sup>16</sup> The hour burden estimates for preparing and filing reports on Form N-CSR are based on the Commission's experience with the contents of the form. The number of burden hours may vary depending on, among other things, the complexity of the filing and whether preparation of the reports is performed by internal staff or outside counsel.

The table below summarizes our PRA initial and ongoing annual burden estimates associated with the proposed amendments to Form N-CSR.

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<sup>16</sup> On July 14, 2020, the Office of Management and Budget approved without change a revision of the currently approved information collection estimate for Form N-CSR (the "July 2020 estimates"). The July 2020 estimates increased the total burden estimates for Form N-CSR; the July 2020 estimates are higher than the total estimated burdens that were included in the Commission's Tailored Shareholder Report Proposal. The total estimated burdens in the table below reflect the higher July 2020 estimates for total estimated burdens.

## FORM N-CSR PRA ESTIMATES

|                                                                                        | Internal initial<br>burden hours | Internal annual<br>burden hours <sup>1</sup> | Wage Rate <sup>2</sup>                                                                 | Internal Time Costs | Annual external cost<br>burden |
|----------------------------------------------------------------------------------------|----------------------------------|----------------------------------------------|----------------------------------------------------------------------------------------|---------------------|--------------------------------|
| <b>PROPOSED ESTIMATES FOR INITIAL N-CSR FILINGS</b>                                    |                                  |                                              |                                                                                        |                     |                                |
| Total additional<br>burden per filing<br>(proposed new<br>Items 7-11 of<br>Form N-CSR) | 18 hours                         | 11 hours <sup>3</sup>                        | ×<br>\$336<br>(blended rate for<br>compliance<br>attorney and<br>senior<br>programmer) | \$3,696             | –                              |
| Number of filings                                                                      |                                  | ×24,820 <sup>4</sup>                         |                                                                                        | × 24,820            |                                |
| Total additional<br>burden for Form N-<br>CSR                                          |                                  | 273,020 hours                                |                                                                                        | \$91,743,720        | –                              |
| <b>TOTAL ESTIMATED BURDENS INCLUDING AMENDMENTS</b>                                    |                                  |                                              |                                                                                        |                     |                                |
| Current burden<br>estimates                                                            |                                  | +181,167 hours                               |                                                                                        |                     | \$5,199,584                    |
| Revised burden<br>estimates                                                            |                                  | 454,187 hours                                |                                                                                        |                     | \$5,199,584                    |

**Notes:**

1. Includes initial burden estimates annualized over a 3-year period.

2. These PRA estimates assume that the same types of professionals would be involved in satisfying the proposed reporting requirements that we believe otherwise would be involved in preparing and filing Form N-CSR. 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.

3. This estimate assumes that, after the initial 18 hours that a fund would spend preparing the new items on Form N-CSR, which we annualize over a 3-year period, the fund would incur 5 additional burden hours associated with ongoing preparation of these items per year. The estimate of 11 hours is based on the following calculation:  $((18 \text{ initial hours} / 3) + 5 \text{ hours of additional ongoing burden hours}) = 11 \text{ hours}$ .

4. Funds make two filings on Form N-CSR annually. Therefore, this estimate is based on the following calculation:  $12,410 \text{ funds registered on Form N-1A} \times 2 = 24,820 \text{ filings}$ .

### 13. Cost to 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 \$21.2 million in fiscal year 2019, based on the Commission's computation of the value of staff time devoted to this activity and related overhead.

**14. Change in Burden**

Under the proposed amendments to Form N-CSR, the estimated hourly burden associated with Form N-CSR would increase from 181,167 hours to 454,187 (an increase of 273,020 hours). This increase is due to the staff's estimates of the time costs that would result from the proposed amendments' requirements that funds file additional information on Form N-CSR.

**15. Information Collection Planned for Statistical Purposes**

The results of any information collection will not be published.

**16. Approval to Omit OMB Expiration Date**

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

**17. Exceptions to Certification Statement for Paperwork Reduction Act Submission**

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

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

The collection of information will not employ statistical methods.