

SUPPORTING STATEMENT
For the Paperwork Reduction Act Information Collection Submission for
Rule 17f-6

A. JUSTIFICATION

1. Necessity for the Information Collection

Rule 17f-6 (17 CFR 270.17f-6) under the Investment Company Act of 1940 (15 U.S.C. 80a *et seq.*) permits registered investment companies (“funds”) to maintain assets (*i.e.*, margin) with futures commission merchants (“FCMs”) in connection with commodity transactions effected on both domestic and foreign exchanges. Before the rule was adopted, funds generally were required to maintain those assets in special accounts with a custodian bank.

Rule 17f-6 permits funds to maintain their assets with FCMs that are registered under the Commodity Exchange Act (“CEA”) and that are not affiliated with the fund. The rule requires that a written contract containing the following provisions govern the manner in which the FCM maintains a fund’s assets:

- The FCM must comply with the segregation requirements of section 4d(2) of the CEA (7 U.S.C. 6d(2)) and the rules under that statute (17 CFR Chapter I) or, if applicable, the secured amount requirements of rule 30.7 under the CEA (17 CFR 30.7);
- If the FCM places the fund’s margin with another entity for clearing purposes, the FCM must obtain an acknowledgment from the clearing organization that the fund’s assets are held on behalf of the FCM’s customers in accordance with provisions under the CEA; and
- Upon request the FCM must furnish records about the fund’s assets to the Commission or its staff.

2. Purpose and Use of the Information Collection

The rule requires a fund and an FCM to enter into a written contract that contains three safeguards relating to the custody of fund assets by the FCM. First, the requirement that FCMs

comply with segregation or secured amount requirements is designed to protect fund assets held by FCMs. Second, the requirement that an FCM obtain an acknowledgement from any entity upon which it relies to clear fund transactions accommodates the legitimate needs of the participants in the commodity settlement process, while ensuring that fund assets are protected. The requirement that FCMs must furnish to the Commission or its staff upon request information concerning the fund's assets does not constitute a collection of information.

3. Consideration Given to Information Technology

The Commission's Electronic Data Gathering, Analysis, and Retrieval System ("EDGAR") provides for the automated collection, 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. EDGAR may be used in the future to obtain other types of information from sources outside the Commission, such as information requested by the Commission or its staff in connection with an inspection of fund margin in an FCM's custody. The Electronic Signatures in Global and National Commerce Act (15 U.S.C. 7001) and the conforming amendments to recordkeeping rules under the Investment Company Act permit funds to maintain records electronically.

4. Duplication

The Commission sought to avoid duplication of requirements imposed under the CEA and Commodity Futures Trading Commission ("CFTC") rules that more generally govern custody of customer margins by FCMs and clearinghouses. Thus, for example, rule 17f-6 does not require FCMs to maintain daily financial ledger records of fund margin deposits or to supply funds with monthly account statements. FCMs and their customers typically enter into a contract

when an FCM is retained to effect commodities transactions, and the rule requires certain terms for contracts with an FCM's fund clients, some of which incorporate requirements under the CEA.

5. Effect on Small Entities

The information collection requirements of rule 17f-6 apply to all funds, including those that are small entities. The Commission believes that the costs of complying with the rule are minimal and do not impose a significant burden on small entities.

6. Consequences of Not Conducting Collection

The contract requirements of rule 17f-6 do not recur periodically, but rather have to be followed only when a fund enters into a contract with an FCM. Less frequent collection would not be consistent with the Commission's investor protection objectives.

7. Inconsistencies with the 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 of rule 17f-6 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.

In addition, the Commission and its staff 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 the staff with a means of ascertaining and acting upon paperwork burdens confronting the industry.

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.

12. Burden of Information Collection

As discussed above, the only collection of information requirements of rule 17f-6 are the rule's requirements that contracts between funds and FCMs must contain certain provisions requiring the FCM to engage in certain activities to safeguard the custody of fund assets by the FCM.

Because rule 17f-6 does not impose any ongoing obligations on funds or FCMs, Commission staff estimates there are only costs related to new contracts between funds and FCMs. This estimate does not include the time required by an FCM to comply with the rule's contract requirements because, to the extent that complying with the contract provisions could be considered "collections of information," the burden hours for compliance are already included in other PRA submissions.¹ Commission staff estimates that approximately 1,164 series of 151

¹ The rule requires a contract with the FCM to contain two provisions requiring the FCM to comply with existing requirements under the CEA and rules adopted thereunder. Thus, to the extent these provisions could be considered collections of information, the hours required for compliance would be included in the collection of information burden hours submitted by the CFTC for its rules.

funds report that futures commission merchants and commodity clearing organizations provide custodial services to the funds.²

Commission staff estimates that any burden of the rule would be borne by funds and FCMs entering into *new* contracts pursuant to the rule as set forth in Table 1 below:

Table 1: Rule 17f-6 PRA Estimates

	Number of affected series and funds¹	Internal annual burden hours	Wage rate²	Internal time costs	Annual external cost burden³
New contracts with FCMs annually	116 series	x 0.1 hour=11.6 hours	\$511	\$5,928	\$6,774
	15 funds	x 1 hour=15 hours	\$511	\$7,665	\$8,760
TOTAL ANNUAL BURDEN		27 hours		\$13,593	\$15,534

¹ Based on conversations with fund representatives, Commission staff understands that funds typically enter into contracts with FCMs on behalf of their series that engage in commodities transactions. Commission staff estimates that approximately 151 funds, representing 1,164 separate fund series, currently effect commodities transactions and could deposit margin with FCMs in connection with those transactions pursuant to rule 17f-6. Series covered by the fund-level contract are typically listed in an attachment, which may be amended to encompass new series. To account for the burden at both the fund-level and the series-level, these estimates are based on the assumption that

² This estimate is based on the average number of funds that reported on Form N-CEN from April 2021 – March 2024, in response to sub-items C.12.6. and D.14.6. Money market funds are excluded from this estimate because exchange-traded futures contracts or commodity options are not eligible securities for money market funds. The number of series and funds that reported on Form N-CEN in response these sub-items were: 1,112 series of 150 funds for the period April 2021 – March 2022; 1,180 series of 152 funds for the period April 2022 – March 2023; and 1,210 series of 151 funds for the period April 2023 – March 2024 (for filings received through June 30, 2024).

10% of funds and series that currently effect commodities transactions enter into new FCM contracts each year. This assumption encompasses fund and series that enter into FCM contracts for the first time, as well as funds and series that change the FCM with whom they maintain margin accounts for commodities transactions. Staff further estimates that of this number, 15 funds and 116 series enter into new contracts with FCMs each year.

² This estimated burden is based on the estimated wage rate of \$511 per hour, for 11.6 hours for series and 15 hours for funds, for an attorney and is from 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 ("SIFMA Wage Report"). The Commission's estimates of the relevant wage rates for external time costs, such as outside legal services, take into account staff experience, a variety of sources including general information websites, and adjustments for inflation.

³ This estimated burden is based on the estimated wage rate of \$584 per hour, for 11.6 hours for series and 15 hours for funds, for outside legal services. The Commission's estimates of the relevant wage rates for external time costs, such as outside legal services, take into account staff experience, a variety of sources including general information websites, and adjustments for inflation.

13. Cost to Respondents

Cost burden is the cost of goods and services purchased to comply with rule 17f-6, such as legal services. The cost burden does not include the hour burden discussed in Item 12 above. As outlined in the table above, we estimate the total external cost burden to comply with rule 17f-6 to be \$15,534.

14. Cost to the Federal Government

The rule does not impose any additional costs on the federal government. Rule 17f-6 does not impose a cost on the federal government. Rule 17f-6 does not require funds to file any documents with the Commission. However, the Commission staff may request records produced pursuant to the rule in order to assist the Commission in carrying out its examination and oversight program.

15. Changes in Burden

The estimated total annual burden hours have changed, as follows.

Table 2: Summary of Revised Annual Responses, Burden Hours, and Cost Estimates

IC Title	Annual Time Burden (Hrs.)			External Cost to Respondents (\$)		
	<i>Previously approved</i>	<i>Requested</i>	<i>Change</i>	<i>Previously approved</i>	<i>Requested</i>	<i>Change</i>
Rule 17f-6	28	27	-1	\$11,900	\$15,534	\$3,634

We have revised the estimates to reflect changes in the number of affected entities and in the external cost associated with the information collection requirements.

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.