

SUPPORTING STATEMENT
For the Paperwork Reduction Act Information Collection Submission for
Form N-1A

A. JUSTIFICATION

1. Necessity for the Information Collection

Form N-1A (17 CFR 239.15A and 274.11A) is the form used by open-end management investment companies (“funds”) to register under the Investment Company Act of 1940 (15 U.S.C. 80a-1 et seq.) (“Investment Company Act”) and/or to register their securities under the Securities Act of 1933 (15 U.S.C. 77a, et seq.) (“Securities Act”). Section 5 of the Securities Act (15 U.S.C. 77e) requires the filing of a registration statement prior to the offer of securities to the public and that the statement be effective before any securities are sold, and Section 8 of the Investment Company Act (15 U.S.C. 80a-8) requires a fund to register as an investment company. Form N-1A also permits funds to provide investors with a prospectus and a statement of additional information (“SAI”) covering essential information about the fund when it makes an initial or additional offering of its securities. Section 5(b) of the Securities Act requires that investors be provided with a prospectus containing the information required in a registration statement prior to the sale or at the time of confirmation or delivery of the securities.

On May 25, 2022, the Commission issued a release proposing rules and form amendments under both the Investment Advisers Act of 1940 and the Investment Company Act to require registered investment advisers, certain advisers that are exempt from registration, registered investment companies, and business development

companies, to provide additional information regarding their environmental, social, and governance (“ESG”) investment practices.¹

The proposed amendments to Form N-1A are designed to provide investors clear and comparable information about how a fund considers ESG factors.² They also address the significant variability in the ways different funds approach the incorporation of ESG factors in their investment decisions by contemplating a range of strategies that funds use. The level of detail required by this enhanced disclosure would depend on the extent to which a fund considers ESG factors in its investment process. Specifically, funds that meet the proposed definition of “Integration Fund” would provide more limited disclosures. “ESG-Focused” Funds, which would include, for example, funds that apply inclusionary or exclusionary screens, funds that focus on ESG-related engagement with the issuers in which they invest, and funds that seek to achieve a particular ESG impact, would be required to provide more detailed information in a tabular format. Additionally, because the information necessary to understand fully a fund’s ESG methodology could lead to a large amount of disclosure, the proposed requirements contemplate layered disclosure. For example, open-end funds would provide an overview of their ESG strategy in the summary section of the prospectus, and would provide more details about

¹ *Enhanced Disclosures by Certain Investment Advisers and Investment Companies about Environmental, Social, and Governance Investment Practices*, Securities Act Release No. 33-11068; Securities Exchange Act Release No. 94985; Investment Advisers Act Release No. 6034; Investment Company Act Release No. -34594, File No. S7-17-22 (May 25, 2022) available at <https://www.sec.gov/rules/proposed/2022/33-11068.pdf>.

² This approach would complement existing requirements that funds use plain English and disclose essential information in a concise and straightforward manner to help investors make informed investment decisions about the fund. *See, e.g.*, General Instructions B.4.(c) and C.1-3(c) of Form N-1A [17 CFR 274.11A]; General Instruction for Part A and General Instructions for Parts A and B of Form N-2 [17 CFR 274.11a-1].

the strategy in the statutory prospectus. In addition, to complement the disclosure in the prospectus, the proposed amendments would require certain funds to provide additional ESG-related information in their annual reports.

2. Purpose and Use of the Information Collection

The title for the collection of information is: Form N-1A under the Investment Company Act of 1940 and Securities Act of 1933, Registration Statement of Open-End Management Investment Companies. The purpose of Form N-1A is to meet the filing and disclosure requirements of the Securities Act and the Investment Company Act and to enable funds to provide investors with information necessary to evaluate an investment in the fund. Unlike many other federal information collections, which are primarily for the use and benefit of the collecting agency, this information collection is primarily for the use and benefit of investors. The information filed with the Commission also permits the verification of compliance with securities law requirements and assures the public availability and dissemination of the information.

3. Consideration Given to Information Technology

The Commission's electronic filing system (Electronic Data Gathering, Analysis and Retrieval or "EDGAR") is designed to automate the filing, processing and dissemination of full 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-1A is required to be filed with the Commission electronically on

EDGAR.³ 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. Prospectuses and SAIs may be sent to investors by electronic means so long as the fund meets certain requirements.⁴

4. Duplication

The Commission periodically evaluates rule-based reporting and recordkeeping requirements for duplication and reevaluates them whenever it proposes a rule or a change in a rule. The requirements of Form N-1A are not generally duplicated elsewhere.

5. Effect on Small Entities

The Commission reviews all rules periodically, as required by the Regulatory Flexibility Act,⁵ to identify methods to minimize recordkeeping or reporting requirements affecting small businesses. The current disclosure requirements for registration statements on Form N-1A do not distinguish between small entities and other investment companies. The burden on smaller investment companies of preparing and filing registration statements may be proportionately greater than for larger investment companies. This burden includes the cost of producing, printing, filing, and disseminating prospectuses. The Commission believes, however, that imposing different requirements on smaller investment companies would not be consistent with investor protection and the purposes of the registration statements.

³ 17 CFR 232.101(a)(1)(i) and (iv).

⁴ See Use of Electronic Media for Delivery Purposes, Securities Act Release No. 7233, Exchange Act Release No. 36345, Investment Company Act Release No. 21399 (Oct. 6, 1995) (60 FR 53458 (Oct. 13, 1995)).

⁵ 5 U.S.C. 601 *et seq.*

6. Consequences of Not Conducting Collection

The purpose of Form N-1A is to meet the filing and disclosure requirements of the Securities Act and the Investment Company Act and to enable filers to provide investors with information necessary to evaluate an investment in the security. Less frequent filing would be inconsistent with the filing and disclosure requirements of the Securities Act and the Investment Company Act. In addition, if the form were to be filed less frequently, investors may not be provided with the information necessary to evaluate an investment in the security.

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

This collection is not inconsistent with 5 CFR 1320.5(d)(2).

8. Consultation Outside the Agency

Before determining whether to adopt the proposed amendments to Form N-1A, the Commission will receive and evaluate 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 informal exchanges. These various forums provide the Commission and staff with a means of ascertaining and acting upon paperwork burdens that may confront the industry.

9. Payment or Gift

No payment or gift to respondents was provided.

10. Confidentiality

No assurance of confidentiality was provided.

11. Sensitive Questions

No information of a sensitive nature, including social security numbers, will be required under this collection of information. The information collection collects basic Personally Identifiable Information (PII) that may include names, job titles and work addresses. 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 of 1995⁶ and are not derived from a comprehensive or even representative survey or study of the cost of Commission rules and forms. Compliance with the disclosure requirements of Form N-1A is mandatory. Responses to the disclosure requirements will not be kept confidential.

⁶ 44 U.S.C. 3501 *et seq.*

Table 1: Form N-1A PRA Estimates

	Initial internal burden hours	Internal annual burden hours ¹	Wage rate ²	Internal time costs	Annual external cost burden
PROPOSED AMENDMENTS TO FORM N-1A					
Integration Fund Disclosure					
Proposed fund prospectus	3 hours	2 hours ³	\$356 (blended rate for compliance attorney and senior programmer) ⁴	\$712	\$617.50 ⁵
Total new annual burden per fund		2 hours		\$712	\$617.50
Number of funds		× 10,598 funds ⁶		× 10,598 funds ⁶	× 10,598 funds ⁶
Total new annual burden		21,196 hours		\$7,545,776	\$6,544,265
ESG Focused And Impact Fund Disclosure					
Proposed fund prospectus	18 hours	12 hours ⁷	\$356 (blended rate for compliance attorney and senior programmer) ⁴	\$4,272	\$4,872 ⁸
Total new annual burden per fund		12 hours		\$4,272	\$4,872
Number of funds		× 755 funds ⁹		× 755 funds ⁹	× 755 funds ⁹
Total new annual burden		9,060 hours		\$3,225,360	\$3,678,360
Total estimated burdens for proposed amendments					
		30,256 hours			\$10,222,625
TOTAL ESTIMATED BURDENS, INCLUDING AMENDMENTS					
Current burden estimates		+1,672,077 hours			+\$132,940,008
Revised burden estimates		1,702,333 hours			\$143,162,633

Notes:

- Includes initial burden estimates annualized over a 3-year period.
- These PRA estimates assume that the same types of professionals would be involved in satisfying the proposed requirements that we believe otherwise would be involved in complying with this requirement. The Commission's estimates of the relevant wage rates are based on salary information for the securities industry compiled by the Securities Industry and Financial Markets Association's *Office Salaries in the Securities Industry 2013*. The estimated figures are modified by firm size, employee benefits, overhead, and adjusted to account for the effects of inflation. See Securities Industry and Financial Markets Association, Report on Management & Professional Earnings in the Securities Industry 2013 (as adjusted to account for inflation, the "SIFMA Wage Report").
- Includes initial burden estimates annualized over a three-year period, plus 1 hour of ongoing annual burden hours. The estimate of 2 hours is based on the following calculation: $((3 \text{ initial hours} / 3) + 1 \text{ hour of additional ongoing burden hours}) = 2 \text{ hours}$.
- The \$356 wage rate reflects current estimates of the blended hourly rate for an in-house compliance attorney (\$373) and a senior programmer (\$339). \$356 is based on the following calculation: $(\$373 + \$339) / 2 = \$356$.
- \$617.5 includes an estimated \$248 for 0.5 hours of outside legal services and an estimated \$369.50 for 0.5 hours of management consultant services.
- For PRA purposes, we estimate that 80% of all funds filing on Form N-1A as of 2021 will incur the burdens associated with the proposed Integration Fund disclosure. We believe this estimate is appropriate because a majority of funds may be required to incur some burdens to determine whether the proposed disclosure requirements would apply to their investment strategies. Furthermore, we have observed that an increasing number of investment advisers have pledged to consider ESG factors to some extent across all their investment products. However, the actual number of funds that meet the definition of Integration Fund may be lower or higher.
- Includes initial burden estimates annualized over a three-year period, plus 6 hours of ongoing annual burden hours. The estimate of 12 hours is based on the following calculation: $((18 \text{ initial hours} / 3) + 6 \text{ hours of additional ongoing burden hours}) = 12 \text{ hours}$.
- \$4,872 includes an estimated \$1,956 for 4 hours of outside legal services and an estimated \$2,916 for 4 hours of management consultant services.
- The estimated 755 funds includes the staff's estimate of 700 ESG-Focused Funds and 55 ESG Impact Funds registered on Form N-1A as of 2021.

13. Cost to Respondents

Cost burden is the cost of goods and services purchased to prepare and amend registration statements on Form N-1A, such as for the services of independent auditors and outside counsel. The cost burden does not include the hour burden discussed in Item 12 above. Estimates are based on the Commission's experience with the filing of registration forms. Under the proposed amendments, we estimate that the total cost to all respondents would be \$10,222,625 as detailed in Table 1 above.

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 \$30 million in fiscal year 2021, based on the Commission's computation of the value of staff time devoted to these activities and related overhead.

15. Change in Burden

The proposed disclosure requirements would increase the estimated hourly burden associated with Form N-1A from 1,672,077 hours to 1,702,333 hours. In addition, the cost burdens associated with Form N-1A would increase from \$132,940,008 to \$143,162,633.

16. Information Collection Planned for Statistical Purposes

The results of any information collected will not be published.

17. Approval to Omit OMB Expiration Date

We request authorization to omit the expiration date on the electronic version of the form for design and IT project scheduling reasons. The OMB control number will be displayed.

18. Exceptions to Certification Statement for Paperwork Reduction Act Submission

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.