

N-CSR. Two commenters claimed that our estimate was too low, because it did not reflect the fact that investment companies often have multiple portfolios. We note that our estimate already takes into account that many registered management investment companies have multiple portfolios. Our estimate of the hour burden required for operating companies to certify their reporting forms, such as Form 10-K, is similar to our estimate of the burden for investment companies.⁹⁷ While reports on Form N-CSR will contain financial statements for multiple portfolios, investment company financial statements are generally much simpler than operating company financial statements, and operating company reporting forms, such as Form 10-K, contain much information (*i.e.*, Management's Discussion and Analysis) that Form N-CSR will not contain. Based on the comments, however, we have revised our estimate, to estimate that the certification requirement required by Section 302 of the Sarbanes-Oxley Act will result in an increase of five burden hours per registrant per filing and an additional 0.5 hours per additional portfolio in connection with the certification of annual and semi-annual reports on Form N-CSR.⁹⁸

Audit Committee Financial Expert

The amendments will increase the burden of completing Form N-CSR and Form N-SAR by requiring a management investment company to disclose whether it has at least one "audit committee financial expert" serving on its audit committee, and if so, the name of the expert and whether the expert is independent of management. A management investment

company that does not have an audit committee financial expert must disclose this fact and explain why it has no such expert. In the release proposing these amendments, we estimated that the disclosure regarding audit committee financial experts would increase the annual burden of completing Form N-CSR or Form N-SAR by 0.5 hours per registered management investment company. We received no comments on this estimate. We believe the additional burden of these amendments would be limited, because they will not require any investment company to add an "audit committee financial expert" to its board. We estimate that the disclosure requirements regarding audit committee financial experts will result in an incremental increase of 0.5 burden hours per registrant per year in connection with preparing each annual report on Form N-CSR or Form N-SAR.⁹⁹ Management investment companies (other than SBICs) will have to provide this disclosure on Form N-CSR; SBICs will have to provide this disclosure on Form N-SAR.

Codes of Ethics

The amendments will require a registered management investment company to disclose whether it has adopted a written code of ethics for its principal executive officer, principal financial officer, principal accounting officer or controller, or persons serving similar functions, and file the code as an exhibit to Form N-CSR or Form N-SAR. An investment company disclosing that it has not adopted such a code must disclose this fact and explain why it has not done so. In the release proposing these amendments, we estimated that the disclosure regarding code of ethics would increase the annual burden by 0.5 hours per registered management investment company. We believe that the additional burden of these amendments would be limited, because they will not require any company to adopt such a code of ethics. Management should be readily able to determine whether or not its company has adopted a code of ethics. In certain cases, the required disclosure would require minimal analysis regarding why the company does not have a code. In addition, in the first year, registrants must file a copy of the code with the Commission. We estimate that the disclosure requirements regarding codes of ethics will also result in an

incremental increase of 0.5 burden hours per registrant in connection with each annual report on Form N-CSR or Form N-SAR.¹⁰⁰ Management investment companies (other than SBICs) will have to make this disclosure on Form N-CSR; SBICs will have to make this disclosure on Form N-SAR.

Form N-SAR

The amendments remove the certification requirement from Form N-SAR and shift the burden of this requirement, for PRA purposes, to Form N-CSR. We estimate that about 4,500 registrants, including 3,702 management investment companies (including 2 SBICs), and 798 UITs, currently file reports on Form N-SAR. Based on an increase of 2 burden hours relating to audit committee financial experts and codes of ethics disclosure¹⁰¹ and a decrease of 41,010 burden hours relating to the removal of the certification of Form N-SAR,¹⁰² we estimate that, in the aggregate, all respondents will have an incremental decrease of 41,008 burden hours associated with Form N-SAR to comply with the new rules and rule and form amendments.

Form N-CSR

We estimate that about 3,700 registrants will file Form N-CSR. Based on Commission experience with reporting forms in general and other related rules, we estimate that approximately 75% of the added burden hours will be expended by internal staff for internal review and the remaining 25% will be for outside legal costs associated with reviewing the new disclosures at a cost of \$300 per hour.¹⁰³ Based on the burden hour estimate for the certification of Form N-CSR, the disclosure related to an audit committee financial expert, and the disclosure related to the code of ethics, we estimate that, in the aggregate, all respondents will incur an incremental increase of

⁹⁷ Investment Company Act Release No. 25722, *supra* note, 67 FR at 57284 (estimating PRA burden of certification of Forms 10-K, 10-KSB, 10-Q, 10-QSB, 20-F, and 40-F at five hours per form).

⁹⁸ Currently, the estimated total burden for the certification requirement of Form N-CSR is 37,000 hours, reflecting an estimate of 3,700 management investment companies filing twice a year and an estimate of five hours per filing. In response to comments, we are increasing this estimate by 6,150 hours to reflect the additional burden for certification of multiple portfolios. We calculate 6,150 hours as follows: We estimate that there are 9,850 total portfolios of registered management investment companies. This reflects 6,150 additional series (*i.e.*, series beyond the first series or the 3,700 series already accounted for in the burden estimate) of multiple series funds filing twice a year and 0.5 hours per additional series per filing. Based on our experience with reporting forms in general, we estimate that the incremental burden hours of reviewing financial statements for other series will be relatively limited because many series may be able to use the same certification process for many of the items (*i.e.*, disclosure controls and procedures). This new requirement will result in a new total of 43,150 burden hours for the certification requirement of Form N-CSR.

⁹⁹ We estimate the total new burden for this disclosure requirement to be 1,851 hours. $(0.5 \text{ hours} \times 3,700 \text{ management investment companies other than SBICs}) + (0.5 \text{ hours} \times 2 \text{ SBICs}) = 1,851 \text{ hours}$.

¹⁰⁰ We estimate the total new burden for this disclosure requirement to be 1,851 hours. $(0.5 \text{ hours} \times 3,700 \text{ management investment companies other than SBICs}) + (0.5 \text{ hours} \times 2 \text{ SBICs}) = 1,851 \text{ hours}$.

¹⁰¹ This estimate includes 1 hour for the audit committee financial expert disclosure $(0.5 \text{ hours} \times 2 \text{ SBICs})$ and 1 hour for the code of ethics disclosure $(0.5 \text{ hours} \times 2 \text{ SBICs})$.

¹⁰² $(3,702 \text{ management companies (including SBICs)} \times 10 \text{ hours annually}) + (798 \text{ UITs} \times 5 \text{ hours annually}) = 41,010 \text{ hours}$.

¹⁰³ These percentages are based on consultations with several issuers, law firms and other persons who regularly assist issuers in preparing and filing reports with the Commission. We have used an estimated hourly rate of \$300.00 to determine the estimated cost to issuers of having the required disclosures reviewed by outside counsel. We arrived at this hourly rate estimate based on consultations with several private law firms.