

Accordingly, we seek comment as to how many funds that do not now invest in other funds, would invest in funds under the proposed rules and be required to report the expenses of acquired funds under the proposed form amendments.

### C. Request for Comments

The Commission requests comment on the potential costs and benefits identified in the proposal and any other costs or benefits that may result from the proposal. For purposes of the Small Business Regulatory Enforcement Fairness Act of 1996,<sup>134</sup> we also request comment regarding the potential impact of the proposed rule on the economy on an annual basis. Commenters are requested to provide data to support their views.

## V. Paperwork Reduction Act

Proposed rule 12d1-1 would impose a new "collection of information" requirement within the meaning of the Paperwork Reduction Act of 1995.<sup>135</sup> If adopted, this collection of information would not be mandatory. In addition, the Commission is proposing amendments to certain forms that currently contain "collection of information" requirements. The title of the new collection is "Rule 12d1-1." The titles for the existing collections are: (i) "Form N-1A under the Investment Company Act of 1940 and Securities Act of 1933, Registration Statement of Open-End Management Companies;" (ii) "Form N-2—Registration Statement of Closed-End Management Investment Companies;" (iii) "Form N-3—Registration Statement of Separate Accounts Organized as Management Investment Companies;" (iv) "Form N-4—Registration Statement of Separate Accounts Organized as Unit Investment Trusts;" and (v) "Form N-6—Registration Statement of Separate Accounts Organized as Unit Investment Trusts that Offer Variable Life Insurance Policies." An agency may not conduct or sponsor, and a person is not required to respond to, a collection of information unless it displays a currently valid control number.

The Commission has submitted these proposals to the Office of Management and Budget ("OMB") for review in accordance with 44 U.S.C. 3507(d) and 5 CFR 1320.11. OMB has not yet assigned a control number to the new collection for proposed rule 12d1-1.

### A. Proposed Rule 12d1-1

Proposed rule 12d1-1 would permit a fund to invest in registered money market funds and in unregistered money market funds that meet certain conditions in excess of the limits of section 12(d)(1). A registered fund may invest in an unregistered money market fund as long as the unregistered money market fund (i) is limited to investing in the types of securities and other investments in which a money market fund may invest under rule 2a-7; and (ii) undertakes to comply with all other requirements of rule 2a-7. In addition, the acquiring fund must reasonably believe that the unregistered money market fund (i) operates in compliance with rule 2a-7; (ii) complies with sections 17(a), (d), (e), 18, and 22(c) of the Act; (iii) has adopted procedures to ensure that it complies with these statutory provisions; and maintains records to describe those procedures; (iv) maintains the records required under rules 31a-1(b)(1), 31a-1-1(b)(2)(ii), 31a-1(b)(2)(iv), and 31a-1(b)(9) under the Act; and (v) preserves those records permanently, the first two years in an easily accessible place. Rule 2a-7 contains certain collection of information requirements. In addition, the recordkeeping requirements under rule 31 are collections of information. We believe that this exemptive rule will provide funds greater options for cash management. We believe that unregistered money market funds must comply with certain collection of information requirements for registered money market funds to ensure that unregistered money market funds have established procedures for collecting the information necessary to make adequate credit reviews of securities in their portfolios, as well as other recordkeeping requirements that will assist the acquiring fund (and Commission staff in its examination of the unregistered money market fund's adviser) in overseeing the unregistered money market fund.

Based on exemptive orders issued by the Commission, Commission staff estimates that registered funds currently invest in 35 unregistered money market funds in excess of the limits imposed by section 12(d)(1).<sup>136</sup> Under the terms of the exemptive orders, those unregistered money market funds must comply with the requirements of rule 2a-7. Commission staff also estimates that 4

new unregistered money market funds would be established each year that would have to meet the requirements of the proposed rule. We seek comments on these estimates. For purposes of the Paperwork Reduction Act requirements, Commission staff has estimated that a registered money market fund each year spends an average of approximately 539 hours of professional time to record credit risk analyses and determinations regarding adjustable rate securities, asset-backed securities and securities subject to a demand feature or guarantee. Commission staff also estimated that in the first year of operation the board of directors, counsel, and staff of a new registered money market fund spend 38.5 hours to formulate and establish written procedures for stabilizing the fund's NAV and guidelines for delegating certain of the board's responsibilities to the fund's adviser.<sup>137</sup> Based on this estimate, Commission staff estimates the annual hour burden of the proposed rule's paperwork requirements for unregistered money market fund compliance with rule 2a-7 would be 21,175 hours.<sup>138</sup>

Rules 31a-1(b)(1), 31a-1(b)(2)(ii), 31a-1(b)(2)(iv), and 31a-1(b)(9) require registered funds to keep certain records, which include journals and general and auxiliary ledgers, including ledgers for each portfolio security and each shareholder of record of the fund. Most of the records required to be maintained by the rule are the type that generally would be maintained as a matter of good business practice and to prepare the unregistered money market fund's

<sup>137</sup> These estimates were included in the Commission's most recent Paperwork Reduction Act submission for approval of the collection of information burden for rule 2a-7. The estimates are based on discussions with individuals at money market funds and their advisers who responded to a random survey of 9 money market funds. The actual number of burden hours for credit risk analyses and determinations regarding adjustable rate securities, asset backed securities, and securities subject to a demand feature or guarantee may vary significantly depending on the type and number of portfolio securities held by the individual fund.

In addition, in its Paperwork Reduction Act submission, Commission staff estimated that in a year, only 0.3% of registered money market funds spends 0.5 hours to record board determinations and actions in response to certain events of default or insolvency, and to notify the Commission of the event. We have not included this burden estimate in our estimate for unregistered funds because 0.3 percent of 35 unregistered money market funds is less than 1.

<sup>138</sup> This estimate is based on the following calculation: (35 unregistered money market funds × 539 hours) + (4 new unregistered money market funds × (539 + 38.5 hours)) = 21,175. To the extent that unregistered money market funds would keep these records in any case as a matter of good business practice, this estimate may be greater than the actual annual burden.

<sup>134</sup> Pub. L. No. 104-113, Title II, 109 Stat. 163 (1995).

<sup>135</sup> 44 U.S.C. 3501 to 3520.

<sup>136</sup> This estimate may be understated because applicants generally do not identify the unregistered money market funds in which registered funds will invest, and exemptive orders provide relief for unregistered money market funds that may be organized in the future.