

SUPPORTING STATEMENT
For the Paperwork Reduction Act Information Collection Submission for
Rule 18f-4

A. JUSTIFICATION

1. Necessity for the Information Collection

Section 18 of the Investment Company Act of 1940 (“Investment Company Act”)¹ imposes various limits on the capital structure of registered investment companies and companies that have elected to be treated as business development companies (“BDCs”) under the Investment Company Act (collectively, “funds”), including, in part, by restricting the ability of funds to issue “senior securities.” Protecting investors against the potentially adverse effects of a fund’s issuance of senior securities, and in particular the risks associated with excessive leverage of investment companies, is a core purpose of the Investment Company Act.² “Senior security” is defined, in part, as “any bond, debenture, note, or similar obligation or instrument constituting a security and evidencing indebtedness.”³

On October 28, 2020, the Commission adopted a package of new rules and rule amendments addressing funds’ use of derivatives, including new rule 18f-4.⁴ The new rule is designed to address the investor protection purposes and concerns underlying section 18 of the Investment Company Act and to provide an updated and more comprehensive approach to the regulation of funds’ use of derivatives and the other transactions addressed in the rule. We

¹ 15 U.S.C. 80a-1 *et seq.*

² *See, e.g.*, sections 1(b)(7), 1(b)(8), 18(a), and 18(f) of the Investment Company Act; *see also Provisions Of The Proposed Bill Related To Capital Structure (Sections 18, 19(B), And 21(C))*, Introduced by L.M.C Smith, Associate Counsel, Investment Trust Study, Securities and Exchange Commission, *Hearings on S.3580 Before a Subcommittee of the Senate Committee on Banking and Currency*, 76th Congress, 3rd session (1940), at 1028 (“Senate Hearings”).

³ *See* section 18(g) of the Investment Company Act.

⁴ Investment Company Act Release No. IC-34078 (Oct. 28, 2020) (the “Adopting Release”).

discuss below the collection of information burdens associated with rule 18f-4. In the Proposing Release, the Commission solicited comment on the collection of information requirements associated with proposed rule 18f-4.⁵

Rule 18f-4 permits a fund to enter into derivatives transactions, notwithstanding the prohibitions and restrictions on the issuance of senior securities under section 18 of the Investment Company Act. A fund that relies on rule 18f-4 to enter into derivatives transactions generally will be required to: adopt a derivatives risk management program; have its board of directors approve the fund's designation of a derivatives risk manager and receive direct reports from the derivatives risk manager about the derivatives risk management program; and comply with a VaR-based test designed to limit a fund's leverage risk consistent with the investor protection purposes underlying section 18 of the Investment Company Act. Rule 18f-4 includes an exception from the derivatives risk management program requirement and limit on fund leverage risk if a fund limits its derivatives exposure to 10% of its net assets (the fund may exclude from this calculation derivatives transactions that it uses to hedge certain currency and interest rate risks). A fund relying on this exception will be required to adopt policies and procedures that are reasonably designed to manage its derivatives risks.

Rule 18f-4 also includes an exception from the VaR-based limit on leverage risk for a leveraged/inverse fund that cannot comply with rule 18f-4's limit on fund leverage risk and that, as of October 28, 2020, is: (1) in operation, (2) has outstanding shares issued in one or more public offerings to investors, and (3) discloses in its prospectus that it has a leverage multiple or

⁵ See 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) [85 FR 4446 (Jan. 24, 2020)] ("Proposing Release").

inverse multiple that exceeds 200% of the performance or the inverse of the performance of the underlying index (for purposes of this Supporting Statement, such a fund is an “over-200% leveraged/inverse fund”). A fund relying on this exception must disclose in its prospectus that it is not subject to rule 18f-4’s limit on fund leverage risk.

Finally, rule 18f-4 includes provisions that will permit funds to enter into reverse repurchase agreements (and similar financing transactions) and “unfunded commitments” to make certain loans or investments, and to invest in securities on a when-issued or forward-settling basis, or with a non-standard settlement cycle, subject to conditions tailored to these transactions.

The respondents to rule 18f-4 will be registered open- and closed-end management investment companies and BDCs. Compliance with rule 18f-4 will be mandatory for all funds that seek to engage, in reliance on the rule, in derivatives transactions and certain other transactions that the rule addresses, which would otherwise be subject to the restrictions of section 18 of the Investment Company Act.

2. Purpose and Use of the Information Collection

Certain of the provisions of the rule contain “collection of information” requirements within the meaning on the Paperwork Reduction Act of 1995 (“Paperwork Reduction Act”),⁶ 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 rule is intended to address the investor protection purposes and concerns underlying section 18 of the Investment Company Act and to provide an updated and more comprehensive approach to the regulation of funds’ use of derivatives and the other transactions addressed in the rule.

⁶ 44 U.S.C. 3501 *et seq.*

The information collection requirements of rule 18f-4 are designed to ensure that funds maintain the required written derivatives risk management programs that promote compliance with the federal securities laws and protect investors, and otherwise comply with the requirements of the final rule. The information collections also assist the Commission's examination staff in assessing the adequacy of funds' derivatives risk management programs and their compliance with the other requirements of the final rule, and identifying weaknesses in a fund's derivatives risk management if violations occur or are uncorrected.

3. Consideration Given to Information Technology

Rule 18f-4 will require a fund that enters into derivatives transactions to maintain certain records, including records related to a fund's derivatives risk management program and board oversight and reporting.⁷ Rule 18f-4 will require funds to maintain the required records for a period of five years. In particular, a fund must retain a copy of its written policies and procedures under the rule that are currently in effect, or were in effect at any time within the past five years, in an easily accessible place. In addition, a fund will have to maintain all other records and materials that the rule would require the fund to keep for at least five years (the first two years in an easily accessible place). The Electronic Signatures in Global and National Commerce Act⁸ and the conforming amendments to rules under the Investment Company Act permit funds to maintain records electronically.

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

⁷ See rule 18f-4(c)(6); see also section II.J of Adopting Release.

⁸ P.L. 106-229, 114 Stat. 464 (June 30, 2000).

rule. Rule 18f-4 imposes a requirement that funds have in place written derivatives risk management policies and procedures. The information required by rule 18f-4 is not generally duplicated elsewhere.

5. Effect on Small Entities

The information collection requirements of rule 18f-4 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 18f-4 requires funds that are not limited derivatives users to adopt and maintain a written derivatives risk management program. Under the rule, a fund's derivatives risk manager designated to administer the derivatives risk management program must provide a written report to the effectiveness of the derivatives risk management program to the board at least annually and must provide regular written reports at a frequency determined by the board. In addition, if a fund determines that it is not in compliance with the VaR-based limit on fund leverage risk within five business days of the exceedance, the derivatives risk manager must provide a written report to the board explaining how and by when (i.e., the number of business days) the derivatives risk manager reasonably expects that the fund will come back into compliance, with regular written updates to the board until the fund is back into compliance with the rule.

Rule 18f-4 also requires funds relying on the limited derivatives user exception to manage the risks associated with its derivatives transactions by adopting and implementing written policies and procedures that are reasonably designed to manage the fund's derivatives risks. The rule also requires that the adviser for any limited derivatives user that exceeds the 10% derivatives exposure threshold and does not reduce its exposure within five business days, must provide a written report to the fund's board of directors informing them whether the adviser intends to reduce the exposure promptly, but within no more than 30 days of the exceedance, or put in place a derivatives risk management program and comply with the VaR-based limit on fund leverage risk as soon as reasonably practicable.

Not collecting information or collecting such information less frequently would be incompatible with the objectives of rule 18f-4. The adoption and maintenance of a written derivatives risk management program and/or policies and procedures designed to manage the risks of the fund's derivatives transactions, along with the reporting of information to the fund's board and the maintenance of certain records, are integral parts to detecting and correcting any gaps in a fund's derivatives risk management before irrevocable or widespread harm is inflicted upon investors. Not requiring the collection of information increases the likelihood that such harm could go unchecked.

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

Rule 18f-4 will require funds to maintain required records for a period of five years (the first two years in an easily accessible place). Although this five-year period exceeds the three-year guideline for most kinds of records under 5 CFR 1320.5(d)(2), the staff believes that this is warranted because the rule's the requirement to keep records documenting the derivatives risk management program, including records documenting periodic review of the program and

written reports provided to the board of directors relating to the program, will help our staff evaluate a fund's compliance with the derivatives risk management program requirements. Because the period between examinations may be as long as five years, it is important that the Commission have access to records that cover the entire period between examinations.

The five-year retention period in rule 18f-4 is consistent with that in rule 38a-1(d) under the Investment Company Act. We believe that consistency in these retention periods is appropriate because funds currently have program-related recordkeeping procedures in place incorporating a five-year retention period. Furthermore, we believe that a five-year retention period would lessen the compliance burden of rule 18f-4 slightly, compared to choosing a different retention period, such as the six-year recordkeeping retention period under rule 31a-2 of the Investment Company Act.

8. Consultation Outside the Agency

Before adopting rule 18f-4, the Commission received and evaluated public comments on the proposal and its collection of information requirements. Moreover, 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 information exchanges. These various forums provide the Commission and staff with a means of ascertaining and acting upon the paperwork burdens confronting the industry.

9. Payment or Gift

No payment or gift to respondents was provided.

10. Assurance of Confidentiality

Information provided to the Commission in connection with staff examinations or investigations would be kept confidential subject to the provisions of applicable law. If

information collected pursuant to rule 18f-4 is reviewed by the Commission's examination staff, it will be accorded the same level of confidentiality accorded to other responses provided to the Commission in the context of its examination and oversight program.

11. Sensitive Questions

No PII collected/Not applicable.

12. Estimate of Hour Burden

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 18f-4 is mandatory for funds that enter into derivatives transactions and the other transactions that the rule addresses.

A. Derivatives Risk Management Program

Rule 18f-4 requires certain funds relying on the rule to adopt and implement a written derivatives risk management program, which includes policies and procedures reasonably designed to manage the fund's derivatives risks and a periodic review requirement.⁹ We estimate that 2,766 funds will be subject to the program requirement.¹⁰

Table 1 below summarizes the initial and ongoing annual burden estimates associated with the derivatives risk management program requirement under rule 18f-4 as adopted. While the Commission did not receive any comments specifically addressing the estimated PRA

⁹ See rule 18f-4(c)(1); see also section II.B of Adopting Release (discussing the derivatives risk management program requirements).

¹⁰ A fund that is a limited derivatives user will not be required to comply with the program requirement. Funds that are limited derivatives users will be required to adopt policies and procedures that are reasonably designed to manage their derivatives risks. See rule 18f-4(c)(4); section IV.B.6 of Adopting Release (discussing collections of information related to limited derivatives users).

burdens in the Proposing Release associated with the derivatives risk management program, it did receive comments suggesting that the implementation of the program, including the associated collections of information as defined in the PRA, may be more burdensome than the Commission estimated at proposal.¹¹ As such, we have increased the annual burden estimates associated with the derivatives risk management program, as shown in Table 1 below.

Table 1: Derivatives Risk Management Program PRA Estimates

	Internal initial burden hours	Internal annual burden hours ¹		Wage rate ²	Internal time costs	Annual external cost burden
PROPOSED ESTIMATES						
Written derivatives risk management program development	12 hours	4 hours	×	\$357 (derivatives risk manager)	\$1,428	
	12 hours	4 hours	×	\$466 (assistant general counsel)	\$1,864	\$0
	12 hours	4 hours	×	\$365 (compliance attorney)	\$1,460	
Periodic review and revisions of the program	0 hours	2 hours	×	\$357 (derivatives risk manager)	\$714	
	0 hours	2 hours	×	\$466 (assistant general counsel)	\$932	\$0
	0 hours	2 hours	×	\$365 (compliance attorney)	\$730	
Total annual burden per fund		18 hours			\$7,128	\$0
Number of funds		× 2,693			× 2,693	× 2,693
Total annual burden		48,474 hours			\$19,195,704	\$0
FINAL ESTIMATES						
Written derivatives risk management program development	45 hours	15 hours	×	\$360 (derivatives risk manager)	\$5,400	
	45 hours	15 hours	×	\$470 (assistant general counsel)	\$7,050	\$4,890 ³
	45 hours	15 hours	×	\$368 (compliance attorney)	\$5,520	
Periodic review and revisions of the program	0 hours	8 hours	×	\$360 (derivatives risk manager)	\$2,880	
	0 hours	8 hours	×	\$470 (assistant general counsel)	\$3,760	\$2,934 ⁴

¹¹ See section II.B of Adopting Release.

	0 hours	8 hours	×	\$368 (compliance attorney)	\$2,944	
Total annual burden per fund		69 hours			\$27,554	\$7,824
Number of funds		× 2,766			× 2,766	× 1,383 ⁵
Total annual burden		190,854			\$76,214,364	\$10,820,592

Notes:

1. For "Written Derivatives Risk Management Program Development," these estimates include initial burden estimates annualized over a three-year period.
2. See footnote 1009 of Adopting Release.
3. This estimated burden is based on the estimated wage rate of \$489/hour, for 10 hours, for outside legal services. See footnote 1009 of Adopting Release (regarding wage rates with respect to external cost estimates).
4. This estimated burden is based on the estimated wage rate of \$489/hour, for 6 hours, for outside legal services. See footnote 1009 of Adopting Release (regarding wage rates with respect to external cost estimates).
5. We estimate that 50% of funds will use outside legal services for these collections of information. This estimate takes into account that funds may elect to use outside legal services (along with in-house counsel) in connection with these requirements of rule 18f-4, based on factors such as fund budget and the fund's standard practices for using outside legal services, as well as personnel availability and expertise.

B. Board Oversight and Reporting

Rule 18f-4 requires: (1) a fund's board of directors to approve the designation of the fund's derivatives risk manager, (2) the derivatives risk manager to provide certain written reports to the board.¹² We estimate that 2,766 funds will be subject to these requirements.

Table 2 below summarizes the initial and ongoing annual burden estimates associated with the board oversight and reporting requirements under rule 18f-4. While the Commission did not receive any comments specifically addressing the estimated PRA burdens in the Proposing Release associated with the board oversight and reporting requirements, it did receive comments suggesting that requiring the fund's board of directors to approve the designation of the fund's derivatives risk manager would place increased burdens on the fund's board of directors.¹³ Accordingly, we have adjusted the proposal's estimated annual burden hours and total time costs to account for the potential for increased time burdens on the board of directors and to reflect the Commission's updated views on typical time burdens associated with similar board reporting requirements in other Commission regulations.

¹² See rule 18f-4(c)(3)(i)-(iii). Burdens associated with reports to the fund's board of directors of material risks arising from the fund's derivatives transactions, as described in rule 18f-4(c)(1)(v), are discussed in section IV.B.1 of Adopting Release.

¹³ See footnote 1016 of Adopting Release.

Table 2: Board Oversight and Reporting PRA Estimates

	Internal initial burden hours	Internal annual burden hours ¹		Wage rate ²	Internal time costs	Annual external cost burden
PROPOSED ESTIMATES						
Approving the designation of the derivatives risk manager	3 hours	1 hour	×	\$17,860 (combined rate for 4 directors)	\$17,860	
Derivatives risk manager written reports ³		8 hours	×	\$357 (derivatives risk manager)	\$2,856	
		1 hour	×	\$17,860 (combined rate for 4 directors)	\$17,860	
Total annual burden per fund		10 hours			\$38,576³	
Number of funds		×	2,693		×	2,693
Total annual burden		26,930 hours			\$103,885,168	
FINAL ESTIMATES						
Approving the designation of the derivatives risk manager	3 hours	2 hours	×	\$4,770 (combined rate for 9 directors) ⁴	\$9,540	\$1,467 ⁵
Derivatives risk manager written reports	12 hours	18 hours	×	\$360 (derivatives risk manager)	\$6,480	\$1,956 ⁶
	1.5 hours	2 hours	×	\$4,770 (combined rate for 9 directors) ⁴	\$9,540	
	6 hours	6 hours	×	\$368 (compliance attorney)	\$2,208	
Total annual burden per fund		28 hours			\$27,768	\$3,423
Number of funds		×	2,766		×	2,766
Total annual burden		77,448 hours			\$76,806,288	4,734,009

Notes:

1. This estimate includes initial burden estimates annualized over a three-year period, plus any estimated ongoing annual burden hours.
2. See footnote 1011 of Adopting Release (regarding wage rates).
3. This reflects an increase to the estimate that appeared in the Proposing Release, to account for a correction to the total internal time costs calculation as it appeared in the Proposing Release.
4. This reflects a reduction of the proposed estimate, to account for: (1) inadvertent quadrupling of the estimated rate in the proposal; and (2) updated assumptions about the number of directors sitting on a fund's board.
5. This estimated burden is based on the estimated wage rate of \$489/hour, for 3 hours, for outside legal services. See footnote 1009 of Adopting Release (regarding wage rates with respect to external cost estimates).
6. This estimated burden is based on the estimated wage rate of \$489/hour, for 4 hours, for outside legal services. See footnote 1009 of Adopting Release (regarding wage rates with respect to external cost estimates).
7. We estimate that 50% of funds will use outside legal services to assist with these collections of information. This estimate takes into account that funds may elect to use outside legal services (along with in-house counsel) in connection with these requirements of rule 18f-4, based on factors such as fund budget and the fund's standard practices for using outside legal services, as well as personnel availability and expertise.

C. VaR Remediation

Rule 18f-4 requires that if a fund is not in compliance within five business days, following an exceedance of the VaR-based fund leverage limit, the derivatives risk manager must provide certain written reports to the fund's board.¹⁴ In contrast, the proposed rule would have required the derivatives risk manager to notify the fund's board (and would not have specifically required a written report for such notification) following the fund being out of compliance with the VaR-based fund leverage limit for three business days.¹⁵

Table 3 below summarizes the initial and ongoing annual burden estimates associated with the VaR-related remediation reports required under rule 18f-4. For purposes of the PRA analysis, we do not estimate that there will be any initial or ongoing external costs associated with the VaR-related remediation requirements.

¹⁴ See rule 18f-4(c)(2)(ii)(A)-(C).

¹⁵ See section II.D.6.b of Adopting Release.

Table 3: VaR Remediation PRA Estimates

	Internal initial burden hours	Internal annual burden hours	Wage rate ¹	Internal time costs
FINAL ESTIMATES				
VaR-related remediation reports		0.1 hours ² ×	\$360 (derivatives risk manager)	\$36.00
		0.1 hours ² ×	\$332 (senior portfolio manager)	\$33.20
		0.1 hours ²	\$368 (compliance attorney)	\$36.80
		0.02 hours ³ ×	\$4,770 (combined rate for 9 directors)	\$95.40
Total annual burden per fund		0.32 hours		\$201.40
Number of funds		× 2,696		× 2,696
Total annual burden		863 hours		\$542,974

Notes:

1. See footnote 1009 of Adopting Release (regarding wage rates).

2. This estimate is based on the assumption that, of the 2,696 funds that will be required to comply with either of the VaR tests, on average 27 funds (or 1%), breach the relative or absolute VaR test annually. Each of the derivatives risk manager, a senior portfolio manager, and a compliance attorney will spend 10 hours preparing and reviewing related remediation reports. However, because we estimate that only 1% of funds will breach the relative or absolute VaR test annually, the hours burden is being decreased by 99%. $10 \text{ hours} \times 1\% = 0.1 \text{ hours}$.

3. This estimate is based on the assumption that, of the 2,696 funds that will be required to comply with either of the VaR tests, on average 27 funds (or 1%), breach the relative or absolute VaR test annually. The board will spend 2 hours reviewing related remediation reports. However, because we estimate that only 1% of funds will breach the relative or absolute VaR test annually, the hours burden is being decreased by 99%. $2 \text{ hours} \times 1\% = 0.02 \text{ hours}$.

D. Disclosure Requirement for Certain Leveraged/Inverse Funds

Under the final rule, an over-200% leveraged/inverse fund currently in operation will not have to comply with the VaR-based leverage risk limit. Such a fund is required to disclose in its prospectus that it is not subject to rule 18f-4's limit on fund leverage risk.¹⁶ This requirement represents a change from the proposal, in which we proposed to require that all leveraged/inverse funds (*i.e.*, not only over-200% leveraged/inverse funds) disclose that they are not subject to the rule's VaR-based leverage risk limit. As such, whereas in the proposal the Commission estimated that 269 leveraged/inverse funds would be subject to this prospectus disclosure requirement, we now estimate that 70 over-200% leveraged/inverse funds will be subject to this requirement.¹⁷

Table 4 below summarizes the initial and ongoing annual burden estimates associated with the rule's disclosure requirement for over-200% leveraged/inverse funds. We do not estimate that there will be any initial or ongoing external costs associated with this disclosure requirement. The Commission did not receive any comments relating to the estimated PRA burdens set forth in the Proposing Release associated with the prospectus disclosure requirement for leveraged/inverse funds.¹⁸ As shown in Table 4 below, we are making a modest increase to the estimated per-fund burden associated with the prospectus disclosure requirement for over-200% leveraged/inverse funds to reflect updated views on the burdens related to similar

¹⁶ See rule 18f-4(c)(5)(iii).

¹⁷ See paragraph accompanying footnote 819 of Adopting Release (estimating 70 leveraged/inverse ETFs (and 0 leveraged/inverse mutual funds) that currently seek to provide leveraged or inverse market exposure exceeding 200% of the return or inverse return of the relevant index).

¹⁸ See footnote 612 of Adopting Release and accompanying text (discussing comment received on proposed prospectus disclosure requirement generally).

prospectus disclosure requirements.

Table 4: Disclosure Requirement Associated with Certain Leveraged/Inverse Funds PRA Estimates

	Internal initial burden hours	Internal annual burden hours		Wage rate ¹	Internal time costs
PROPOSED ESTIMATES					
Leveraged/inverse fund prospectus disclosure	0 hours	.25 hours	×	\$309 (compliance manager)	\$77
	0 hours	.25 hours	×	\$365 (compliance attorney)	\$91
Total annual burden per fund		.5 hour²			\$168
Number of funds		× 269			× 269
Total annual burden		135 hours			\$45,192
FINAL ESTIMATES					
Leveraged/inverse fund prospectus disclosure	1.5 hours	0.5 hours ³	×	\$312 (compliance manager)	\$156
	1.5 hours	0.5 hours ³	×	\$368 (compliance attorney)	\$184
Total annual burden per fund		1 hour			\$340
Number of funds		× 70			× 70
Total annual burden		70 hours			\$23,800

Notes:

1. See footnote 1009 of Adopting Release (regarding wage rates).
2. This reflects a reduction of the annual burden hours estimate that appeared in the Proposing Release, to account for inadvertent doubling of the estimated burden hours in the Proposing Release.
3. This estimate includes initial burden estimates annualized over a three-year period.

E. Disclosure Changes for Money Market Funds

In a change from the proposal, the final rule includes a provision that will permit money market funds to invest in securities on a when-issued or forward-settling basis, or with a non-standard settlement cycle (“delayed-settlement securities provision”). As in the proposal, money market funds are excluded from the full scope of the final rule because they do not typically enter into derivatives transactions, as defined in the rule.¹⁹ To the extent a money market fund currently discloses in its prospectus that it may enter into transactions covered by the final rule other than transactions covered by the delayed-settlement securities provision, money market funds will be subject to the burdens associated with making disclosure changes to their prospectuses. We estimate that 420 funds could be subject to such disclosure changes.²⁰

Table 5 below summarizes the initial and ongoing annual burden estimates associated with disclosure changes that money market funds could make because of rule 18f-4. For purposes of this PRA analysis, we do not estimate that there will be any initial or ongoing external costs associated with this disclosure change requirement. The Commission did not receive any comments relating to the estimated PRA burdens set forth in the Proposing Release associated with potential disclosure changes for money market funds. However, we have adjusted the proposal’s estimated annual burden hours and total time costs to reflect the Commission’s updated views on typical time burdens associated with similar disclosure requirements in other Commission regulations.

¹⁹ See rule 18f-4(a) (defining the term “Fund” to “...not include a registered open-end company that is regulated as a money market fund”).

²⁰ See footnote 804 of Adopting Release and accompanying text. This likely overestimates the total number of funds subject to these disclosure changes, because we believe that money market funds currently do not typically engage in derivatives transactions.

Table 5: Disclosure Changes for Money Market Funds PRA Estimates

	Internal initial burden hours	Internal annual burden hours ¹		Wage rate ²	Internal time costs
PROPOSED ESTIMATES					
Money market prospectus disclosure changes	.75 hours	.25 hours	×	\$309 (compliance manager)	\$77
	.75 hours	.25 hours	×	\$365 (compliance attorney)	\$91
Total annual burden per fund		.5 hours			\$168
Number of funds		×	413		×
Total annual burden		207 hours			\$69,384
FINAL ESTIMATES					
Money market prospectus disclosure changes	3 hours	1 hour	×	\$312 (compliance manager)	\$312
	3 hours	1 hour	×	\$368 (compliance attorney)	\$368
Total annual burden per fund		2 hours			\$680
Number of funds		×	420		×
Total annual burden		840 hours			\$285,600

Notes:

1. These estimates include initial burden estimates annualized over a three-year period.
2. See footnote 1009 of Adopting Release (regarding wage rates).

F. Requirements for Limited Derivatives Users

Rule 18f-4 will require funds relying on the limited derivatives user provisions to adopt and implement written policies and procedures reasonably designed to manage the fund's derivatives risks.²¹ In addition to the initial burden to document the policies and procedures, we estimate that limited derivatives users will have an ongoing burden associated with any review and revisions to their policies and procedures to ensure that they are "reasonably designed" to manage the fund's derivatives risks. Rule 18f-4 also requires that the adviser for any limited derivatives user that exceeds the 10% derivatives exposure threshold and does not reduce its exposure within five business days, must provide a written report to the fund's board of directors informing them whether the adviser intends to reduce the exposure promptly, but within no more than 30 days of the exceedance, or put in place a derivatives risk management program and comply with the VaR-based limit on fund leverage risk as soon as reasonably practicable.²² We estimate that 2,437 funds will be subject to these limited derivatives users requirements.²³

Table 6 below summarizes the initial and ongoing annual burden estimates associated with the requirements for limited derivatives users under rule 18f-4. The Commission did not receive comments relating to the estimated hour and costs burdens associated with the preparation and maintenance of a limited derivatives user's policies and procedures. However, we have increased the proposal's estimated burden hours and internal and external total time costs to account for the potential that funds may implement additional policies and procedures related to the changes we have incorporated into the final rule to address exceedances of the 10%

²¹ See rule 18f-4(c)(4); section II.E.3 of Adopting Release (discussing the policies and procedures requirement for limited derivatives users).

²² See rule 18f-4(c)(4)(ii).

²³ See paragraph following footnote 892 of Adopting Release.

derivatives exposure threshold. This increase also reflects the Commission's updated views on typical time burdens and costs associated with the development of fund risk management policies and procedures.

Some commenters did state that many funds already have policies and procedures in place to manage certain risks associated with their derivatives transactions.²⁴ We do not have data to determine how many funds currently have written policies and procedures in place that will satisfy the rule's requirement. However, for purposes of our estimated hour and costs burden, we assume that all limited derivatives users will incur a cost associated with this requirement. Accordingly, our estimate may be over-inclusive, to the extent that it counts funds that already have in place policies and procedures reasonably designed to manage the fund's derivatives risks. Our estimate also may be under-inclusive, to the extent that it does not count funds that do not currently use derivatives, but that might want to implement policies and procedures reasonably designed to manage derivatives risks in order to have future flexibility to engage in derivatives transactions under the final's rule's limited derivatives user provision.

²⁴ See footnote 1027 of Adopting Release.

Table 6: Requirements for Limited Derivatives Users PRA Estimates

	Internal initial burden hours	Internal annual burden hours ¹		Wage rate ²	Internal time costs	Annual external costs burdens
PROPOSED ESTIMATES						
Written policies and procedures	3 hours	1 hour	×	\$329 (senior portfolio manager)	\$329	\$0
	3 hours	1 hour	×	\$365 (compliance attorney)	\$365	
Review of policies and procedures	0 hours	.25 hours		\$329 (senior portfolio manager)	\$82.25	\$0
	0 hours	.25 hours		\$365 (compliance attorney)	\$91.25	
Total annual burden per fund		2.5 hours			\$867.50	
Number of funds		× 2,398			× 2,398	
Total annual burden		5,995 hours			\$2,080,265	\$0
FINAL ESTIMATES						
Written policies and procedures	18 hours	6 hours	×	\$332 (senior portfolio manager)	\$1,992	\$1,956 ⁵
	18 hours	6 hours	×	\$368 (compliance attorney)	\$2,208	
Review of policies and procedures	0 hours	3 hours		\$332 (senior portfolio manager)	\$996	\$978 ⁶
	0 hours	3 hours		\$368 (compliance attorney)	\$1,104	
Limited derivatives user-related remediation reports		0.1 hours ³	×	\$332 (senior portfolio manager)	\$33.20	\$0
		0.1 hours ³		\$368 (compliance attorney)	\$36.80	
		0.02 hours ⁴	×	\$4,770 (combined rate for 9 directors)	\$95.40	
Total annual burden per fund		18.22 hours			\$6,465.40	\$2,934
Number of funds		× 2,437			× 2,437	× 1,219 ⁷
Total annual burden		44,402 hours			\$15,756,180	\$3,576,546

Notes:

1. For "Written Policies and Procedures," these estimates include initial burden estimates annualized over a three-year period.
2. See footnote 1009 of Adopting Release (regarding wage rates).
3. This estimate is based on the assumption that, of the 2,437 funds that will be limited derivatives users, on average 25 funds (or 1%), will be subject to the board reporting requirement in the exception's remediation provision annually. Each of the senior portfolio manager and compliance attorney will spend 10 hours preparing and reviewing the related remediation reports. However, because we estimate that only 1% of funds will be subject to the board reporting requirement in the exception's remediation provision annually, the hours burden is being decreased by 99%. 10 hours x 1% = 0.1 hours.
4. This estimate is based on the assumption that, of the 2,437 funds that will be limited derivatives users, on average 25 funds (or 1%), will be subject to the board reporting requirement in the exception's remediation provision annually. The board will spend 2 hours reviewing related remediation reports. However, because we estimate that only 1% of funds will be subject to the board reporting requirement in the exception's remediation provision annually, the hours burden is being decreased by 99%. 2 hours x 1% = 0.02 hours.
5. This estimated burden is based on the estimated wage rate of \$489/hour, for 4 hours, for outside legal services. See footnote 1009 of Adopting Release (regarding wage rates).
6. This estimated burden is based on the estimated wage rate of \$489/hour, for 2 hours, for outside legal services. See footnote 1009 of Adopting Release (regarding wage rates).
7. We estimate that 50% of funds will use outside legal services for these collections of information. This estimate takes into account that funds may elect to use outside legal services (along with in-house counsel) in connection with these requirements of rule 18f-4, based on factors such as fund budget and the fund's standard practices for using outside legal services, as well as personnel availability and expertise.

G. Recordkeeping Requirements

Rule 18f-4 will require a fund that enters into derivatives transactions to maintain certain records. As proposed, if the fund is not a limited derivatives user, the fund will be required to maintain records related to the fund’s derivatives risk management program and the VaR-based limit on fund leverage risk, including records related to board oversight and reporting (including records of the written reporting that the rule requires to occur between the derivatives risk manager and the fund’s board when the fund is out of compliance with the applicable VaR test).²⁵ As a modification to the proposal the final rule includes further obligations for a fund that is out of compliance with its applicable VaR test to provide written reports to the board. These additional reports will be covered by the final recordkeeping requirements.

If the fund is a limited derivatives user, the fund will be required to maintain a written record of its policies and procedures that are reasonably designed to manage derivatives risks.²⁶ As a conforming change in the final rule, a limited derivatives user will also be required to maintain records of written reports provided to the board upon any exceedance by the fund of the 10% derivatives exposure threshold, in accordance with the rule.²⁷

Further, in light of the final rule providing two separate treatment options for a fund that enters into a reverse repurchase agreement or similar financing transaction, we have conformed the recordkeeping provision to require that a fund that enters into reverse

²⁵ See rule 18f-4(c)(6)(i)(A) through (C).

²⁶ See rule 18f-4(c)(6)(i)(D).

²⁷ *Id.*

repurchase agreements or similar financing transactions to maintain a written record documenting whether it is complying with the asset coverage requirements of section 18 with respect to these transactions, or alternatively whether it is treating these transactions as derivatives transactions for all purposes under rule 18f-4.²⁸

Finally, a fund engaging in unfunded commitment agreements will be required to maintain records documenting the sufficiency of its cash and cash equivalents to meet its obligations with respect to each unfunded commitment agreement.²⁹

We estimate that 5,203 funds will be subject to recordkeeping requirements under the final rule (although not all funds will be subject to all of the rule's recordkeeping requirements).³⁰ Below we estimate the average initial and ongoing annual burdens associated with the recordkeeping requirements. This average takes into account that

²⁸ See rule 18f-4(d)(2).

²⁹ See rule 18f-4(e)(2).

³⁰ We estimate that the number of funds that will be subject to the recordkeeping requirements includes the number of funds that we estimate will be required to comply with the derivatives risk management program requirement (2,766 funds, which number encompasses the 2,696 funds that we estimate will be subject to the VaR test requirements) and the number of funds that we estimate will qualify as limited derivatives users (2,437 funds). See footnote 1010 and sections III.C.1-III.C.3 of Adopting Release. 2,766 funds + 2,437 funds = 5,203 funds.

Based on staff review of filings on Forms N-PORT and N-CEN for 2019, we estimate that 181 funds, or 1% of all funds subject to the final rule, will enter into reverse repurchase agreements or similar financing transactions (excluding BDCs, which we do not believe enter into such transactions to a significant degree) and will be subject to the recordkeeping requirements in the final rule. We further estimate that approximately 8.5% of open-end funds, 30% of registered closed-end funds, and 100% of BDCs, or 1,339 funds (10% of all funds subject to the rule) will enter into unfunded commitments and will incur be subject to the recordkeeping requirements in the final rule. To prevent over-counting, we are not adding these numbers of funds that engage in reverse repurchase agreements and unfunded commitment agreements to the sum of 5,203 funds discussed above, because we assume that these funds generally either would have to comply with the derivatives risk management program requirement or would qualify as limited derivatives users.

some funds such as limited derivatives users may have less extensive recordkeeping burdens than other funds that use derivatives, or the other transactions that final rule 18f-4 addresses, more substantially.

Table 7 below summarizes the proposed PRA estimates associated with the recordkeeping requirements in rule 18f-4. The Commission did not receive any comments related to the estimated PRA burdens set forth in the Proposing Release associated with the rule's recordkeeping requirements. However, we have adjusted the proposal's estimated annual burden hours and total time costs, on account of the conforming modifications to the proposed recordkeeping requirements that we are adopting, as well as to reflect the Commission's updated views on typical time burdens and personnel associated with similar recordkeeping requirements in other Commission regulations.

Table 7: Recordkeeping PRA Estimates

	Internal initial burden hours	Internal annual burden hours ¹	Wage rate ²	Internal time costs	Initial external cost burden	Annual external cost burden
PROPOSED ESTIMATES						
Establishing recordkeeping policies and procedures	1.5 hours	.5 hours	\$62 (general clerk)	\$31	\$1,800	\$600
	1.5 hours	.5 hours	\$95 (senior computer operator)	\$47.50		
Recordkeeping	0 hours	2 hours	× \$62 (general clerk)	\$124	\$0	\$0
	0 hours	2 hours	× \$95 (senior computer operator)	\$190		
Total annual burden per fund		5 hours		\$392.50		\$600
Number of funds		× 5,091		× 5,091		5,091
Total annual burden		25,455 hours		\$1,998,218³		\$3,054,600
FINAL ESTIMATES						
Establishing recordkeeping policies and procedures for derivatives risk management program and VaR requirements	9 hours	3 hours	\$63 (general clerk)	\$189	\$1,800 ⁵	\$600
	9 hours	3 hours	\$96 (senior computer operator)	\$288		
	9 hours	3 hours	\$368 (compliance attorney)	\$1,104		
Recordkeeping for derivatives risk management program and VaR requirements	0 hours	16 hours	× \$63 (general clerk)	\$1,008	\$0	\$0
	0 hours	16 hours	× \$96 (senior computer operator)	\$1,536		
	0 hours	16 hours	\$368 (compliance attorney)	\$5,888		
Total annual burden per fund		57 hours		\$10,013		\$600
Number of funds		× 2,766 ⁴		× 2,766 ⁴		2,766
Total annual burden		157,662 hours		\$27,695,958		\$1,659,600
Establishing recordkeeping policies and procedures for limited derivatives users	1.5 hours	.5 hours	\$63 (general clerk)	\$31.50	\$1,800	\$600
	1.5 hours	.5 hours	\$96 (senior computer operator)	\$48		
	1.5 hours	.5 hours	\$368 (compliance attorney)	\$184		
Recordkeeping for limited derivatives users	0 hours	2 hours	× \$63 (general clerk)	\$126	\$0	\$0
	0 hours	2 hours	× \$96 (senior computer operator)	\$192		
	0 hours	2 hours	\$368 (compliance attorney)	\$736		
Total annual burden per fund		7.5 hours		\$1,317.50		\$600
Number of funds		× 2,437		× 2,437		2,437
Total annual burden		18,278 hours		\$3,210,748		\$1,462,200

Establishing recordkeeping policies and procedures for funds engaging in unfunded commitment agreements	1.5 hours	.5 hours	\$63 (general clerk)	\$31.50	
	1.5 hours	.5 hours	\$96 (senior computer operator)	\$48	
	1.5 hours	.5 hours	\$368 (compliance attorney)	\$184	\$0
					\$0
Recordkeeping for unfunded commitment agreements	0 hours	2 hours	\$63 (general clerk)	\$126	
	0 hours	2 hours	\$96 (senior computer operator)	\$192	
	0 hours	2 hours	\$368 (compliance attorney)	\$736	
Total annual burden per fund		7.5 hour	\$1,317.50	\$0	
Number of funds		× 1,339	× 1,339		
Total annual burden		10,043 hours	\$1,764,133	\$0	
Establishing recordkeeping policies and procedures for funds engaging in reverse repurchase agreements	1.5 hours	.5 hours	\$63 (general clerk)	\$31.50	
	1.5 hours	.5 hours	\$96 (senior computer operator)	\$48	
	1.5 hours	.5 hours	\$368 (compliance attorney)	\$184	\$0
					\$0
Recordkeeping for reverse repurchase agreements	0 hours	1 hour	\$63 (general clerk)	\$63	
	0 hours	1 hour	\$96 (senior computer operator)	\$96	
	0 hours	1 hour	\$368 (compliance attorney)	\$368	
Total annual burden per fund		4.5 hour	\$790.50	\$0	
Number of funds		× 181	× 181		
Total annual burden		815 hours	\$143,081	\$0	
Total annual burden for all record keeping requirements		186,798 hours	\$32,813,920	\$3,121,800	
Number of funds		5,203	5,203	5,203	
Average annual burden per fund		35.90 hours	\$6,307	\$600	

Notes:

1. These estimates include initial burden estimates annualized over a three-year period.
2. See footnote 1009 of Adopting Release (regarding wage rates).
3. This reflects an increase to the estimate that appeared in the Proposing Release, to account for inadvertent halving of the internal time costs for the recordkeeping burdens in the Proposing Release.
4. Note that this estimate may be over-inclusive because not all funds included in this calculation will be subject to a derivatives risk management program and compliance with the rule's VaR requirements. For instance, certain leveraged/inverse funds will not be subject to compliance with the rule's VaR requirements.

5. See footnote 1009 of Adopting Release (regarding wage rates). Estimates of external costs for recordkeeping burdens reflect costs that funds may pay to third parties to assist in fulfilling funds' recordkeeping duties.

H. Rule 18f-4 Total Estimated Burden

As summarized in Table 8 below, we estimate that the total hour burdens and time costs associated with rule 18f-4, amortized over three years, will result in an average aggregate annual burden of 501,275 hours and an average aggregate annual monetized time cost of \$202,443,126. We also estimate that, amortized over three years, there will be external costs of \$22,252,947 associated with this collection of information. Therefore, each fund that relies on the rule will incur an average annual burden of approximately 96.34 hours, at an average annual monetized time cost of approximately \$38,909, and an external cost of \$4,277 to comply with rule 18f-4.³¹

³¹ These per-fund burden estimates likely overestimate the total burden of rule 18f-4 because not all funds (*e.g.*, limited derivatives users) would incur the various burdens set forth in the table.

Table 8: Rule 18f-4 Total PRA Estimates

	Internal hour burden	Internal burden time cost	External cost burden
Proposed Estimates			
Derivatives risk management program	48,474 hours	\$19,195,704	\$0
Board oversight and reporting	26,930 hours	\$103,885,168 ¹	\$0
Disclosure requirement associated with limit on fund leverage risk	2,424 hours	\$816,888	\$0
Disclosure requirement associated with alternative requirements for certain leveraged/inverse funds	135 hours ²	\$45,192	\$0
Disclosure changes for money market funds	207 hours	\$69,384	\$0
Policies and procedures for limited derivatives users	5,995 hours	\$2,080,265	\$0
Recordkeeping requirements	25,455 hours	\$1,998,218 ³	\$3,054,600
Total annual burden	109,620	\$128,090,819	\$3,054,600
Number of funds	÷ 5,091	÷ 5,091	÷ 5,091
Average annual burden per fund	21.53 hours	\$25,160	\$600
Final Estimates			
Derivatives risk management program	190,854 hours	\$76,214,364	\$10,820,592
Board oversight and reporting	77,448 hours	\$76,806,288	\$4,734,009
VaR remediation	863 hours	\$542,974	\$0
Disclosure requirement associated with alternative requirements for certain leveraged/inverse funds	70 hours	\$23,800	\$0
Disclosure changes for money market funds	840 hours	\$285,600	\$0
Requirements for limited derivatives users	44,402 hours	\$15,756,180	\$3,576,546
Recordkeeping requirements	186,798 hours	\$32,813,920	\$3,121,800
Total annual burden	501,275	\$202,443,126	\$22,252,947
Number of funds	÷ 5,203	÷ 5,203	÷ 5,203
Average annual burden per fund	96.34 hours	\$38,909	\$4,277

Notes

- 1 This reflects an increase to the estimate that appeared in the Proposing Release (\$31,739,698), to account for a correction to the total internal time costs calculation as it appeared in the Proposing Release.
2. This reflects a reduction of the annual burden hours estimate that appeared in the Proposing Release (269 hours), to account for inadvertent doubling of the estimated burden hours in the Proposing Release.
3. This reflects an increase to the estimate that appeared in the Proposing Release (\$799,287), to account for inadvertent halving of the internal time costs for the recordkeeping burdens in the Proposing Release.

13. Cost to Respondents

The staff estimates that rule 18f-4 does not impose any material cost burdens on funds, apart from the cost of the burden hours discussed above. Although rule 18f-4 requires funds to maintain records for five years, these records may be maintained electronically and, even if maintained in hard copy, are unlikely to be voluminous. The staff has not estimated a capital cost in connection with the recordkeeping requirements because funds and their advisers would likely use existing recordkeeping systems to maintain the required records.

14. Costs to Federal Government

Rule 18f-4 does not impose a cost to the federal government. Commission staff may, however, review records produced pursuant to the rule in order to assist the Commission in carrying out its examination and oversight program.

15. Changes in Burden

Not applicable. This is the first request for approval of the collection of information for this rule.

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 for Paperwork Reduction Act Submissions

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.