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B-328606

December 5, 2016

The Honorable Richard Shelby
Chairman
The Honorable Sherrod Brown
Ranking Member
Committee on Banking, Housing, and Urban Affairs
United States Senate

The Honorable Jeb Hensarling
Chairman
The Honorable Maxine Waters
Ranking Member
Committee on Financial Services
House of Representatives

Subject: *Securities and Exchange Commission: Investment Company Reporting
Modernization*

Pursuant to section 801(a)(2)(A) of title 5, United States Code, this is our report on a major rule promulgated by the Securities and Exchange Commission (the Commission) entitled “Investment Company Reporting Modernization” (RIN: 3235-AL42). We received the rule on October 19, 2016. It was published in the *Federal Register* as a final rule on November 18, 2016. 81 Fed. Reg. 81,870. The final rule is effective January 17, 2017, except for the amendments specified in the rule, which are effective June 1, 2018.

The final rule adopts new rules and forms as well as amendments to the Commission’s rules and forms in order to modernize the reporting and disclosure of information by registered investment companies. For example, the Commission is adopting new Form N-PORT, which will require certain registered investment companies to report information about their monthly portfolio holdings to the Commission in a structured data format.

Enclosed is our assessment of the Commission’s compliance with the procedural steps required by section 801(a)(1)(B)(i) through (iv) of title 5 with respect to the rule. Our review of the procedural steps taken indicates that the Commission complied with the applicable requirements.

If you have any questions about this report or wish to contact GAO officials responsible for the evaluation work relating to the subject matter of the rule, please contact Shirley A. Jones, Assistant General Counsel, at (202) 512-8156.

signed

Robert J. Cramer
Managing Associate General Counsel

Enclosure

cc: Brent Fields
Secretary of the Securities and
Exchange Commission

REPORT UNDER 5 U.S.C. § 801(a)(2)(A) ON A MAJOR RULE
ISSUED BY THE
SECURITIES AND EXCHANGE COMMISSION
ENTITLED
“INVESTMENT COMPANY REPORTING MODERNIZATION”
(RIN: 3235-AL42)

(i) Cost-benefit analysis

The Securities and Exchange Commission (the Commission) summarized the cost and benefits of the final rule. The Commission determined that Form N-PORT will require registered management investment companies and exchange-traded funds organized as unit investment trusts (other than money market funds and small business investment companies), to incur one-time and ongoing costs to comply with the new filing requirements. Funds will incur additional ongoing costs to report portfolio investment information on a monthly basis on Form N-PORT instead of a quarterly basis as currently reported on Forms N-Q and N-CSR. Funds will also incur costs to file reports on Form N-PORT in a structured dated format. However, the Commission states that based on staff experience with other XML filings, these costs are expected to be minimal given the technology that will be used to structure the data.

The Commission found that the benefits include improved information that the Commission receives from investment companies, which assists the Commission, in its role as primary regulator of investment companies, to better fulfill its mission of protecting investors, maintaining fair, orderly, and efficient markets, and facilitating capital formation. Additionally, the Commission found that investors and other potential users can utilize this information to help investors make more informed investment decisions.

(ii) Agency actions relevant to the Regulatory Flexibility Act (RFA), 5 U.S.C. §§ 603-605, 607, and 609

The Commission found that this rule will have an impact on small entities. The Commission included a regulatory flexibility analysis in the final rule. In the analysis, the Commission considered the following alternatives for small entities: (1) establishing different reporting requirements or frequency to account for resources available to small entities; (2) using performance rather than design standards; and (3) exempting small entities from all or part of the proposal.

(iii) Agency actions relevant to sections 202-205 of the Unfunded Mandates Reform Act of 1995, 2 U.S.C. §§ 1532-1535

As an independent regulatory agency, the Commission is not subject to the Act.

(iv) Other relevant information or requirements under acts and executive orders

Administrative Procedure Act, 5 U.S.C. §§ 551 et seq.

On June 12, 2015, the Commission published a proposed rule. 80 Fed. Reg. 33,590. The Commission received 1,003 comments from interested parties, including investment companies,

industry groups, investors, and academics. The Commission responded to comments in the final rule.

Paperwork Reduction Act (PRA), 44 U.S.C. §§ 3501-3520

The Commission provided summaries of the collection of information burdens associated with the reforms implemented by the final rule. For Form N-PORT, the Commission estimates that, on an annual basis, funds generally will incur in the aggregate 1,959,423 burden hours in the first year and an additional 1,468,296 burden hours for filings in subsequent years in order to comply with Form N-PORT filing requirements. The Commission estimates that the rescission of Form N-Q will eliminate 249,123 annual burden hours. Form N-CEN is estimated to have an average burden of 32.37 hours for the first year and 12.37 hours in subsequent years. The Commission estimates that to comply with rule 30e-1, funds will incur an additional 7 burden hours in the first year and an additional 2.5 burden hours for filings in subsequent years in order to comply with the proposed amendments. For rule 30e-2, the Commission estimates the total average annual hour burden will be 2,884 hours, and the annual external cost burden of compliance is \$20,000 per respondent. Finally, for Form N-CSR, the Commission estimates a cost of 16.52 hours per fund in the first year and 15.02 for filings in subsequent years. For close-end funds, the Commission found that the total average hour burden associated with the amendments to Form N-CSR is 750 burden hours.

Statutory authorization for the rule

The Commission stated that it promulgated this rule under 15 U.S.C. § 77a et seq., 15 U.S.C. § 77aaa et seq., 15 U.S.C. § 78a et seq., 15 U.S.C. § 80a et seq., 44 U.S.C. § 3506, and 44 U.S.C. § 3507.

Executive Order No. 12,866 (Regulatory Planning and Review)

As an independent regulatory agency, the Commission is not subject to the Order.

Executive Order No. 13,132 (Federalism)

As an independent regulatory agency, the Commission is not subject to the Order.