

oversight of its portfolio companies resulting from more careful proxy voting by other funds. In addition, we note that some of the other positive effects resulting from the disclosure, such as allowing investors to better evaluate whether their fund managers are voting proxies in accordance with their fiduciary duties, are benefits to fund investors.

We also note that, as adopted, the disclosure required by the amendments will provide the same benefits to investors as the proposal. However, the modifications to the proposal will mitigate the costs of disclosure, for funds and fund investors, by requiring a fund to file its proxy voting record on Form N-PX annually, by allowing a fund flexibility in determining how to disclose its proxy voting record to shareholders, and by not requiring a fund to disclose votes that are inconsistent with its policies and procedures.

B. Costs

The amendments will lead to some additional costs for funds, which may be passed on to fund shareholders. As discussed below, the amendments require new disclosure by a fund regarding how it votes proxies relating to portfolio securities it holds, in its SAI (and in Form N-CSR for closed-end funds), in annual reports on new Form N-PX, and in the fund's annual and semi-annual reports to shareholders. The direct costs of this disclosure will include both internal costs (for attorneys and other non-legal staff of a fund, such as computer programmers, to prepare and review the required disclosure) and external costs (for typesetting, printing, and mailing of the disclosure).

First, the amendments require disclosure of the fund's proxy voting policies and procedures, and disclosure about the availability of its proxy voting record, in the fund's SAI (and in the case of a closed-end fund, disclosure of its policies and procedures on Form N-CSR also).⁷⁵ Because the SAI is typically not typeset and is only provided to shareholders upon request, we estimate that the external costs per fund of this additional disclosure in the SAI will be minimal. Similarly, because the disclosure in Form N-CSR will only be required to be provided to shareholders

upon request, we estimate that the external costs of this disclosure on Form N-CSR will be minimal as well. For purposes of the Paperwork Reduction Act, we have estimated that the disclosure requirements will add 19,596 hours to the burden of completing Forms N-1A, N-2, N-3, and N-CSR.⁷⁶ We estimate that this additional burden will equal total internal costs of \$1,350,948 annually, or \$365 per fund.⁷⁷

Second, the amendments will require a fund to file with the Commission an annual report on new Form N-PX, containing the fund's complete proxy voting record for the twelve month period ended June 30, by no later than August 31 of each year, and to make available to its shareholders the information contained in Form N-PX. We estimate that because this information will be available on the Commission's Web site, and because we anticipate that many funds will choose to make this information available to their shareholders on or through their Web sites, the external costs to funds (for typesetting, printing, and mailing) of providing this disclosure to shareholders will be minimal. For purposes of the Paperwork Reduction Act, we estimate that funds will spend 74,880 hours to comply with Form N-PX, or 14.4 hours per equity fund portfolio filing on Form N-PX annually.⁷⁸ Further, we estimate that

⁷⁶ This represents 16,594 additional hours for Form N-1A, 1,196 additional hours for Form N-2, 480 additional hours for Form N-3, and 1,326 additional hours for Form N-CSR. The estimated total hour burden for disclosure of proxy voting policies and procedures differs from the figure of 18,270 hours used in the Proposing Release, because here we are including the estimated hour burden for disclosure of policies and procedures by closed-end funds on Form N-CSR as well.

⁷⁷ These figures are based on a Commission estimate that approximately 3,700 management investment companies are subject to the amendments and an estimated hourly wage rate of \$68.94. The estimate of the number of funds is based on data derived from the Commission's EDGAR filing system. The estimated wage rate figure is based on published hourly wage rates for compliance attorneys in New York City (\$74.22) and programmers (\$27.91), and the estimate, based on the Commission staff's discussions with certain fund complexes, that attorneys and programmers will divide time equally on compliance with the proxy voting disclosure requirements, yielding a weighted wage rate of \$51.065 ($(\$74.22 \times .50) + (\$27.91 \times .50) = \51.065). See Securities Industry Association, *Report on Management & Professional Earnings in the Securities Industry 2001* (Oct. 2001). This weighted wage rate was then adjusted upward by 35% for overhead, reflecting the costs of supervision, space, and administrative support, to obtain the total per hour internal cost of \$68.94 ($51.065 \times 1.35 = \68.94).

⁷⁸ The estimate of 14.4 hours per equity portfolio is based on the staff's consultations with funds that currently provide disclosure of their proxy voting records, and estimates that the average equity fund will cast votes at 144 shareholder meetings during

funds will file reports on Form N-PX for 5,200 portfolios holding equity securities.⁷⁹ Thus, we estimate that the burden of filing Form N-PX will equal \$5,162,227 in total internal costs annually, or \$992 per equity fund portfolio.⁸⁰ We had originally proposed to require a fund to file its complete proxy voting record as part of its semi-annual reports on Form N-CSR. However, we modified our proposal in response to one commenter who suggested that requiring disclosure on Form N-CSR would impose unnecessary costs and substantial administrative complexity for fund complexes that have funds with staggered fiscal year ends.

Third, with respect to reports to shareholders, funds will be required to include in their annual and semi-annual reports to shareholders disclosure about the availability of information regarding the fund's proxy voting policies and procedures, and the fund's proxy voting record. We estimate that to comply with these disclosure requirements, a typical fund will need to include at most one additional page in its annual and semi-annual reports to shareholders, at a typesetting cost of \$55 per page and a printing cost of \$0.025 per page.⁸¹ We estimate that a typical fund may have, on average, 30,000 shareholder accounts;⁸² therefore, the additional disclosure in shareholder reports will cost approximately \$1,610 ($(\$0.025 \times 30,000 \text{ shareholder accounts, plus } \$55) \times 2 \text{ reports per year}$) in external costs per fund. Based on the Commission's

a twelve-month reporting period, and will vote on three matters at each shareholder meeting, for a total of 432 matters voted on per year. The estimate of the number of shareholder meetings per equity fund is based on the staff's analysis of data on the average number of equities held per fund from the December 2002 edition of the *Morningstar Principia Pro* database. The estimate of the number of matters voted on at each shareholder meeting is based on information provided to the staff by a third-party provider of proxy voting services for funds and other institutional investors.

⁷⁹ This estimate is based on the staff's analysis of data from the Investment Company Institute and other sources indicating that there are approximately 4,700 fund portfolios that invest primarily in equity securities and 500 "hybrid" or bond portfolios that may hold some equity securities.

⁸⁰ These figures are based on the Commission's estimate that approximately 3,700 funds, with 5,200 portfolios holding equity securities, will report their proxy voting records on Form N-PX, an estimate of 14.4 hours per equity fund portfolio filing on Form N-PX, and an estimated hourly wage rate of \$68.94. See *supra* note 77.

⁸¹ This estimate is based on information provided to the Division of Investment Management by registered investment companies regarding printing and typesetting costs for prospectuses and SAIs.

⁸² This estimate regarding the average number of shareholder accounts per typical fund is derived from data provided in the Mutual Fund Fact Book, *supra* note 9, at 63, 64.

⁷⁵ Because closed-end funds do not offer their shares continuously, and are therefore generally not required to maintain an updated SAI to meet their obligations under the Securities Act of 1933, they will be required to disclose their proxy voting policies and procedures in their annual reports on Form N-CSR. We are not requiring closed-end funds to provide disclosure about the availability of their proxy voting policies and records on Form N-CSR.