

**SUPPORTING STATEMENT**  
**For the Paperwork Reduction Act Information Collection Submission for**  
**Rule 17g-1**

**A. JUSTIFICATION**

**1. Necessity for the Information Collection**

Section 17(g) of the Investment Company Act of 1940 (the “Act”) (15 U.S.C. 80a-17(g)) authorizes the Commission to require by rules and regulations, for the protection of investors, that officers and employees of registered management investment companies (“funds”) who may singly, or jointly with others, have access to securities or funds of any registered management investment company, either directly or through authority to draw upon such funds or to direct generally the disposition of such securities, to be bonded by a reputable fidelity insurance company against larceny and embezzlement. The Commission, pursuant to this provision, adopted rule 17g-1 (17 CFR 270.17g-1) in 1947 and has subsequently amended the rule on numerous occasions. Rule 17g-1 provides, in substance, the following requirements:

Independent Directors’ Approval

The form and amount of the fidelity bond must be approved by a majority of the fund’s independent directors at least once annually, and the amount of any premium paid by the fund for any “joint insured bond,” covering multiple funds or certain affiliates, must be approved by a majority of the fund’s independent directors.

Terms and Provisions of the Bond

The amount of the bond may not be less than the minimum amounts of coverage set forth in a schedule based on the fund’s gross assets. The bond must provide that it shall not be cancelled, terminated, or modified except upon 60 days’ written notice to the affected party and

to the Commission. In the case of a joint insured bond, 60 days' written notice must also be given to each fund covered by the bond. A joint insured bond must provide that the fidelity insurance company will provide all funds covered by the bond with a copy of the agreement, a copy of any claim on the bond, and notification of the terms of the settlement of any claim prior to execution of that settlement. Finally, a fund that is insured by a joint bond must enter into an agreement with all other parties insured by the joint bond regarding recovery under the bond.

#### Filings with the Commission

Upon the execution of a fidelity bond or any amendment thereto, a fund must file with the Commission within 10 days: (i) a copy of the executed bond or any amendment to the bond, (ii) the independent directors' resolution approving the bond, and (iii) a statement as to the period for which premiums have been paid on the bond. In the case of a joint insured bond, a fund must also file: (i) a statement showing the amount the fund would have been required to maintain under the rule if it were insured under a single insured bond; and (ii) the agreement between the fund and all other insured parties regarding recovery under the bond. A fund must also notify the Commission in writing within five days of any claim or settlement on a claim under the fidelity bond.

#### Notices to Directors

A fund must notify by registered mail each member of its board of directors of: (i) any cancellation, termination, or modification of the fidelity bond at least 45 days prior to the effective date; and (ii) the filing or settlement of any claim under the fidelity bond when notification is filed with the Commission. The Commission amended rule 17g-1 most recently in 2004 to require that the fund's board of directors satisfy the fund governance standards defined

in rule 0-1(a)(7) (17 CFR 270.0-1(a)(7)).<sup>1</sup> This amendment was designed to enhance the independence of fund boards and enable them to more effectively manage the conflicts investment advisers have with the funds they manage.

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

The requirements of rule 17g-1 are designed to protect fund shareholders from losses due to larceny and embezzlement. As discussed above, the rule contains two sets of filing and reporting requirements that constitute collections of information. The first set of requirements pertains to filings made to the Commission. The second set requires that notices be given to the fund's directors.

### Filings with the Commission

Rule 17g-1 requires funds to file with the Commission copies of the executed bond agreement, the independent directors' resolution of approval, and a statement of paid premiums. The rule also requires Commission notice if a filed fidelity bond is cancelled, terminated, or modified. Funds are also required to file written notification with the Commission of any claim or settlement on a claim under the fidelity bond. Finally, for joint insured bonds, funds must file a statement showing the amount the fund would have been required to maintain under the rule for a single insured bond and the agreement between the fund and all other insured parties regarding recovery under the bond. These filing requirements assure that Commission staff can review the executed fidelity bond and other documents for compliance with the Act. The filing requirements also inform the Commission staff of potential problem areas, especially when

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<sup>1</sup> Investment Company Governance, Investment Company Act Release No. 26520 (July 27, 2004) (69 FR 46378 (Aug. 2, 2004)).

modifications in the bond result in an increase or decrease in fidelity coverage. Having the fidelity bond and other documents available for ready reference by the staff facilitates a determination as to whether, for example, a fund has acted properly in not seeking recovery for a loss.

### Notices to Directors

The rule also requires that a fund notify each member of its board when there has been a cancellation, termination, or modification of the fidelity bond or a claim has been filed, or a settlement of any claim has been made under the fidelity bond. The notices to fund directors enable fund boards to monitor and provide oversight on the adequacy of the fund's fidelity bond coverage. Without these notices it would be difficult for directors to meet this responsibility, and it would be difficult for the Commission staff to verify that directors receive timely information.

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

The Commission's Electronic Data Gathering, Analysis and Retrieval System ("EDGAR") provides for the automated filing, processing, and dissemination of full disclosure filings. The automation provides for speed, accuracy, and public availability of information, generating benefits to investors and financial markets. Funds are required to submit filings under rule 17g-1 electronically using EDGAR.

### **4. Duplication**

The Commission periodically evaluates rule-based reporting and recordkeeping requirements for duplication, and reevaluates them whenever it proposes a rule or form, or a change in either. The requirements of rule 17g-1 are not duplicated elsewhere in federal securities laws, and similar information is not available from other sources.

**5. Effect on Small Entities**

The information collection requirements of rule 17g-1 apply to all funds, including those that are small entities. These requirements are necessary for the safety of fund assets and investor protection.

**6. Consequences of Not Conducting Collection**

Rule 17g-1's required notices to fund directors are designed to facilitate board oversight of the fund's fidelity bond. The rule's required filings with the Commission are designed to assist the Commission in monitoring the funds' compliance with the rule's fidelity bond requirements. Both sets of requirements seek to assure that information is provided in a timely manner for effective investor protection.

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

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

**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 fund industry through public conferences, meetings, and informal exchanges. These various forums provide the Commission and its staff with a means of ascertaining and acting upon paperwork burdens confronting the industry. The Commission requested public comment on the collection of information requirements of rule 17g-1 before it submitted this request for extension and approval to the Office of Management and Budget. The Commission received no comments in response to this request.

**9. Payment or Gift**

Not applicable.

## **10. 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 may collect personally identifiable information (PII) that may include names or job titles. 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 March 22, 2023, 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 1995 (“PRA”) (44 U.S.C. 3501 et seq.) and are not derived from a comprehensive or even representative survey or study of the cost of Commission rules and forms. Rule 17g-1 contains collection of information requirements. The rule’s requirements are mandatory for funds. The information provided under rule 17g-1 will not be kept confidential.

After a fund’s fidelity bond is executed, the fund enters into any agreements relating to a joint bond and files copies of these and related documents with the Commission. Following this initial filing, the ongoing requirements of the rule are: (i) notification to the Commission of

amendments to, and claims and settlements on, the fidelity bond; (ii) annual approval of the fidelity bond by the fund’s independent directors; and (iii) notification to the fund’s directors regarding claims and settlements on the fidelity bond. Depending on a fund’s circumstances, particularly whether the fund makes a claim under its bond, the burden hours associated with complying with these requirements could vary widely.

**Table 1: Current Rule 17g-1 PRA Estimates**

<b>CURRENT ESTIMATES TO PREPARE RULE 17G FILINGS</b>			
	<b>Internal Hour Burdens</b>	<b>Wage Rate</b>	<b>Internal Annual Time Costs</b>
<b>Annual burden per response (compliance attorney)</b>	<b>1.0</b>	<b>\$368/hour<sup>2</sup></b>	<b>\$368</b>
<b>Annual burden per response (the fund’s board of directors)</b>	<b>1.0</b>	<b>\$4,465/hour</b>	<b>\$4,465</b>
<b>Number of annual responses</b>	<b>2,200</b>		
<b>Total annual burden (compliance attorney)</b>	<b>2,200</b>		<b>\$809,600</b>
<b>Total annual burden (fund board)</b>	<b>2,200</b>		<b>\$9,823,000</b>
<b>Total estimated annual burden</b>	<b>4,400</b>		<b>\$10,632,600</b>

<sup>2</sup> The estimated wage figure is based on published rates for compliance attorneys from the Securities Industry and Financial Markets Association’s Report on Management & Professional Earnings in the Securities Industry 2013 (“SIFMA Wage Report”), and adjusted by Commission staff to account for an 1800-hour work-year as well as to account for bonuses, firm size, employee benefits, overhead, and the effects of inflation.

Table 2: Revised Rule 17g-1 PRA Estimates

REVISED ESTIMATES TO PREPARE RULE 17G FILINGS			
	Internal Hour Burdens	Wage Rate	Internal Annual Time Costs
Annual burden per response (compliance attorney)	1.0	\$425/hour <sup>3</sup>	\$425
Annual burden per response (the fund's board of directors)	1.0	\$4,770/hour <sup>4</sup>	\$4,770
Number of annual responses	2,543 <sup>5</sup>		
Total annual burden (compliance attorney)	2,543		\$1,080,775 <sup>6</sup>
Total annual burden (fund board)	2,543		\$12,130,110 <sup>7</sup>
<b>Total estimated annual burden</b>	<b>5,086</b>		<b>\$13,210,885<sup>8</sup></b>

<sup>3</sup> The estimated wage figure is based on salary information from the Securities Industry and Financial Markets Association's *Report on Management & Professional Earnings in the Securities Industry 2013*, modified by Commission staff to account for an 1,800 hour work-year and adjusted to account for bonuses, firm size, employee benefits, overhead, and the effects of inflation.

<sup>4</sup> Commission staff estimated in 2011 that the average cost of board of director time was \$4,000 per hour for the board as a whole, based on information received from funds and their counsel. Adjusting for inflation, Commission staff estimates that the current average cost of board of director time is approximately \$4,770 per hour.

<sup>5</sup> Based on a review of fund filings for the three-year period from January 1, 2020 to December 31, 2022, Commission staff estimates there are approximately 2,186 funds (registered open- and closed-end funds, and business development companies) that must comply with the collections of information under rule 17g-1, and which collectively submit an estimated 2,543 filings on Form 17G annually.

<sup>6</sup> 2,543 responses x \$425 of attorney time = \$1,080,775.

<sup>7</sup> 2,543 x \$4,770 board hours = \$12,130,110.

<sup>8</sup> \$1,080,775 + \$12,130,110 = \$13,210,885 total annual internal cost for all funds.



**13. Cost to Respondents**

Cost burden is the cost of goods and services purchased to comply with rule 17g-1. The external cost burden does not include the internal cost of the hour burden discussed in Item 12 above. We continue to estimate that the filing and reporting requirements of rule 17g-1 do not entail any external cost burdens.

**14. Cost to the Federal Government**

The Commission staff may review filings made pursuant to rule 17g-1 in connection with its examination program or when an issue arises concerning a fund’s fidelity bond. The Commission staff, however, does not review filings made pursuant to rule 17g-1 on a regular basis. Therefore, the ongoing cost to the federal government of rule 17g-1 is negligible.

**15. Changes in Burden**

The total internal burden of 5,086 hours represents a change of 686 hours compared to the previous estimate of 4,400 hours. The change in burden hours is based on a change in the number of responses the Commission estimates it will receive. Commission staff continues to estimate that the filing and reporting requirements of rule 17g-1 do not entail any external cost burdens.

Rule 17g-1	Annual No. of Responses			Annual Time Burden (Hrs.)		
	Previously approved	Requested	Change	Previously approved	Requested	Change
	2,200	2,543	<u>+343</u>	4,400	<u>5,086</u>	+ 686

**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. COLLECTIONS OF INFORMATION EMPLOYING STATISTICAL METHODS**

Not applicable.