

hours to be associated with the amendments to rule 17d-1 annually.

#### B. Subadviser Affiliates

The Commission staff estimates that 1,900 portfolios of approximately 800 investment companies use the services of one or more subadvisers.<sup>75</sup> Based on discussions with industry

representatives, the Commission staff estimates that it will require approximately 6 hours to draft and execute revised subadvisory contracts (5 staff attorney hours, 1 supervisory attorney hour), in order for funds and subadvisers to be able to rely on the exemptions in rule 17a-10 and the proposed amendments to rule 10f-3,

17e-1, and 12d3-1.<sup>76</sup> Assuming that all funds that are advised by subadvisers modify their advisory contracts in this manner, the new rule and rule amendments will create an estimated initial one-time burden of approximately 11,400 burden hours. The total estimated first year cost of these burden hours is \$836,000.<sup>77</sup>

#### ESTIMATED ONE TIME BURDEN HOURS AND COST OF SUBADVISORY RULE AND AMENDMENTS

Number of funds modifying contracts	Staff attorney hours	Supervisory attorney hours	Total burden hours	Cost per staff attorney hour	Cost per supervisory attorney hour	Total cost of se 75burden hours
1,900	5	1	11,400	\$62	\$130	\$836,000

Rule 17a-10 and the amendments to rules 10f-3, 12d3-1, and 17e-1 would require virtually identical modifications to fund advisory contracts. The Commission staff assumes that funds will rely equally on the exemptions in all of these rules, and therefore the burden hours associated with the required contract modifications should be apportioned equally among the four rules. Therefore the estimated one-time burden hours associated with rules 17a-10, 10f-3, 12d3-1, and 17e-1 are 2,850 hours for each rule (11,400 total burden hours for all of the rules/four rules), and the estimated one-time cost of these burden hours is \$209,000 for each rule (\$836,000/four rules).<sup>78</sup>

The staff estimates that a total of 60 funds will enter into subadvisory agreements each year after the first year in which the rule and rule amendments are adopted.<sup>79</sup> Assuming that each of these funds enters into a contract that permits it and its affiliated funds to rely on the exemptions in rule 17a-10, and the amendments to rules 10f-3, 12d3-1, and 17e-1, an estimated 360 burden hours (90 hours per rule) will be associated with these rules annually, with an associated cost of \$26,400 (\$6,600 per rule).<sup>80</sup>

#### Proposed Amendments to Rule 10f-3

Rule 10f-3 currently has an estimated burden of 4,407.5 hours at a cost of \$793,752. This burden estimate will change as a result of the amendments to rule 10f-3. As we discuss above,<sup>81</sup> we assume that all funds that are advised by subadvisers will modify their subadvisory contracts so as to allow the fund and their affiliated funds to rely on the proposed exemptions. The staff calculates that the estimated one-time burden hours associated with the proposed amendments to rule 10f-3 would be 2,850 hours, with an estimated one-time cost of \$209,000,<sup>82</sup> and an ongoing estimated burden of 90 hours for subsequent years, with an estimated cost associated with this hour burden of \$6,600 for subsequent years.<sup>83</sup> We estimate that these additional burdens will, for the first year following adoption, increase the burden hours of compliance with rule 10f-3 from the current 4,407.5 hours at a cost of \$793,752, to 7,257.5 hours at a cost of \$1,002,760. We anticipate that in the years following the adoption of amended rule 10f-3 the ongoing estimated burden hours for rule 10f-3 will be 4,497.5 hours at a cost of \$800,360.<sup>84</sup>

#### Rule 17e-1

Based on an analysis of investment company filings, the staff estimates that approximately 293 investment companies use at least one affiliated broker and that each of these investment companies spends an estimated 12.5 hours per year (at a cost of \$775 per year) complying with rule 17e-1's requirements that (i) the fund retain records of transactions entered into pursuant to the rule ("recordkeeping requirement"), and (ii) the fund's directors review those transactions quarterly ("review requirement").<sup>85</sup> Based on conversations with representatives of investment companies, the staff estimates that the amendments to rule 17e-1 would exempt approximately 40 percent of transactions that occur under rule 17e-1 from the rule's recordkeeping and review requirements.

The Commission staff estimates, therefore, that the amendments to rule 17e-1 will, in this respect, *decrease* the rule's information collection burden to 2,200 hours,<sup>86</sup> at a cost of \$136,422 per year.<sup>87</sup>

<sup>75</sup> See Proposing Release, *supra* note 6, at n. 13 and accompanying text.

<sup>76</sup> The fund's advisory contracts must include these conditions in order for the fund to obtain the benefit of the exemptions in the new rule and rule amendments.

<sup>77</sup> (5 in-house staff attorney hours × \$62 = \$310) + (1 deputy general counsel hour × \$130 = \$130) = \$440. \$440 × 1,900 funds = \$ 836,000.

<sup>78</sup> The amendments to rule 17e-1 will also, as discussed below, decrease the burden hours associated with that rule.

<sup>79</sup> Based on an analysis of investment company filings, the staff estimates that approximately 250 funds are created annually. Assuming that the number of these funds that will use the services of subadvisers is proportionate to the number of funds

that currently use the services of subadvisers, then approximately 50 new funds will enter into subadvisory agreements each year. The Commission staff estimates, based on an analysis of investment company filings, that an additional 10 funds, currently in existence, will employ the services of subadvisers for the first time each year.

<sup>80</sup> 6 hours × 60 funds = 360 total hours. \$440 × 60 funds = \$26,400.

<sup>81</sup> See *supra* note 78 and accompanying text.

<sup>82</sup> *Id.*

<sup>83</sup> *Id.*

<sup>84</sup> We are not seeking approval for any collection of information based on burden data for any but the first year following adoption of these proposals. The information regarding burden hours and costs

incurred after the first year of adoption is provided to give a fuller understanding of our proposals' long-term impact on the fund industry.

<sup>85</sup> In calculating the total annual cost of complying with amended rule 17e-1, the Commission staff assumes that the entire burden would be attributable to professionals with an average hourly wage rate of \$62 per hour.

<sup>86</sup> 293 transactions × 12.5 hours = 3,663 hours if adopted; 60% of the 293 transactions (or 176 transactions) would proceed under rule 17e-1. 176 transactions (60% of the 293 transactions anticipated to be impacted by rule) × 12.5 hours = 2,200 hours.

<sup>87</sup> 3,663 hours × \$62 = \$227,106; 2,200 hours × \$62 = \$136,400.