

estimate of 3,700 funds that are required to transmit annual and semi-annual reports to shareholders, we estimate these external costs will be \$5,957,000 for the industry as a whole. In addition, we estimate for purposes of the Paperwork Reduction Act that these disclosure requirements will add 3,700 burden hours for funds required to transmit shareholder reports, or one hour per fund, equal to internal costs of \$255,078 for the industry annually, or \$69 per investment company.<sup>83</sup>

Therefore, based on this analysis, we estimate that the total external and internal direct costs of the additional disclosure required by the amendments will be \$12,725,253.<sup>84</sup> Because the amendments may have the effect of inducing fund advisers and fund boards to devote more resources to articulating their proxy voting policies and procedures in more detail, and to monitoring proxy voting decisions, they may result in higher expenses and advisory fees for funds. Some or all of these expenses may be passed on to shareholders.

Numerous commenters responded to the Commission's request for comment on the potential costs of the proposed disclosure requirements, particularly with respect to the required disclosure of their complete proxy voting records in reports on Form N-CSR, and the proposed disclosure of inconsistent votes in annual and semi-annual reports to shareholders. A number of commenters, principally members of the fund industry, argued that the Commission's estimates substantially underestimated the direct costs of the proposed disclosure requirements. First, commenters argued that the estimates omitted any start-up or one-time transition costs, noting that fund groups would need to establish systems or make arrangements with outside vendors to capture the information on proxy votes cast.<sup>85</sup> Second, a commenter argued that while some fund groups rely on outside service providers to vote their proxies, and these service

providers may provide proxy voting records in electronic form, many fund groups do not use such outside service providers, and hence may have higher costs to compile their proxy voting records in electronic form.<sup>86</sup> Third, commenters argued that the costs of preparing the voting record disclosure may be higher for funds with significant holdings in foreign securities, because foreign proxies typically contain more proposals than those of U.S. issuers, and certain required data, such as ticker symbols and sponsorship of proposals, is not readily available for meetings of foreign portfolio companies.<sup>87</sup> Fourth, some fund groups also stated that they would incur costs by having to hire and train shareholder servicing personnel in order to respond to requests from shareholders for the proxy voting records disclosed in Form N-CSR.

We continue to believe that our estimates of the direct costs imposed by the disclosure are reasonable. First, we note that our cost estimates, which were based in part on the costs of funds that currently disclose their proxy votes, incorporate start-up costs and one-time transition costs amortized over time. In addition, we believe that start-up costs should be limited in most cases, because most funds currently keep track of information regarding their proxy votes. Second, our cost estimates are derived both from funds that outsource the collection and disclosure of proxy voting information, and from funds that perform these tasks internally. We anticipate that funds will choose to provide the required proxy voting information in the most cost-efficient manner. Third, with respect to the argument that the costs incurred by funds with significant foreign holdings may be higher than estimated, we note that we have modified our proposal to include an instruction permitting a fund to omit exchange ticker symbols and CUSIP numbers if they are not available through reasonably practicable means.<sup>88</sup> Finally, with respect to the argument that funds would incur costs by having to hire and train personnel to respond to requests for their proxy voting records, we note that we have modified our proposals to allow funds to choose to provide their proxy voting records to shareholders through Web site disclosure or upon request, which should reduce the number of shareholder requests received by phone.

Other commenters argued that the estimates of direct costs in the Proposing Release were reasonable. Several fund groups which currently disclose proxy voting records on their Web sites as well as through hard copy stated that based on their experience the costs of the proposed disclosure requirements would be minimal.<sup>89</sup> These commenters argued that funds should already be keeping track of their proxy votes internally, so that providing the required disclosure should be a matter of converting existing data to new fields for web interface.<sup>90</sup> One commenter noted that the expense ratios of funds that disclose their proxy votes are not higher than those of funds in general.<sup>91</sup>

A few commenters, including supporters and opponents of the proposed requirement to disclose proxy voting records, provided specific estimates of the direct costs of providing this disclosure. One fund group which opposed the requirement to disclose its proxy voting record prepared a sample disclosure in the format prescribed by the proposed amendment to Form N-CSR, and estimated that the collection of votes from its information systems would take four hours, reformatting the data to the format of Form N-CSR would take eight hours, and that reconfirming that each vote was cast in accordance with the fund's proxy voting policies would take at least another two hours.<sup>92</sup> Another fund group which recently began to post its proxy voting guidelines and proxy voting records for two of its funds on its Web site estimated that this task took approximately two days.<sup>93</sup> These estimates are generally consistent with our estimate that proxy vote disclosure on Form N-PX will take 14.4 hours per equity portfolio per filing, at an annual cost of \$992 per equity portfolio.<sup>94</sup> By

<sup>83</sup> These figures are based on a Commission estimate that approximately 3,700 investment companies will be subject to the amendments and an estimated hourly wage rate of \$68.94. See *supra* note 77.

<sup>84</sup> The Commission has modified its estimate of the total external and internal costs of the additional disclosure required by the amendments from the estimate in the Proposing Release, to reflect that it is not adopting the proposal to require a fund to disclose in its annual and semi-annual reports to shareholders information regarding any proxy votes that are inconsistent with its proxy voting policies and procedures, and that it is requiring funds to disclose their proxy voting records annually on Form N-PX rather than semi-annually on Form N-CSR.

<sup>85</sup> See, e.g., ICI Letter, *supra* note 55, at 14.

<sup>86</sup> ICI Letter, *supra* note 55, at 14–15.

<sup>87</sup> See, e.g., Letter of Eric D. Roiter, Senior Vice President and General Counsel, Fidelity Management & Research Co., at 4 (Dec. 6, 2002).

<sup>88</sup> Instruction 2 to Item 1 of Form N-PX.

<sup>89</sup> See, e.g., Letter of Amy Domini, CEO, Domini Social Investments LLC (Nov. 1, 2002); Letter of Thomas W. Grant, President, and Laurence A. Shadek, Chairman, Pax World Funds (Nov. 26, 2002); Letter of Timothy Smith, Senior Vice President, Walden Asset Management (Nov. 20, 2002).

<sup>90</sup> See, e.g., Letter of Timothy H. Smith, President and Chair, Social Investment Forum (Nov. 11, 2002).

<sup>91</sup> See, e.g., Letter of Mercer Bullard, Fund Democracy, LLC (Oct. 21, 2002).

<sup>92</sup> Letter of Eric D. Roiter, Senior Vice President and General Counsel, Fidelity Management & Research Co., at 3 (Dec. 6, 2002).

<sup>93</sup> Letter of Timothy Smith, Senior Vice President, Walden Asset Management (Nov. 20, 2002).

<sup>94</sup> By comparison, a third-party service provider of proxy voting services to funds and other institutional investors indicated to the staff that for a basic vote disclosure Web site it charges a \$3,000 setup fee, a \$12,000 base fee for disclosure for the first fund in the complex, and \$1,000 for additional