

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

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-RN [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-RN on a non-public basis when certain events related to their liquidity occur. The information reported on Form N-RN 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-RN 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-RN is required to be filed, as applicable,

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

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.

On October 28, 2020 the Commission issued a release adopting a new exemptive rule under the Act (17 CFR 270.18f-4 (“rule 18f-4”)) designed to address the investor protection purposes and concerns underlying section 18 of the Act and to provide an updated and more comprehensive approach to the regulation of funds’ use of derivatives and the other transactions that rule 18f-4 addresses.³ In this release, the Commission also amended Form N-LIQUID (and also re-titled it as “Form N-RN”) to add new reporting requirements for funds subject to the VaR-based limit on fund leverage risk pursuant to rule 18f-4, and also adopted conforming amendments to rule 30b1-10. We are requiring these funds to file Form N-RN to report information about VaR test breaches under certain circumstances. These funds will be required to determine their compliance with the applicable VaR test on at least a daily basis. A fund that determines that it is out of compliance with the VaR test and has not come back into compliance within five business days after such determination will have to file a nonpublic report on Form N-RN providing certain information regarding its VaR test breaches. In addition, a fund that has come back into compliance with the VaR test must file a report on Form N-RN within one business day to indicate that.

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

³ Investment Company Act Release No. 34084 (Nov. 2, 2020).

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-RN are designed to enable the Commission to receive information on fund liquidity events, and events regarding funds’ compliance with the VaR-based limit on fund leverage risk in rule 18f-4, more uniformly and efficiently, and to enhance the Commission’s oversight of funds when these events occur and its ability to respond to market events. The Commission will be able to use the information provided on Form N-RN 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 EDGAR for their disclosure filings since November 6, 1995. Form N-RN 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-RN are not generally duplicated elsewhere.

5. Effect on Small Entities

The information collection requirements of rule 30b1-10 and Form N-RN 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-RN set forth the disclosure requirements for current reports filed by funds to enable the Commission to receive information on fund liquidity events, and events regarding funds' compliance with the VaR-based limit on fund leverage risk in rule 18f-4, more uniformly and efficiently and to enhance the Commission's oversight of funds when these events occur and its ability to respond to market events. Less frequent collection would mean that timely disclosure of information regarding these 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..."⁴ In addition, if an

⁴ 5 CFR 1320.5(d)(2)(vii).

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.”⁵

Form N-RN elicits non-public information about circumstances regarding certain fund liquidity events, and events regarding funds’ compliance with the VaR-based limit on fund leverage risk in rule 18f-4. 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–RN. 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-RN publicly available and, therefore, does not intend to make public Form N-RN.⁶

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 (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-RN.

⁵ 5 CFR 1320.5(d)(2)(viii).

⁶ *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.

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.

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-RN 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-RN is mandatory. The staff estimates that the Commission receives an average of 84 reports per year on Form N-RN.⁷

When filing a report on Form N-RN,⁸ staff estimates that a fund will spend on average approximately .06 hours of an in-house attorney's time and 0.02 hours for a senior programmer of an in-house accountant's time to prepare, review, and submit Form N-RN reports, at a total time cost of \$1,436. Accordingly, in the aggregate, staff estimates that compliance with rule 30b1-10 and Form N-RN will result in a total annual burden of approximately 366 burden hours and total annual time costs of approximately \$77,537.

Table 1: Change in Burden Estimates

	Annual Number of Responses			Annual Time Burden (hours)			Cost Burden (dollars)		
	Previously approved	Revised estimate, incorporating final amendments to Form N-RN	Change	Previously approved	Revised estimate, incorporating final amendments to Form N-RN	Change	Previously approved	Revised estimate	Change
Rule 30b1-10	30	84	+54	150 ⁹	366	216	\$0	\$0	\$0

⁷ The previously approved estimated number of annual filings based on the number of filings in Spring 2020 was 30 filings in aggregate per year. However, in a modification from the calculation at proposal, the final PRA analysis increases this total by approximately 54 filings in aggregate per year due to the adopted derivatives rules. The total average number of filings per year is estimated to be 84 filings.

⁸ 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-RN, regardless under which Part of Form N-RN it is filed.

⁹ The previously approved burden estimated 5 total burden hours per filing for a total of 150 hours.

13. Cost to Respondents

Cost burden is the cost of goods and services purchased to comply with rule 30b1-10 and Form N-RN, 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-RN filings submitted to the Commission for compliance with rule 30b1-10.

15. Change in Burden

Rule 30b1-10 has a current annual burden of 150 hours. The hour burden associated with rule 30b1-10 has increased by 216 hours to a total of 366 hours since our last burden analysis. This increase is due to a change in our estimate of the number of annual responses from 30 to 84 and the increase in estimated burden hours to comply with the new form and rule amendments. The Commission continues to estimate that there is no external cost burden associated with this rule. These changes in burden also reflect the Commission's revision and update of burden estimates for all information collections under this OMB control number (whether or not associated with rulemaking changes).

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.