

**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 October 28, 2020, the Commission adopted rule 18f-4 under the Act to provide an updated, comprehensive approach to the regulation of funds’ use of derivatives.<sup>1</sup> The new rule applies 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

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<sup>1</sup> See Use of Derivatives by Registered Investment Companies and Business Development Companies, Investment Company Act Release No. 34084 (Nov. 2, 2020) (“Derivatives Adopting Release”); see also 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”).

companies under the Act (collectively, “funds”).<sup>2</sup> It will permit these funds to enter into derivatives transactions and certain other transactions, 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” or that are “leveraged/inverse funds” under the rule and meet other conditions, as the rule describes will be required to comply with an outer limit on fund leverage risk based on value at risk (“VaR”). The outer limit is based on a relative VaR test that compares the fund’s VaR to the VaR of a designated reference portfolio for that fund. If the fund’s derivatives risk manager reasonably determines that a designated reference portfolio would not provide an appropriate reference portfolio for purposes of the relative VaR test, the fund will be required to comply with an absolute VaR test. Rule 18f-4 will also require a fund to apply the relative VaR or absolute VaR test at least once each business day.

In addition to adopting new rule 18f-4, the Commission amended 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, will require funds that are limited derivatives users to provide information about their derivatives exposure and exceedances of their derivatives exposure over 10% of their net assets as of the end of the reporting period. Funds that are subject to the limit on fund leverage risk will have to report on Form N-PORT certain information about their median daily VaR for the monthly reporting period. Funds subject to the relative VaR test during the reporting period will also report the name of the fund’s designated index or a statement that the fund’s designated reference portfolio is its securities portfolio, and as applicable, the index identifier. These funds also will have to report the fund’s highest median VaR ratio during the reporting period, reported as a percentage of the

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<sup>2</sup> Rule 18-f4 includes a provision that will permit funds, as well as money market funds, to invest in securities on a when-issued or forward-settling basis, or with a non-standard settlement cycle, subject to conditions (i.e., when-issued U.S. Treasury securities).

VaR of the fund's designated reference portfolio. A fund that is subject to the limit on fund leverage risk also will have to report the number of exceptions identified during the reporting period arising from backtesting the fund's VaR calculation model.

Information about a limited derivatives user's derivatives exposure, as well as a fund's median daily VaR, median VaR ratio and VaR backtesting exceptions, will be confidentially reported to allow the Commission to oversee funds' use of derivatives and compliance with rule 18f-4, and not publicly disclosed. The information about the fund's designated reference portfolio will be made publicly available for the third month of each fund's quarter.

## **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 generally will make information reported for the third month of each fund's fiscal quarter on Form N-PORT publicly available, unless otherwise specified.

## **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 amendments to Form N-PORT is not duplicated elsewhere.

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

The information collection required by the amendments to Form N-PORT will not distinguish between small entities and other funds in terms of what information will be required to be reported. The Commission believes that believe that the form amendments are necessary to help identify and provide the Commission timely information about funds that comply with rule 18f-4, and that imposing different reporting requirements on smaller funds could compromise the effectiveness of the reporting requirements and would not be consistent with the goals of industry oversight and investor protection. Differing reporting requirements would not provide comparable information about derivatives use by small entities and other funds that could be used by the Commission to identify trends and outliers as part of its monitoring and oversight of the fund industry.

The Commission reviews all rules periodically, as required by the Regulatory Flexibility Act (5 U.S.C. 601 et seq.), 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 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 funds' use of derivatives, 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**

Before adopting the amendments to Form N-PORT, the Commission solicited and evaluated public comments on the proposal, including its collection of information requirements. The public was given the opportunity to comment on the Commission's estimated burdens for Form N-PORT, which were described in the proposing release. One commenter broadly opposed any new Form N-PORT reporting requirements on the grounds that they generally increase burdens on funds, but did not comment on PRA related burdens specifically. Otherwise, the Commission did not receive comments specifically addressing the estimated burdens associated with the proposed Form N-PORT reporting requirements. In addition, 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 informal exchanges. These various forums provide the Commission and the staff with a means of ascertaining and acting upon paperwork burdens confronting the industry.

## **9. Payment or Gift**

Not applicable.

## **10. Confidentiality**

Not applicable.

## **11. Sensitive Questions**

No information of a sensitive nature, including social security numbers, is required under this collection of information. The information collection required by the amendments to Form N-PORT will not collect Personally Identifiable Information (PII), such as names, job titles and work addresses. 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 will 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”) (44 U.S.C. 3501 et seq.) and are not derived from a comprehensive or even representative survey or study of the cost of the Commission rules and forms.

Preparing reports on Form N-PORT is mandatory for all management investment companies (other than money market funds and small business investment companies) and UITs that operate as ETFs,<sup>3</sup> and is a collection of information under the PRA. 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, unless otherwise stated in the form. Form N-PORT is designed to assist the Commission its regulatory, disclosure review,

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<sup>3</sup> Because section 18 of the Investment Company Act applies only to open-end or closed-end companies (i.e., management investment companies), rule 18f-4 will not apply to unit investment trusts (“UITs”), including ETFs that are UITs, because they are not management investment companies.

inspection, and policymaking roles, and to help investors and other market participants better assess different fund products.

Form N-PORT, as amended, will require funds that are limited derivatives users to report information about derivatives exposure, including the number of business days that a fund's derivatives exposure exceeds 10% of its net assets during the reporting period. We estimate that 2,437 funds will be subject to this exposure-related disclosure requirement.<sup>4</sup> In addition, funds that are subject to rule 18f-4's limit on fund leverage risk will have to report the fund's median daily VaR for the reporting period, reported as a percentage of the fund's net asset value. Funds subject to the relative VaR test during the reporting period also will report: (1) the name of the fund's designated index or a statement that the fund's designated reference portfolio is its securities portfolio; (2) the index identifier, as applicable; and (3) the fund's median VaR ratio for the reporting period. Finally, all funds that are subject to the limit on fund leverage risk also will have to report the number of exceptions that the fund identified as a result of backtesting its VaR calculation model during the reporting period. We estimate that 2,696 funds will be subject to these VaR-related reporting requirements.<sup>4</sup>

Table 1 below summarizes our initial and ongoing annual PRA burden estimates associated with the proposed and final amendments to Form N-PORT. We have adjusted the proposed estimated annual burden hours and total time costs to account for certain modifications to the proposed Form N-PORT requirements that we are adopting.<sup>5</sup>

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<sup>4</sup> See Derivatives Adopting Release, *supra* note 1, at nn.1036-1037 and accompanying paragraph.

<sup>5</sup> The final amendments to Form N-PORT incorporate several modifications from the proposal: (1) the proposed requirements would have required all funds, not just limited derivatives users, to report derivatives exposure information; (2) the proposed requirements did not include the requirement for funds that are limited derivatives users to report exceedances of their derivatives exposure over the 10% threshold; and (3) the final VaR reporting requirements decrease the number of reported items that the proposal would have required.

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

	Internal initial burden hours	Internal annual burden hours	Wage rate <sup>1</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>2,3</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<sup>4</sup></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>
<b>FINAL ESTIMATES</b>						
Report derivatives exposure information for limited derivative users	2 hours	4.33 hours <sup>2</sup>	× \$368 (compliance attorney)	\$1,593		\$912 <sup>5</sup>
	2 hours	4.33 hours	× \$334 (senior programmer)	\$1,446		
<b>Total new burden for derivatives exposure information for limited derivatives users</b>		<b>8.66 hours</b>		<b>\$3,039</b>		
Number of funds		× 2,437		× 2,437		× 2,437



<b>Total new annual burden for limited derivatives user derivatives exposure information (I)</b>		<b>21,104 hours</b>			<b>\$7,406,043</b>	<b>\$2,222,544<sup>6</sup></b>
Report exceedance of 10% derivatives exposure threshold for limited derivatives users	0 hours	0.01 hours	×	\$368 (compliance attorney)	\$3.68	
	0 hours	0.01 hours	×	\$334 (senior programmer)	\$3.34	
<b>Total new burden for exceedance-related information</b>		<b>0.02 hours</b>			<b>\$7.02</b>	
Number of funds		×	2,437		×	2,437
<b>Total new annual burden for limited derivatives users exceedance-related information (II)</b>		<b>48.74 hours</b>			<b>\$ 17,108</b>	
Report VaR-related information	2 hours	4.33 hours	×	\$368 (compliance attorney)	\$1,593	\$912 <sup>5</sup>
	2 hours	4.33 hours	×	\$334 (senior programmer)	\$1,446	
<b>Total new burden for VaR-related information</b>		<b>8.66 hours</b>			<b>\$3,039</b>	
Number of funds		×	2,696		×	2,696
<b>Total new annual burden for VaR-related information (III)</b>		<b>23,347 hours</b>			<b>\$8,193,144</b>	<b>\$2,458,752</b>
<b>Total new annual burden (I + II + III)</b>		<b>44,500 hours</b>			<b>\$15,616,295</b>	<b>\$4,681,296</b>
Current burden estimates		1,803,826 hours				\$103,776,240
<b>Revised burden estimates</b>		<b>1,848,326 hours</b>				<b>\$108,457,536</b>

Notes to Table 1:

1. Estimates of the relevant wage rates for internal time costs in the table above are based on salary information for the securities industry compiled by and reported in the Securities Industry and Financial Markets Association's Report on Management & Professional Earnings in the Securities Industry 2013 ("SIFMA Report"), and modified by Commission staff to account for an 1,800-hour work-year and multiplied by 5.35 to account for bonuses, firm size, employee benefits, overhead, and adjusted to account for the effects of inflation. The final internal wage figures are slightly higher than the proposed estimates due to inflation.

Estimates of the relevant wage rates for external time costs, such as outside legal services, take into account staff experience, information from a variety of sources including general information websites, and adjustments for inflation.

These PRA estimates assume that the same types of professionals will be involved in the reporting requirements that we believe otherwise will be involved in preparing and filing reports on Form N-PORT.

2. Includes initial burden estimates annualized over a three-year period.

3. This estimate assumes that, annually after the initial 2 hours to comply with the new N-PORT requirements, a compliance attorney and a senior programmer will each incur 1 burden hour 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 information on Form N-PORT) \*  $5,091$  funds (which includes funds reporting derivative exposure information and VaR-related information).

5. This estimate is based on the following information and calculations:  $(35\% \times \$4,805$  (the average cost to license a third-party software solution per year) =  $\$1,681.75) + (65\% \times \$11,440$  (the average cost of retaining the services of a third-party vendor to prepare and file reports on Form N-PORT on the fund's behalf) =  $\$7,436) =$  basis for existing external N-PORT filing costs. We estimate that the new N-PORT requirements will add an additional 10% costs (e.g.,  $(\$1,681.75 + \$7,436 = \$9,117.75) \times 10\% = \$912$  per fund).

6. This estimate of the external annual cost burden of Form N-PORT reporting for limited derivatives users encompasses any external costs burdens associated with reporting derivatives exposure and any reporting related to exceedances of the 10% derivatives exposure threshold on the Form N-PORT.

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

Annual external cost burden is the cost of goods and services purchased to prepare and update filings on Form N-PORT. It does not include the internal hour burden or corresponding internal time costs reflected in Table 1. 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 will license a software solution and file reports on Form N-PORT in house, and the remainder will retain a service provider to file reports on behalf of the fund. The last two columns in Table 1 above summarize our initial and ongoing annual PRA cost estimates associated with the proposed and final amendments to Form N-PORT.

### **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 \$22.1 million in fiscal year 2019, 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 internal hour burden of 1,848,326 hours represents an increase of 44,500 hours over the previous internal hour burden estimate of 1,803,826 hours. In addition, the total annual external cost burden of \$108,457,536 represents an increase of \$4,681,296 over the previous 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 will result from the final 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.