

**SUPPORTING STATEMENT**  
**For the Paperwork Reduction Act Information Collection Submission for**  
**Rule 17f-2**

**A. JUSTIFICATION**

**1. Necessity for the Information Collection**

Rule 17f-2 (17 CFR 270.17f-2), entitled “Custody of Investments by Registered Management Investment Company,” establishes safeguards for arrangements in which a registered management investment company or business development company ("fund") is deemed to maintain custody of its own assets, such as when the fund maintains its assets in a facility that provides safekeeping but not custodial services.<sup>1</sup> The rule includes four distinct requirements that are an information collection under the Paperwork Reduction Act. First, fund's directors must prepare a resolution designating not more than five fund officers or responsible employees who may have access to the fund's assets. Secondly, the fund’s board must vote to approve this resolution. Third, the designated access persons (two or more of whom must act jointly when handling fund assets) must prepare a written notation providing certain information about each deposit or withdrawal of fund assets, and must transmit the notation to another officer or director designated by the directors. Lastly, an independent public accountant must verify the fund's assets three times each year, and two of those examinations must be unscheduled.<sup>2</sup>

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

Rule 17f-2’s requirements are designed to safeguard fund assets from loss by requiring certain specific controls when those assets are not placed and maintained in the custody of a bank or other custodian as permitted under section 17(f) of the Investment Company Act of 1940 (15

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<sup>1</sup> The rule generally requires all assets to be deposited in the safekeeping of a "bank or other company whose functions and physical facilities are supervised by Federal or State authority."

<sup>2</sup> The accountant must transmit to the Commission promptly after each examination a certificate describing the examination on Form N-17f-2. The preparation and filing of Form N-17f-2, which largely serves as a cover-sheet for the accountant’s certification of their audit, is covered by a separate information collection. The third (scheduled) examination may coincide with the annual verification required for every fund by section 30(g) of the Act (15 U.S.C. 80a-29(g)).

U.S.C. 80a-17(f) (“Act”) and the rules thereunder. Specifically, the requirement that directors designate access persons is intended to ensure that directors evaluate the trustworthiness of insiders who handle fund assets. The requirements that access persons act jointly in handling fund assets, prepare a written notation of each transaction, and transmit the notation to another designated person are intended to reduce the risk of misappropriation of fund assets by access persons, and to ensure that adequate records are prepared, reviewed by a responsible third person, and available for examination by the Commission. The requirement that auditors verify fund assets without notice twice each year is intended to provide an additional deterrent to the misappropriation of fund assets and to detect any irregularities. Less frequent examinations by a fund’s accountants could impair the ability of the Commission’s examination staff to ascertain the fund’s compliance with the rule.

### **3. Consideration Given to Information Technology**

Generally, the information collected under the rule would not be submitted to the Commission. However, the audits required under the rule are submitted to the Commission using our Electronic Data Gathering, Analysis and Retrieval System (“EDGAR”) which provides for the automated filing, processing, and dissemination of full disclosure filings.<sup>3</sup> The automation provides for speed, accuracy and public availability of information, generating benefits to investors and financial markets. Further, the rule does not generally stipulate any particular method for communicating or preserving the information collected, however the notations required under the rule normally would be prepared and maintained on paper because they are required to appear on consecutively numbered forms. The Electronic Signatures in Global and National Commerce Act<sup>4</sup> and the conforming amendments to recordkeeping rules under the Investment Company Act permit funds to maintain records electronically.

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<sup>3</sup> This information is submitted via Form N-17f-2.

<sup>4</sup> P.L. 106-229, 114 Stat. 464 (June 30, 2000).

#### **4. Duplication**

The Commission evaluates reporting requirements for duplication periodically, and whenever a rule or a change in a rule is proposed. Rule 17f-2 does not require recordkeeping or reporting of information available elsewhere. The scheduled verification of the fund's assets required each year by rule 17f-2 may be combined with the annual verification of every fund's assets required by section 30(g) of the Act (15 U.S.C. 80a-29(g)).

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

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 businesses. The Commission believes that the rule's safeguards are necessary to protect fund assets from potential misappropriation or loss by fund insiders and, as a result, do not believe that exempting small funds or otherwise tailoring the provisions of the rule for small funds would permit us to achieve this objective. Further, the rule potentially benefits smaller funds by permitting them to use self-custody procedures under the rule that may be simpler or less expensive than the bank custody arrangements used by most funds.

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

The frequency with which the fund prepares notations of transactions under rule 17f-2 depends on circumstances within the control of the fund. Elimination of one or both of the twice-annual unscheduled verifications of fund assets under the rule might lessen the deterrent and detection value of these verifications and increase the risk of misappropriation of fund assets. In addition, less frequent collection under rule 17f-2 could inhibit the dissemination of timely information to the public and could impair the ability of the Commission's examination staff to ascertain compliance with the rule.

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

None.

**8. Consultation Outside the Agency**

The Commission requested public comment on the collection of information requirements in rule 17f-2 before it submitted this request for extension and approval to the Office of Management and Budget. The Commission received no comments in response to its request.

The Commission and staff of the Division of Investment Management participate in an ongoing dialogue with representatives of the fund industry through public conferences, meetings, and informal exchanges. These forums provide the Commission and the staff means of ascertaining and acting upon paperwork burdens confronting the industry.

**9. Payment or Gift to Respondents**

Not applicable.

**10. Assurances of Confidentiality**

Not applicable.

**11. Sensitive Questions**

No information of a sensitive nature, including social security numbers, will be required under this collection of information. The information collection does not collect personally identifiable information (PII). 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.

**12. Burden of Information Collection**

The estimate of average burden hours is made solely for the purposes of the Paperwork Reduction Act, and is not derived from a comprehensive or even a representative survey or study of the costs of Commission rules and forms.

The Commission staff estimates that each fund makes 974 responses and spends an average of 252 hours annually in complying with the rule's requirements.<sup>5</sup> Commission staff

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<sup>5</sup> The 974 responses are: 1 (one) response to draft and adopt the resolution and 973 notations. Estimates of

estimates that on an annual basis it takes: (i) 0.5 hours of fund accounting personnel at a cost of \$111 and 1 hour of fund attorney personnel time at a cost of \$425, for a total of 1.5 hours and a cost of \$536 to draft director resolutions;<sup>6</sup> (ii) 0.5 hours of the fund's board of directors at a total cost of \$2,385 to adopt the resolution;<sup>7</sup> (iii) approximately 244 hours for the fund's personnel at a total cost of \$71,102 to prepare written notations of transactions;<sup>8</sup> and (iv) 3 hours for the fund's controller or administrator at a total cost of \$1,494 to assist the independent public accountants when they perform verifications of fund assets.<sup>9</sup> The total of these four requirements would then be 249 hours at a cost of \$75,517 per respondent. Commission staff estimates that approximately 183 funds file Form N-17f-2 each year.<sup>10</sup> Thus, the total annual hour burden for rule 17f-2 is estimated to be 45,384 hours.<sup>11</sup> Based on the total costs per fund listed above, the total cost of

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the number of hours are based on conversations with individuals in the fund industry. The actual number of hours may vary significantly depending on individual fund assets.

<sup>6</sup> The estimate relating to fund accounting personnel is based on the following calculation: 0.5 (burden hours per fund) x \$221 (senior accountant's hourly rate) = approximately \$111. Unless otherwise indicated, the hourly wage figures used herein are from the Securities Industry and Financial Markets Association's Management & Professional Earnings in the Securities Industry 2013, modified by Commission staff to account for an 1800-hour work-year and inflation, and multiplied by 5.35 to account for bonuses, firm size, employee benefits and overhead.

<sup>7</sup> The staff has estimated the average cost of board of director time as \$4,770 per hour for the board as a whole, based on information received from funds and their counsel.

<sup>8</sup> Respondents estimated that each fund makes 973 responses on an annual basis and spends a total of 0.25 hours per response. The fund personnel involved are Accounts Payable Manager (\$208 hourly rate), Operations Manager (\$373 hourly rate) and Accounting Manager (\$296 hourly rate). The average hourly rate of these personnel is approximately \$292. The estimated cost of preparing notations is based on the following calculation:  $974 \times 0.25 \times \$292 = \$71,102$ .

<sup>9</sup> This estimate is based on the following calculation:  $3 \times \$498$  (fund controller's hourly rate) = \$1,494.

<sup>10</sup> On average, each year approximately 183 funds filed Form N-17f-2 with the Commission during calendar years 2018-2020. As every fund subject to rule 17f-2 must file Form N-17f-2, we believe this is a good estimate for the number of respondents to the rule.

<sup>11</sup> This estimate is based on the following calculation:  $183$  (funds) x  $249$  (total annual hourly burden per fund) =  $45,384$  hours for rule. The annual burden for rule 17f-2 does not include time spent preparing Form N-17f-2. The burden for Form N-17f-2 is included in a separate collection of information.

rule 17f-2's collection of information requirements is estimated to be approximately \$13,819,611.<sup>12</sup>

**Table 1: Summary of Revised Annual Responses, Burden Hours, and Cost Estimates**

IC Title	Annual No. of Responses			Annual Time Burden (Hrs.)			External Cost Burden (\$)		
	<i>Previously approved</i>	<i>Requested</i>	<i>Change</i>	<i>Previously approved</i>	<i>Requested</i>	<i>Change</i>	<i>Previously approved</i>	<i>Requested</i>	<i>Change</i>
Rule 17f-2	200,644 <sup>13</sup>	178,242 <sup>14</sup>	-22,402	51,912	45,384	-6,528	\$7,940,888	\$10,699,278	\$2,758,390

### 13. Cost to Respondents

Funds relying on rule 17f-2 generally use outside counsel to assist in drafting directors' resolutions. Commission staff estimates the annual cost of these services per fund is \$496.<sup>15</sup> In addition, rule 17f-2 requires an independent public accountant to verify the fund's assets three times each year and to prepare and file with the Commission a certificate of examination each time it performs the verification. Commission staff estimates this cost per fund is \$57,970.<sup>16</sup> Thus the total estimated annual cost to the industry is approximately \$10,699,278.<sup>17</sup>

### 14. Cost to the Federal Government

The federal government does not incur any direct costs in connection with the requirements of rule 17f-2.

### 15. Changes in Burden

<sup>12</sup> This estimate is based on the following calculation: \$75,517 (total annual cost per fund) x 183 funds = \$13,819,611.

<sup>13</sup> 974 responses per fund x 206 funds = 200,644

<sup>14</sup> 974 responses per fund x 183 funds = 178,242

<sup>15</sup> This estimate is based on the following calculation: 1 (hour) x \$496 (attorney's hourly billing rate) = \$496.

<sup>16</sup> This estimate is based on the following calculation: 175 (hours to verify fund assets) x \$310 (external accountant's hourly billing rate) = \$54,250; 12 (hours to prepare certificates of examination) x \$310 (external accountant's hourly billing rate) = \$3,720; \$54,250 + \$3,720 = \$57,970.

<sup>17</sup> This estimate is based on the following calculation: 183 funds x (\$57,970 + \$496) = \$10,699,278.

The estimated total annual hour burden for rule 17f-2 has decreased due to a decrease in the amount of funds filing on Form N-17f-2 (and thus are subject to the rule) during the reporting period. We believe that in order to draft a director resolution that involves outside counsel, internal fund legal counsel would also be involved and have updated the estimate accordingly. Further, we believe that the oversight of an audit as required under the rule would involve the fund's controller, though for less time than previously estimated for general fund accounting personnel. This last change also brings this estimate in-line with that of rule 17f-1 under the Act (17 CFR 270.17f-1), which has a similar requirement. Changes to the estimated cost to the hour burden are based upon inflation adjustments to the relevant salary estimates. The estimated total annual external cost has increased for similar reasons and to correctly reflect the expense of outside professional services. 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), and the Commission requested public comment on all information collection burden estimates for this OMB control number.

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

Not applicable.

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

Not applicable.

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

Not applicable.

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

Not applicable.