

contained in reports to shareholders.<sup>107</sup> To the extent that registered investment companies do not maintain adequate procedures, the rules should lead to the development, or enhancement and modernization, of these procedures. Further, the certification requirement in our rules will require an investment company under the supervision of its management to conduct an evaluation of these disclosure controls and procedures within the 90-day period prior to the filing date of each report requiring certification. This will help to ensure that registered investment companies devote adequate resources and attention to the maintenance of their reporting systems. Additionally, the required evaluation will help to ensure the continuous, orderly, and timely flow of information within the registered investment company and, ultimately, to investors.

By emphasizing the importance of the role of senior officers in the reporting process, the new rules and rule and form amendments will help to enhance investor confidence in the quality of the disclosure in registered investment companies' reports to shareholders. This, in turn, will help to encourage investor confidence in these investment companies. Even though the certification is consistent with the current obligation of officers and directors of a mutual fund not to make statements that are materially misleading, we believe that investors may benefit from the certification because the certifying officers provide additional assurance to investors that the reports that they file under the Exchange Act meet this standard. We requested comment on these benefits, but received none.

#### Audit Committee Financial Expert

A management investment company must 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. We believe that investors will benefit from this disclosure by being able to consider it when reviewing the disclosure currently required about the background and affiliations of the directors of the investment company. Investors will also benefit to the extent that having an audit committee financial expert on an audit

committee of a company increases their confidence in the company. The modifications we are making to our proposal will not reduce the level of required expertise and thus will not mitigate the benefits to investor confidence of requiring this disclosure. We requested comment on these benefits, but received none.

#### Codes of Ethics

The requirement that investment companies file copies of their codes of ethics will allow investors to better understand the ethical principles that guide executives of companies in which they invest. Investors will also benefit to the extent that having disclosure of a code of ethics of a company increases their confidence in the company. We requested comment on these benefits, but received none.

#### B. Costs

While the new rules and rule and form amendments may lead to some additional costs for registered investment companies, we believe that these costs should be limited.

#### Certification of Form N-CSR

These amendments will require each registered management investment company's principal executive and financial officer to certify the information contained in its certified shareholder reports on Form N-CSR. In order to provide the required certification, each principal executive and financial officer will need to review these reports. We believe that these officers already review these reports, so there should be no additional burden imposed on these companies. To the extent that these officers would need to spend additional time critically reviewing the overall context of the disclosure provided in these reports, the company would incur costs which are difficult for us to quantify.

We believe that most registered management investment companies already maintain some form of disclosure controls and procedures for identifying and processing the information needed to satisfy their disclosure obligations to their shareholders. The amendments do not dictate that registered investment companies follow any particular procedure. Alternatively, we could have required specific controls and procedures for all investment companies. By allowing management investment companies to determine what procedures are necessary to meet the obligations of the new rules, the Commission is mitigating the costs associated with compliance. Some

registered management investment companies may need to institute appropriate procedures while others may need to enhance existing informal or ad hoc procedures. These incremental costs are difficult to quantify. We do not have data to quantify the cost of implementing, or upgrading and strengthening existing, internal reporting procedures.

The requirement in the certification that disclosure controls and procedures be evaluated within 90 days of the filing of a report may result in costs for registered management investment companies. Many registered management investment companies may already regularly monitor and evaluate their procedures. However, the size and scope of these internal systems are likely to vary among registered management investment companies, and it is difficult to provide an accurate cost estimate.

#### Audit Committee Financial Experts

The added burden associated with the requirements to name the audit committee financial expert and disclose whether the audit committee financial expert is independent should be minimal. We have added a safe harbor provision to clarify that we do not intend to increase or decrease the current level of liability of audit committee members, or the audit committee member determined to be the expert, by requiring the disclosure as to whether an audit committee financial expert serves on the audit committee. We do not think that the requirement to name the audit committee financial expert should affect the expert's potential liability as an audit committee member. We requested comment on these costs, but received none.

#### Codes of Ethics

We also note that we are adopting rules that require a registered management investment company to provide disclosure of any codes of ethics applicable to its principal executive officer and senior financial officers, regardless of whether they are employees of the registrant or a third party and provide this disclosure on Form N-CSR or Form N-SAR (in the case of SBICs). This additional disclosure may impose certain costs such as retrieval, printing and copying costs. However, this information should be readily available to the board of directors and management of the investment company. Therefore, we estimate the additional costs to investment companies in complying with these provisions will be limited.

<sup>107</sup> See new rule 30a-3 under the Investment Company Act [17 CFR 270.30a-3].