SECURITIES AND EXCHANGE COMMISION

17 CFR Parts 200, 230, 239, 240, 249, 270, and 274

RIN 3235–AL42

Optional Internet Availability of Investment Company Shareholder Reports

AGENCY: Securities and Exchange Commission.

ACTION: Final rule.

SUMMARY: The Securities and Exchange Commission is adopting new rule 30e–3 under the Investment Company Act of 1940. Subject to conditions, new rule 30e–3 will provide certain registered investment companies with an optional method to satisfy their obligations to transmit shareholder reports by making such reports and other materials accessible at a website address specified in a notice to investors. We are also adopting amendments to rule 498 under the Securities Act of 1933 and our fund registration forms to require that during a certain transition period funds that choose to implement the new delivery method for shareholder reports provide prominent disclosures in prospectuses and certain other shareholder documents that will notify investors of the upcoming change in transmission format for a period of two years. New rule 30e–3 and the amendments to rule 498 and our registration forms address the fact that some investors may wish to receive shareholder reports in paper. As such, the new rule incorporates a set of protections so that investors who prefer to receive reports in paper will continue to receive them in that format. These protections include, among others, a minimum length phase-in period that ends no earlier than December 31, 2020 and notice requirements that must be implemented and followed beginning January 1, 2019, or the date shares are first publicly offered, if a registered investment company would want to use new rule 30e–3 as of January 1, 2021. The rule requires that a paper notice be sent to an investor each time a current shareholder report is accessible online. The notice must include instructions for how an investor can elect—at any time—to receive all future reports in paper, or request to receive particular reports in paper on an ad hoc basis. We are also adopting related amendments to certain other rules and forms. This optional method is intended to modernize the manner in which periodic information is made available to investors, which we believe will improve investors’ experience while reducing expenses associated with printing and mailing shareholder reports that are borne by investment companies and ultimately their investors.

DATES: This rule is effective January 1, 2019, except:
- Amendatory Instructions 5 and 25 to 17 CFR 230.498 and Form N–CSR (referenced in 17 CFR 249.331 and 274.128), which are effective January 1, 2021; and
- Amendatory Instructions 6, 13, 16, 18, 20, 22, and 24 to 17 CFR 230.498, 17 CFR 270.30e–3, Form N–1A (referenced in 17 CFR 239.15A and 274.11A), Form N–2 (referenced in 17 CFR 239.14 and 274.11A–1), Form N–3 (referenced in 17 CFR 239.17A and 274.11B), Form N–4 (referenced in 17 CFR 239.17B and 274.11C), and Form N–6 (referenced in 17 CFR 239.17C and 274.11D), which are effective January 1, 2022.

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2. Other compliance requirements for rules under the Investment Company Act are to Title 17, Part 270 of the Code of Federal Regulations [17 CFR part 270].
3. 17 CFR 239.15A and 17 CFR 274.11A.
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7. 17 CFR 239.17C and 17 CFR 274.11D.
8. 17 U.S.C. 77a et seq.
I. Introduction

Today we are adopting rule 30e–3 as proposed in May 2015 as part of the Commission’s broader Investment Company Reporting Modernization proposal. See Investment Company Reporting Modernization, Investment Company Act Release No. 31610 (May 20, 2015) [80 FR 33590 (June 12, 2015)] (“Proposing Release”). As part of the proposal, we also proposed new forms (Form N–CEN and Form N–PORT), amendments to Regulation S–K, and other amendments to modernize the reporting and disclosure of information by registered investment companies. In October 2016, the Commission adopted final rules related to the proposal, with the exception of rule 30e–3. See Investment Company Reporting Modernization, Investment Company Act Release No. 32314 (Oct. 13, 2016) [81 FR 81870 (Nov. 18, 2016)] (“Reporting Modernization Adopting Release”).

13 Unless the context otherwise requires, for ease of reference, throughout this release “fund” or “funds,” individually or collectively, refers to registered management companies (and any separate series thereof) and UITs.

14 The final rule applies to reports required by rule 30e–1 (reports of registered management companies), and reports required by rule 30e–2 (reports to shareholders of registered UITs, substantially all of the assets of which consist of securities issued by a management company). See rule 30e–3(a); rule 30e–1(a); rule 30e–2(a).

15 Interests in securities issued by insurance company separate accounts organized as UITs are typically referred to as accumulation units, not shares. For purposes of this release, owners of interests in securities issued by UITs, whether the issuer is a separate account or otherwise, are referred to as shareholders, and accumulation units are referred to as shares.

This new option is intended to modernize the manner in which funds deliver periodic information to investors. We believe it will improve investors’ ability to access and use this information (for example, by providing investors with access to at least a full year of complete portfolio holdings information in one location), while reducing expenses associated with printing and mailing that are borne by funds, and ultimately, by their investors. The rule draws on the Commission’s experience of more than twenty years with use of the internet as a medium to provide documents and other information to investors.18 The rule also draws on the Commission’s investor testing efforts and other empirical research concerning investors’ preferences about methods of delivery for required disclosure documents and use of the internet for financial and other purposes generally.19

We continue to search for better ways of providing investors with the disclosure that they need to evaluate funds in which they are considering investing or currently hold shares. As part of these general efforts, we are also issuing a Request for Comment directed at investors regarding ways in which fund disclosure, including shareholder reports, may be improved.20 We are also issuing a second Request for Comment on the processing fees charged by intermediaries for distributing fund shareholder reports and other materials to investors.21

A. Public Comment

We received over 1,000 comments on the Proposing Release, the vast majority of which specifically commented on submission of operating company financial statement information and mutual fund risk/return summaries; Exhibit Hyperlinks and HTML Format, Securities Act Release No. 10322 (Mar. 1. 2017) [82 FR 14130 (Mar. 17, 2017)] (“Exhibit Hyperlinks and HTML Format Release”) (requiring exhibit hyperlinks and filings in HTML format); FAST Act Modernization and Simplification of Regulation S–K, Securities Act Release No. 10425 (Oct. 11, 2017) [82 FR 50988 (Nov. 2, 2017)] (“FAST Act Regulation S–K Release”) (proposing amendments to modernize and simplify certain disclosure requirements in Regulation S–K, and related rules and forms).

For example, in 2017, the Commission engaged a consultant to conduct a pilot study of the use of reports, may be improved.20 We are also issuing a second Request for Comment on the processing fees charged by intermediaries for distributing fund shareholder reports and other materials to investors.21

21 Request for Comments on the Processing Fees Charged by Intermediaries for Distributing Materials Other Than Proxy Material, and Adoption of an Amendments to Investment Company Act Release No. 33113 (June 5, 2018) (“Processing Fee Request for Comment”). Comments are requested by October 31, 2018; see infra Section I.C.
proposed rule 30e–3.22 While some commenters provided comments on specific aspects of the proposal, most focused on whether the Commission should adopt the rule at all. Commenters supporting the proposed rule cited benefits including those related to website transmission generally, the proposed rule’s consistency with internet usage trends, savings to funds and ultimately investors from the reduction in printing and mailing costs, and environmental benefits. In many cases, these commenters recommended modifications to the proposed rule to increase cost savings and other benefits under the rule and to provide clarity regarding how the rule would operate in certain contexts.23

Commenters opposed to the proposed rule focused on concerns such as the impact on certain demographic groups that may have limited access to the internet, the proposed rule’s use of implied consent, the extent to which cost savings under the proposed rule would not be as great as anticipated by the Commission, and the adverse impact on certain third parties such as the paper industry and mail carriers.

B. Overview of Final Rule and Transmission Framework Generally

After consideration of the comments we received, we are adopting rule 30e–3 with several modifications designed to respond to investor protection concerns, provide additional flexibility and clarity in the operation of this transmission regime, and further increase cost savings for investors. Some key elements of the new transmission framework under rule 30e–3 include:

• **Use of Rule is Optional.** We note that this new method of transmission is optional—funds that wish to transmit shareholder reports in paper or pursuant to the Commission’s existing electronic delivery guidance24 will continue to be able to satisfy their regulatory obligations by those methods.

• **Use of Rule With Respect to Investors Who Have Opted Into Electronic Delivery.** The rule will not require changes to existing methods of delivering shareholder reports electronically. The rule does not supersede or modify the Commission’s existing guidance regarding electronic delivery of fund shareholder reports. Funds and intermediaries may continue to rely on the Commission’s guidance to electronically transmit reports to investors who have elected to receive reports electronically.25

• **Preservation of Preference for Paper Reports.** Recognizing that some investors may wish to receive their shareholder reports in paper, the final rule—as did the proposed rule—incorporates a set of protections designed to preserve the ability of investors to receive paper reports on a per report or ongoing basis if that is their preferred means of communication.26

• **Website Availability of Reports and Other Information.** As proposed, the shareholder report and other required materials must be made publicly accessible and free of charge at a website address specified in a notice to investors.27

• **Notice.** Substantially as proposed, investors must be provided with a paper notice of the website availability of the shareholder report (“Notice”) that contains instructions by which investors will be able to request a paper or email copy. The final rule allows funds greater flexibility than the proposal in the design of the Notice by permitting it to contain additional information including, for example, content from the shareholder report that the fund considers helpful to investors, instructions on how investors can elect electronic delivery of reports and other materials, and pictures, logos, or similar design elements so long as the design is not misleading and the information is clear.28

• **New Extended Transition Period.** To inform investors in advance of the change of transmission method, and to accommodate systems and operations changes by funds, intermediaries and service providers necessary to implement the new optional transmission regime, we are adopting an extended transition period.29 This extended transition period replaces the proposed requirement to send an “Initial Statement” 60 days in advance of reliance on the rule with respect to an investor.

• **Filing of Notice.** We have modified the proposal by adopting amendments to Form N–CSR to require the filing of Notices that incorporate disclosures from the shareholder report.30 This requirement should help further inform Commission regulatory efforts with respect to how the content of shareholder reports can be improved and should help our monitoring for compliance with the rule.

• **Guidance Regarding Financial Intermediaries.** We are also providing guidance, as requested by commenters, to clarify the operation of the rule in the context of financial intermediaries such as broker-dealers.31

C. Other Actions

We are committed to continuously improving the content and delivery of information to investors, including through efforts that encourage the use of technology to provide investors with the tools they need to evaluate their investments, and reducing costs and other regulatory burdens where appropriate. To that end, today we are taking two related actions intended to further these goals.

First, we approved amendments to rules of the New York Stock Exchange (“NYSE”) regarding processing fees paid to financial intermediaries for the delivery of shareholder reports and Notices under “notice and access” rules such as rule 30e–3 to investors holding shares through certain financial intermediaries.32 The NYSE rule

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22 See infra Section I.B.2.h.
23 See infra Section I.C.
24 See Exchange Act Release Nos. 83378 [June 5, 2018] (Order Affirming Action by Delegated Authority Approving SR–NYSE–2016–55 and Discontinuing Stay); 79370 [Nov. 21, 2016] [81 FR 85555 (Nov. 28, 2016)] [Stay Order]; 79356 [Nov. 18, 2016] [81 FR 85291 (Nov. 25, 2016)] [Approval Order] (“NYSE Approval Order”); 78589 [Aug. 16, 2016] [81 FR 56717 (Aug. 22, 2016)] (Notice). NYSE rule 451 outlines three types of processing fees discussed by commenters in connection with the proposal: (i) The “interim report” fee (a processing unit fee of $0.15 per account, whether a report is delivered in paper, or delivery is “suppressed” because the report is delivered electronically or not delivered because of “householding” or other reasons); (ii) the “preference management” fee (a $0.10 fee assessed for each suppressed account—e.g., accounts receiving shareholder reports by email or householded accounts); and (iii) a “notice and access” fee (an incremental fee charged at declining marginal levels based on the number of all financial intermediary accounts through which fund securities are beneficially owned; there are five marginal fee tiers (in $0.05 increments) per account beginning with the $0.25 per account tier and decreasing to $0.05 per account tier). See NYSE rule 451.90.3–451.90.5; see also NYSE rules 465 and 451.10 (noting applicability of fees under NYSE
amendments state that “notice and access” processing fees, which previously applied only to proxy distributions where an issuer elects to utilize notice and access for a proxy distribution,\(^3\) may also apply to transmission of shareholder reports under Rule 30e–3 to beneficial owners who purchase their fund shares through broker-dealer intermediaries.\(^4\) The amendments clarify, however, that the “notice and access” fee will not be charged for any account with respect to which a fund pays a “preference in distribution” fee in connection with a distribution of shareholder reports.\(^5\) In addition, the NYSE rule amendments clarify that, for purposes of determining the amount of notice and access fees to be charged, the number of accounts should be computed by aggregating shares of any class of stock of the issuer eligible to receive the same distribution.\(^6\) Second, today we also are issuing two releases requesting comment on issues related to shareholder reports. In the first release, we are requesting comment on enhancing fund disclosures to improve the investor experience and to help investors make more informed investment decisions.\(^7\) This release requests feedback directly from fund investors on the delivery, design and content of fund disclosure. In the second release, we are requesting comment on the processing fees charged by intermediaries for distributing fund shareholder reports and other materials to investors.\(^8\) For example, we are requesting comment on the current processing fee structure, including the application of various processing fees and rates thereof under the NYSE rules, transparency of these fees, practices related to the payment of these fees and remittances received by financial intermediaries for delivery of fund documents (including shareholder reports), and the appropriateness of these fees in cases where intermediaries are separately paid shareholder servicing fees from fund assets.

### II. Discussion

#### A. General Comments Regarding Rule 30e–3

Most commenters on the proposal focused on whether we should adopt Rule 30e–3 and particularly its optional method of satisfying requirements to transmit shareholder reports by making them available on websites. We discuss below general comments received on the proposal, as well as why we have determined to adopt the rule. Specific comments on the particular provisions of the rule as proposed are discussed in more detail in Sections II.B.2–II.E below.

1. Increased Internet Usage

Commenters supporting the rule cited the benefits of allowing transmission of shareholder reports by making them accessible on websites, including improving the overall accessibility of the information\(^9\) and expanding the possibilities for innovative visual displays and layered disclosure.\(^10\) Commenters pointed to trends towards increasing internet usage, with some commenters highlighting that 94% of households owning mutual funds had some form of internet access in 2014, up from 68% in 2000.\(^11\) Commenters also noted that internet usage has increased among previously underserved demographic groups.\(^12\)

A number of commenters stated that website disclosure is consistent with many investors’ preferences.\(^13\) One commenter stated that shareholder use of the internet to conduct fund transactions had increased sharply since 2005, with 89% of the transactions processed by its fund family for direct shareholders made through electronic means in 2014.\(^14\) Similarly, another commenter stated that “with increased ease of access, investors also increasingly prefer enhanced availability of financial information on the internet.”\(^15\) This commenter provided survey results from 2013 finding that 82% of U.S. households owning mutual funds used the internet to access or be provided the essential information they need, in a form they are likely to use,’”\(^16\) Comment Letter of Capital Research and Management Company (Aug. 11, 2015) (“Capital Research Comment Letter I”); Comment Letter of Capital Research and Management Company (May 7, 2018) (“Capital Research Comment Letter I’’); Comment Letter of Simpson Thacher & Barlett LLP (Aug. 11, 2015) (“Simpson Thacher Comment Letter’’); Comment Letter of Interactive Data Pricing and Reference Data LLC (Aug. 10, 2015) (“Interactive Data Pricing and Reference Data LLC Comment Letter’’); Comment Letter of Investment Company Institute (Aug. 12, 2015) (“ICI Comment Letter I’’); Comment Letter of Capital Research Comment Letter I; Comment Letter of the Investor Advisory Committee Regarding Promotion of Electronic Delivery and Development of a Summary Disclosure Document for Delivery of Investment Company Shareholder Reports (Dec. 7, 2017) (“Investment Advisory Committee Recommendations regarding the accessibility of information on websites.”); ICI Comment Letter II (stating “the vast majority of mutual funds’ websites already provide investors with access to the same shareholder reports as are provided to beneficial owners.”) (noting many investors now prefer enhanced availability of information on the internet).


- See also FINRA Investor Education Foundation, Investors in the United States 2016 (Dec. 2016), available at http://www.finra.org/research/investors-in-the-united-states/investors-in-the-united-states-2016-report.pdf. While the FINRA 2016 Investors Study does not distinguish fund shareholder reports from other disclosure materials regarding investments (nor does it specify what disclosure materials are contemplated in this survey e.g., shareholder reports, summary prospectuses, account statements, etc.), it presents general investor survey data regarding investor disclosure preferences: 49% of respondents prefer paper documents physically mailed, 27% of respondents prefer electronic documents by email, 14% prefer in-person meetings with a broker/ adviser, and 6% prefer that documents are accessed on the internet (not via email).
for financial purposes. Several commenters also believed that the rule as proposed included appropriate protections for investors preferring paper by preserving the option for fund investors to continue receiving paper reports. A number of commenters in opposition to the proposed rule, however, suggested that the rule could have adverse effects on investors. Specifically, several commenters argued that internet access and use among Americans was not universal. Some commenters provided data showing that approximately 25–30% of Americans do not have a computer with broadband internet access in their homes. Some commenters noted that particular demographic groups may be less likely to use the internet. Some commenters drew on the results of studies we noted in the Proposing Release, which indicate that, in 2013, 41% of seniors 65 and older do not use the internet and that, in 2014, 34% of seniors 65 and older own mutual funds. Some commenters suggested that some people are less likely to use the internet specifically for financial purposes, to research funds, or to receive shareholder reports and other disclosure. 2. Use of “Implied Consent” A number of commenters addressed the use of “implied consent” to allow for website transmission of shareholder reports. One commenter pointed to behavioral research that suggested implied consent is a “weak” reflection of actual willingness and that the introduction of new processes (e.g., website transmission) may block “psychologically effective access” to shareholder reports. Another commenter stated that implied consent is inadequate because the proposed method for obtaining implied consent “does not justify the conclusion that implied consent is gained for investors” and that most investors preferred paper communications. Some commenters noted that certain federal agencies do not permit implied consent for electronic delivery of certain materials. Commenters also pointed to a 2013 survey that asked if the government or firms in the private sector should force consumers to shift from paper to electronic content in which 73% of respondents said it is wrong to expect anyone to go online to interact with government agencies. Some commenters opposed to the implied consent provisions in proposed rule 30e–3 suggested that the proposed Initial Statement (from which consent would be inferred under the proposed rule) 38 could be inadvertently discarded online by investors.

We also received a number of comments stating that website transmission of shareholder reports should not be the default transmission option. Others expressed concerns with having to use personal printers to print shareholder reports, and one commenter expressed concern that funds would eventually charge investors for paper shareholder reports.

On the other hand, we received several comments stating that the proposed rule better aligns with investor preferences for access to financial information, and recommending that

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46 See id. 47 See, e.g., CFA Institute Comment Letter (“We believe the proposed conditions for using this option are appropriate to accommodate those investors wishing to receive paper reports.”); Comment Letter of State Street Corporation (Aug. 11, 2015) (“State Street Comment Letter”) (“I believe there are adequate safeguards in Rule 30e–3 which would allow shareholders who desire a hard copy to still receive one.”); Comment Letter of Jonathan F. Leschin, Independent Trustee and Board Chair of Matthews Asia Funds (Sept. 27, 2016) (“[T]hose few shareholders who prefer to receive written reports in the mail can still do so, and the proposed rule includes appropriate notices and other safeguards for those shareholders.”); Comment Letter of Independent Directors Council (May 10, 2016) (“IDC Comment Letter”) (“It is important to note that the proposed rule includes appropriate safeguards for those shareholders who may still prefer to receive written reports in the mail.”); Comment Letter of Fidelity Equity and High Income Funds (Apr. 24, 2017) (“Fidelity Comment Letter II”) (“Accordingly, investors ultimately would retain the ability to determine the manner in which they receive their shareholder reports and those who desire paper delivery would be appropriately protected.”).

48 See, e.g., Comment Letter of Sen. Susan M. Collins, Sen. Angus S. King, Jr., and Rep. Bruce Poliquin (Aug. 10, 2016) (“Collins, King and Poliquin Comment Letter”) (“Our concern, is that the safeguards in the proposed rule will not adequately ensure that those who rely on paper delivery will continue to have access to this important information.”); Comment Letter of David T. Herrold (Aug. 1, 2015) (“I feel an electronic default option would be detrimental to me as well as thousands of other investors.”); Comment Letter of Thomas G. Umenhofer (July 20, 2015) (“Not all Mutual Fund participants have access to computers or the internet, but do have access to the USPS. By implementing Rule 30e–3, you will be disadvantaging many mutual fund participants.”).

52 See, e.g., Comment Letter of Zane Hollenberger (July 27, 2015) (“internet usage was not universal and would serve as a ‘poor replacement’ for timely receipt of personal financial information through the mail); Comment Letter of John R. Dyce, President of the Ohio State Association of Letter Carriers (July 28, 2015) (“Significant portions of this country’s population lack access to electronic services.”); Comment Letter of National Rural Letter Carriers’ Association (Aug. 5, 2015) (“[T]he proposed rule would disadvantage the elderly, those with disabilities, and rural and ethnic minorities as these groups are far less likely than other Americans to have regular access to the internet.”).


59 See, e.g., Comment Letter of L.A. Schnase (July 2, 2015) (“Schnase Comment Letter”) (supporting the proposal, but expressing concern about the “piecemeal approach” by the Commission in taking to the regulatory scheme governing electronic deliveries).

60 See, e.g., American Forest and Paper Comment Letter; Consumer Action Comment Letter. The proposed rule, however, would not have required electronic transmission of shareholder reports, and investors would not have been required to go online to interact with the Commission or any other government agency.

62 See proposed rule 30e–3(c).

63 See, e.g., Comment Letter of Bob Broadbear (July 12, 2015) (noting that the Internal Revenue Service does not allow financial organizations to use implied consent to enroll investors in electronic delivery of tax documents); Comment Letter of Donart (Aug. 3, 2015) (“The SEC should follow other federal agencies in requiring recipients to take an affirmative action for e-delivery of important investment documents.”). With respect to electronic delivery (where documents or website links thereto are emailed directly to an investor’s individual email address), the Commission also does not permit implied consent. See 1995 Release, supra note 18; cf. Comment Letter of L.A. Schnase (July 2, 2015) (“Schnase Comment Letter”) (supporting the proposal, but expressing concern about the “piecemeal approach” by the Commission in taking to the regulatory scheme governing electronic deliveries).
we broaden the use of implied consent in certain ways.64 One of these
commenters noted that the proposal, which would allow investors to “opt into” paper delivery, would allow funds
to more readily accommodate the preferences of all investors.65 Several
commenters also noted that this approach was consistent with prior
Commission efforts to improve accessibility of information for the
benefit of investors.66
3. Cost Savings

Many commenters supporting the proposed rule stated that the rule would
result in reduced printing and mailing costs for funds (and ultimately fund
investors).67 Several commenters provided estimates of costs relating to
potential cost savings under rule 30e–3.68 One commenter indicated that its
fund group spends approximately $3.8 million annually to print and mail
shareholder reports to direct fund investors, and estimated that the

proposed rule would result in savings of up to 50% of that amount.69 Another
commenter estimated annual industry costs for print and mail delivery of
shareholder reports at $344 million and suggested that, if the proposed rule was
adopted, it had the potential to save fund shareholders on a net basis an
estimated $140 million within the first three years and $89 million per year
after the first year.70

One commenter claimed that the cost savings realized from proposed rule
30e–3 would likely not be passed on to investors and would not have a
noticeable impact on investor costs even if it were passed on to investors.71

Another commenter suggested that the cost savings would benefit a relatively
small number of mutual funds and be less significant than in the notice and
access approach used in the proxy statement context, which the
commenter compared to the proposed rule.72 This commenter stated that the
proposed rule would result in greater processing fees for fund shares held
through custodians. This commenter also suggested that cost savings could be better realized through the
continued growth of electronic delivery under the Commission’s existing
guidance, which the commenter suggests is already common and
projected to reach 50% of all transmissions of shareholder reports in 2018.73 The commenter estimated that

64 See ICI Comment Letter I.
65 See, e.g., id.; see also Comment Letter of The Dreyfus Corporation (Aug. 11, 2015) (“Dreyfus
Comment Letter”).
Comment Letter of the Center for Capital Markets Competitiveness (Sept. 6, 2016) (“CCMC
Comment Letter I”); ICI Comment Letter II; ICI Comment Letter III; Comment Letter of Broadridge
67 Another commenter cited a third party’s estimate of $320 million in savings from the
Commission’s e-proxy initiative in 2014. See Confluence Comment Letter (citing estimates
published by Broadridge in Analysis of Distribution and Voting Year Ended June 30, 2014). The
commenter further stated that “[b]y changing the default, Rule 30e–3 will result in a
greater percentage of electronic delivery, which in turn will lower fund expenses, lower fund expense
ratios, and generate higher returns, a benefit to all investors, both those comfortable with electronic
delivery and those who require continued physical delivery.”
68 See T. Rowe Price Comment Letter I.
69 See ICI Comment Letter I (stating further that if the Commission adopted the commenter’s
suggested changes to the rule, potential net savings could instead total $465 million within the initial
three-year timeframe). In a subsequent comment letter, the commenter revised its estimates to
account for another commenter’s interpretation of how NYSE processing fees would be applied to a
rule 30e–3 framework.77
70 See ICI Comment Letter I; ICI Comment Letter II; ICI Comment Letter III (“ICI Comment
Letter III”) (stating that based on this interpretation, the net savings would be less than the
ICI Comment Letter I projections; and estimating that even if ICI’s recommended
“postcard” modification were incorporated in the final rule, there would be no net cost of $84 million
in the initial year and a subsequent net savings of $83 million per each subsequent year).
71 See Comment Letter of Consumer Federation of America (July 29, 2015).
72 See Broadridge Comment Letter I (contending that, based on its interpretation of New York Stock
Exchange regulated rates, approximately 5% of fund report distribution jobs that Broadridge
processes would result in a savings of $10,000 or more). We believe that in light of the NYSE
Approval Order regarding processing fees paid to financial intermediaries for the delivery of
shareholder reports and other documents to investors holding shares through certain financial
intermediaries, the facts supporting the assumptions underlying this commenter’s analysis have
changed. See supra note 32.
73 See Broadridge Comment Letter I; Comment Letter of Broadridge Financial Solutions, Inc. (Jan.
13, 2016) (“Broadridge Comment Letter II”). This commenter subsequently submitted presentation
materials in connection with a meeting with Division of Investment Management staff, which
included survey data in support of their projections. See Memorandum from the Division of Investment
Management re: Meeting with Broadridge (Sept. 27, 2017) (including attachments thereto containing the
survey data presented) (“Broadridge Meeting Memo I”); Memorandum from the Division of Investment
74 See Broadridge Comment Letter I; Broadridge Comment Letter II.
75 Broadridge Comment Letter I.
Comment Letter’’); Capital Research Comment Letter II. Comment Letter of Consumer Federation of
America (July 29, 2015).
77 See supra Section I.C.
78 But see supra note 56 and accompanying text (noting some commenters that stated that certain
federal agencies do not permit implied consent for electronic delivery of certain materials).
79 See, e.g., ICI Comment Letter I; Broadridge Comment Letter I.
80 See, e.g., ICI Comment Letter II; Broadridge Comment Letter I.
notice transmission requirements. In addition, one commentator highlighted regulatory regimes in foreign jurisdictions that permit a transmission framework for shareholder reports similar to that under the proposed rule.  

5. Environmental Benefits

Some commenters highlighted the environmental benefits associated with the reduction of paper reports under the rule, including fewer trees needed to make paper and a reduction in landfill waste. Some of these commenters also stated that the proposed rule is consistent with certain national and international initiatives regarding environmental issues, including The American Business Act on Climate Pledge and The Paris Agreement to combat climate change. Some commenters suggested, however, that environmental benefits of the proposed rule are overstated, citing environment-friendly initiatives previously undertaken by the paper industry.

6. Reliability and Security Concerns

A number of commenters also expressed a preference for transmission of paper shareholder reports because of the reliability and security of information delivered by the U.S. Postal Service. We note that, under the rule as proposed and final rule 30e–3, paper Notices would be mailed to investors, and those investors who prefer to have their shareholder reports mailed to them will continue to be able to receive them in that manner by making a request to permanently receive all future reports in paper, or by requesting individual reports in paper whenever they desire. We also received a number of comments expressing cybersecurity concerns related to the proposed rule. The vast majority of these comments, however, did not appear to fully appreciate the method of transmission proposed under the rule (e.g., paper notice of the website availability of the reports rather than electronic delivery of the reports by email or other means) or the information that would be made available (e.g., shareholder reports rather than account statements that may have personal information).

7. Investor Advisory Committee

In December 2017, the Investor Advisory Committee issued a recommendation regarding the promotion of electronic delivery and the development of a summary disclosure document for the delivery of fund reports. The recommendation provided, among other things, that the Commission explore: (i) Methods to encourage a transition to electronic delivery that respect investor preferences and that increase the likelihood that investors will see and read important disclosure documents; and (ii) development of a summary, layered disclosure document for annual reports.
shareholder reports that incorporates key information from the report along with prominent notice regarding how to obtain a copy of the full report, and would be designed to be delivered either by mail or by email (depending on the investors’ delivery preferences). The Committee also recommended that the Commission seek comment on the appropriate content and format of such a disclosure document and engage in investor testing or encourage testing by industry members.

B. Adoption of Rule 30e–3 and Related Amendments

1. Overview

After consideration of the comments discussed above, we are adopting rule 30e–3 with several modifications designed to address preservation of investor preferences, cost, and administrability of the rule. Rule 30e–3 is intended to modernize the manner in which shareholder reports and other information are made available to investors and reduce expenses associated with printing and mailing that are currently borne by funds, and ultimately, fund investors.92

Reliance on the rule is optional. Funds are permitted to satisfy their delivery obligations by mailing shareholder reports in paper, delivering reports pursuant to the Commission’s electronic delivery guidance, providing notice and website accessibility pursuant to rule 30e–3, or any combination of the foregoing, so long as the conditions of the applicable transmission methods are met. We believe that a fund is in the best position to choose whether or not to implement the rule after considering the costs and benefits of the rule, including consideration of the needs and preferences of the fund’s particular investors.93

As discussed below, the final rule has been modified from the proposal to provide increased flexibility for funds to implement the rule according to their particular circumstances and the preferences of their investors. For example, these modifications permit funds to include in the Notice additional information from shareholder reports that they may deem helpful when notifying investors of the availability of reports.

The rule is consistent with our prior initiatives to harness the benefits of the internet and other new technologies for investors,94 and is consistent with similar initiatives of other regulators (both domestic and foreign).95

Furthermore, as we discussed in the Proposing Release, investor testing and internet usage trends have highlighted the evolution of investor preferences about electronic delivery of information, and shown that many investors would prefer enhanced availability of fund information on the internet.96

94 See supra note 18.
95 See supra notes 78–81 and accompanying text. But see supra note 56 and accompanying text (noting that some commenters stated that certain federal agencies do not permit implied consent for electronic delivery of certain materials); supra note 80 (noting that because of provisions in the Fixing America’s Surface Transportation Act that amended the GLBA to provide an exception under which financial institutions that meet certain conditions are not required to provide annual privacy notices to customers, the Bureau determined that the alternative delivery method for the annual privacy notice requirement was no longer necessary in light of this new statutory exception).
96 For example, investor testing sponsored by the Commission and conducted in 2011 ("2011 Investor Testing") suggested that an investor looking for a fund’s annual report is most likely to seek it out on the fund’s website, rather than request it by mail or phone or by retrieving it from the Commission’s Electronic Data, Gathering, Analysis, and Retrieval System ("EDGAR"). Proposing Release, supra note 14, at 33626–27. Many investors indicated that they would prefer that fund information be made available in both electronic and paper versions, with a plurality of respondents preferring electronic delivery. By email with the option to easily request a paper copy of a particular report, though a significant minority indicated that they would still prefer to receive a paper copy through the mail.
97 Since the 2011 Investor Testing, third-party studies and surveys indicate access to and use of the internet has continued to increase rapidly, including among demographic groups that have previously been less likely to use the internet. See, e.g., supra notes 41–42 and accompanying text; see also Pew Research Center, Who’s Not Online and Why, at 2 (Sept. 25, 2013), available at http://www.pewinternet.org/Reports/2013/Non-internet-users.aspx. The Pew Research Center study, conducted in 2013, found that only 15% of American adults ages 18 and older do not use the internet or email—falling from 26% in 2011, when the Commission’s investor testing was conducted, and from 36% a decade before in 2001. See Pew Research Center, Older Adults and Technology Use, at 1 (Apr. 3, 2014), available at http://www.pewinternet.org/2014/03/01/older-adults-and-technology-use/.

These trends have also extended to use of the internet for financial purposes. For example, a recent survey by the Investment Company Institute found that in 2017, 95% of U.S. households owning mutual funds had internet access (up from about two-thirds in 2000), with widespread use of the internet among various age groups, education levels and income levels, including access by 86% of mutual fund owning households headed by someone age 65 or older. See Ownership of Mutual Funds, Shareholder Sentiment, and Use of the internet, supra note 96, at 18.

99 Proposing Release, supra note 14, at 33627. In the Proposing Release, we noted concerns that some investors who prefer to receive shareholder reports in paper and some demographic groups of investors that may be less likely to use the internet might not fully understand the actions they would need to take under the proposed rule to continue to receive their reports in paper. See id.
able to continue to receive them by mail:
  • First, the final rule provides that investors who prefer to receive reports in paper may continue to do so, either by making a one-time request to receive all future reports in paper, or by requesting individual reports in paper whenever they desire.
  • Second, as outlined below in Sections II.B.2.f and II.E, we are adopting an extended transition period with staged effective dates. During the extended transition period, the earliest that Notices may be transmitted to investors in lieu of paper reports is January 1, 2021. In general, funds will be required to provide two years of notice to shareholders before relying on the rule. Therefore, funds that begin providing notice at the start of 2019 will complete the two-year notice period, and may begin relying on the rule, on January 1, 2021. In addition, funds that are making the transition during the period of January 1, 2019 through December 31, 2020 may rely on the rule starting January 1, 2021, if they provide notice to shareholders starting with their first public offering. Funds that are newly offered on January 1, 2021 and thereafter would not be subject to the condition and could therefore rely on the rule immediately without providing any advance notice through required statements. All other funds may not rely on the rule until they have completed a full two year notice period or until January 1, 2022, whichever comes first.

Although we are eliminating the Initial Statement requirement, we nonetheless believe that it is important that investors receive sufficient notice of the change in transmission method and sufficient opportunity to express their delivery preference. Therefore, the extended transition period is designed to ensure that investors receive disclosures during the extended transition period and to provide funds electing to use make use of this optional method and financial intermediaries time to educate investors of the coming change through disclosures on prospectuses and certain other fund documents and through other means. It will also provide funds and financial intermediaries with time to implement any necessary operations and systems changes. Finally, the Commission staff will also use this extended transition period to engage in educational and investor outreach efforts.

We believe these protections will mitigate the various concerns raised by commenters regarding this new optional method for funds to satisfy requirements to transmit shareholder reports.99 For example, the additional disclosures on shareholder documents about the forthcoming internet availability of reports, as well as other educational efforts undertaken by funds, financial intermediaries, and Commission staff should decrease the possibility that an investor will be unaware of the change in transmission method and will result in many investors receiving considerably more notice of the change in transmission than they would have under the proposed rule. An investor in a mutual fund, for example, that seeks to begin relying on the rule before January 1, 2022 would be notified about six times compared to the proposal, which did not have an extended transition period and would have required only that one Initial Statement be sent 60 days in advance of a change in transmission method.100 We believe that the required disclosures, which must be made using plain English principles, also mitigate concerns that some investors might not fully understand what they need to do to continue to receive paper reports. To the extent an investor does not prefer or is unable to access shareholder reports via the internet, he or she can request paper copies of shareholder reports, either on a permanent or ad hoc basis.

2. Conditions of Rule 30e–3

New rule 30e–3 provides that a registered management company (and any separate series thereof) or UIT may satisfy its obligation to transmit a report required by rule 30e–1 or rule 30e–2, respectively, if certain conditions set forth in the rule are satisfied.101 These conditions generally relate to: (a) Availability of the report and other materials; (b) notice to investors of the website availability of the report; and (c) delivery of paper copies of materials upon request. Rule 30e–3 also requires transmission of paper reports to investors electing a delivery preference to receive them in that format.102 Finally, rule 30e–3 will also include a temporary condition relating to form amendments applicable during an extended transition period.103 The specific provisions of the rule are discussed in more detail in the sections that follow.

These conditions are generally consistent with similar conditions in other rules adopted by the Commission, including its rules regarding the use of a summary prospectus and internet availability of proxy materials.104 For example, funds offering electronic delivery typically send investors an email notifying them of the online availability of the report or other information, along with a link to the website address where the document is available.105 Similarly, the Notice required under rule 30e–3 may satisfy shareholder report transmission obligations in part by containing a link to where the document may be accessed on the internet.

Rule 30e–3 provides funds an optional means of satisfying shareholder report transmission obligations under rule 30e–1 and rule 30e–2.106 Some commenters recommended, however, that the rule be clarified as to its application to UITs, as UITs and not the underlying funds held by such UITs are the entities with transmission obligations under rule 30e–2.107 In response to this recommendation, the final rule clarifies, by use of terminology and otherwise, that the operative conditions of rule 30e–3 extend to a UIT seeking to meet its transmission obligations under rule 30e–2.108

102See supra notes 54–62 and accompanying text.
103See infra Sections II.B.2.f, II.E.
104See rule 498 under the Securities Act (permitting the use of a summary prospectus) [17 CFR 230.498]; rule 14a–14 under the Exchange Act (internet availability of proxy materials) [17 CFR 240.14a–14].
105See 1995 Release, supra note 18. Under rule 498, the requirement to send an electronic copy of a document by email may be satisfied by sending a direct link to the document on the internet; provided that a current version of the document is directly accessible through a link from the time that the email is sent through the date that is six months after the date that the email is sent and the email explains both how long the link will remain usable and that, if the recipient desires to retain a copy of the document, he or she should access and save the document. See rule 498(f)(1) under the Securities Act [17 CFR 230.498(f)(1)].
106See, e.g., CAI Comment Letter I; ICI Comment Letter II.
107For example, in a change from the proposal, the rule uses the defined term “Company” to refer collectively to the entities with obligations under rules 30e–1 and 30e–2. See rule 30e–3(h)(1) (defining “Company” to mean a Fund required to transmit a report to shareholders pursuant to rule 30e–1 or a UIT required to transmit a report to shareholders pursuant to rule 30e–2). For purposes of the rule, “Fund” is defined to mean a registered management company and any separate series of the management company. See rule 30e–3(h)(2).
a. Availability of Shareholder Report and Other Materials

We are adopting generally as proposed, except as indicated below, certain requirements relating to the availability of the shareholder report and other materials for funds relying on rule 30e–3. Specifically, in order to satisfy transmission obligations under rule 30e–1 or rule 30e–2, the current report to shareholders must be publicly accessible, free of charge, at a specified website address.\(^\text{109}\) In a change from the proposal, the final rule requires that the report must be accessible from the date the fund transmits the report as required by rule 30e–1 or 30e–2, at least until the date the fund next transmits a shareholder report required by rule 30e–1 or rule 30e–2.\(^\text{110}\) This requirement is intended to provide investors with the opportunity for ongoing access to the shareholder report until, at a minimum, the date that the next report is transmitted.\(^\text{111}\)

Funds are not currently required to send first- and third-quarter portfolio holdings information to investors or make that information accessible on their websites. To provide investors with convenient access to the most recent four quarters of portfolio holdings, the rule requires that, in addition to posting the most current shareholder report, the following fund documents must also be posted at the specified website: (1) Any report with respect to the fund for the prior reporting period that was transmitted to shareholders of record pursuant to rule 30e–1 or rule 30e–2, if any;\(^\text{112}\) (2) the fund’s complete portfolio holdings as of the close of the period covered by the current or prior report if the report includes a summary schedule of investments;\(^\text{113}\) and (3) for funds other than money market funds and small business investment companies (“SBICs”),\(^\text{114}\) the complete portfolio holdings as of the close of the fund’s most recent first and third fiscal quarters, if any, after the date on which its registration statement became effective, within 60 days after the close of that period.\(^\text{115}\) Money market funds and SBICs must be permitted to use the rule’s posting requirement provisions for fiscal quarter-specific portfolio holdings schedules because money market funds are required currently to post certain portfolio holdings and other information on their websites pursuant to rule 2a–7, and because SBICs are not required to file reports on Form N–Q today and are not required to file reports on Form N–PORT.\(^\text{116}\)

The fund’s prior shareholder report and portfolio holdings information for its first and third fiscal quarters are required to be publicly accessible in the same manner and for the same time period as the current shareholder report.\(^\text{117}\) We are adopting this requirement to provide investors with easy access to a full year of complete portfolio holdings information in one location (i.e., the website on which the report transmitted under the rule is made accessible), rather than requiring investors to access the fund’s reports on Form N–PORT (or Form N–Q) for those periods separately.

To conform the format and content of the portfolio holdings schedules for the first and third quarters to those schedules presented in the fund’s shareholder reports for the second and fourth quarters, the rule requires the schedules for the first and third quarters to be presented in accordance with the schedules set forth in §§210.12–12 through 12–14 of Regulation S–X, which need not be audited.\(^\text{118}\)

In a change from the proposal, the final rule requires that if a report required to be posted includes a summary schedule of investments,\(^\text{119}\) the fund’s complete portfolio holdings as of the close of the period covered by the report must also be posted at the specified website.\(^\text{120}\) In the Proposing Release, we stated that for funds relying on the proposed rule, use of the summary schedule may be unnecessary,\(^\text{121}\) and in particular, may be potentially confusing or cumbersome to investors seeking to access the fund’s complete portfolio holdings.\(^\text{122}\) For...
these reasons, we proposed amendments to our registration forms that would have restricted funds relying on proposed rule 30e–3 from providing a summary schedule in their shareholder reports in lieu of a complete schedule.\textsuperscript{124} We requested comment, however, as to whether the final rule should restrict funds relying on the proposed rule from using a summary schedule.

One commenter recommended that funds retain the ability to use the summary schedule of investments if they otherwise access the complete schedule.\textsuperscript{125} This commenter noted that it understood the Commission’s concern that investors may have to take additional steps to access the complete portfolio schedule, but believed the policy rationale supporting allowing the summary schedule remained the same as when the Commission first implemented the summary schedule.\textsuperscript{126}

We continue to be concerned that use of a summary schedule of investments with rule 30e–3 would be potentially confusing or cumbersome for investors seeking access to the complete portfolio schedule. At the same time, we acknowledge that a fund may choose to use a summary schedule for cost considerations or otherwise, and we continue to believe that the summary schedule can help investors focus on a fund’s principal holdings and thereby better evaluate the fund’s risk profile and investment strategy. The restriction contained in proposed rule 30e–3 effectively would have required a fund using the summary schedule to create and distribute two separate reports to shareholders (i.e., one containing the summary schedule for investors receiving the report in paper, and another containing a complete schedule of portfolio investments for purposes of rule 30e–3).

To avoid the related administrative cost and other burdens associated with such a scenario, and at the same time help to provide investors with easy access to the complete portfolio schedule, the final rule requires, in a change from the proposal, that if a report required to be posted at the specified website (i.e., a current report to be transmitted pursuant to rule 30e–3 or the report for the prior fiscal period) includes a summary schedule of investments, the fund’s complete portfolio holdings as of the close of the period covered by the report must also be posted at the specified website.\textsuperscript{127} This will provide investors with a year of complete portfolio schedules on the specified website, regardless of whether the fund chooses to utilize a summary schedule of investments in its reports.

Like the schedule of investments required to be included with shareholder reports (and filed as part of reports on Form N–CSR), quarterly schedules of portfolio holdings currently required to be reported on Form N–Q, and monthly schedules of portfolio holdings that will be required to be reported on Form N–PORT,\textsuperscript{128} the schedule of portfolio holdings specified by the rule are required to be presented in accordance with schedules set forth under Regulation S–X.\textsuperscript{129} Accordingly, we anticipate that most funds have established procedures in place to update and monitor the website posting of similar types of portfolio schedule disclosures. These requirements are also intended to provide disclosures that are easily understood and familiar to investors, because these disclosures will contain similar information and be presented in a similar manner as those currently included in shareholder reports.

As proposed, the final rule also requires compliance with certain conditions designed to ensure the accessibility of shareholder reports and other required materials.\textsuperscript{130} First, the website address at which the shareholder reports and other required portfolio information are made accessible may not be the address of the Commission’s electronic filing system.\textsuperscript{131} Second, the materials required to be posted on the website must be presented in a format or formats convenient for both reading online and printing on paper, and persons accessing the materials must be able to permanently retain (free of charge) an electronic copy of the materials in this format.\textsuperscript{132} These conditions are designed to ensure that shareholder reports and other information posted on a website pursuant to the rule are user-friendly and allow investors the same ease of reference and retention abilities they would have with paper copies of the information.

The rule includes a safe harbor provision that would allow a fund to continue relying on the rule even if it did not satisfy the posting condition of the rule for a temporary period of time.\textsuperscript{133} In order to rely on this safe harbor, a fund must have reasonable procedures in place to ensure that the required materials are posted on the specified website in the manner required by the rule and take prompt action to correct noncompliance with these posting requirements.\textsuperscript{134} The rule requires prompt action as soon as

\textsuperscript{124} See proposed amendments to Item 27(b) of Form N–1A; Item 24, Instruction 7 of Form N–2; Item 28(a), Instruction 7(i) of Form N–3.

\textsuperscript{125} See ICI Comment Letter I, supra note 117.

\textsuperscript{126} See id. The Commission adopted rules permitting the use of a summary schedule of investments in 2004. See Shareholder Reports and Quarterly Portfolio Disclosure of Registered Management Investment Companies, Investment Company Act Release No. 26372 (Feb. 27, 2004) [69 FR 11244 (Mar. 9, 2004)]. In that release, the Commission stated that the summary schedule was “designed to streamline shareholder reports and help investors to focus on a fund’s principal holdings, and thereby better evaluate the fund’s risk profile and investment strategy.” Id. at 11248.

\textsuperscript{127} Rule 30e–3(b)(1)(iii).

\textsuperscript{128} See supra note 117 and accompanying text. The information reported on Form N–PORT for the third month of each fund’s fiscal quarter will be made publicly available 60 days after the end of the fund’s fiscal quarter. The Commission does not intend to make public the information reported on Form N–PORT for the first and second months of each fund’s fiscal quarter that is identifiable to any particular fund or adviser; however, the Commission may use information reported on Form N–PORT in its regulatory programs, including examinations, investigations, and enforcement actions. Form N–PORT was rescinded May 1, 2020. Larger fund groups will begin submitting reports on Form N–PORT by April 30, 2019, and smaller fund groups by April 30, 2020. See Reporting Modernization Adopting Modernizing Submission Requirements, Investment Company Company Reporting Modernization, Investment Company Act Release No. 32936, supra note 117.

\textsuperscript{129} See Items 1 and 6 of Form N–CSR; Item 1 of Form N–Q; Part F of Form N–PORT.

\textsuperscript{130} These requirements are largely similar to the accessibility requirements of rule 498 under the Securities Act, which allows funds to use a summary prospectus, and rule 14a–16 under the Exchange Act, which requires issuers and other soliciting persons to furnish proxy materials by posting these materials on a public website and notifying shareholders of the availability of these materials and how to access them. See rule 14a–16 under the Exchange Act (17 CFR 240.14a–16).


\textsuperscript{132} Rule 30e–3(b)(3)-(4).

\textsuperscript{133} See rule 30e–3(b)(5). The rule provides that in paragraphs (b)(1) through (b)(4) of the rule (i.e., the posting requirements) shall be deemed to be met, notwithstanding the fact that the materials required by paragraph (b)(1) of the rule are not available for a period of time in the manner required by the posting requirements, so long as certain conditions are met. See id. Four commenters supported the safe harbor provision of the proposed rule. See BlackRock Comment Letter; ICI Comment Letter I, Comment Letter of OppenheimerFunds (Aug. 11, 2015) (“OppenheimerFunds Comment Letter”); State Street Comment Letter. Moreover, we did not receive any comment letters objecting to the safe harbor provision.

\textsuperscript{134} See rule 30e–3(b)(5)(i) and (ii).
mandating the posting of proxy materials online.\textsuperscript{140} We are adopting the Notice requirement generally as proposed, but with certain modifications in response to issues raised by commenters. In particular, the final rule permits the Notice to include additional content beyond what would have been permitted under the proposed rule.

While most commenters focused on technical aspects of the Notice, one commenter encouraged the Commission to consider eliminating the Notice requirement altogether, which the commenter believed would lead to additional cost savings and environmental benefits.\textsuperscript{141} Another commenter recommended that the Notice be sent annually, rather than semi-annually, and that the final rule permit the Notice to be sent to investors 90 days after the fiscal year end rather than 60 days as proposed.\textsuperscript{142} A third commenter recommended requiring that the Notice be sent by email.\textsuperscript{143} Finally, another commenter recommended that the rule allow investors to elect to receive notices by email.\textsuperscript{144}

We continue to believe that it is important for all investors to receive the Notice, as it will contemporaneously alert them to the availability of a shareholder report online and will provide them with information on how to obtain a paper copy of the report. Therefore, we are adopting as proposed the Notice requirements as to format (i.e., the Notice must be paper).\textsuperscript{145} We are requiring the Notice to be in paper because, even though an investor may have provided an email address (e.g., as part of opening an account), there may be instances where that investor provided his or her email address for certain limited purposes without necessarily opting to receive shareholder reports or notices of reports through email.

In a change from the proposal, the final rule extends from 60 days to 70 days the period of time in which the Notice must be sent to investors after the close of the period covered by the related report.\textsuperscript{146} We proposed a 60-day period because, as we explained in the Proposing Release, that is the period currently required for transmission of reports, whether in paper or electronically.\textsuperscript{147} After consideration of the comments we received, including comments recommending that we permit the Notice to accompany other important account materials,\textsuperscript{148} we believe a 70-day period will accommodate such changes to the Notice in the final rule and achieve additional cost savings and operational efficiencies.

First, in a change from the proposal and as discussed below, we are permitting the Notice to accompany other materials, including a shareholder’s account statement. Because shareholder reports are generally prepared at or shortly before the end of the 60 days following the close of the reporting period, and account statements (whether monthly, quarterly, or annual) are typically prepared and mailed within a few days after the close of the applicable month end, a Notice would generally not be able to accompany an account statement mailing if the Notice is sent out within 60 days following the close of the reporting period.\textsuperscript{149}

Second, as also discussed below, we are permitting the Notice to include content from the shareholder report, and also requiring any such Notices to be filed with the Commission as part of a fund’s report on Form N-CSR. Extending the time period to 70 days permits funds additional time to prepare Notices after finalizing their related shareholder reports, and matches up with the 70-day filing period for reports on Form N-CSR.\textsuperscript{150}

i. Information That Must Be Included in the Notice

As under the proposal, the Notice must be in plain English so that investors can easily understand it.\textsuperscript{151} The final rule also requires funds to include certain statements and information in the Notice, if applicable, and permits funds to include certain
additional information, generally as follows:

• As was proposed, the Notice must contain a prominent legend in bold-face type stating that an important report to shareholders is available online and in paper by request, and in a change from the proposal, the Notice may include information identifying the fund, its sponsor (including any investment adviser or sub-adviser to the fund), a variable annuity or variable life insurance contract or insurance company issuer thereof, or a financial intermediary through which shares of the fund are held; 152
• as was generally proposed (but with certain modifications), the Notice must state that the report contains important information about the fund, including as proposed its portfolio holdings and, in a change from the proposal, its financial statements; 153
• in a change from the proposal, the Notice may include a brief listing of other types of information contained in the report; 154
• as was proposed, the Notice must state that the report is available on the internet or, upon request, by mail, and encourage shareholders to access and review the report; 155
• as was proposed, the Notice must include the website address where the shareholder report and other required portfolio information is posted (i.e., the “landing page” to those materials), but in a change from the proposal, the final rule eliminates the proposed requirement that the Notice include the website address for individual reports; 156
• as was generally proposed (with certain modifications), the Notice must include a toll-free (or collect) telephone number to contact the fund or the shareholder’s financial intermediary 157 and (A) provide instructions describing how a shareholder may request, at no charge, a paper or email copy of the shareholder report or other materials required to be made accessible online, and an indication that the shareholder will not receive a paper copy of the report unless requested. 158 (B) explain that the shareholder can at any time in the future elect to receive paper reports and provide instructions describing how a shareholder may make that election (e.g., by contacting the fund or the shareholder’s financial intermediary), 159 and (C) if applicable, include instructions describing how a shareholder can elect to receive shareholder reports or other documents and communications by electronic delivery; 160
• in a change from the proposal, the Notice may include other methods by which a shareholder can contact the fund or the shareholder’s financial intermediary (e.g., by email or through a website) and may include information needed to identify the shareholder; 161 and
• in a change from the proposal, the Notice is not required to be accompanied by a reply card. 162

We requested comment on whether the proposed disclosures in the Notice, including the required statement that the report contains important information about the fund, were appropriate. One commenter suggested that the content of the Notice be enhanced to require disclosures relating to “important information, such as [f]und performance and portfolio manager insights,” noting that enhanced disclosures could encourage investors to access their shareholder reports. 163 We agree that such additional disclosures could encourage investors to access their reports, so we have modified and expanded the proposed required statement in the Notice that the report contains important information about the fund, including its portfolio holdings, to add a reference to the fund’s financial statements. 164 In addition, the final rule permits the

152 Rule 30e–3(c)(1)(i)(I). We have modified this requirement to provide more flexibility to funds in recognition of the fact that investors can acquire interests in funds through a variety of distribution channels.
153 Rule 30e–3(c)(1)(i)(II).
154 Id.
155 Rule 30e–3(c)(1)(i)(III).
156 Rule 30e–3(c)(1)(i)(IV). The website address must be specific enough to lead investors directly to the documents that are required to be posted online under the rule. The website address could be a central site with prominent links to each document, but could not be a home page or section of the website other than where the documents are posted. In addition to the website address, the Notice may contain any other equivalent method or means to access the documents. See id.
157 Rule 30e–3(c)(1)(v).
158 Rule 30e–3(c)(1)(i)(v)(A).
159 Rule 30e–3(c)(1)(i)(v)(B).
160 Rule 30e–3(c)(1)(i)(v)(C).
161 Rule 30e–3(c)(2). For example, this information could include a control number unique to that shareholder.
162 Although the final rule does not require a reply card as a method of communication, a fund could choose to use reply cards.
164 Rule 30e–3(c)(1)(i)(II). Similar statements are required for other documents. For example, Form N–1A requires the back cover page of the statutory prospectus of an open-end fund to include a statement to the effect that the fund’s annual report contains a discussion of the market conditions and investment strategies that significantly affected the fund’s performance during its last fiscal year. See Item 1(b)(1) of Form N–1A.
165 Rule 30e–3(c)(1)(i)(ii).
166 As discussed below, the final rule separately permits the Notice to include content from the related shareholder report. See infra Section II.B.2.b.ii.
167 See Fidelity Comment Letter I.
168 See SIFMA Comment Letter I.
investors could have difficulty accessing their reports if, for example, the address to the landing page is made up of a long string of unrelated or special characters. Short and intuitive website links to the landing page and other innovative solutions could mitigate this problem.

In a change from the proposal, the final rule also provides that the Notice may include, in addition to a website address, other equivalent methods or means to facilitate shareholder access to the report, and other required materials. Such methods or means could include, for example, inclusion of a Quick Response Code (QR code) or similar means to access the required website address or link.

We proposed that the Notice not only be required to include a toll-free telephone number that an investor can use to notify the fund that he or she wishes to receive paper reports in the future, but also a reply form that is pre-addressed with postage-paid as an alternative means by which the investor can notify the fund of his or her preference. Commenters generally opposed the reply card requirement, asserting that reply cards have a low response rate that does not justify their cost. Commenters urged that a toll-free telephone number would be an equally effective means for an investor to express his or her preference and would be more cost-effective than a reply card.

After considering the comments we received, we have determined not to require funds to include a reply card. We have been persuaded by commenters that the low response rates experienced from this means of communication coupled with the expense associated with this method do not justify the inclusion of a reply card. However, the final rule permits the Notice to include additional means by which an investor can contact the fund or the investor’s financial intermediary. Because funds and financial intermediaries have extensive direct experience with the types of communication methods preferred by their investors, we believe that the rule should provide flexibility to permit additional methods of communication, and we encourage the inclusion of additional means besides the required toll-free (or collect) telephone number, such as email addresses, dedicated web pages, etc. To further facilitate the use of other means of communication, the final rule permits the Notice to include any information needed to identify the shareholder so that shareholders may express their shareholder report transmission preference with ease.

This information could include, for example, control numbers, account numbers, etc. As noted earlier, if a fund were to choose to include this information in a Notice, the fund should take appropriate measures to protect this information just as funds do today regarding other mailings, like account statements, that may contain sensitive information.

In providing the required toll-free (or collect) telephone number and other means, we encourage the use of methods that allow shareholders to express their preference as conveniently as possible, such as by limiting the need for investors to speak with multiple representatives or navigate through multiple telephone menus or web pages, or otherwise minimizing the steps necessary to express a preference. To record investor preferences, a fund might, for example, provide an automated system, live representatives, a toll-free (or collect) telephone number that is dedicated solely for this purpose, or a prompt for investors when they access their shareholder account information online, such as through the use of a pop-up.

In light of the principle that effective rulemaking should not end with rule adoption, the staff will review, and report to the Commission on, the implementation of rule 30e-3 to evaluate whether funds are employing processes that effectively facilitate investor election of delivery preferences, including the ease through which investors may elect delivery preferences, taking into account, among other things, the continued development of delivery mechanisms and the evolving array of retail investor preferences. For example, the staff’s review would include an evaluation of the number of investors who have elected paper delivery, whether such election is on an ad hoc basis or permanent basis, the means through which the election was made (telephone, online or otherwise), and the overall investor experience relating to the election of delivery preferences. The purpose of such review would be to better inform the Commission and the staff on whether funds are implementing processes that effectively facilitate investors making elections consistent with investors’ preferences and on whether any further action should be taken to facilitate investor election of delivery preferences.

Some commenters recommended that the final rule permit the Notice to include disclosures informing investors how they can affirmatively consent to electronic delivery of shareholder reports and other documents. After further consideration of these comments, we believe that the Notice should provide the recipient investor with information on how to obtain shareholder reports in the investor’s preferred format (i.e., in paper or by email via electronic delivery). Therefore, the final rule requires the Notice to include, if applicable, instructions describing how an investor can elect to receive shareholder reports or other documents or communications by electronic delivery.
Finally, in a change from the proposal, the final rule permits a Notice to include pictures, logos, or similar design elements so long as the design is not misleading and the information is clear. A similar provision exists in the rules governing the content of the Notice of internet Availability of Proxy Materials. While we did not receive any comments that suggested this modification to the proposal, we believe that this provision promotes our general goal of highlighting the Notice for investors’ attention by permitting the addition of content that alerts investors to the Notice itself, and by extension the shareholder report, without obscuring important information contained in the Notice.

ii. Option To Include Content From Report in Notice

The Notice is designed to alert investors to the availability of a shareholder report online and to provide investors with information on how to obtain paper reports if that is their preference. As we noted in the Proposing Release, we believe it is important to limit the total information included in the Notice, in order to ensure that information regarding the availability of a shareholder report does not become obscured. Therefore, we proposed that the rule limit the information contained in the Notice to the information required by the rule, but requested comment on whether we should require that the Notice not contain any additional information other than that specified by the rule.

In addition to the comments described above regarding types of additional information that should be permitted in the Notice (e.g., instructions on how to elect electronic delivery of documents), we received comments recommending that the final rule should expand the legend in the Notice to include additional information about the fund. One commenter recommended that the Notice should require in a standardized format certain articles, and other “investor relations” communications.

See rule 30e–3(c).

See rule 14a–16(g)(3) under the Exchange Act (17 CFR 240.14a–16(g)(3)); see also rule 421(d)(3) under the Securities Act (17 CFR 230.421(d)(3)).

While not expressly recommending this modification to the proposal in its comment letters, one commenter sampled “enhanced notice” that included design elements such as pictures and logos that would be consistent with this modification. See Broadridge Meeting Memo I.

See rule 30e–3(d)(3).

See, e.g., Fidelity Comment Letter I (recommending that the legend be expanded to alert shareholders that the report contains information such as fund performance and holdings information and portfolio manager’s insights).

See Broadridge Meeting Memo I.

See Comment Letter of Consumer Action (Dec. 1, 2017); see also Investment Advisory Committee Recommendation (“[T]he Investor Advisory Committee recommends that the Commission explore development of a summary disclosure document for annual shareholder reports that incorporates key information from the report along with prominent notice regarding how to obtain a copy of the full report.”).

While the final rule does not require a summary disclosure document, and does not mandate any particular content, it permits funds to add to the Notice content from the shareholder report and similarly requires that the Notice include a prominent legend regarding how to obtain a copy of the report.

Additionally, the Investor Advisory Committee recommended that “the Commission engage in investor testing of the proposed [summary document and layered] disclosure, or encourage testing by industry members, to ensure that the proposed approach delivers the expected benefits of reducing costs for funds and investors without sacrificing disclosure quality.”

This approach draws from certain aspects of the Investor Advisory Committee Recommendation. For example, the Investor Advisory Committee recommended that “the Commission explore development of a summary disclosure document for annual shareholder reports that incorporates key information from the report along with prominent notice regarding how to obtain a copy of the full report.” See IAC Recommendation, supra note 40.

While the final rule does not require a summary disclosure document, and does not mandate any particular content, it permits funds to add to the Notice content from the shareholder report and similarly requires that the Notice include a prominent legend regarding how to obtain a copy of the report.

For example, the Investor Advisory Committee recommended that “the Commission explore development of a summary disclosure document for annual shareholder reports that incorporates key information from the report including design elements such as pictures and logos that would be consistent with this modification.” See Broadridge Meeting Memo I.

See, e.g., Fidelity Comment Letter I (recommending that the legend be expanded to alert shareholders that the report contains information such as fund performance and holdings information and portfolio manager’s insights).
federal securities laws. In this regard, inclusion of only certain elements of performance information required to be included in reports raises certain considerations. If a fund chooses to include in the Notice performance information from the report, the content should include all information required with respect to the particular performance item in accordance with applicable presentation requirements. While the final rule does not prescribe a specific page limit, funds generally should limit optional content to a relatively brief amount to avoid detracting from the primary purpose of the Notice and to encourage investors to access the shareholder report itself. As discussed further below, we are requiring funds that choose to transmit Notices with additional information from the shareholder report to file such Notices as part of their reports on Form N–CSR. As discussed above, we believe it is important that information regarding the availability of a shareholder report does not become obscured, and to address this concern, we are requiring that the information that is required to be in the Notice (i.e., the required legends, website address, etc.) must be presented before any additional content from the shareholder report is included in the Notice to ensure that the required legends and website address are positioned prominently in the Notice.

iii. Materials That May Be Combined With or Accompany the Notice

To further ensure that the information contained in the Notice would not be obscured, the rule as proposed would have prohibited the Notice from being incorporated into or combined with another document or sent along with other shareholder communications (with the exception of the fund’s current summary prospectus, prospectus, statement of additional information, or Notice of internet Availability of Proxy Materials under rule 14a–16 under the Exchange Act). We received a number of comments on this aspect of the proposed rule, with commenters requesting additional flexibility in what materials or documents could be combined with, or accompany, the Notice.

Some commenters recommended that the final rule permit the use of a single, consolidated Notice for funds within the same fund complex or for funds held in the same intermediary contract or account. Commenters noted that such an approach would have the benefits of increasing the likelihood of investor review and reductions in costs. One commenter recommended that a consolidated Notice be permitted for funds from different fund complexes, while another recommended that the final rule permit consolidated Notices for funds held through a variable insurance product.

Some commenters recommended that the final rule permit the Notice to be incorporated into the summary prospectus and account statements, stating it would provide additional visibility due to investor interest in those documents. A number of commenters recommended that other materials should be permitted to accompany the Notice, including account statements, new account applications, new account welcome kits, notices from other funds with the same fiscal year end, dividend checks, transaction confirmations, and in the case of variable insurance products, the variable annuity contract or life insurance policy and the related contract prospectuses or statements of additional information. Commenters stated that investors would be more likely to read Notices bundled with other materials, and that additional cost savings would result.

After consideration of the comments, we have modified the final rule to permit the use of consolidated Notices. In addition to reduced costs, we believe that a single, consolidated Notice could be effective in alerting a shareholder to the online availability of shareholder reports for multiple funds. We note that if a consolidated Notice is used, a fund must draft the Notice to incorporate all elements required by the rule with respect to each report covered by the Notice. For example, if the website address for one report covered by the Notice does not include the materials required for one or more other funds covered by the Notice, then additional website addresses would be required so that all required materials for the funds covered by the Notice are made appropriately accessible. In such case, we believe it should be clear to investors which website address is associated with each report covered by the consolidated Notice.

We have also modified the final rule to permit the Notice to accompany additional materials beyond a current summary prospectus, statutory prospectus, statement of additional information, or Notice of internet Availability of Proxy Materials. As with consolidated Notices, we believe that permitting Notices to accompany other documents not only could result in additional cost savings (i.e., reduced mailing expenses), but could be effective in alerting a shareholder to the Notice if the other documents are likely to be read by investors. Under the final rule, a Notice may accompany one or more Notices for other funds. In the case of a fund that is available as an investment option in a variable annuity or variable life insurance contract, the
Notice may accompany the contract or the contract's statutory prospectus and statement of additional information. We have also modified the final rule to permit the Notice to accompany the investor's account statement. Like consolidated Notices, we believe that permitting Notices to accompany account statements could result in additional cost savings. Moreover, we believe that an investor who is likely to read account statements would also be likely to become aware of the accompanying Notice and the content therein. We believe that the Notice would not be unduly obscured if accompanied by these materials because it is accompanying materials personalized to the receiver, but decline to permit the Notice to accompany other materials suggested by commenters.

iv. Householding

Similar to the Commission’s rules on householding prospectuses, shareholder reports, and other statements and information statements, as proposed, final rule 30e-3 allows one Notice to be sent to shareholders who share an address so long as the conditions set forth in rule 30e-1(f), rule 30e-2(b), rule 14a-3(e) under the Exchange Act, or rule 14c-3(c) under the Exchange Act are satisfied. We received no comments on this requirement, and are adopting the requirement as proposed.

v. Requirement To File Form of Notice

We proposed to require that a form of the Notice be filed with the Commission not later than 10 days after the Notice is sent to shareholders. We anticipated that this filing would have occurred on a new EDGAR submission type that would have been created by the Commission, and stated our belief that the Notice filing requirement would have assisted us in overseeing compliance with the rule.

Commenters generally opposed filing the Notice semi-annually as part of a separate filing. Some commenters recommended that the Notice be filed instead as an exhibit to Form N-CEN or Form N-CSR. Commenters also recommended eliminating the filing requirement, and indicated that the Commission could ensure compliance in a less costly manner using its examination program.

After further consideration of these comments, we have modified the final rule as follows. Notices that do not contain content from the report (as permitted by paragraph (c)(3)) would not be required to be filed with the Commission because we do not expect those Notices to change significantly from period to period. We also believe that our staff can evaluate for compliance with the Notice provisions of the rule through the Commission’s examination program.

On the other hand, Notices that contain content from the report as permitted by paragraph (c)(3) would be required to be filed with the Commission as part of the fund’s report on Form N-CSR. We believe it is appropriate for the Commission to review the disclosure in these Notices in conjunction with its overall review of shareholder reports and other disclosure filings. In requiring that they be filed with the Commission, the staff will be able to monitor for compliance with the rule, as well as for general industry trends in the use of these Notices as part of its ongoing disclosure review and other activities.

c. Delivery of Paper Copy Upon Request

As a condition to reliance on the rule, we proposed to require that the fund or UIT (or a financial intermediary through which shares of the fund or UIT may be purchased or sold) must send, at no cost to the requestor and by U.S. first class mail or other reasonably prompt means, a paper copy of the most recent annual and semi-annual reports of the fund (or underlying fund in the case of a UIT), and portfolio holdings of the fund (or underlying fund in the case of a UIT) as of its most recent first and third fiscal quarters, to any person ad hoc requesting copies of any such documents within three business days after receiving a request for a paper copy. This requirement is intended to allow investors to receive shareholder reports and portfolio information in paper, if they prefer, even if they are receiving Notices under the rule, and we are adopting it generally as proposed. However, we have modified the final rule from the proposal to eliminate the reference in this provision to financial intermediaries given the guidance in this release regarding the operation of the rule in the context of financial intermediaries.

d. Investor Elections To Receive Future Reports in Paper

While we believe that many investors would prefer internet availability of shareholder reports based on investor

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212 Rule 30e-3(c)(5)(iii). Thus, Notices for underlying funds offered under a contract may (either as individual Notices or as a consolidated Notice) accompany (1) the contract, (2) the contract’s statutory prospectus and statement of additional information, and (3) summary prospectuses, statutory prospectuses, statements of additional information, and Notices of internet Availability of Proxy Materials for one or more underlying funds. See also rule 498(c) under the Securities Act (permitting, under certain conditions, a summary prospectus for a fund that is available for investment option in a variable annuity or a variable life insurance contract to be bound together with the statutory prospectus for the contract and summary prospectus and statutory prospectuses for other investment options available in the contract) [17 CFR 230.498(c)].

214 Rule 30e-3(c)(5)(iv).

215 See, e.g., rule 498(c) under the Securities Act [17 CFR 230.498(c)].

216 See, e.g., rule 154 under the Securities Act (permitting householding of prospectuses) [17 CFR 230.154]; rules 30e-1(f) and 30e-2(b) (permitting householding of shareholder reports) [17 CFR 240.14a-3(e) and 14c-3(c)] under the Exchange Act (permitting householding of annual reports to security holders, proxy statements and information statements, and Notices of internet Availability of Proxy Statements [17 CFR 240.14a-3(e); 17 CFR 240.14c-3(c)]. See generally Delivery of Disclosure Documents to Households, Investment Company Act Release No. 24121 (Nov. 4, 1999) [64 FR 62540 (Nov. 16, 1999)] (adapting householding rules with respect to prospectuses and shareholder reports); Delivery of Proxy Statements and Information Statements to Households, Investment Company Act Release No. 24715 (Oct. 27, 2000) [65 FR 65736 (Nov. 2, 2000)] (adapting householding rules with respect to proxy statements and information statements).

217 Rule 30e-3(c)(6).

218 See proposed rule 30e-3(d)(6).

219 See, e.g., Dechert Comment Letter; ICI Comment Letter I; T. Rowe Price Comment Letter I.

220 See, e.g., Dechert Comment Letter; Invesco Comment Letter; SIFMA AMG Comment Letter.

221 We expect this to be the case given the nature of the information required in the Notice, along with the general restriction on including information other than that required by the rule.

222 Item 1(b) of Form N-CSR (requiring the filing of a copy of each notice transmitted to stockholders in reliance on rule 30e-3 that contains disclosures specified by paragraph (c)(3) of that rule).

223 Proposed rule 30e-3(f). One commenter questioned fund firm practices regarding delivery of shareholder reports pursuant to request. See Broadridge Comment Letter II. A second commenter disputed the premise and sampling methodology conducted by the first commenter, stating that fund firms have “specific, highly effective processes in place to handle requests under the Rule 498(f)”.) See ICI Comment Letter III. The Commission is not aware of investors having systemic issues related to fund firm practices regarding delivery of paper shareholder reports pursuant to request.

224 See, e.g., 1995 Release, supra note 18 (stating “as a matter of policy, where a person has a right to receive a document under the federal securities laws and chooses to receive it electronically, that person should be provided with a paper version of the document if any consent to receive documents electronically were revoked or the person specifically requests a paper copy (regardless of whether any previously provided consent was revoked).”). A similar requirement is found in rule 498 under the Securities Act governing the use of a summary prospectus. See rule 498(f) [17 CFR 230.498(f)].

225 See rule 30e-3(e), (i); proposed rule 30e-3(f); infra Section II.C. For clarification, final paragraph (e) of rule 30e-3 operates independently of final paragraph (f) of rule 30e-3. Compare rule 30e-3(e) (requiring funds to deliver a paper report in response to a shareholder's ad hoc request) and rule 30e-3(f) (requiring funds to deliver paper reports to a shareholder, who has elected a shareholder preference to receive paper reports). See also infra Section II.B.2.d.
testing and internet usage trends, we also acknowledge that there will be investors who continue to prefer receiving shareholder reports in paper. In order to maintain the ability of those investors to receive paper copies of their shareholder reports, the final rule prohibits reliance on the rule to transmit a report to a shareholder if such shareholder has notified the fund (or the shareholder’s financial intermediary) that the shareholder wishes to receive paper copies of shareholder reports at any time after the fund has had a reasonable opportunity to obtain written consent from the shareholder of its intent to rely on the rule or provided a Notice to the shareholder.

Under the proposal, rule 30e–3 would have permitted use of the rule as to a particular investor only if the investor either previously affirmatively consented to this method of transmission, or was determined to have provided implied consent (if affirmative consent was not received) by sending an Initial Statement to investors. To obtain implied consent, the proposed rule required that the Initial Statement inform the investor that future shareholder reports would be made available on a website until the investor provided notification that he or she wished to receive paper copies of the reports in the future. If such notification was not received within 60 days after sending the Initial Statement, the rule could be relied upon with respect to that investor provided that

the other conditions of the rule were met.

Comments were mixed regarding the Initial Statement and the proposal’s use of both affirmative and implied consent. Some commenters recommended removing provisions of the proposed rule that allow affirmative consent and provide solely for implied consent. One of these commenters stated that these affirmative consent provisions would add cost and complexity in tracking affirmative consents “as an additional step separate from the notice” and noted that the current “notice and access” system for the delivery of proxy materials does not contain such a feature. In contrast, other commenters expressed concerns about permitting internet availability of shareholder reports to be the default method of satisfying transmission obligations to investors for those funds that elect to rely on the rule based on implied consent. Some of these commenters suggested that affirmative consent would be a more appropriate means to assess investor preferences for internet availability or paper transmission of shareholder reports.

One commenter suggested that the final rule eliminate the Initial Statement requirement altogether. That commenter argued that the Initial Statement is unnecessary because both the Initial Statement and the Notice serve to inform investors of report availability and the right to receive paper reports. The commenter further argued that elimination of the Initial Statement requirement would streamline customer communications regarding delivery preferences, reduce unnecessary fund and investor expenses, and align the requirements of the rule with the Commission’s rule regarding internet availability of proxy materials (rule 14a–16 under the Exchange Act).

After considering comments, we have eliminated the proposed Initial Statement from the final rule. Instead, we are adopting an extended transition period. During the extended transition period, an investor in a mutual fund, for example, that seeks to begin relying on the rule before January 1, 2022 would receive approximately six notices of the upcoming change over a two-year period (each year, investors will receive notice on the summary prospectus or prospectus, as well as the semi-annual and annual report to shareholders.). The extended transition period is an appropriate, effective, and cost-efficient method of funds informing shareholders of the change in transmission format in lieu of the proposed Initial Statement provisions.

In addition, the extended transition period will provide time for funds, financial intermediaries, and Commission staff to undertake efforts to raise investor awareness of the change in transmission method before funds are permitted to begin relying on the rule. These efforts, combined with the requirement that Notices be transmitted in lieu of paper reports informing investors of their ability to receive paper reports, will help ensure that all investors—including those who hold only funds that first choose to rely on the rule on or after January 1, 2022—nonetheless are made aware of the change in transmission method and the option to receive reports in the manner they prefer. We believe that upon the completion of this extended transition period it is appropriate to begin allowing all funds to rely on the rule.

Permanent Elections for Paper Reports

Although the final rule replaces the proposed provisions relating to the Initial Statement with the extended transition period, the final rule also includes provisions enabling an investor to elect to receive future shareholder reports in paper after making a one-time election. Specifically, the rule provides that a fund may not rely on rule 30e–3 to satisfy its obligations to transmit a report if at any time after the fund has notified the investor of its intent to rely on the rule or provided a Notice to the investor, the investor has notified the fund (or the investor’s financial intermediary) that the investor wishes to receive paper copies of shareholder reports.

See supra notes 96–97 and accompanying text.

Proposed rule 30e–3(f)(1). Rule 30e–3(f)(1) permits use of the rule as to a particular investor only if the investor either previously affirmatively consented to this method of transmission, or was determined to have provided implied consent (if affirmative consent was not received) by sending an Initial Statement to investors. To obtain implied consent, the proposed rule required that the Initial Statement inform the investor that future shareholder reports would be made available on a website until the investor provided notification that he or she wished to receive paper copies of the reports in the future. If such notification was not received within 60 days after sending the Initial Statement, the rule could be relied upon with respect to that investor provided that

While the householding rules require that consent (other than implied consent) be “in writing,” we did not propose a similar “in writing” requirement because, consistent with the Commission’s guidance on electronic delivery, consent may be provided in a number of ways, including in writing, electronically, or telephonically. See 1995 Release, supra note 18 (noting that one method for satisfying evidence of delivery is to obtain informed consent from an investor to receive information through a particular medium); 1996 Release, supra note 18 (stating that informed consent should be made by written or electronic means); 2016 Release, supra note 18 (stating Commission’s view that an issuer or market intermediary may obtain an informed consent telephonically, as long as a record of that consent is retained).

Proposed rule 30e–3(c)(1). The proposed rule defined “Initial Statement” as the statement described in paragraph (c)(1) of the rule. See proposed rule 30e–3(b)(2).

Proposed rule 30e–3(c)(4).

See SIFMA Comment Letter (further noting that “[the current system of notice and access for the delivery of proxy materials relies entirely on an implied consent approach, and in our experience that approach has been successful in accurately capturing the preferences of clients, who have the option of requesting paper copies on either a one-time or on-going basis”); Comment Letter of InvescoShare, Inc. (Feb. 11, 2016) (“InvescoShare Comment Letter”).

See SIFMA Comment Letter.

See supra notes 54–59 and accompanying text.

See, e.g., American Forest and Paper Comment Letter. See Fidelity Comment Letter I.

Id.

See infra Section II.B.2.f.

See rule 30e–3(f)(1). In the Proposing Release, we requested comment as to whether funds should be able to re-solicit implied consent for shareholders who had previously elected paper delivery and if we should prescribe a minimum time period for doing so. One commenter believed we should, but did not suggest a particular waiting period. See State Street Comment Letter. Given that the final rule eliminates the Initial Statement requirement to obtain implied consent, we no
Beginning as early as January 1, 2019, funds will track investor preferences for paper copies of reports. We have adopted this date for two reasons. First, this date provides funds, financial intermediaries, and other service providers with a period of time to update systems to begin tracking investor investor paper preferences for shareholder reports. Second, this approach will allow investors who currently receive paper copies of reports to continue to receive them in that format without interruption. Therefore, if a fund intends to rely on the rule to transmit reports before January 1, 2022, the fund’s investors will generally have a two year period to notify their fund of their preference and avoid any interruption of their paper deliveries. Funds that newly offer their shares to the public after January 1, 2019, but include the notice in the relevant disclosure documents from the date of their first public offering will be able to rely on the rule beginning January 1, 2021. Although this may result in a shorter notice period to shareholders of these funds, we believe this is appropriate because these funds will have been offered to investors solely with the expectation that the fund will rely on the rule.

Application of Investor Elections for Paper Reports Across Multiple Positions

Under the proposed rule, each fund, including each series of a registrant offering multiple series, would have needed to obtain separate consent as to an investor, regardless of whether consent was obtained from that investor by other series offered by that registrant. An investor preferring paper copies also would have needed to deny or revoke consent for each fund, including each series, for which the shareholder preferred to receive paper copies of reports. In the Proposing Release we requested comment on whether consent should be obtained separately as to each fund, or whether consent that is applied to one fund could be inferred as to other funds held by the investor. We also requested comment on whether there were any special considerations relating to investors who invest through intermediaries.

Commenters who addressed this issue uniformly recommended that consent should be permitted to be inferred with respect to all funds held by an investor within a fund complex or with a financial intermediary, including funds held by contract owners through a variable insurance product. These commenters noted that requiring consent for each individual fund position could cause investor confusion and possibly overwhelm investors if separate Initial Statements per fund position were required to be sent. Another commenter stated that tracking consents on a fund-by-fund basis might be too burdensome for funds, especially in the case of funds offering exchange privileges. Some commenters stated that applying investor preferences across all funds held within a fund complex or held in a particular account or financial intermediary would provide regulatory consistency with the Commission’s electronic delivery guidance and with the Commission’s e-proxy rules.

After consideration of the issues raised by commenters, we agree that applying the investor’s election for paper reports at the investor account level, rather than the fund position level, is consistent with other delivery preference requirements with which investors, intermediaries, and funds are already familiar. Therefore, the final rule provides that if an investor has notified a fund complex or UIT (or the investor’s financial intermediary) that the investor wishes to receive paper copies of shareholder reports, the investor will be deemed to have requested paper copies with respect to (i) any and all current and future funds held through an account or accounts with (A) the fund’s transfer agent or principal underwriter or agent thereof for the same “group of related investment companies” as such term is defined in rule 0–10 under the Investment Company Act; or (B) a financial intermediary; and (ii) any and all funds held currently and in the future in a separate account funding a variable annuity or variable life insurance contract.

e. Prospects and Statements of Additional Information Transmitted Under Rule 30e–1(d)

Rule 30e–1(d) permits an open-end management investment company to transmit a copy of its prospectus or statement of additional information in place of its shareholder report, if it includes all of the information that would otherwise be required to be contained in the shareholder report. Under rule 30e–3 as proposed, the rule would not be available to a fund seeking level preferences (e.g., letters and alerts).”); SIFMA AMG Comment Letter (recommending that consents be permitted at the customer or account level rather than on a fund-by-fund basis in noting that “current consent collection databases used for electronic delivery of disclosure and other documents generally collect information at the account level. For example, an account holder with the same name and address would be solicited to consent to electronic delivery of shareholder reports with respect to all funds held in the account of the account holder. The requirement of sub-section (c) of proposed Rule 30e–1(d) to obtain consents on a fund-by-fund basis would require reprogramming or completely new consent collection techniques and databases. We believe the cost of implementing these changes may be a significant impediment to funds relying on Rule 30e–3 to transmit reports to shareholders who have not yet provided affirmative consent to electronic delivery over the Commission’s existing electronic delivery guidance.”).

244 The election could be applied, for example, if fund shares are held by an investor in one or more accounts with the same registration (i.e., names, social security numbers, and/or tax identification numbers).

245 17 CFR 270.0–10.

246 Rule 30e–3(d). See also infra Section II.C.

247 See Proposing Release, supra note 14, at 33632.

248 See, e.g., BlackRock Comment Letter; Schwab Comment Letter; ICI Comment Letter I; Invesco Comment Letter; Fidelity Comment Letter; OppenheimerFunds Comment Letter; State Street Comment Letter.

249 The election could be applied, for example, if fund shares are held by an investor in one or more accounts with the same registration (i.e., names, social security numbers, and/or tax identification numbers).

250 17 CFR 270.0–10.

251 Rule 30e–3(d). See also infra Section II.C.

252 See rule 30e–1(d).

253 We discuss these operational considerations and others with respect to financial intermediaries below in Section II.C.

254 For most investors, this period before January 1, 2022 will result in an extended opportunity to notify their fund of their preference for paper reports and receive them in that format without interruption as compared to the proposed rule. Under the proposed rule, there would not have been an extended transition period during which prominent disclosures would have been included in shareholder documents notifying investors of the upcoming change in transmission format. A fund would have been permitted under the proposed rule to send Notices to an investor 60 days after sending an Initial Statement to that investor. See proposed rule 30e–3(c).

255 17 CFR 270.0–10.
to transmit a copy of its currently effective statutory prospectus or statement of additional information, or both, as permitted by rule 30e–1(d).253 We received no comments on this aspect of the proposed rule and are adopting it as proposed.254

f. Extended Transition Period

Rather than making the rule effective immediately and requiring an Initial Statement, as proposed, we are adopting an extended transition period with staged effective dates.255 During the extended transition period, the earliest that Notices may be transmitted to investors in lieu of paper reports is January 1, 2021. In general, funds will be required to provide two years of notice to shareholders before relying on the rule, if relying on the rule before January 1, 2022.256 Therefore, funds that begin providing notice at the start of 2019 will complete the two-year notice period, and may begin relying on the rule, on January 1, 2021. Funds that are newly offered during the period from January 1, 2019 through December 31, 2020 may rely on the rule starting January 1, 2021, if they provide notice to shareholders starting with their first public offering. Funds that are newly offered beginning January 1, 2021 and thereafter may rely on the rule immediately without providing advance notice. All other funds may not rely on the rule until they have completed the full two year notice period or until January 1, 2022, whichever comes first.

The extended transition period is designed so that investors will receive disclosures to alert them to the change in the transmission method and allow them to express their delivery preference while also providing funds and financial intermediaries a period of time to educate investors of the coming change through disclosures on prospectuses and certain other fund documents and through other means. It will also provide funds and financial intermediaries with time to implement any necessary operations and systems changes. Finally, the Commission staff will also use this extended transition period to engage in educational and investor outreach efforts. As discussed above, after consideration of comments received on the proposal, we believe

dhat the enhanced disclosure requirements during this extended transition period are a more appropriate and effective method of providing investors with advance notice of a fund’s intent to rely on rule 30e–3 than the proposed Initial Statement requirement.257

Except as specified below, a fund generally may rely on rule 30e–3 to transmit a report to an investor before January 1, 2022, only after providing required statements over a two-year period as follows:

Beginning January 1, 2021

• Existing funds with public shareholders prior to January 1, 2019—if the fund includes the required statements on each applicable document required to be delivered or transmitted to shareholders for the period beginning on January 1, 2019 and ending on December 31, 2020.

• Funds that begin offering shares publicly during period January 1, 2019 through December 31, 2020—if the fund includes the required statements on each applicable document required to be delivered or transmitted to shareholders for the period beginning on the date the fund first publicly offers its shares and ending on December 31, 2020.

Between January 1, 2021 and January 1, 2022

A fund may otherwise begin to rely on rule 30e–3 before January 1, 2022 if the fund includes the required statement on the applicable disclosure documents for a period of two years prior to beginning to rely on the rule.261

3. Related Amendments

In connection with our adoption of rule 30e–3, we are also adopting related amendments to certain of our rules and forms. First, we are adopting, as proposed, amendments to rule 498 under the Securities Act, which concerns the use of a summary prospectus,262 to require funds relying on rule 30e–3 to include as part of the legend on the cover page or beginning of the fund’s summary prospectus the website address required to be included in the Notice.263 We received no comments on this aspect of the proposal. The website address that leads to shareholder report information could be the same as the website address that leads to prospectus information, provided that the other conditions of each rule are met, or different so long as both addresses are provided as part of the legend.264 This requirement is intended to provide investors an additional reminder of the website availability of shareholder reports.

Second, in a change from the proposal, the final rule permits a summary prospectus to include instructions describing how a shareholder can elect to receive prospectuses or other documents and communications by electronic delivery.265 We received a number of comments on fund investors’ increasing internet usage and receipt of electronically delivered materials.266 We are persuaded by these comments. Accordingly, the final rule will permit a summary prospectus to include electronic delivery election instructions, consistent with our belief that this provision will promote our general goal of providing investors with their preferred format of materials, and is parallel and consistent with conditions set forth in rule 30e–3 that ensure investors who prefer paper copies have instructions regarding how to communicate that preference.267

Third, we are amending rule 498 under the Securities Act, as proposed, to include a Notice required by rule 30e–3 among the materials that are permitted to have equal or greater prominence when accompanying a summary prospectus prepared in reliance on rule 498.268 Similarly, we are amending rule 14a–16 under the Exchange Act, generally as proposed, to include a Notice required by rule 30e–3 among the materials that are permitted

253 See proposed rule 30e–3(g).
254 Rule 30e–3(j).
255 See rule 30e–1(j).
256 For purposes of paragraph (i) of the rule, a “required statement” means the statement regarding a fund’s intent to rely on rule 30e–3 specified by (i) its applicable registration form, and (ii) in the case of a fund that uses a summary prospectus, rule 498. See rule 30e–3(j)(2). See also infra Section II.B.3 for a discussion of the related disclosure amendments.
257 See supra Section II.B.2.d.
258 Rule 30e–3(j)(1)(i).
259 Id. We believe it is appropriate to permit such funds to rely on the rule on January 1, 2021 because investors in such funds will be alerted to the change in transmission method both when they purchased shares in the fund and each time a shareholder report is delivered to them other than in reliance on rule 30e–3.
262 See rule 498 under the Securities Act [17 CFR 230.498].
264 See id.
266 See supra Section I.A.1.
267 See supra Sections I.B.2.c, II.B.2.d. Similarly, Notices under final rule 30e–3 would include instructions describing how a shareholder can elect to receive shareholder reports or other documents and communications by electronic delivery. See rule 30e–3(c)(1)(i)(C).
268 Rule 498(b)(2) under the Securities Act [17 CFR 230.498(b)(2)].
to accompany a Notice of Internet Availability of Proxy Materials. We received no comment on these proposed amendments.

Fourth, to notify investors of the upcoming change in transmission format, and in a change from the proposal, we are also amending rule 498 and certain fund registration forms to require that funds intending to rely on rule 30e–3 prior to January 1, 2022 include prominent disclosures on the cover page or beginning of their summary prospectuses; on the front cover page of their statutory prospectuses; and on the front cover page or beginning of their annual and semi-annual reports, for two years during the three-year period between January 1, 2019 and December 31, 2021. With the exception of newly-formed funds, funds would generally provide these disclosures as follows:

• **Open-End Funds.** Open-end funds would be required to provide the cover page disclosure on at least six documents sent to investors during this time: One per year on the fund’s summary prospectus or statutory prospectus, at least one per year on the fund’s annual report to shareholders, and one per year on the fund’s semi-annual report to shareholders.

• **Closed-End Funds.** Closed-end funds would be required to provide the cover page disclosure on at least four documents during this time: One per year on the fund’s annual report to shareholders and one per year on the fund’s semi-annual report to shareholders, as well as on their prospectuses unless the fund relies on rule 8b–16(b) under the Investment Company Act.

• **Variable Insurance Products.** Variable annuity and variable life insurance contracts registered on Forms N–4 and N–6, respectively, would be required to provide the cover page disclosure on at least two contract prospectuses during this time.

In addition to providing advance notice to investors of their fund’s expected use of the rule, these disclosures are intended to provide important information to both current and prospective investors that gives them an overview of the change in delivery format options, including the fact that reports will be made available on a website and that they will be able to retain delivery of their reports in paper if they should so desire. We believe that these disclosure requirements help to mitigate commenters’ concerns regarding the use of the Initial Statements as a condition to reliance on the rule. We encourage the use of graphical indicators such as flags or other design elements to further draw investor attention to these disclosures. Beginning January 1, 2022, these cover page disclosures will no longer be required.

C. The Role of Certain Financial Intermediaries

As acknowledged in our proposal and stated by commenters, most fund investors are not direct shareholders of record, but instead engage an investment professional and hold their fund investments as beneficial owners through accounts with intermediaries such as broker-dealers. As a result, today intermediaries commonly assume responsibility for distributing issuer materials to beneficial owners, including shareholder reports. In the case of broker-dealers, distribution of shareholder reports to beneficial owners is generally governed by self-regulatory organization (“SRO”) rules, which state that broker-dealer member firms are required to distribute annual reports, as well as “interim reports,” to beneficial owners on behalf of issuers, so long as an issuer (i.e., the fund) provides satisfactory assurance that the broker-dealer will be reimbursed for expenses (as defined in SRO rules) incurred by the broker-dealer for distributing the materials.

Certain commenters expressed concerns regarding potential complexities and costs for broker-dealers to administer proposed rule 30e–3. As discussed above and in response to these commenter concerns, and addresses do not appear directly in issuers’ stock registers (e.g., on fund transfer agent recordkeeping systems) because their securities are held in street name accounts registered in the name of the intermediary. “Street name” accounts are also known as “omnibus accounts.”

In the Proposing Release, we requested comment on the impact of the proposed rule regarding shareholders holding fund shares through intermediated accounts. See Proposing Release, supra note 14, at Section II.D.6. By one estimate, approximately 75% of accounts are currently held through brokers and other intermediaries, excluding positions held in employer-sponsored plans. See SIFMA Comment Letter (citing estimate provided by Broadridge Financial Services, Inc.).

See NYSE rule 465(2); NYSE rule 451(a)(1)–(2); Financial Industry Regulatory Authority (“FINRA”) rule 2251.01. As discussed above, today we approved amendments to NYSE rules that provide additional clarification with respect to the application of certain processing fees that may be charged in the transmission of shareholder reports, including fees that may be applied for reports provided electronically pursuant to a notice and access rule such as rule 30e–3. See supra notes 35–36 and accompanying text.

272 Most issuers of variable annuities and variable life insurance policies amend their registration statements annually and hence send updated prospectuses to their contract owners at least once per year. Issuers of variable annuity and variable life insurance contracts that no longer amend their registration statements do not distribute updated prospectuses to contract owners rely on staff no-action letters issued by the Division of Investment Management (see, e.g., Great-West Life & Annuity Insurance Co. SBC Staff No-Action Letter (pub. avail. Oct. 23, 1990)). Consistent with this no-action position, such issuers may rely on rule 30e–3 prior to January 1, 2022 if comparable notice is provided to contract owners during the extended transition period when providing them with prospectuses and shareholder reports for underlying funds in which the separate account contracts invested.

In addition, we understand that a small number of issuers of variable life insurance policies continue to register their securities on Form S–6 [17 CFR 240.12d–1] and rely on rule 30e–3 prior to January 1, 2022 if comparable notice is provided on prospectuses (or supplements thereto) delivered to policyholders during the extended transition period when providing them with prospectuses and shareholder reports for life insurance policies amend their registration statements annually and hence send updated prospectuses to their contract owners at least once per year. Issuers of variable annuity and variable life insurance contracts that no longer amend their registration statements do not distribute updated prospectuses to contract owners rely on staff no-action letters issued by the Division of Investment Management (see, e.g., Great-West Life & Annuity Insurance Co. SBC Staff No-Action Letter (pub. avail. Oct. 23, 1990)). Consistent with this no-action position, such issuers may rely on rule 30e–3 prior to January 1, 2022 if comparable notice is provided to contract owners during the extended transition period when providing them with prospectuses and shareholder reports for underlying funds in which the separate account contracts invested.

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277 See e.g., SIFMA Comment Letter (stating that the proposed rule did not address the role and obligations of broker-dealers to administer the notice process for clients, and would present logistical challenges and some components would unnecessarily increase complexity and cost without sufficient benefit to mutual fund and their investors; also recommending that the Commission set an effective date for the new rule that provides sufficient time for broker-dealers to develop new infrastructure and internal procedures, and suggesting a transition period of at least 24 months following the effective date of the new rule); Broadridge Comment Letter I (stating that the proposed rule did not acknowledge the essential role broker-dealers would play in making the rules work in practice and that an additional method of delivery for fund reports would add cost and complexity to processing; and that the processing complexities of the proposed rule are similar to those of proxies and noting that the proposal did not appropriately contemplate or measure these extra costs).
we have modified the final rule 30e–3(e) to eliminate the proposed reference to financial intermediaries in that provision given the guidance we are providing today regarding the operation of the rule in the context of financial intermediaries.\textsuperscript{278}

Multiple commenters requested that the Commission clarify intermediaries’ role with respect to delivering Initial Statements and Notices under proposed rule 30e–3, as well as their role in delivering paper copies of shareholder reports to fund beneficial owners upon request.\textsuperscript{279} Commenters also requested clarity on how beneficial owners who hold fund shares through accounts with intermediaries can communicate their election to receive paper copies of shareholder reports.\textsuperscript{280} With respect to beneficial owners holding fund positions from more than one fund complex in intermediated accounts, commenters further requested whether beneficial owners would be able to communicate their preferences on an account-level basis instead of on a fund-by-fund basis. Commenters also asked that the Commission clarify how intermediaries will be reimbursed by funds for the services they would provide,\textsuperscript{281} as well as confirm that an intermediary or other third party service provider could host the website on which the materials would be accessible.\textsuperscript{282}

After consideration of the comments we received, including concerns raised regarding the role of financial intermediaries, we have made several modifications to the rule designed to respond to investor protection concerns, streamline and clarify the operation of the transmission regime, provide additional flexibility, and further increase cost savings for investors. For example, we have eliminated the requirement to send an Initial Statement and reply cards under the final rule. In addition, the final rule permits flexibility with respect to the preparation and mailing of Notices, and requires that elections to receive paper reports apply on an account-level basis, instead of a fund by fund basis.\textsuperscript{283}

In response to commenters’ concerns regarding broker-dealer activities under the new rule 30e–3 framework, below we provide guidance addressing the processes that could be followed by broker-dealers and other intermediaries that deliver shareholder reports to beneficial owners. To remind funds and others of the guidance provided in this release, we have added a note to final rule 30e–3 indicating that this release contains a discussion of how the conditions and requirements of the rule may apply in the context of investors holding fund shares through financial intermediaries.\textsuperscript{284}

Financial intermediaries already perform many functions similar to those outlined in rule 30e–3. For example, intermediaries forward to beneficial owners a variety of materials from funds and other issuers of securities, including shareholder reports. Many intermediaries operate websites that host shareholder reports and other materials relating to a beneficial owner’s investments. Intermediaries today also collect and maintain investor preferences as to delivery format (i.e., whether a beneficial owner receives reports or other documents—including materials prepared by the intermediary such as account statements and confirmations—in paper or has elected electronic delivery of some or all of those materials), and monitor for potential householding arrangements and collect related consents for their customers. As a result, we believe many intermediaries generally may be able to leverage existing infrastructure and adapt systems and processes currently used for the delivery of documents and other information to their customers.\textsuperscript{285}

1. Distribution of Notices to Beneficial Owners

SRO rules require broker-dealers to distribute shareholder reports to beneficial owners.\textsuperscript{286} We believe that a broker-dealer, at the fund’s request, could also distribute Notices required under rule 30e–3 if the broker-dealer distributes the materials in a manner consistent with the rule. We understand that today, funds and broker-dealers routinely develop detailed implementation plans and other parameters for fulfillment of paper and electronic delivery of fund materials (such as shareholder reports, prospectuses, and proxy materials) and other shareholder servicing and compliance-related matters for beneficial owners. We believe that such plans and parameters also could provide a basic framework for the delivery of Notices under rule 30e–3.\textsuperscript{287}

The rule permits flexibility in the preparation and delivery of Notices. For example, a Notice could relate solely to an individual fund, or multiple Notices can be combined together to create a consolidated Notice.\textsuperscript{288} In addition, the rule permits a Notice to be sent with other documents, including other Notices and account statements.\textsuperscript{289} As with funds, a broker-dealer could likewise forward Notices to beneficial owners in any of the aforementioned scenarios.\textsuperscript{290}

A fund may determine that for cost or other reasons, it would be preferable for the broker-dealer to prepare and distribute a consolidated Notice for beneficial owners who may be invested in multiple funds offered by one or more fund complexes.\textsuperscript{291} In addition, a

\textsuperscript{278} See supra note 225 and accompanying text.
\textsuperscript{279} See, e.g., ICI Comment Letters I and II; Broadridge Comment Letter I; CSIM Comment Letter; Fidelity Comment Letter I; Invesco Comment Letter; MFS Comment Letter; OppenheimerFunds Comment Letter; SIFMA Comment Letter.
\textsuperscript{280} See SIFMA Comment Letter; Schwab Comment Letter; Broadridge Comment Letter I; ICI Comment Letter I.
\textsuperscript{281} See SIFMA Comment Letter; ICI Comment Letter I.
\textsuperscript{282} See, e.g., ICI Comment Letter I; Invesco Comment Letter; SIFMA Comment Letter.
\textsuperscript{283} See, e.g., SIFMA Comment Letter; Broadridge Comment Letter I; InvescoShare Comment Letter; see also infra note 307 (detailing commenters’ discussion and requests for clarification about intermediary website hosting).
\textsuperscript{284} See Note to rule 30e–3.
\textsuperscript{285} Two commenters suggested that the framework for rule 30e–3 as proposed was similar to that for the notice and access framework for the delivery of proxy materials. See SIFMA Comment Letter, Broadridge Comment Letter I. Although both frameworks involve a notice and access framework, the proxy framework involves additional complexities relating to the process of voting security holdings—considerations not applicable in the case of rule 30e–3, particularly after the modifications we have made to the final rule as discussed above. Instead, we believe that the existing framework for the delivery of fund documents other than proxy materials (e.g., prospectuses, summary prospectuses, shareholder reports, ad hoc requests for paper documents, etc.) is the more appropriate analogous framework.
\textsuperscript{286} See supra note 276 and accompanying text.
\textsuperscript{287} Funds and broker-dealers could work together to establish or modify their plans and parameters. Such discussions also may prompt changes to existing servicing arrangements and/or compliance and oversight activities, particularly where funds determine that broker-dealers will prepare and transmit consolidated Notices in lieu of those prepared by funds (see infra notes 291–293 and accompanying text) or establish or use their own website in lieu of funds’ (or a third party’s) to provide access to the shareholder materials for their customers (see infra paragraph accompanying note 307).
\textsuperscript{288} See rule 30e–3(c)(4).
\textsuperscript{289} See rule 30e–3(c)(5).
\textsuperscript{290} In the case of fund-generated Notices that do not have a telephone number or other contact information for the broker-dealer, a broker-dealer could include a cover page or other similar communication that provides the beneficial owner with contact and other information for the broker-dealer, as is often done today when annual reports or other fund documents are forwarded to beneficial owner customers. This contact information could be used by the beneficial owner to, for example, elect to receive all future reports in paper or elect electronic delivery of the report and other documents or communications.
\textsuperscript{291} For example, because the final rule permits a Notice to accompany other documents, a combined mailing could reduce mailing costs relative to sending the Notice in a separate mailing without any accompanying documents.
broker-dealer may similarly prefer to prepare such Notices for its customers, given that its customers may have come to expect consolidated communications at the account level rather than the position level. Moreover, Notices prepared by a broker-dealer may better generally match fund investors’ expectations because a broker-dealer—and not the fund—typically processes a beneficial owner’s fund-related requests.

Notices prepared by broker-dealers generally should be consistent with paragraph (c) of their own Initial Statements, including incorporating their own contact information and support with respect to multiple securities included in a given client account. As discussed in the section below, a broker-dealer preparing a Notice may wish to include the broker-dealer’s own toll-free telephone number, as well as instructions about how the beneficial owner could notify the broker-dealer regarding his or her report delivery preferences.

2. Beneficial Owner Elections for Paper Reports

The final rule prohibits reliance on the rule if a shareholder has expressed a preference that the shareholder wishes to receive paper copies of shareholder reports. Broker-dealer firms generally should track their customer elections to receive paper reports. Consistent with today’s framework under which broker-dealer firms facilitate delivery of shareholder reports to their customers, we believe that broker-dealer firms could provide information to the fund (or fulfillment service provider) regarding the number of paper copies of shareholder reports, and fund-prepared Notices, needed by the broker-dealer to fulfill its customers’ delivery preferences.

In response to concerns raised by commentators regarding the burdens and costs of tracking elections to receive paper reports on a fund by fund basis, and in a change from the proposal, the rule has been modified so that an election to receive paper reports will apply to any and all current and future funds held through an account or accounts with a financial intermediary. We believe that tracking paper report elections on an account basis should simplify the operation of the rule, as well as the design and implementation of systems to track shareholder report paper elections for both broker-dealers and funds.

Today, paper copies of statutory prospectuses or statements of additional information may be requested by beneficial owners on an ad hoc basis in cases where a fund uses a summary prospectus. Paper copies of disclosure documents (including shareholder reports) may also be requested where a client has elected electronic delivery for some, but not all communications.

We note that the rule’s approach of delivering Notices, together with the option of permitting shareholders to request paper copies on either an ad hoc or ongoing basis, is generally similar to the operational approach currently used by many broker-dealers (and funds) for the delivery of fund materials, including proxy materials. We believe that existing systems for default electronic delivery could be leveraged by broker-dealers in implementing the final rules in order to establish new processes and procedures for delivery of shareholder reports at a lower cost than would be the case if such systems did not already exist. In particular, elimination of the proposed Initial Statement in the final rule reduces the operational complexities with respect to use of the rule, which we believe may make it easier for existing systems to be leveraged. We recognize, however, that some broker-dealers may decide instead to create new systems.

To facilitate beneficial owners’ elections to receive future reports in paper, a broker-dealer firm generally should provide information on how to contact the firm (or if applicable, the fund) in conjunction with the delivery of Notices. For Notices prepared by the broker-dealer firm, the Notice could contain the toll-free telephone number of the firm and other methods by which beneficial owners could contact the firm. If the broker-dealer firm is delivering Notices prepared by a fund, the firm could include with the Notice information containing the toll-free telephone number of the firm and other methods by which beneficial owners could contact the firm.

A commentator also requested a transition period of at least 24 months following the effective date of the rule to allow time to address new systems, processes and procedures required to comply with the rule. In response to these and other concerns raised by commentators, and other considerations discussed below on the effective date of the rule, we are adopting an extended effective date of January 1, 2019 to provide funds, financial intermediaries, and other service providers with an adequate period of time to modify systems and operations to accommodate the new transmission framework.

Broker-dealers generally should track investor elections for paper copies of shareholder reports after first transmitting a notification of a fund’s intent to rely on the rule, beginning as early as January 1, 2019, or the first time a Notice is provided to the shareholder.

3. Website Availability of Materials

The final rule does not require that the website where the required materials are available be maintained by any particular party. Instead, the rule provides that the required materials must be posted at the website specified in the Notice. This approach is consistent with similar flexibility provided under the current rules relating to the use of a summary prospectus. In addition, electronic
delivery elections for shareholder reports and other documents can be fulfilled by making fund reports and other materials accessible on websites hosted by the fund, the broker-dealer firm, or a third-party service provider of the fund or intermediary. Thus, a variety of existing infrastructure arrangements for hosting reports and other materials may be leveraged in providing website availability of shareholder reports to beneficial owners under rule 30e–3.

Commenters observed that it could be more efficient for a broker-dealer to establish its own website (or utilize a central third-party website) on which shareholder materials would be hosted, and identify this website (as opposed to each fund or fund family’s website) in any Notices prepared by the broker-dealer. A fund, as the party ultimately responsible for the content and delivery of shareholder reports under Commission rules, may agree to the use of a broker-dealer or third party website to provide electronic access to shareholder reports and other materials applicable to a beneficial owner’s account if the reports and other materials are posted in a manner consistent with the requirements of rule 30e–3. We also acknowledge, as noted by commenters, that allowing the use of a control number or QR code (or similar login process) to access a broker-dealer’s website (or other central third-party website) could help investors to more efficiently access the fund reports and other materials relevant to them, rather than directing an investor that holds various fund positions to multiple fund complex websites where such documents are publicly available.

D. Extension of Similar Delivery Framework to Other Documents

While rule 30e–3 as proposed would apply only to shareholder reports, we also requested comment in the Proposing Release on whether we should permit a similar framework to satisfy delivery obligations for summary or statutory prospectuses. Citing cost reductions and other reasons, a number of commenters recommended that we extend a similar framework to other materials, including prospectuses, variable insurance product materials, and notices required under rule 19a–1 and related exemption orders (such as applying the rule first to new accounts). One commenter suggested that the Commission adopt rules allowing funds to use the internet to satisfy delivery requirements across all investor documents. Some commenters also suggested that the Commission amend rule 172 under the Securities Act to apply the rule’s “access equals delivery” framework to funds and variable insurance products.

While we appreciate these recommendations, we believe that the appropriate incremental step is rule 30e–3, as adopted. As discussed above, we are seeking comment on the content, delivery, and design of fund disclosure as well as the processing fees for delivering fund shareholder reports and other materials to investors, and may consider in the future an electronic or notice and access delivery framework for documents other than shareholder reports.

E. Effective Dates

1. Rule 30e–3

In the Proposing Release, we stated that because the use of proposed rule 30e–3 would be optional, we believed that a compliance period was unnecessary and expected that funds would be able to rely on the rule immediately after the effective date provided they first transmit an Initial Statement. We requested comment on the proposed compliance dates, and a commenter suggested that the Commission set an effective date six months after date of publication in the Federal Register and allow for a transition period of 24 months from the rule’s effective date to allow the conditions of the rule to apply gradually (such as applying the rule first to new accounts, and then to existing accounts). After further consideration, we are adopting an extended transition period with staged effective dates for rule 30e–3 and the related amendments we are adopting today. While rule 30e–3 will become effective on January 1, 2019, the rule provides that a fund may only begin transmitting Notices pursuant to the rule beginning January 1, 2021. For most funds seeking to rely on the rule before January 1, 2022, a temporary condition will require the funds to prominently disclose information on the cover pages of certain documents prior to their reliance on the rule, as discussed in more detail in this release.

We are adopting a delayed effective date of January 1, 2019 to provide funds, broker-dealers and other financial intermediaries, and service providers with an adequate period of time to modify systems and operations to accommodate the new transmission framework. Beginning as early as January 1, 2019, however, funds and intermediaries will begin to track investor elections for paper copies of the shareholder report.
2. Disclosure Amendments

As discussed above, we are also requiring funds to provide prominent disclosures on the cover page or beginning of their summary prospectuses, and cover pages of their statutory prospectuses, and annual and semi-annual reports, informing investors of the change in delivery format options if the funds intend to rely on the rule prior to January 1, 2022.322 These amendments to rule 498 and Forms N–1A, N–2, N–3, N–4, and N–6 will be effective January 1, 2019 for a temporary period of three years (i.e., between January 1, 2019 and December 31, 2021). Effective January 1, 2022, these disclosures will no longer be required, and the related requirements in rule 498 and Forms N–1A, N–2, N–3, N–4, and N–6 will be removed. Additional amendments to rule 498, including an amendment to permit the inclusion of information about electronic delivery, will become effective January 1, 2019 and will remain effective indefinitely.

3. Other Amendments

As also discussed above, we are permitting funds to include content from the shareholder report in the Notice under rule 30e–3(c)(3), provided that funds that choose to transmit Notices with additional information from the shareholder report file those Notices as part of their reports on Form N–CSR.323 To that end, we are amending Form N–CSR to provide instructions for funds to file such Notices. The amendments to Form N–CSR are effective January 1, 2021. We are also amending rule 14a–16 under the Exchange Act to include a Notice required by rule 30e–3 among the materials that are permitted to accompany a Notice of internet Availability of Proxy Materials.324 The amendments to rule 14a–16 will be effective January 1, 2021.

We are amending Section 800 of 17 CFR part 200 to display control numbers assigned to information collection requirements for rule 30e–3 by the Office of Management and Budget pursuant to the Paperwork Reduction Act. This amendment is effective January 1, 2019.

4. Communications With Investors During the Extended Transition Period

As noted earlier, we are persuaded by commenters that the proposed provisions of the rule regarding affirmative and implied consent through use of an Initial Statement would add unnecessary complexity to the implementation of the rule without a corresponding benefit.325 Instead, we believe that the extended transition period provides a less burdensome framework to alert investors to the change in transmission format.326 Although we are requiring most funds, as a condition to relying on rule 30e–3 before January 1, 2022, to include the required disclosures regarding the upcoming change on prospectuses and shareholder reports, we also encourage funds and financial intermediaries (e.g., broker-dealers, insurance companies issuing variable insurance products) to take advantage of the extended transition period to engage with their investors to communicate the forthcoming change through additional appropriate means. Such engagement could further enhance investors’ awareness of the upcoming change in delivery method, and provide additional opportunity for investors to select the delivery method most appropriate for their individual circumstances.

We believe that this engagement with investors could build upon funds’ and intermediaries’ existing efforts to ask investors to elect electronic delivery. It is our understanding that funds and intermediaries periodically solicit investors to opt-into electronic delivery of account and fund related documents, including shareholder reports, in lieu of receiving documents in paper. We are aware that some of these efforts have included:

- **Dedicated electronic delivery website pages** that explain the benefits of electronic delivery (for example, electronic delivery is faster, economical, convenient, secure, and environmentally friendly) and provide instructions and website links that facilitate enrolling in electronic delivery (e.g., by obtaining online access and logging into an account held directly with the fund or through an intermediary and selecting communications preferences). These website pages may include frequently asked questions and information on how to contact a service representative (by phone or email) to facilitate enrollment, and may also highlight how to receive paper copies of materials upon request, how to update or cancel enrollment, and the procedures followed when an email address provided is invalid or otherwise fails.

- **Paper mailing campaigns** that provide information similar to the above, including the mailing of inserts that accompany the monthly or quarterly account statement or other regulatory mailings or marketing materials sent to investors.

- **Email campaigns** that are targeted to investors who have not consented to electronic delivery, but have provided email addresses to funds or their intermediaries on account applications or when obtaining online access.

- **Online account alerts or pop-ups** that remind investors who have logged into their account page of the availability of electronic delivery and prompt investors to take action.

- **Engagement by phone** through call scripts which prompt fund or intermediary customer service representatives to highlight electronic delivery options and guide interested investors through the enrollment process.

- **Elimination of small balance account service fees and other incentives** for investors who sign up for electronic delivery of documents, in lieu of receiving paper documents.

We believe that the levels of internet access and electronic availability and delivery of financial information will continue to increase327 as a result of the various efforts described above and general trends in technology and demographic changes. We also continue to believe that electronic delivery and website availability of disclosures are methods that have the potential to significantly improve the communication of information to investors. For example, many fund websites include additional information aside from disclosure documents and other information mandated under our rules such as educational materials, interactive calculators, and investment research tools and materials. Funds and intermediaries will be able to engage with their investors on the benefits of enrolling in electronic delivery and accessing information online, both during the extended transition period and thereafter, and to continue to improve the user-friendliness and content of their websites.

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322 See supra Section II.B.2.f.
323 See supra Section II.B.2.
324 See id.
325 See supra notes 39–47 and accompanying text.
326 See supra Section II.A.2.
327 See supra Section II.B.2.f.
III. Economic Analysis

A. Introduction

We are mindful of the importance of assessing the costs and benefits of our rules. Section 2(b) of the Securities Act, Section 3(f) of the Exchange Act, and Section 2(c) of the Investment Company Act require us, when engaging in rulemaking that requires us to consider or determine whether an action is necessary or appropriate in (or, with respect to the Investment Company Act, consistent with) the public interest, to consider, in addition to the protection of investors, whether the action will promote efficiency, competition, and capital formation.328 Additionally, Exchange Act Section 23(a)(2) requires us, when adopting rules under the Exchange Act, to consider, among other things, the impact that any new rule would have on competition and not to adopt any rule that would impose a burden on competition that is not necessary or appropriate in furtherance of the Exchange Act.329 At the outset, the Commission notes that, where possible, it has sought to quantify the costs, benefits, and effects on efficiency, competition, and capital formation expected to result from new rule 30e–3, the amendments to various rules and registration forms, and their reasonable alternatives. The economic effects of new rule 30e–3 are dependent on a number of factors, including the number of funds that rely on the rule; for those funds that rely on the rule, the number of investors that ultimately select paper transmission; the extent to which funds currently rely on Commission guidance to transmit shareholder reports electronically; the extent to which investors have opted into electronic delivery;330 and the extent to which investors become more aware of the website availability of portfolio investment and other information, view the information, and use the information to make investment decisions.

New rule 30e–3 allows funds to satisfy shareholder report transmission requirements by making such reports publicly accessible on a website if they meet certain conditions. This new option is designed to modernize the manner in which periodic information is made available to investors. We believe it will improve the information’s overall accessibility while reducing expenses associated with printing and mailing that are borne by funds, and ultimately, by their investors. The rule also draws on the Commission’s investor testing efforts and other empirical research concerning investors’ preferences about methods of delivery for required disclosure documents and use of the internet for financial and other purposes generally.331 Further, printing and mailing expenses associated with shareholder reports are typically passed on to fund investors through fund expense ratios. Currently, if investors with a preference for electronic delivery do not take the necessary delivery and enablefully electing electronic delivery pursuant to the Commission’s current guidance on electronic delivery, the shared costs associated with printing and mailing reports incurred by investors will be higher than if shareholder reports were delivered in paper form only to those investors that have a preference for paper delivery. The new rule, however, creates an optional regulatory structure that eliminates the need for investors to take the step to affirmatively elect electronic delivery and enables funds to make website availability of shareholder reports the default, which will reduce the printing and mailing costs shared by investors while still accommodating the interests of those investors who prefer paper copies.332

As we discuss in greater detail below, we estimate that aggregate cost savings, net of compliance costs, after the first year of reliance on rule 30e–3 would be approximately $141.4 million per year, or approximately 55% of the annual printing and mailing costs under the existing requirements.333 The share of net cost savings realized by funds that will be actually passed through to investors will affect the net impact of the rule on investors. Given that printing and mailing expenses are fund expenses, we expect that these savings will generally be fully passed along to investors, except perhaps in certain circumstances (e.g., where the fund is operating under an expense limitation arrangement).

For purposes of the estimates below, we aggregate printing and mailing costs for positions held directly and positions held in street name. We assume that the printing and mailing costs are incurred, and cost savings realized, by funds. As discussed above, intermediaries and other third parties incur printing and mailing costs on behalf of funds in instances of positions held in street name, and such intermediaries and other third parties are expected to incur a portion of the aggregate costs and cost savings from rule 30e–3.334 By one estimate, approximately 75% of accounts are currently held through brokers and other intermediaries.335 We expect that intermediaries and other third parties will continue to pass through most or all shareholder report printing and mailing costs to funds under rule 30e–3, as currently intermediaries and other third parties who perform these functions on behalf of funds under existing requirements pass through printing and mailing costs incurred.

Due to the optional nature of the rule, we expect that, in general, each fund will only rely on the rule if the benefits to that fund exceed the costs. We have provided estimates of the aggregate costs associated with printing and mailing shareholder reports. However, as discussed in further detail below, in certain cases the Commission is unable to quantify other economic effects, such as how the availability of shareholder reports online will affect investors’ use preferences for paper reports may fail to request paper because of the “status quo” bias discussed above. See infra Section III.D.2. We lack the data to estimate the number of such investors. There is considerable evidence of investor preferences for enhanced availability of fund information on the internet rather than in paper form. See supra note 19.

333 See infra note 373 and infra Section III.C.1.
334 See supra Section II.C.
335 See supra note 275.
of the information, because the Commission lacks the information necessary to provide a reasonable estimate. Where the Commission is unable to quantify the economic effects, the discussion is qualitative in nature and includes, where possible, descriptions of the direction of these effects.

B. Economic Baseline and Affected Parties

The baseline from which we analyze the economic effects of rule 30e–3, as well as the related rule and registration form amendments, is the current set of regulatory requirements under which funds transmit shareholder reports to investors. The baseline also includes the current practice of many funds to make some or all of these reports—or other materials listing portfolio investment information—accessible on their websites. The baseline reflects the fact that some funds transmit these materials electronically today, pursuant to Commission guidance that permits such a transmission method on a shareholder-by-shareholder “opt-in” basis, provided that certain other conditions are met.338 The baseline also reflects the recently adopted rules and forms and rule and form amendments modernizing the reporting and disclosure of information by registered investment companies,337 as well as rules established by exchanges related to registration statements on Form N–3, and 724 UITS.342 For the reasons discussed below, we continue to estimate, as we did in the proposal, that the number of affected funds that will rely on rule 30e–3 comprises 90% of the number of all funds.343 Thus, the number of affected funds reflecting updates to the industry data figures is 11,367.344

Rules 30e–1 and 30e–2 generally require funds to transmit reports to shareholders at least semi-annually, with holdings as of the end of the second and fourth fiscal quarters disclosed in the fund’s semi-annual and annual reports, respectively.345 Holdings as of the end of the first and third fiscal quarters are currently disclosed in reports on Form N-Q filed with the Commission, which are available on EDGAR.346 Funds are not required to send first- and third-quarter portfolio holdings information to investors or make that information accessible on their websites. In addition to providing paper copies of shareholder reports to investors, some funds may voluntarily, or because of other requirements, make some or all of these reports—or other materials listing portfolio holdings at particular times—accessible on websites. For example, rule 498 under the Securities Act, which concerns the use of a summary prospectus, requires that shareholder reports be made publicly available on a website if a summary prospectus is used.347

Under existing Commission guidance, funds can transmit shareholder reports or other documents electronically in lieu of paper delivery if they satisfy certain conditions relating to investor notice, access, and evidence of delivery. The Commission’s guidance indicates that one way evidence of delivery can be demonstrated as to an investor is if an investor has agreed to electronic transmission on an affirmative “opt-in” basis.

Some shareholder reports are currently transmitted electronically under this guidance. One commenter estimated that 43% of reports to street name holders are delivered electronically and projected that 59% of reports to street name holders will be delivered electronically in 2018.348 By one estimate, approximately 75% of accounts are currently held through brokers and other intermediaries.349

While these figures demonstrate that electronic delivery is used for a significant proportion of shareholder reports (which affects the baseline printing and mailing costs across funds under the existing requirements), because a fund is not required to report to the Commission the extent to which it relies on Commission guidance, we lack information to estimate the percentage of funds that solely or predominately rely on electronic delivery under existing Commission guidance. We recognize, consistent with the comments we have received, that electronic delivery of reports to some investors under existing Commission guidance may continue to reduce printing and mailing costs in the future, regardless of whether rule 30e–3 is adopted.350

In the Proposing Release, we estimated aggregate annual printing and mailing costs under the existing requirements to be approximately $116.4 million.351 Based on the estimates provided by commenters,352

\[338 \text{See supra note 25 and accompanying text.} \]
\[337 \text{See supra Reporting Modernization Adopting Release, supra note 14.} \]
\[338 \text{See supra notes 32–34 and accompanying text.} \]
\[339 \text{See supra Section II.A.5.} \]
\[340 \text{See 2017 ICI Fact Book, supra note 97, at 8.} \]
\[341 \text{Among mutual fund-owning households, 63% held funds outside employer-sponsored retirement accounts, with 19% owning funds only outside such plans. See 2017 ICI Fact Book, supra note 97, at 121.} \]
\[342 \text{See infra note 476.} \]
\[343 \text{See Proposing Release, supra note 14, at n.800. See also infra note 477 and accompanying and following text.} \]
\[344 \text{See infra note 478.} \]
\[345 \text{See supra note 16.} \]
\[346 \text{See supra note 117 for a discussion of the changes recently adopted by the Commission.} \]
\[347 \text{See infra note 474 and accompanying text.} \]

…
we recognize that printing and mailing costs under the existing requirements estimated in the proposal may have been understated and we are doubling our estimated share of printing and mailing costs under existing requirements in the external costs of rules 30e–1 and 30e–2. Based on this change to the assumptions in our estimate and the use of updated industry figures on the number of funds, our revised estimate of aggregate annual printing and mailing costs under the existing requirements is approximately $256.2 million. The revised estimate is close to the average of the estimate in the proposal and the average of aggregate cost estimates based on commenter estimates.354

C. Benefits

Rule 30e–3, to the extent that it is relied upon by funds, will likely provide benefits to both current and prospective investors. First, the rule is expected to reduce the costs of printing and mailing shareholders reports by keeping the costs of printing and mailing costs related to the delivery of paper shareholder reports. Second, we believe that the rule may facilitate investor review of periodic information by increasing its overall accessibility. We discuss these benefits in greater detail below.

The expected benefits described below will not necessarily be distributed uniformly across all funds that choose to rely on rule 30e–3. First, funds that currently have low printing and mailing costs—for example, because they have shorter shareholder reports or lower-per-page printing costs—will realize smaller net cost savings from rule 30e–3. Similarly, funds that deliver many of their shareholder reports electronically in reliance on existing Commission guidance will realize smaller net cost savings from rule 30e–3, although they may still realize net cost savings associated with those investors who do not opt into electronic delivery. Further, even if the net cost savings from rule 30e–3 are small, investors and funds may still realize some benefits from website accessibility of first- and third-quarter portfolio holdings information that currently may be found only on EDGAR.

Second, when funds presently rely on rule 498, which among its requirements includes website posting of shareholder reports when using a summary prospectus, the potential benefits to investors of having the shareholder reports available in an electronic format alongside other fund information will likely be smaller. However, funds that presently rely on rule 498 may still realize net cost savings from no longer printing and mailing as many shareholder reports. The use of rule 30e–3 by funds that presently rely on rule 498 will also result in the benefits discussed above. However, it would provide the separate benefit of enabling investors more time to become informed of the potential forthcoming change in the delivery manner of their shareholder reports and also provide funds, financial intermediaries, and service providers with a period of time to modify systems and operations to accommodate the new shareholder report delivery framework.

As discussed in Section II.B.3 above, in a change from the proposal, we are also amending rule 498 to permit a summary prospectus to include a description of how a fund delivers reports that investors can elect to receive prospectuses or other documents and communications by electronic delivery.356 This provision is expected to enhance investor awareness of how to request shareholder reports and related fund materials in the investor’s preferred format while enabling additional efficiencies in shareholder report delivery for funds. To the extent that the option to include with a summary prospectus instructions describing how investors may elect electronic delivery will increase the likelihood that investors with a preference for electronic delivery communicate their preference to the fund, this amendment to rule 498 is expected to contribute to increased reliance on electronic delivery under the existing Commission guidance. Consistent with the printing and mailing cost savings, this would result in benefits to funds, and in turn, investors, from the final rules. Further, if electronic delivery facilitates increased investor access to, and review of, fund information, this amendment to rule 498 may result in better informed investor decisions and more efficient allocation of investor capital. If investors increasingly elect electronic delivery as a result of this amendment to rule 498, the magnitude of the benefits incremental to reliance on rule 30e–3 from printing and mailing cost savings and increased investor review will decrease. We lack the information to quantify the increase in electronic delivery use that would be incremental.

Daltland

[354 See supra note 74 and accompanying text.]

[355 See infra note 44 and accompanying text.]

[356 See supra note 265 and accompanying text.]

[357 See supra note 34 and accompanying text.]

[358 See supra note 265 and accompanying text.]
to this amendment to rule 498 and thus how the magnitude of the benefits expected from this amendment to rule 498 will compare to the reduction in the benefits incremental to the reliance of funds on rule 30e–3.

1. Cost Savings

We anticipate that funds relying on rule 30e–3, and their investors, will benefit from gains in the efficiency and a reduction in the expenses related to the distribution of paper shareholder reports. Although the rule will have minimal effect, if any, on the expenses associated with the preparation of reports, we expect that the expenses associated with printing and mailing of shareholder reports will be substantially reduced. By reducing fund expenses, printing and mailing cost savings are expected to increase the portion of investor money that is retained in the fund rather than used to cover expenses, resulting, over time, in a net positive effect on the level of capital invested in funds. Furthermore, to the extent that reductions in fund expenses due to printing and mailing cost savings have a positive effect on fund performance and attract new investors or additional capital from existing investors, the rule may result in further capital formation benefits. We are unable to precisely estimate the magnitude of capital formation effects that may result from our projected cost savings under the rule because the magnitude of such effects may be affected by the extent of pass-through of cost savings and by other factors that affect the flow of investor capital into mutual funds, including other components of fund returns, overall market returns, and returns on investments other than funds.

Specifically, because the new rule provides a structure for making website accessibility of shareholder reports and other materials the default delivery method, funds relying on rule 30e–3 will only incur printing and mailing costs as necessary to accommodate those investors opting for paper, and printing and mailing costs associated with Notices delivered to investors who have not made such an election.

As we have recognized in the past, affirmative shareholder consent can be difficult to obtain even for practices that many shareholders may prefer, resulting, under the existing regime, in more investors receiving paper copies than may be truly reflective of preferences and thus higher shared costs associated with that excess paper distribution. While it is still possible under the new rule that some investors may not take the affirmative steps necessary to express their transmission preference—in this case, to request paper delivery—investors in the fund will not share any unnecessary printing and mailing costs for those investors, as the default is website accessibility. Under the new rule, funds relying on rule 30e–3 will only incur costs of distribution of paper reports and other materials for those investors who request delivery in that format.

In the Proposing Release, we estimated approximately $105 million in annual (gross) cost savings if the proposed rule were adopted.\textsuperscript{358} Net of annual costs of compliance with rule 30e–3, which we estimated to be approximately $32 million after the first year,\textsuperscript{359} annual net savings were estimated to be approximately $73 million in the aggregate, or approximately 63% of printing and mailing costs under the existing requirements, as estimated in the Proposing Release.\textsuperscript{360}

Several commenters provided alternative estimates of potential cost savings associated with the printing and mailing of shareholder reports under the proposed rule.\textsuperscript{361} For example, one commenter asserted that electronic delivery is already common and thus concluded that fund companies would only save about $18 million\textsuperscript{362} in 2018, which would represent approximately a 4.7% net reduction in ongoing printing and mailing costs projected by the commenter under the existing rules.\textsuperscript{363} Another commenter estimated savings over the first three years after implementation, netting out initial costs, of $140 million.\textsuperscript{364} This commenter also projected ongoing annual savings after the first year of $89 million, which would represent approximately a 25.9% reduction in existing costs as estimated by the commenter.\textsuperscript{365} This commenter also suggested that, should the Commission remove the postage-paid reply form requirement, net savings could reach $465 million over the first three years and ongoing annual savings could reach $182 million after the first year, or approximately a 53% reduction in existing costs as estimated by the commenter.\textsuperscript{366}

Another commenter estimated that the proposed rule would result in savings of up to 50%.\textsuperscript{367} Another commenter stated that the commenter’s annual printing and mailing costs to deliver the annual and semi-annual shareholder reports to shareholders of all of its funds are approximately $4 million and projected annual cost savings under the proposed rule to be $1.7 million,\textsuperscript{368} which would amount to a reduction of approximately 43%. We note that commenter methodologies with regard to projected cost savings varied, and thus, commenter estimates may not be directly comparable to each other or to our estimates.

After considering the estimates and information provided by commenters about the potential factors that may affect net cost savings on an ongoing basis, and after considering the changes made in the final rule from the proposal, we have revised the estimates of annual gross cost savings and annual costs of relying on rule 30e–3.

First, we have revised our estimate of gross annual cost savings for the funds that rely on rule 30e–3, estimated to be $105 million in the proposal.\textsuperscript{369} We continue to estimate, as we did in the proposal, that 90% of funds will rely on rule 30e–3,\textsuperscript{370} resulting in gross annual cost savings of 90% of the annual printing and mailing costs under the existing requirements. However, as discussed in greater detail in Section III.B above, after considering commenters’ estimates and updated industry figures on the number of funds, we have revised our estimate of printing and mailing costs under the existing requirements to approximately $256.2 million.\textsuperscript{371} As a result, we now estimate

\textsuperscript{358} See Investment Company Act Release No. 22884 (Nov. 13, 1997) [62 FR 61933, 61935 (Nov. 20, 1997)] (concerning implied consent to delivery of disclosure documents to households); see also supra note 332.

\textsuperscript{359} $104,731,725. See Proposing Release, supra note 14, at n.815.

\textsuperscript{360} See Proposing Release, supra note 14, at n.717.

\textsuperscript{361} See supra note 14, at n.717.

\textsuperscript{362} Schwab Comment Letter.

\textsuperscript{363} T. Rowe Price Comment Letter I.

\textsuperscript{364} $31,531,880. See Proposing Release, supra note 14, at n.717.

\textsuperscript{365} ICI Comment Letter I. The commenter estimated current costs at $344 million. $89 million + $344 million = 25.9%.

\textsuperscript{366} ICI Comment Letter I. The commenter estimated current costs at $344 million. $182 million + $344 million = 52.9%.

\textsuperscript{367} See supra note 358 and accompanying text.

\textsuperscript{368} Schwab Comment Letter.

\textsuperscript{369} See supra note 358 and accompanying text.

\textsuperscript{370} See supra Section III.B and supra note 353 and accompanying and following text.

\textsuperscript{371} See supra note 353 and accompanying text.
If a smaller percentage of funds than the 90% we estimate ultimately rely on rule 30e–3, the aggregate net cost savings from rule 30e–3 will accordingly be lower. Further, as discussed above, some commenters have indicated that funds can presently rely on electronic delivery of shareholder reports pursuant to Commission guidance.\textsuperscript{362} We note that funds that choose to rely on rule 30e–3 may continue to use electronic delivery pursuant to Commission guidance for some of their shareholder reports. We estimate cost savings relative to the baseline of the average printing and mailing costs under the requirements that exist today, which factors in the current use of electronic delivery under Commission guidance for reports to some investors. If aggregate printing and mailing costs incurred by funds that do not rely on rule 30e–3 continue to decrease over time, for instance as a result of growth of electronic delivery, either as part of broad industry trends or as a result of the amendments to rule 498 permitting funds to include electronic delivery instructions with a summary prospectus, annual printing and mailing cost savings under rule 30e–3 in future years may be lower than estimated.

There likely is variation across individual funds both in existing printing and mailing costs and in cost savings and compliance costs that are expected on an initial or ongoing basis from rule 30e–3, depending on the extent of reliance on electronic delivery under Commission guidance. Although we cannot comprehensively quantify such differences, for instance, because of uncertainty about the future rate of growth in the use of electronic delivery under Commission guidance by funds that choose to rely on rule 30e–3, we recognize that funds that rely on rule 30e–3 may realize smaller net cost savings if they rely to a greater extent on electronic delivery of shareholder reports under existing Commission guidance.

2. Increased Access to and Review of Portfolio Information and Shareholder Reports

To the extent that funds elect to rely on rule 30e–3, the rule will also increase the electronic accessibility to investors of portfolio investment information from the first and third fiscal quarters (or from the second and fourth fiscal quarters if a shareholder report contained a summary schedule of portfolio holdings) that might otherwise be available on EDGAR, which in turn may result in greater investor review of that information. In addition, because the portfolio information must be publicly available on a website in the same location as the shareholder reports required to be posted on the website, the rule could further increase the likelihood that both existing investors and potential future fund investors review the portfolio information for the first and third quarters when they review the shareholder reports. To the extent that investors seeking information about a particular fund are likely to visit the specified website, having many of a fund’s important shareholder documents in a single location on the fund’s website could increase the visibility of, and facilitate access to, that information for current and future investors.

Importantly, the rule will increase website accessibility of shareholder

gross annual cost savings to be approximately $230.6 million.\textsuperscript{372} Second, after considering comments regarding printing and mailing costs for funds that rely on rule 30e–3, and after considering modifications to the final rule from the proposal, we have revised the estimated costs of relying on rule 30e–3. As we discuss in greater detail in Section III.D.1 below, we now estimate that, after the first year of reliance on rule 30e–3, aggregate annual costs of relying on the rule will be approximately $89.2 million, yielding aggregate annual net cost savings of approximately $141.4 million, or approximately 55% of the annual printing and mailing costs under the existing requirements.\textsuperscript{373} In addition, prior to the effectiveness of rule 30e–3, we expect funds to incur aggregate costs of compliance with the disclosure amendments of the final rule of approximately $8.2 million in the first year and $4.8 million in the second year.\textsuperscript{374}

### POTENTIAL AGGREGATE COST SAVINGS FROM RELIANCE ON RULE 30e–3

<table>
<thead>
<tr>
<th>Source of cost/cost savings</th>
<th>Transition period ($ million)</th>
<th>Year 1 ($ million per year)</th>
<th>Year 2 + ($ million per year)</th>
</tr>
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<tbody>
<tr>
<td>Gross savings from rule 30e–3</td>
<td>(\ldots)</td>
<td>230.6</td>
<td>230.6</td>
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<tr>
<td>Costs of complying with rule 30e–3</td>
<td>(-13.0)</td>
<td>-93.9</td>
<td>-89.2</td>
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<tr>
<td>Prominent disclosures</td>
<td>(-13.0)</td>
<td>-3.2</td>
<td>-2.7</td>
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<tr>
<td>Website accessibility requirements</td>
<td>(-14.3)</td>
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<tr>
<td>Notice preparation</td>
<td>(-76.3)</td>
<td>-76.3</td>
<td>-76.3</td>
</tr>
<tr>
<td>Printing and mailing costs (Notices and paper requests)</td>
<td>(-13.0)</td>
<td>136.7</td>
<td>141.4</td>
</tr>
</tbody>
</table>

\textsuperscript{372} We continue to estimate, as we did in the proposal, that the number of affected funds that will rely on rule 30e–3 comprises 90% of the number of all funds. See supra note 343 and accompanying text. As discussed above, we estimate aggregate annual printing and mailing costs under the existing requirements to be approximately $256.2 million. See supra note 353 and accompanying text. Thus, we estimate gross aggregate annual savings of printing and mailing costs as the aggregate annual printing and mailing costs multiplied by the percentage of funds expected to rely on rule 30e–3: 90\% \times $256,194,844 = $230,575,360. We recognize that these cost savings represent a small fraction of assets under management of registered management companies. See supra note 340 and accompanying text.

\textsuperscript{373} Annual printing and mailing costs under the existing requirements were estimated to be $256,194,844. See supra note 353. We estimated that 90\% of funds will rely on rule 30e–3, which would result in an estimated annual gross savings of $230,575,360. See supra note 372. After the first year of reliance on rule 30e–3, the aggregate annual compliance cost of rule 30e–3 is estimated to be $89,202,128. See infra note 396 and infra Section III.D.1.c. Annual savings from rule 30e–3, net of compliance costs, as a share of annual printing and mailing costs under the existing requirements are estimated to be: $230,575,360 – $89,202,128 = $141,373,232. $141,373,232 \div $256,194,844 = 55\%$. The revised estimates also reflect revised estimates of the number of funds updated to reflect industry figures and revised requirements of the final rule.

\textsuperscript{374} See infra notes 419–420.

\textsuperscript{375} See supra note 372.

\textsuperscript{376} See infra notes 392 and 393.

\textsuperscript{377} See infra note 396 and infra Section III.D.1.d.

\textsuperscript{378} See infra note 402 and infra Section III.D.1.b.

\textsuperscript{379} See infra note 408 and infra Section III.D.1.c

\textsuperscript{380} See supra note 348 and accompanying and following text.
investors if their fund intends to rely on the rule and provide investors wishing to continue to receive paper shareholder reports additional opportunities to make that election. Some funds that intend to rely on the rule may decide not to include these temporary prominent disclosures. For example, for existing funds that delay to make the election to rely on rule 30e–3 until 2021, the earliest these funds would be able to rely on the rule would be January 1, 2022. Although such funds would not be required to include prominent disclosures during the last year of the extended transition period as a condition of reliance on the rule, their investors may realize some of the benefit of increased awareness of the changes in the shareholder report delivery regime under rule 30e–3 to the extent that these investors hold positions in other funds, including funds with the same sponsor, that had made such prominent disclosures during the extended transition period.

Further, as discussed in Section II.B.3 above, in a change from the proposal, we are permitting funds that elect to rely on rule 30e–3 to incorporate in the Notice, in addition to a website address, other equivalent methods or means to facilitate shareholder access to the website address. Such methods or means could include, for example, a Quick Response Code (QR code) or similar information that leads to the required website address. This change is expected to provide additional optional methods by which investors can access shareholder reports on the website, which, depending on the method, could result in a reduction in the effort and time required for investors to access the shareholder report.

Finally, as discussed in Section II.B.3 above, in a change from the proposal, the final rule permits a Notice to include pictures, logos, or similar design elements so long as the design is not misleading and the information is clear, as well as additional information about the fund, so long as it is limited to information contained in the shareholder report for which Notice is being given.385 This provision could facilitate the addition of content by funds that attracts additional investor attention to the Notice, yet by its terms does not obscure important information contained in the Notice. Further, the flexibility provided to funds to include content from the shareholder report in the Notice may result in investors who may otherwise not review the shareholder report seeing useful information from such reports.

D. Costs

Funds that rely on rule 30e–3 will incur costs to comply with the rule’s conditions. These and other costs are discussed below. Because reliance on rule 30e–3 will be optional, a particular fund is not expected to rely on the rule if the costs to the fund to rely on the rule exceed its benefits. Funds that deem the costs of meeting the conditions of rule 30e–3 to exceed the benefits of this optional rule are expected to elect not to rely on the rule and therefore not incur any compliance costs associated with rule 30e–3. Among investors in funds that elect to rely on the rule, investors with a preference for paper delivery that fail to express it may be less likely to review the information in the reports because it is not presented in their preferred format.

As we discussed in Section II.E above, we are adopting an extended transition period with staged effective dates. This will defer the time when the costs of compliance with rule 30e–3 discussed in Sections III.D.1.a through III.D.1.c below will be incurred.

1. Compliance Costs

Relative to the baseline, funds relying on the new rule will incur compliance costs associated with satisfying the conditions of the rule, as discussed below. To the extent possible, we have attempted to quantify these costs.

We have made various modifications to the requirements of the final rule from the proposal, as described in Section II above, in part to address issues raised by commenters. To increase investor awareness of a fund’s intention to rely on rule 30e–3 and to inform investors of the upcoming changes in the transmission method, in a change from the proposal, we are adopting an extended transition period with staged effective dates and a temporary condition requiring funds to include during the extended transition period certain disclosures on summary prospectuses, statutory prospectuses and shareholder reports for up to two years prior to the date a fund would begin sending Notices in reliance on the rule. As a result of this provision, the compliance costs for funds that rely on rule 30e–3 will be higher than the compliance costs that would have been incurred under the proposal, discussed in Sections III.D.1.c and III.D.1.d below.

However, we have also made modifications from the proposal as a result of which the compliance costs will be lower than the compliance costs

383 See infra note 557 and accompanying text.

11,367 funds estimated to rely on rule 30e–3; 9,057 funds estimated to rely on rule 498; 2,310 funds estimated to rely on rule 30e–3 and do not rely on rule 498.

384 See infra Section II.B.2.d.

385 See rule 30e–3(c)(3).
that would have been incurred under the proposal. In particular, in a change from the proposal, we are no longer requiring funds to provide the Initial Statement. Therefore, the cost estimates are revised from the proposal to reflect the elimination of the burden of preparing the Initial Statement.386

Further, we are permitting the combination of Notices with other Notices, expanding documents that may accompany Notices, and eliminating reply cards with respect to Notices. Permitting Notices to be bundled with additional text in effectively may result in lower postage costs, compared to the postage costs that would have been incurred under the proposal, by reducing the need for a separate mailing, although other costs associated with the Notice would still be incurred.387 Eliminating reply cards

386 We estimate that requiring an Initial Statement would have resulted in additional preparation, printing, mailing, and processing costs of approximately $41.5 million in the aggregate in the first year and $13.8 million in the aggregate in each subsequent year.

In the Proposing Release, preparing one Initial Statement was estimated to require 1.5 burden hours in the first year and 0.5 burden hours in each subsequent year, with 25% of that burden carried by outside counsel. See Proposing Release, supra note 14, at 33679. We retain this estimate. Using updated salary figures, we monetize internal personnel time at $353 per hour and outside counsel time at $401 per hour. See infra notes 404, 509. Using updated salary figures, preparing the Initial Statement would have cost approximately $548 (1.5 × ($353 + $3,106)) in the first year and $183 (0.5 × ($353 + $3,106)) in each subsequent year.

In the Proposing Release, we estimated printing and mailing costs for one Notice or Initial Statement to be $290. See Proposing Release, supra note 14, at 33680. In light of the comments on the proposal, we have revised our estimate of the printing and mailing costs for one Notice to $3,106. See infra note 525. Thus, similarly revising the estimated printing and mailing cost for the first Initial Statement to $3,106. In the Proposing Release, we estimated that the cost in each subsequent year would be one-third of the cost for the first year because Initial Statements would only be sent to new shareholders. See Proposing Release, supra note 14, at 33680. We retain this estimate. Based on updated industry figures, we now estimate that 11,367 funds will elect to rely on rule 30e–3. See infra note 478. Thus, the aggregate cost is estimated to be $41,535,018 (11,367 × $3,106 in the first year and $4.8 million in the second year391 and $9.6 million in the third year). We estimate printing and mailing costs for one Notice to $3,106.

As discussed in Section IV.C below, we have reflected these modifications, as well as our estimates of increased costs to funds and investors outweigh the additional costs to do so.

As discussed in Section II.B.3 above, in a modification from the proposal, we are permitting funds to incorporate content from the shareholder report in Notices relating to shareholder reports required to be transmitted under rule 30e–1. However, funds may incur additional costs for incorporating content from the shareholder report into the Notice and filing such Notices with reports on Form N–CSR, as well as potentially increase their printing and mailing costs, depending on the length of the Notice. We expect that funds will only elect to include content from shareholder reports in Notices if they believe the benefits to funds and investors outweigh the increase in their costs of preparing and distributing Notices with additional content. Likewise, funds may choose to deploy certain additional optional methods to facilitate access of shareholder reports (e.g., QR codes) if they believe the benefits to funds and investors outweigh the additional costs to do so.

As we discuss below, we have also revised certain assumptions underlying our estimates. First, we have revised our estimate of the number of funds that will rely on rule 30e–3 upward to 11,367 to reflect updates to the industry data figures that were utilized in the Proposing Release.389 We note that, similar to our discussion of the benefits in Section III.C.1, if a smaller number of funds choose to rely on rule 30e–3 than we estimate, the above estimates would overstate the actual costs incurred in the aggregate by the funds that rely on rule 30e–3.

Second, where applicable, we have attempted to address comments related to our estimates. Two commentators stated that the proposal underestimated the costs under rule 30e–3 (for instance, processing fees for broker-held accounts) and thus overestimated the net cost savings expected under rule 30e–3.390 However, to be conservative in our estimates, we have revised upward our estimate of the printing and mailing costs that funds will incur under rule 30e–3, as discussed in Sections III.D.1.c and IV.B below.

In the Proposing Release, we estimated that compliance costs of rule 30e–3 would be, in the aggregate, approximately $32 million each year, with approximately $16 million in additional one-time costs being incurred in the first year following the effective date (resulting in aggregate compliance costs of approximately $48 million in the first year).391 We now estimate that these compliance costs will be, in the aggregate, approximately $93.9 million in the first year following the effective date392 and approximately $89.2 million each following year on an ongoing basis.393 Individual components of these aggregate estimated costs are analyzed in Sections III.D.1.a through III.D.1.c below. In addition, as discussed in Section III.D.1.d below, during the approximately two years before the effective date of rule 30e–3, we estimate that the disclosure requirements related to rule 498 and amendments to registration statements will result in aggregate costs to funds that intend to rely upon rule 30e–3 of approximately $8.2 million in the first year394 and $4.8 million in the second year.395
a. Website Accessibility of Shareholder Reports and Other Materials

Funds that rely on rule 30e–3 in the aggregate are expected to incur costs of approximately $3.2 million in the first year of relying on rule 30e–3 and $2.7 million in each subsequent year to make the shareholder reports and portfolio information publicly accessible at a specified website.

We estimate that funds that elect to rely on rule 30e–3 will incur, in the aggregate, approximately 9,386 burden hours during the first year of relying on rule 30e–3 and 8,476 burden hours each following year to comply with the website posting requirements of the rule. Based on an estimated wage rate of about $320 per hour, we estimate the aggregate paperwork related expenses for funds associated with the internal hour burden imposed by the website accessibility conditions of rule 30e–3 to be approximately $3.0 million during the first year and $2.7 million each following year.

In the aggregate, we estimate that the total external cost for funds to comply with the website posting requirements of the rule will be approximately $228,000 during the first year, with the external cost in subsequent years likely to be negligible. With respect to those funds that currently have websites, we estimate that the website posting requirements of the rule will not result in incremental external costs. If funds that do not currently have websites incur ongoing external website development costs, aggregate costs of website accessibility will be higher than we estimate.

b. Notice Preparation

We estimate that funds will incur, in the aggregate, approximately $14.3 million in the first year of relying on rule 30e–3 and approximately $10.2 million in each subsequent year in costs to prepare and review Notices and to file Notices with additional content with reports on Form N–CSR.

We estimate that funds that elect to rely on rule 30e–3 will incur, in the aggregate, an internal hour burden of approximately 25,576 hours in the first year and 17,051 hours each following year in connection with the Notice conditions of the rule. Based on an estimated wage rate of about $353 per hour for compliance attorneys, we estimate the total paperwork related expenses for funds associated with the internal hour burden imposed by the Notice conditions of rule 30e–3 will be approximately $9.0 million in the first year of relying on rule 30e–3 and $6.0 million each following year. These estimates reflect the changes we are making to the Notice requirements relative to the proposal, including eliminating the requirement of including a direct URL to the shareholder report, eliminating the reply card requirement, permitting Notices to be incorporated into or combined with other Notices, expanding the ability to combine Notices with other mailings, as well as removing the filing requirement, except for Notices that contain content from the shareholder report, and allowing funds to include optional content from the shareholder report in the Notice.

The incremental annual costs of filing Notices with additional content with reports on Form N–CSR are estimated to be approximately $1.9 million, using burden estimates for purposes of the PRA.

Finally, we estimate that external costs related to the Notice requirements of rule 30e–3 will be, in the aggregate, approximately $3.4 million in the first year and $2.3 million each following year.

c. Printing and Mailing Costs

We estimate that funds that rely on rule 30e–3 will incur, in the aggregate, approximately $76.3 million per year in printing and mailing costs for Notices and costs of delivery of shareholder reports in paper form upon shareholder request. These estimates are inclusive of processing fee costs, and have been adjusted in response to comments received on these estimates and other considerations.

In a change from the proposal, funds will not be required to prepare and mail the Initial Statement. Therefore, the cost estimates are revised from the proposal to reflect the elimination of the Initial Statement printing, mailing and processing costs. The cost estimates are further revised to reflect changes we are making to the Notice requirements relative to the proposal, including eliminating the reply card requirement, permitting Notices to be incorporated into or combined with other Notices, as well as expanding the ability to combine Notices with other mailings. The estimates further include certain revisions to the assumptions, relative to the proposal, based on the input we have received from commenters. In particular, we have revised the baseline assumption about the magnitude of printing and mailing costs as a share of the total external cost of compliance with rules 30e–1 and 30e–2, from one-third in the proposal, to two-thirds, as explained below.

\[ 396 \text{See infra notes } 399, 400. \text{ In the first year: } 3,003,520 \times $2,711,680. \text{ In each subsequent year: } 2,711,680. \]

\[ 397 \text{See infra notes } 488–489. \]

\[ 398 \text{The Commission estimates the wage rate associated with these burden hours based on salary information for the securities industry compiled by the Securities Industry and Financial Markets Association. The estimated wage figure is based on published rates for senior programmers, modified to account for an 1,800-hour work-year and multiplied by 5.3 to account for bonuses, firm size, employee benefits, and overhead, and adjusted to account for the effects of inflation, yielding an effective hourly rate of $320. See Securities Industry and Financial Markets Association, Report on Management & Professional Earnings in the Securities Industry 2013.} \]

\[ 399 \text{See infra notes } 405–407. \text{ In the first year: } 11,367 \text{ funds = 17,051 hours.} \]

\[ 400 \text{The aggregate internal burden is estimated as } 2,284,767 \times \frac{1}{11,367} \text{ funds = 17,051 hours.} \]

\[ 401 \text{The aggregate internal burden is estimated as } 2,284,767 \times \frac{1}{11,367} \text{ funds = 17,051 hours.} \]

\[ 402 \text{The aggregate internal burden is estimated as } 2,284,767 \times \frac{1}{11,367} \text{ funds = 17,051 hours.} \]

\[ 403 \text{See infra note 404.} \text{ The aggregate cost is estimated to be } 2,000 \times 11,367 \text{ funds = } 22,734,000 \text{ dollars.} \]

\[ 404 \text{See infra note 404.} \text{ The aggregate cost is estimated to be } 2,000 \times 11,367 \text{ funds = } 22,734,000 \text{ dollars.} \]

\[ 405 \text{See infra note 579.} \text{ We monetize it at the rate of } 2,284,767 \times \frac{1}{11,367} \text{ funds = 17,051 hours.} \]

\[ 406 \text{See infra note 407.} \text{ The aggregate cost is estimated to be } 2,000 \times 11,367 \text{ funds = } 22,734,000 \text{ dollars.} \]

\[ 407 \text{See infra note 408.} \text{ The aggregate cost is estimated to be } 2,000 \times 11,367 \text{ funds = } 22,734,000 \text{ dollars.} \]
Further, in light of the above comments on the estimates in the Proposing Release and the modifications we are making today (including eliminating the reply card requirement for Notices, permitting Notices to accompany other Notices and other types of documents, and permitting funds to include optional content from the shareholder report in the Notice), we have determined to increase our estimate of the percentage of annual printing and mailing costs (including processing fees) associated with shareholder reports that will be associated with the printing and mailing of each Notice from 10% in the proposal to 15%, as explained below.412

We now estimate that each fund that relies on rule 30e–3 will incur an external cost of approximately $6,212 per year for printing and mailing Notices.413 In the aggregate, funds are estimated to incur approximately $70.6 million per year to print and mail Notices.414

In addition, under rule 30e–3, investors will have the option to request shareholder reports and other materials to be delivered in paper form and also to request paper copies for individual documents even if they do not request paper delivery for all documents. Funds that rely on rule 30e–3 will therefore incur expenses related to printing and mailing shareholder reports and other materials for those shareholders. We estimate that funds that elect to rely on rule 30e–3 will incur, in the aggregate, annual external costs of approximately $5.7 million to comply with the rule’s requirements to print and mail shareholder reports upon request.415

In connection with tracking shareholder requests for paper under rule 30e–3, funds and intermediaries may incur costs to implement and maintain systems to record shareholder preferences for paper delivery and requests for paper copies of shareholder reports under rule 30e–3.416 As discussed above, we believe that existing systems for electronic delivery could generally be leveraged in order to establish new processes and procedures for delivery of shareholder reports under rule 30e–3.417 The costs associated with implementing these systems may depend on funds’ and intermediaries’ existing systems for tracking investor preferences for electronic delivery. Given this variation, we do not have data on the extent of potential system updates that funds and intermediaries would need to implement.

The modifications made from the proposal, including the elimination of the Initial Statement, the tracking of delivery preferences at the account rather than position level, and the permanent nature of the opt-in to paper delivery, are expected to reduce operational complexities and make it easier for existing systems to be leveraged for purposes of tracking investor preferences for paper delivery under rule 30e–3. Further, the extended transition period, added in a change from the proposal, is expected to provide funds and intermediaries additional time to implement the necessary system changes.

We recognize that certain changes from the proposal, such as eliminating the requirement to mail the Initial Statement, eliminating the reply card, and adding required prominent disclosures on summary and statutory prospectuses and shareholder reports, may affect the number of investors who elect paper delivery due to changes to investor awareness regarding the option to request paper delivery under rule 30e–3, resulting in different printing and mailing costs under rule 30e–3 than estimated above. However, we are not able to quantify these effects due to uncertainty about the number of investors who may elect paper delivery as a result of these changes.

d. Disclosure Amendments to Rule 498 and Registration Forms

In a modification from the proposal, we are amending rule 498 and certain fund registration forms setting forth a temporary condition requiring funds to include during the extended transition period certain disclosures on summary prospectuses, statutory prospectuses, and shareholder reports for up to two years prior to the date a fund would begin sending Notices in reliance on the rule. During the extended transition period, funds intending to rely on rule 30e–3 as early as permitted will include prominent disclosures on the cover page to request paper copies is generally similar to the operational approach currently used by many funds and intermediaries for the delivery of other fund documents. For example, paper copies of disclosure documents (including shareholder reports) may currently be requested when some shareholders have elected electronic delivery for some, but not all communications.

416 See new paragraph (b)(1)(vii) of rule 498; new paragraph (a)(3) to Item 1 of Form N–1A; new paragraph (d)(8) to Item 27 of Form N–1A; new paragraph 1.l to Item 1 of Form N–2; new instruction 8.(vii) to Item 28(a) of Form N–3; new paragraph (a)(x) to Item 1 of Form N–4; new paragraph (a)(6) to Item 1 of Form N–6.

417 $8,151,936 = $7,144,872 associated with amendments to rule 498 and Form N–1A + $454,400 associated with amendments to Form N–2 $9,372 associated with amendments to Form N–3 + $422,592 associated with amendments to Form N–4 + $120,700 associated with amendments to Form N–6. See infra notes 430, 437, 442, 445, and 448.

418 $4,837,088 = $4,286,980 associated with amendments to rule 498 and Form N–1A + $272,640 associated with amendments to Form N–2 + $5,680 associated with amendments to Form N–3 + $304,994 associated with amendments to Form N–4 + $60,492 associated with amendments to Form N–6. See infra notes 430, 437, 442, 445, and 448.

420 See supra Sections II.B.2.f and II.B.3.

422 Id.
the rule becomes effective on January 1, 2019, or for new funds from the date the fund first publicly offers its shares; or whether to postpone relying on rule 30e–3 and informing investors of the fund’s intent to rely on rule 30e–3 through prominent disclosures on fund documents). Similarly, an existing fund’s decision to postpone relying on rule 30e–3 during the extended transition period will reduce the number of prominent disclosures that the fund will need to include on fund documents during the extended transition period before being able to rely on rule 30e–3, thus potentially reducing the cost of related disclosure amendments to the fund. For existing funds, the incremental reduction in the cost of compliance with the requirement to include prominent disclosures on an additional fund document mailing is expected to be small relative to the opportunity cost of delaying the realization of cost savings from reliance on rule 30e–3. Overall, we anticipate that existing funds that are considering whether to rely on rule 30e–3 will weigh the costs and benefits of doing so early versus late during the extended transition period and will select the option that provides the most benefit.

The final rule provides funds the flexibility to make the election to rely on rule 30e–3 at the time that is most appropriate for the fund’s specific circumstances while including prominent disclosure requirements during the extended transition period to enhance investor awareness of the upcoming changes in the shareholder report delivery framework. Such flexibility is expected to enable funds to select the most efficient manner of shareholder report delivery and for funds that elect to rely on the rule, the most efficient approach to transition to rule 30e–3.

The final rule allows new funds that enter the industry in January 2021 or later to begin relying on rule 30e–3 immediately from the date the fund first publicly offers its shares without having to provide prominent disclosures, which is different from the application of the rule to funds in existence during 2019–2020 that will have had to provide up to two years of prominent disclosures, and incur the associated cost, as a condition of relying on rule 30e–3 beginning on January 1, 2021. In this respect, existing funds wishing to rely on the rule beginning on January 1, 2021 will incur a cost that funds newly formed on or after that date will not. Moreover, those existing funds that delay their decision to rely on the rule (that is, those that decide after January 1, 2019) may incur the opportunity cost due to not being able to begin relying on the rule starting January 1, 2021. Although in that respect, existing and new funds are treated differently, we note that all funds that decide to rely on the rule as early as possible—either before January 1, 2019 or at their inception—will be treated similarly.

### Rule 498 and Form N–1A Estimates

We estimate that there are 11,181 funds that file Form N–1A, including 10,063 funds that will rely on rule 30e–3, of which 9,057 funds also rely on rule 498. We estimate that the remaining 1,006 funds do not rely on rule 498.

We estimate that funds will incur, in the aggregate, 9,057 hours in the first year and 4,529 hours in the second year to satisfy the disclosure requirements associated with the amendments to rule 498. We further estimate that the funds that rely on rule 30e–3 but not rule 498 will incur, in the aggregate, 1,006 hours in the first year and 503 hours in the second year to comply with the amendments to Form N–1A relating to prospectuses.

In addition, we estimate that funds that will rely on rule 30e–3 and that file Form N–1A will incur, in the aggregate, 15,095 hours in the first year and 10,063 in the second year to comply with the amendments to Form N–1A relating to annual and semi-annual reports.

Based on an estimated wage rate of about $284 per hour, we estimate the total paperwork related expenses for funds relying upon rule 30e–3 and associated with the amendments to rule 498 and Form N–1A to be approximately $7.1 million in the first year and approximately $4.3 million in the second year.

### Form N–2 Estimates

We estimate that there are 711 closed-end funds that file Form N–2, including 640 funds that will rely on rule 30e–3. We estimate that these funds will incur, in the aggregate, 640 hours in the first year and 320 hours in the second year to comply with the amendments to Form N–2 relating to annual and semi-annual reports. Based on an estimated wage rate of about $284 per hour, we estimate the total paperwork related expenses for funds relying upon rule 30e–3 and associated with the amendments to Form N–2 will be approximately $0.5 million in the first year and approximately $0.3 million in the second year.

### Form N–3 Estimates

We estimate that there are 14 funds that file Form N–3, including 13 funds that will rely on rule 30e–3. We estimate that these funds will incur, in the aggregate, 13 hours in the first year and 7 hours in the second year to comply with the amendments to Form N–3 relating to statutory prospectuses. Based on an estimated wage rate of about $284 per hour, we estimate the total paperwork related expenses for these funds will be approximately $3,727 in the first year and $1,680 in the second year.

### Form N–4 Estimates

As we discuss below, we estimate funds that will rely on rule 30e–3 will make 1,488 filings of Form N–4, with the total annual hour burden associated with the amendments to Form N–4 of 1,488 hours in the first year and 744 hours in the second year. Based on an estimated wage rate of about $284 per hour...
hour.\textsuperscript{444} We estimate the total paperwork related expenses for these funds will be approximately $422,592 in the first year and $211,296 in the second year.\textsuperscript{445}

Form N–6 Estimates

As we discuss below, we estimate funds that will rely on rule 30e–3 will make 425 filings of Form N–6, with the total annual hour burden associated with the amendments to Form N–6 of 425 hours in the first year and 213 hours in the second year.\textsuperscript{446} Based on an estimated wage rate of about $284 per hour,\textsuperscript{447} we estimate the total paperwork related expenses for these funds will be approximately $120,700 in the first year and $60,492 in the second year.\textsuperscript{448}

2. Other Costs

Although we believe that the provisions of the final rule enable investors to receive shareholders reports in the format they prefer, that website availability of shareholder reports and portfolio information is consistent with many investors’ preferences,\textsuperscript{449} and that the final rule may promote improved access to and consumption of portfolio information, as discussed above,\textsuperscript{450} we acknowledge that there may be some investors who would prefer to receive paper copies but may not notify their fund of that preference.\textsuperscript{451} To this end, several commenters pointed out that internet access and use among Americans was not universal.\textsuperscript{452} Those investors without home internet access, depending on their ability and preference to access shareholder reports and portfolio investment information electronically, might experience a reduction in their ability to access shareholder reports and portfolio investment information if they do not elect to receive paper reports. Further, some commenters have asserted that some investors with internet access may be less likely to review their shareholder reports made available online than shareholder reports delivered in paper form.\textsuperscript{453}

To the extent that a reduction in the review of shareholder reports by such investors decreases how informed they are about funds, it could potentially decrease their ability to efficiently allocate capital across funds and other investments. A decrease in the ability of investors to access and review information about different funds could also decrease the competition among funds for investor capital. However, these potential effects will be attenuated to the extent that investors rely on other sources of information and disclosures, in addition to shareholder reports, to obtain information about funds.

In a change from the proposal, after considering the input from commenters, we are not requiring pre-paid reply cards to be sent together with

\textsuperscript{454} We see supra note 429.

\textsuperscript{455} 1,488 × $284 = $422,592. 744 × $284 = $211,296.

\textsuperscript{456} See infra notes 574–575 and accompanying and following text.

\textsuperscript{457} See supra note 429.

\textsuperscript{458} 425 × $284 = $120,700. 213 × $284 = $60,492.

\textsuperscript{459} See, e.g., supra notes 43, 96, and 97, and accompanying text.

\textsuperscript{460} See supra Section III.C.2.

\textsuperscript{461} See supra note 98; supra Section II.A.2.

\textsuperscript{462} See supra note 49. But see supra notes 41–42 and accompanying text (discussing increasing internet usage, including among previously underserved demographic groups).

\textsuperscript{463} Commission staff lacks data to assess the extent to which investor review information provided in either paper or electronic format. One commenter provided survey evidence, suggesting that, less than half of the respondents read all of the disclosure but a significant portion of respondents read or skim some of the disclosure. See Broadridge Meeting Memo I, at 9 (citing the 2016 True North Market Insights Study, according to which (1) 21% of respondents reported reading paper reports thoroughly and 53% reported skimming the reports, and (2) 36% of respondents reported always looking at the annual and semi-annual reports received in the mail, 31% of respondents reported doing so most of the time, and 26% of respondents reported doing so some of the time; the 2015 FINKA National Financial Capability Study, according to which 28% of respondents reported reading disclosure documents regarding investments and 58% of respondents reported skimming the disclosure documents; the 2015 Forrester Research and Broadridge Custom Survey, according to which 24% of respondents reported looking at shareholder reports always, 26% of respondents most of the time, and 37% of respondents sometimes; and the 2006 ICI Study: Understanding Investor Preferences for Mutual Fund Information, according to which 10% of respondents reported all shareholder reports, 17% of respondents reported reading most, 24% of respondents reported reading some, and 26% of respondents reported reading very little of the shareholder reports they receive).

However, another commenter suggested that surveys about readership may be unreliable because respondents may misstate their readership, because surveys did not ask respondents specifically about whether they read the reports, and because surveys often have methodological problems that lead to a likely overstatement of the baseline readership. The commenter also expressed skepticism that “large number[s] of individual investors are avid readers of their paper shareholder reports” due to the length and technical nature of the reports, especially when published on a consolidated basis, and argued that it is thus not possible to conclude that fewer investors would read reports online. See ICI Comment Letter III. In another letter, this commenter stated that, based on an investor survey, “fewer than half of mutual fund shareholders still review some printed materials for information about their fund investments, and over two-thirds of these individuals likewise access online materials to gather information on their fund investments.” See Comment Letter of Investment Company Institute (Jul. 8, 2016) (“ICI Comment Letter IV”).

\textsuperscript{464} See supra note 174.

\textsuperscript{465} See supra Section II.B.2.b.

\textsuperscript{466} See supra Section II.B.2.

\textsuperscript{467} See supra Section II.B.2.b.

\textsuperscript{468} See supra Sections II.B.2.f and II.B.3.

\textsuperscript{469} See supra Section II.B.2.d.

\textsuperscript{470} See supra Section II.B.2.b.

\textsuperscript{471} See supra Section II.B.2.b.
are expected to partly mitigate this concern.

In addition, although we expect investors to benefit from a reduction in printing and mailing costs borne by their funds, we recognize that some investors may incur printing costs due to manually printing specific documents of their choosing.461 Investors that print out their own materials would likely incur greater costs than they would otherwise indirectly bear if the printing and mailing costs of those materials were borne collectively by all investors of the fund. We note, however, that investors have the option to request paper copies directly instead of manually printing materials, and we expect investors who regularly print out their own copies of shareholder reports and for whom such printing is burdensome or costly to elect paper delivery.

It is possible that funds that choose to rely on rule 30e–3 could be at a competitive disadvantage if investors choose funds based on their preference for the default of paper delivery. Funds for which such competitive effects outweigh the cost savings from reliance on rule 30e–3 can choose not to rely on rule 30e–3.

Rule 30e–3 and related rule and form amendments could also potentially have costs extending beyond the asset management industry. Some commentators expressed concern about the long-term effects of rule 30e–3 on other industries, including the paper industry.462 The commenters, however, did not provide specific data on or estimates of the rule’s potential impact on those industries. Even in the absence of rule 30e–3 and related amendments to rule 30e–1, the long-term effects of rule 30e–3 could also potentially have burdensome or costly to elect paper delivery. In reliance on existing Commission guidance might result in a

continued decrease in the number of shareholder reports being delivered in paper form, so the potential future effects on the paper industry may be influenced by factors outside of rule 30e–3 and related rule and form amendments. Furthermore, notwithstanding these potential impacts, we continue to believe that rule 30e–3 will modernize and enhance the manner in which shareholder reports are made available to investors, resulting in savings in printing and mailing costs that are borne by funds, and ultimately, by fund shareholders, and overall greater accessibility of shareholder reports and other related information. Moreover, under rule 30e–3 investors will have the ability to request delivery of shareholder reports and other materials in paper form.

E. Alternatives

Commission staff has also examined different ways in which the information that funds provide to investors could be made more accessible while still promoting the ability of investors to receive these important documents via their preferred method. Some of these alternatives are discussed throughout the release to explain why the Commission ultimately chose to adopt the rule in its current state. We discuss below several additional alternatives that the Commission considered.

As an alternative, we considered whether we should eliminate the Notice requirement, as suggested by one commenter.463 Eliminating the Notice would provide greater cost savings to funds and their investors than the final rule we are adopting today. We estimate that this alternative would result in additional aggregate savings of Notice preparation, printing, and mailing costs of approximately $86.8 million in the first year and approximately $83.8 million in each subsequent year.464 However, we believe that doing so would reduce investor awareness of the online shareholder reports, which would run counter to our objective of promoting the accessibility of these important fund documents. While funds will necessarily incur costs to distribute Notices, as discussed above,465 we continue to believe that it is important for investors to receive the Notice, as it will alert them to the availability of a shareholder report online and will provide them with information on how to obtain a paper copy of the report.

As another alternative, we could have required or permitted the Notice, which meets the content requirements in the final rule, or alternatively, additional content requirements as described below, to be sent via email, as suggested by some commenters.466 This alternative would result in savings of printing and mailing costs for funds of up to approximately $76.0 million per year if all Notices are sent by email instead of in paper form.467 The email manner of delivery of the Notice under this alternative would not be expected to affect the costs of preparing the Notice content. However, for investors that have not opted into electronic delivery, information on email addresses that a fund can use to deliver Notices may be missing or out of date, and we are unable to estimate the costs to an average fund of updating and compiling email lists under the alternative of email distribution of Notices to all shareholders. We lack data on the percent of fund investors that have not opted into electronic delivery for whom funds have up-to-date email contact information because funds are not required to disclose such information and it is not available to us from other sources.

Nevertheless, as discussed above, we continue to believe that it is important for investors to receive the Notice, as it will contemporaneously alert them to the availability of a shareholder report online. A Notice will also provide investors with information on how to obtain a paper copy of the report, which makes it easier for investors with a preference for paper to request shareholder reports in paper. The benefits from requiring the Notice to be in paper form include, for example, that there may be instances where an investor provided his or her email for certain limited purposes without necessarily intending to receive shareholder reports or notices of reports through email.468

In a modification from the proposal, we are permitting funds to incorporate content from their shareholder reports into Notices relating to shareholder reports required to be transmitted under rule 30e–1, as discussed in greater detail in Section II.B.2.b.ii above. As alternatives, we considered, as a condition of reliance on rule 30e–3, either (1) limiting the types of content from the shareholder report that is

463 See Shareholder Choice Regarding Proxy Materials Release, supra note 14, at 42231, 42234. The Shareholder Choice Regarding Proxy Materials Release estimated that approximately 10% of all shareholders print out proxy materials at home at a unit cost that was approximately 25% higher than the average cost of printing and mailing each copy under the paper delivery regime ($7.65 – $5.64 = 1.25). Printing costs for shareholder reports and proxy materials may differ and printing costs in absolute terms have decreased over time. According to one commenter, the cost to the fund of printing and mailing a shareholder report under the existing requirements is $0.70 per report. See ICI Comment Letter, supra note 291, at 14. It remains likely that individual shareholders who manually print reports will incur a higher cost per report relative to the cost incurred by a fund due to the economies of scale. It is not clear how fund registrars will manually print shareholder reports, and thus, what the aggregate incremental cost impact on shareholders will be.

464 See supra Section II.B.2.b.

465 See supra notes 402 and 408: $86,767,898 ($75,993,264 + $10,774,634) in the first year and $81,797,114 ($75,993,264 + $7,803,850) in each following year.

466 See supra Section III.D.1.

467 See supra note 145 and accompanying paragraph.

468 See supra notes 141–144.
permitted to be incorporated into the Notice, or (2) specifying additional types of content from the shareholder report that are required to be incorporated into the Notice. Relative to the final rule, both alternatives could result in greater standardization of additional Notice content, potentially facilitating investor review and comparison of information in such Notices across funds and thus potentially enabling better informed investment decisions, to the extent that investors rely on information from shareholder reports relative to other sources of information and disclosures. The second alternative also could make information from shareholder reports more accessible to those investors that may otherwise not review shareholder reports.

However, both alternatives would limit the flexibility of funds to tailor Notice content to include the types of information from shareholder reports that may be more relevant and valuable for investors in the specific fund, potentially affecting how useful the Notice content is to those investors.

Further, if the additional information required to be included in Notices under the second alternative is more extensive than the information that funds would otherwise elect to include in Notices under the final rule, the second alternative could increase Notice preparation, printing, and mailing costs, which would be passed on to fund investors, relative to the final rule.

We also recognize that the number of funds that rely on rule 30e–3 may decrease under this alternative in the event that funds find rule 30e–3 to be less advantageous as a result of increased Notice preparation, printing, and mailing costs. Overall, we believe that the Notice provisions of the final rule permit sufficient flexibility for funds to present additional information from the shareholder report in Notices sent to investors without imposing additional burdens and costs on those funds that would not expect their investors to find such information to be of added value.

We are adopting a temporary condition of reliance on rule 30e–3 that requires funds intending to rely on rule 30e–3 to provide prominent disclosures on certain fund documents for up to two years during the extended transition period. As an alternative, we could require all funds, including funds that elect to rely on rule 30e–3 after the temporary condition expires, to provide two years of prominent disclosures on certain fund documents prior to being able to rely on rule 30e–3. This alternative may benefit some investors in funds that elect to rely on rule 30e–3 in the future by increasing their awareness of the fund’s intent to rely on rule 30e–3. However, this benefit is likely to decrease as time elapses since the rule’s effective date and an increasing number of investors becomes aware of the industry-wide changes in the shareholder report delivery framework under rule 30e–3, including as a result of receiving prominent disclosures on fund documents and Notices under rule 30e–3 sent by other funds in which investors hold positions. This alternative likely would reduce the benefits to funds, and in turn, to fund investors, relative to the final rule, by retaining on an indefinite basis a two-year delay in the ability of funds to realize printing and mailing cost savings from rule 30e–3. This alternative also would result in higher costs of prominent disclosures being incurred by funds, and in turn, fund investors, beyond the end of the extended transition period.

IV. Paperwork Reduction Act

New rule 30e–3 contains a “collection of information” within the meaning of the Paperwork Reduction Act of 1995 (the “PRA”). In addition, the new rule and other amendments will impact the collections of information under rules 30e–1 and 30e–2, rule 498 under the Securities Act, and Forms N–1A, N–2, N–3, N–4, N–6, and N–CSR.

The titles for the existing collections of information are: “Rule 30e–1 under the Investment Company Act of 1940, Reports to Stockholders of Management Companies” (OMB Control No. 3235–0025); “Rule 30e–2 (17 CFR 270.30e–2) pursuant to Section 30(e) of the Investment Company Act of 1940 (15 U.S.C. 80a–29(e)), Reports to Shareholders of Unit Investment Trusts” (OMB Control No. 3235–0494); “Rule 498 under the Securities Act of 1933, Summary Prospectuses for Open-End Management Investment Companies” (OMB Control No. 3235–0648); “Form N–1A under the Securities Act of 1933 and under the Investment Company Act of 1940, Registration Statement of Open-End Management Investment Companies” (OMB Control No. 3235–0307); “Form N–2 under the Investment Company Act of 1940 and Securities Act of 1933, Registration Statement of Closed-End Management Investment Companies” (OMB Control No. 3235–0026); “Form N–3 under the Securities Act of 1933 and under the Investment Company Act of 1940, Registration Statement of Separate Accounts Organized as Management Investment Companies” (OMB Control No. 3235–0316); “Form N–4 under the Securities Act of 1933 and under the Investment Company Act of 1940, Registration Statement of Separate Accounts Organized as Unit Investment Trust” (OMB Control No. 3235–0503); and “Form N–CSR under the Securities Exchange Act of 1934 and under the Investment Company Act of 1940, Certified Shareholder Report of Registered Management Investment Companies” (OMB Control No. 3235–0570).

We published notice soliciting comments on the collection of information requirements in the Proposing Release and submitted the proposed collection of information to the Office of Management and Budget (“OMB”) for review in accordance with 44 U.S.C. 3507(d) and 5 CFR 1320.11. 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 is adopting new rule 30e–3 under the Investment Company Act and certain related amendments. This reform is designed to modernize the manner in which periodic information is transmitted to investors, which we believe will improve investors’ experience while reducing expenses associated with printing and mailing shareholder reports that are borne by investment companies and ultimately their investors. We discuss below the collection of information burdens associated with this reform.

New rule 30e–3 will provide certain funds with an optional method to satisfy requirements to transmit shareholder reports by making such reports and certain other materials publicly accessible on a website, provided that certain other conditions are satisfied. Reliance on the rule is voluntary; however, compliance with the rule’s conditions is mandatory for funds relying on the rule. Responses to the
information collections will not be kept confidential.

A. Availability of Shareholder Report and Other Materials

Rule 30e–3 provides that a fund may satisfy its obligations to transmit a report to shareholders if certain conditions set forth in the rule are satisfied. Among these conditions are the requirements that the fund’s shareholder report, any report with respect to the fund for the prior reporting period that was transmitted to shareholders of record pursuant to rule 30e–1 or rule 30e–2, and in the case of a report relating to a fund other than a money market fund or an SBIC, the fund’s complete portfolio holdings as of the close of its most recent first and third fiscal quarters, be publicly accessible, free of charge, at a specified website address.472

Internal Hours Burden

In the Proposing Release, we estimated that 11,957 funds could rely on proposed new rule 30e–3.473 Of these funds, we estimated that 90% of these entities (or 10,761 funds) would rely on proposed rule 30e–3.474 Of these 10,761, we estimated that approximately 90% of these entities (or 9,634 funds) are currently posting shareholder reports on their websites (similar to the approximate proportion of funds expected to rely on rule 30e–3 that rely on the summary prospectus rules and thus already post shareholder reports on their websites). With respect to these entities, we estimated that annual compliance with the posting requirements of proposed rule 30e–3 would require a half hour burden per entity.475

We have revised our estimate of the number of funds that may rely on rule 30e–3 upward from 11,957 to 12,630 to reflect updates to the industry data figures that were utilized in the Proposing Release.476 We did not receive any comments on our proposed estimate of the proportion of funds that would rely on the new rule, or on our proposed estimate of the burden hours associated with the posting requirements of rule 30e–3 for funds that already post shareholder reports on their websites. We received one comment consistent with our proposed estimate that 90% of funds currently post shareholder reports on their websites.477 Therefore, we are maintaining those estimates today, with adjustments to reflect the updated industry data figures since the Proposing Release. Thus, we estimate that 11,367 funds will rely on rule 30e–3,478 and, of those, 10,230 are funds that already post shareholder reports on their websites.479 Accordingly, with respect to these 10,230 funds, we estimate that annual compliance with the posting requirements of rule 30e–3 will require a half hour burden per fund.

In the Proposing Release, of the remaining funds estimated to rely on proposed rule 30e–3, we further estimated that approximately 90% of those funds (or 1,014 funds) already had a website.480 With respect to these funds, we estimated that the posting requirements of proposed rule 30e–3 would require a burden of one and a half hours per fund to post the required documents online, both in the first year and annually thereafter.481 For the remaining 10% of funds (or 113 funds) that we estimated would rely on the proposed rule but that do not have a website, we estimated initial compliance with the posting requirements would require approximately 24 hours per fund of internal staff time to develop a web page and post the required documents on the web page.482 In addition, we estimated that each of these funds would spend approximately four hours of professional time to maintain and update a web page with the required information on a quarterly basis.483 We did not receive any comments on our estimates in the Proposing Release of the proportion of those funds that would rely on the proposed rule and already have a website but that do not rely on the summary prospectus rule today, the burden of the website posting requirements for funds not relying on the summary prospectus rule that have a website, and the burden of the website posting requirements for funds that do not have a website, and we are maintaining those estimates today, with adjustments to reflect the updated industry figures since the Proposing Release. Thus, we estimate that, of the 1,137 funds estimated to rely on the new rule but that do not rely on the summary prospectus rule,484 1,023 funds already have a website and each such fund will incur 1.5 burden hours per year as a result of the posting requirement, and that 114 do not have a website and each such fund will incur 24 burden hours as a result of the posting requirement.485 Accordingly, we estimate that the posting requirements will result in an average annual hour burden of about 0.83 hours per fund in the first year of compliance and about 0.75 hours per year thereafter.

472 Rule 30e–3(b)(1)(ii)-(iii). While we are modifying Exchange Act rule 14a–16 to include the Notice with respect to fund documents that may accompany the Notice of Internet Availability of Proxy Materials, the incidental burden that this may impose is covered under the existing Paperwork Reduction Act for “Proxy Statements—Regulation 14A(A) (Commission Rules 14a–1 through 14a–21 and Schedule 14A)” (OMB Control No. 3235-0059). Accordingly, we are not modifying those estimates at this time.

473 Proposing Release, supra note 14, at 33678.

474 This estimate included 9,259 mutual funds (including money market funds), 1,403 ETFs (1,411 ETFs less 8 UIT ETFs), 568 closed-end funds, and 727 UITs (including UIT ETFs) based on Investment Company Institute (“ICI”) statistics, Form N-SAR filings, and internal SEC data as of December 31, 2014. See ICI statistics available at http://www.ici.org/research/stats.

475 Proposing Release, supra note 14, at 33678.

476 We estimate that there are 9,360 mutual funds, 1,821 exchange-traded funds (1,829 ETFs less 8 UIT ETFs), 711 closed-end funds, 14 funds that could file registration statements or amendments to registration statements on Form N–3, and 724 UITs. This estimate is based on data reported on Form N–SAR filed with the Commission as well as Investment Company Institute statistics as of December 31, 2017, available at http://www.ici.org/research/stats. 9,360 ÷ 1,821 ÷ 711 ÷ 14 ÷ 724 = 12,630.

477 Generally consistent with this estimate, one commenter stated that Summary Prospectuses were used in 2014 by over 82% of the fund CUSIPs for distributions comprising over 90% of the mailed volume. See Broaddus Comment Letter 1.

478 See supra note 476. We continue to estimate, similar to the proposal, that 90% of funds will rely on the final rule. 12,630 funds that could rely on the proposed rule of 12,630 funds that could rely on the final rule × 0.90 = 11,367 funds estimated to rely.

479 11,367 funds relying on the rule × 0.90 = 10,230 funds that are estimated to rely on rule 30e–3 and already post shareholder reports on their websites.

480 Proposing Release, supra note 14, at 33678.

481 Id.

482 This estimate is based on the following calculation: [10,761 funds and 9,634 open-end fund documents relying on the summary prospectus rule] × 10% = 1,134 funds.

483 Id.

484 Id.

485 11,367 funds relying on the rule × 10,230 funds using a summary prospectus that are estimated to rely on rule 30e–3 ÷ 1,137 funds.

486 [11,367 funds estimated to rely × 10,230 funds relying on summary prospectus rule] × 0.90 proportion estimated to have a website ÷ 1,137 funds estimated to rely = 1,023 funds estimated to rely.

487 11,367 funds estimated to rely × 114 funds without a website × 24 hours in the first year = 114 funds × 24 hours per fund = 2,616 hours.

488 11,367 funds estimated to rely × 1,023 funds using a summary prospectus × 1.5 hours per fund = 16,381 hours.

489 11,367 funds estimated to rely × 114 funds without a website × 24 hours in the first year ÷ 1,137 funds estimated to rely = 10,230 funds using a summary prospectus × 1.5 hours per fund = 15,345 hours.
Internal Costs Burden

In the Proposing Release, we estimated that certain funds would bear an external cost burden in complying with the rule. The external cost burden is the cost of goods and services purchased in connection with complying with the rule, which, with respect to the posting requirements, will include costs associated with development of a website. With respect to those funds that would rely on proposed rule 30e–3 but that do not currently have a website, we estimated that the posting requirements of the proposed rule would result in an external cost burden of $2,000 per fund in the first year to develop a website but no cost burden in subsequent years.\footnote{Proposing Release, supra note 14, at 33679.} We further estimated that the amortized annual external cost burden associated with developing a website would be $667.\footnote{Id.} With respect to those funds that currently have websites, we estimated that the posting requirements of the proposed rule would not result in any external costs.\footnote{Id.} We did not receive any comments on these proposed estimates, and we are maintaining them today, with adjustments to reflect the updated industry data figures since the Proposing Release. Accordingly, in the aggregate, we estimate that the annual external cost burden with respect to these funds will be $76,038.\footnote{See supra note 478 and accompanying text.}

B. Proposed Initial Statement

As proposed, rule 30e–3 would have permitted an optional method to satisfy requirements to transmit shareholder reports by posting reports online with respect to a particular investor only if either the investor previously consented to this optional method of website availability or the investor’s consent could be inferred under certain conditions specified in the rule.\footnote{Proposing Release, supra note 14, at 33679–80.} One of the proposed conditions for inferring consent would have provided that an Initial Statement be transmitted to an investor at least 60 days before reliance on the rule with respect to that investor informing the investor that future shareholder reports available on a website until the investor provides notification that he or she wished to receive paper copies of reports in the future. As discussed above, we have modified the proposed rule to eliminate the Initial Statement requirement, which will affect the aggregate estimated burdens associated with rule 30e–3. In the Proposing Release, we estimated that the Initial Statement would result in 0.69 average annual burden hours per fund and $535 in average annual cost burden per fund,\footnote{See proposed rule 30e–3(c).} which is eliminated by the modification in the final rule to not adopt the proposed Initial Statement requirement.

C. Notice

Proposed rule 30e–3 would have required a Notice be sent to investors within 60 days of the close of the reporting period covered by the related report. Under the final rule, a Notice is required to be sent to investors within 70 days of the close of the reporting period to which the report relates.\footnote{See proposed rule 30e–3(d); rule 30e–3(c).} The proposed rule would have also required that the form of the Notice be filed with the Commission not later than 10 days after the Notice is sent to investors.\footnote{See proposed rule 30e–3(d)(7).} However, the final rule will require that only if a fund’s Notice includes any content from the report to which it relates, a copy of the Notice must be filed as part of the fund’s report on Form N–CSR.\footnote{Item 1(b) of Form N–CSR; see also infra Section IV.C.}

As discussed in Section IV.A above and as we estimated in the proposal, we estimate that 90% of all eligible funds (or 11,367 funds) will choose to rely on new rule 30e–3.\footnote{Amortized over three years, the average annual hour burden of about 2.25 hours per fund in the first year and about 1.5 hours per fund in each subsequent year.\footnote{1 hour per subsequent Notice × 2 subsequent Notices in subsequent years} and $535 in average annual cost burden per fund.\footnote{Internal hours burden} will be carried out by outside counsel retained by the fund.\footnote{We did not receive any comments on our proposed estimates of the time required to prepare Notices, or on the estimated proportion of the preparation time required to prepare Notices that would be carried out internally or by outside counsel. As discussed above, the requirements regarding the Notice in the final rule, including removing the direct URL to the shareholder report and the reply card requirement, permitting Notices to be incorporated into or combined with other Notices, expanding the ability to combine Notices with other mailings, as well as removing the filing requirement (other than for Notices that include content from the report to which it relates as discussed in Section IV.F below), will collectively affect the estimated burden associated with the preparation of Notices. We are maintaining our estimate of the 73% preparation time that would be incurred by the fund internally, the first Notice in the first year required hours of two hours, and our estimate of subsequent Notice required hours of one hour to account for an increase in some funds that may include content from the shareholder report in the Notice. Accordingly, we estimate that the Notice will result in an average annual hour burden of about 2.25 hours per fund in the first year and about 1.5 hours per fund in each subsequent year.\footnote{Amortized over three years, the average annual hour burden associated with the Notice would be about 1.75 hours per fund.\footnote{We have also made adjustments to these estimates to reflect the updated industry data figures since See infra note 14, at 33679.} and $535 in average annual cost burden per fund.\footnote{Proposing Release, supra note 14, at 33679.}}
the Proposing Release. In sum, we estimate that the Notice requirements of rule 30e–3 will impose an average total annual hour burden of about 19,892 hours on applicable funds.507

External Cost Burden

In addition, we estimate that funds will incur external costs if they rely on rule 30e–3. The external cost burden is the cost of goods and services purchased in connection with complying with the rule, which, with respect to the Notice, we have estimated would include the costs associated with outside counsel and printing and mailing costs.

In the Proposing Release, we estimated that 25% of the time required to comply with the requirements concerning preparation of the Notice would be carried out by outside counsel retained by the fund at a rate of $380 per hour.508 We did not receive any comments on our proposed estimate of the proportion of the time required to prepare Notices that would be carried out by outside counsel, and we are maintaining that estimate today. We are, however, updating our estimate of the hourly rate for the work carried out by outside counsel based on updated industry data to $401 per hour.509 Accordingly, we estimate that outside counsel costs associated with the Notice will result in an average cost burden per fund of about $301 in the first year,510 about $201 in subsequent years,511 and amortized over three years, about $234.512 In sum, we estimate that the outside counsel costs related to the

Proposing Release, supra note 14, at 33679. This estimate was based on the rate for attorneys in SIFMA’s Management and Professional Earnings in the Securities Industry 2013, modified by the Commission staff to account for an 1,800-hour work year and multiplied by 5.35 to account for bonuses, firm size, employee benefits, and overhead. We note that, in the Proposing Release, we considered the external cost burden of the notice and initial statement requirements jointly. See Proposing Release, supra note 14, at 33679–80. In this release, we have discussed the effect of the eliminated initial statement requirement on the burden estimates separately. See supra Part IV.B.

This estimate is from SIFMA’s Management & Professional Earnings in the Securities Industry 2013, modified by the Commission staff to account for an 1,800-hour work year and inflation, and multiplied by 5.35 to account for bonuses, firm size, employee benefits, and overhead.

12 hours per first Notice + 1 hour per subsequent Notice × 0.25 proportion external cost × $401 per hour = $301 per fund in the first year.

1 hour per subsequent Notice × 2 subsequent Notices × 0.25 proportion external cost × $401 per hour = $201 per fund in subsequent years.

$301 per fund in the first year × $201 per fund in subsequent years × 2 years ÷ 3 years = $234 per fund.

401 × 5.35 to account for bonuses, firm size, employee benefits, and overhead.

1.75 hours per fund per year for the Notice × 11,367 funds estimated to rely = 19,892 hours per year.

1.75 hours per fund per year for the Notice × 11,367 funds estimated to rely = 19,892 hours per year.

507 We did not receive any comments on our proposed estimate of the proportion of the time required to prepare Notices that would be carried out by outside counsel, and we are maintaining that estimate today. We are, however, updating our estimate of the hourly rate for the work carried out by outside counsel based on updated industry data to $401 per hour.

508 This estimate is from SIFMA’s Management & Professional Earnings in the Securities Industry 2013, modified by the Commission staff to account for an 1,800-hour work year and multiplied by 5.35 to account for bonuses, firm size, employee benefits, and overhead.

509 Accordingly, we estimate that outside counsel costs associated with the Notice will result in an average cost burden per fund of about $301 in the first year, about $201 in subsequent years, and amortized over three years, about $234. In sum, we estimate that the outside counsel costs related to the

510 1.75 hours per fund per year for the Notice × 11,367 funds estimated to rely = 19,892 hours per year.

511 1 hour per subsequent Notice × 2 subsequent Notices × 0.25 proportion external cost × $401 per hour = $201 per fund in subsequent years.

512 $301 per fund in the first year × $201 per fund in subsequent years × 2 years ÷ 3 years = $234 per fund.

513 $234 per fund per year for the Notice × 11,367 funds estimated to rely = $2,659,878 per applicable funds.

514 Proposing Release, supra note 14, at 33680.

515 Id.

516 See infra note 544 and accompanying text.

517 Proposing Release, supra note 14, at 33680.

518 See, e.g., ICI Comment Letter II.

519 See supra notes 12–36 and accompanying text.

520 See, e.g., ICI Comment Letter II.

521 See supra notes 221–222 and accompanying text. If the Notice includes content from the report to which it relates, a copy of the Notice must be filed as an exhibit to Form N–CSR, as discussed below. See infra Section IV.F.

522 Proposing Release, supra note 14, at 33680.

523 $1,061 + 3 = $10,000.

524 Proposing Release, supra note 14, at 33680.

525 $1,061,000 × 1/3 of the estimated external costs attributable to the Notice.

526 As we explained in the Proposing Release, in estimating the external costs, we took a conservative approach by using 10% of the $10,000 estimated costs for printing and mailing shareholder reports (which, as discussed above, is approximately one-third of the estimated external costs associated with management companies’ shareholder reports) to calculate the external cost of preparing and mailing a Notice as compared to a shareholder report. As noted in the Proposing Release, these estimated costs for fund shareholder reports are higher than the estimated external costs associated with UITs’ shareholder reports.

527 We did not receive any comments on this proposed estimate, and we are maintaining it today, except that we are revising the share of expenses upward from one-third to two-thirds. Thus, we estimate that the external cost burden associated with each Notice will be about $3,106.528

528 The final rule reflects modifications from the proposed rule to eliminate the reply card requirement for Notices and have made other modifications in light of public comments—such as permitting Notices to accompany other Notices and other types of documents—that we believe will reduce the printing and mailing costs of the final rule’s conditions relative to the proposal. The final rule also reflects modifications from the proposal to permit the inclusion of content from the shareholder report in the Notice and eliminated the Notice filing requirement except when the Notice includes such content.529

529 In light of the above comments on the estimates in the Proposing Release and the modifications we are making today, we have determined to increase our estimate of the percentage of annual printing and mailing costs (including processing fees) associated with shareholder reports that will be associated with the printing and mailing of each Notice from the 10% that we had originally proposed to 15%.

530 We also estimate, as we did in the Proposing Release, that there would be no other external costs attributable to the Notice. As we explained in the Proposing Release, in estimating the external costs, we took a conservative approach by using 10% of the $10,000 estimated costs for printing and mailing shareholder reports (which, as discussed above, is approximately one-third of the estimated external costs associated with management companies’ shareholder reports) to calculate the external cost of preparing and mailing a Notice as compared to a shareholder report. As noted in the Proposing Release, these estimated costs for fund shareholder reports are higher than the estimated external costs associated with UITs’ shareholder reports.

We did not receive any comments on this proposed estimate, and we are maintaining it today, except that we are revising the share of expenses upward from one-third to two-thirds. Thus, we estimate that the external cost burden associated with each Notice will be about $3,106.525
Because each fund relying on rule 30e–3 will be required, in the final rule, to send two Notices in the first year, we estimate that the external costs for the first year on a per fund will be $6,212.526 Likewise, we estimate that in subsequent years, annual external costs on a per fund will be $6,212 as each fund will continue to be required to send two Notices per year. As such, amortized over three years, we estimate that the Notice will be $6,212 annual cost burden per fund. In sum, we estimate that the printing and mailing costs related to the Notice requirements of rule 30e–3 will impose an average annual total cost burden of $70,611,804 on applicable funds.527 Accordingly, together with the costs associated with outside counsel, we estimate that the Notice requirements of the rule will impose an average annual total cost burden of $73,271,682.528

D. Delivery Upon Request

We estimated in the Proposing Release that funds may incur external costs in connection with the requirement to provide a shareholder report upon request of an investor. We estimated that the annual costs associated with printing and mailing these reports would be $500 per fund.529 We did not receive any comments on this proposed estimate, and we are maintaining it today, with adjustments to reflect the updated industry data figures since the Proposing Release. Accordingly, we estimate that the aggregate annual external costs associated with printing and mailing shareholder reports upon request will be $5,683,500.530

In total, rule 30e–3 will impose an average total annual hour burden of 28,610 hours on applicable funds531 and a total annual external cost burden of $79,031,220 on applicable funds.532

E. Impact on Information Collections for Rules 30e–1 and 30e–2

We estimate, as we did in the Proposing Release, that rule 30e–3 will have the effect of reducing the external cost burden associated with rules 30e–1 and 30e–2. Rule 30e–1 requires a fund to transmit shareholder reports to its investors.533 Rule 30e–2 requires UITs that invest substantially all of their assets in shares of a fund to send their investors shareholder reports containing applicable information and financial statements required to be included in reports for the underlying fund.534

In the Proposing Release, we estimated, with respect to rule 30e–1, that each fund currently incurs an annual hourly burden of 84 hours and an annual external cost burden of $31,061 per fund.535 Additionally, with respect to rule 30e–2, we estimated that each UIT currently incurs an annual hourly burden of 121 hours per UIT and an annual external cost burden of $20,000 per UIT.536

In connection with recent amendments to Regulation S–X, which prescribes the form and content of fund financial statements, we estimated that each fund would incur 2.5 additional burden hours per year after the first year to comply with rule 30e–1.537 In connection with those amendments to Regulation S–X, we also estimated that each UIT to which the amendments apply would incur 2.5 additional burden hours per year after the first year to comply with rule 30e–2.538

As discussed above, we continue to estimate that 90% of all funds will rely on rule 30e–3.539 In the Proposing Release, we estimated that the hourly burden associated with rule 30e–1 or rule 30e–2 would not change as a result of proposed rule 30e–3.540 We did not receive any comments on this proposed estimate, and we are maintaining it today. However, in the Proposing Release we estimated that, for those funds that rely on proposed rule 30e–3, the external cost burden would decrease.541 Specifically, we estimated that for funds relying on rule 30e–3, one-third of the external costs currently attributed to rule 30e–1 relate to printing and mailing costs, which would not be applicable to funds (excluding UITs) relying on the rule, and thus their annual cost burden related to rule 30e–1 would decrease from $31,061 to about $20,707.542 Additionally, we similarly estimated that for UITs relying on the rule, one-third of the external costs currently attributed to rule 30e–2 relate to printing and mailing costs, which would not be applicable to UITs relying on proposed rule 30e–3, and thus their annual cost burden related to rule 30e–2 would decrease from $20,000 to about $13,333.543

Although commenters did not opine on the proposed estimate of the proportion of total external costs associated with rule 30e–1 and 30e–2 associated with printing and mailing expenses, some did provide estimates of the current total costs of print and mail delivery that suggest that our estimated proportion of those costs may have been understated, and we have determined to revise our estimate upwards to two-thirds, which yields overall printing and mailing expenses that are more similar to those estimated by commenters compared to the estimates in the Proposing Release.544 Therefore, we estimate that, for the 90% of funds estimated to rely on rule 30e–3, the annual external burden associated with rule 30e–1 will decrease from $31,061 to $10,354 per fund (excluding UITs),545 and the annual external burden associated with rule 30e–2 will decrease from $20,000 to $6,667 per UIT.546

We have also made adjustments to these estimates to reflect updated industry data since the Proposing Release regarding the number of funds. Accordingly, we estimate that for the 90% of funds estimated to rely on rule 30e–3 the total annual external cost burden for rule 30e–1 will be $110,943,110,547 and the total annual external cost burden for all funds under

524 $31,061 per fund (excluding UITs) per year in external costs × 2/3 proportion not attributable to printing and mailing expenses = $20,707 per fund per year in external costs.
525 $20,000 per UIT per year in external costs × 2/3 proportion not attributable to printing and mailing expenses = $13,333.
526 See, e.g., ICI Comment Letter 1.
527 $31,061 per fund (excluding UITs) per year in external costs × 2/3 proportion not attributable to printing and mailing expenses = $20,707 per fund per year in external costs.
528 $20,000 per UIT per year in external costs × 2/3 proportion not attributable to printing and mailing expenses = $6,667 per UIT per year in external costs.
529 10,715 funds expected to rely × $10,354 external costs per fund expected to rely = $110,943,110 in external costs for funds expected to rely.
530 $500 per fund × 11,367 funds estimated to rely = $5,683,500.
531 28,610 hours on applicable funds = $6,212 per fund × 11,367 funds estimated to rely = $79,031,220.
532 $6,212 per year per fund for the Notice × 2 Notices in the first year = $6,212 per fund in external costs in the first year.
533 Rule 30e–1(a).
534 Rule 30e–2(a).
535 Proposing Release, supra note 14, at 3680.
536 Id.
537 Reporting Modernization Adopting Release, supra note 14, at text following n.1562. We did not estimate any changes to the external cost burden in connection with those amendments. Id.
538 Reporting Modernization Adopting Release, supra note 14, at text accompanying n.1579.
539 See supra note 501 and accompanying text.
540 Proposing Release, supra note 14, at 3680.
541 Id.
542 External costs per fund expected to rely = $110,943,110 in external costs for funds expected to rely;
rule 30e–1 will be $147,936,761. Additionally, we estimate that for the 90% of UITs estimated to rely on rule 30e–3 the total annual external cost burden for rule 30e–2 will be $4,346,884, and the total annual external cost burden for all UITs under rule 30e–2 will be $5,786,884.

F. Related Disclosure Amendments

In a change from the proposal, as discussed above, we are amending rule 498 under the Securities Act and certain fund registration forms to require that funds intending to rely on rule 30e–3 prior to January 1, 2022 include prominent disclosures on the cover page or beginning of their summary prospectuses, and cover pages of their statutory prospectuses, and annual and semi-annual reports, for two years during the three-year period between January 1, 2019 and December 31, 2021. With the exception of newly-formed funds, funds would generally provide these disclosures as described above. We believe that these disclosures will provide important information to both current and prospective investors in advance of the rule’s effective date that not only notifies them of the intent of their fund to rely on the rule, but will also provide them with an overview of the rule’s operation, including the fact that reports will be made available on a website and that they will be able to retain delivery of their reports in paper if they should so desire. Beginning January 1, 2022, these cover page disclosures will no longer be required.

Currently, we estimate that funds have the following total annual burdens for compliance with Rule 498 (15,798 hours), Form N–1A (1,596,749 hours), Form N–2 (73,250 hours), Form N–3 (2,500 hours), Form N–4 (343,117 hours), and Form N–6 (85,269 hours). Based on updated industry data figures, we estimate that there are 711 funds that could file registration statements or amendments to registration statements on Form N–2. Of this group, we estimate that 640 funds will rely on rule 30e–3 and relating to prospectuses is 8,386 hours. In total, we estimate that the aggregate annual hour burden associated with the amendments to Form N–1A and relating to shareholder reports is 8,889 hours per year.

We estimate that there are 711 funds that could file registration statements or amendments to registration statements on Form N–2. Of this group, we estimate that 640 funds will rely on rule 30e–3 and relating to prospectuses is 8,386 hours. In total, we estimate that the aggregate annual hour burden associated with the amendments to Form N–1A and relating to shareholder reports is 8,889 hours per year.

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We estimate that there are 711 funds that could file registration statements or amendments to registration statements on Form N–2. Of this group, we estimate that 640 funds will rely on rule 30e–3 and relating to prospectuses is 8,386 hours. In total, we estimate that the aggregate annual hour burden associated with the amendments to Form N–1A and relating to shareholder reports is 8,889 hours per year.

We estimate that there are 711 funds that could file registration statements or amendments to registration statements on Form N–2. Of this group, we estimate that 640 funds will rely on rule 30e–3 and relating to prospectuses is 8,386 hours. In total, we estimate that the aggregate annual hour burden associated with the amendments to Form N–1A and relating to shareholder reports is 8,889 hours per year.

We estimate that there are 711 funds that could file registration statements or amendments to registration statements on Form N–2. Of this group, we estimate that 640 funds will rely on rule 30e–3 and relating to prospectuses is 8,386 hours. In total, we estimate that the aggregate annual hour burden associated with the amendments to Form N–1A and relating to shareholder reports is 8,889 hours per year.

We estimate that there are 711 funds that could file registration statements or amendments to registration statements on Form N–2. Of this group, we estimate that 640 funds will rely on rule 30e–3 and relating to prospectuses is 8,386 hours. In total, we estimate that the aggregate annual hour burden associated with the amendments to Form N–1A and relating to shareholder reports is 8,889 hours per year.
that the total annual hour burden associated with the amendments to Form N–2 and relating to annual and semi-annual reports is 533 hours. In total, we estimate that the aggregate annual hour burden associated with the amendments to Form N–2 will be 853 hours per year.566

Form N–3

We estimate that there are 14 funds that could file registration statements or amendments to registration statements on Form N–3.567 Of this group, we estimate that 13 funds will rely on rule 30e–3.568 Consequently, we estimate that the total annual hour burden associated with the amendments to Form N–3 and relating to statutory prospectuses is 7 hours.569 In addition, we estimate that the total annual hour burden associated with the amendments to Form N–3 and relating to annual and semi-annual reports is 12 hours.570 In total, we estimate that the aggregate annual hour burden associated with the amendments to Form N–3 will be 18 hours per year.571

Form N–4

We estimate that there are 1,653 responses on Form N–4 each year. Of this group, we estimate that 1,488 of the responses will be made by funds that will rely on rule 30e–3.572 Consequently, we estimate that the total annual hour burden associated with the amendments to Form N–4 and relating to statutory prospectuses is 744 hours.573

Form N–6

We estimate that there are 472 responses on Form N–6 each year. Of this group, we estimate that 425 of the responses will be made by funds that will rely on rule 30e–3.574 Consequently, we estimate that the total annual hour burden associated with the amendments to Form N–6 and relating to statutory prospectuses is 213 hours.575

G. Form N–CSR

In a modification from the proposal, as discussed above, we are amending Form N–CSR to require that for fund Notices that include content from the report to which it relates, a copy of the Notice must be filed as part of the fund’s report on Form N–CSR.576 Under the existing collection of information, we estimate 172,899 aggregate annual burden hours to comply with Form N–CSR. Based on updated industry data figures and the amendments to Form N–CSR being adopted today, we have revised this estimate as follows.

We estimate that there are 10,715 funds that will rely on rule 30e–3 and could prepare Notices that include content from the report to which it relates.577 The decision to include content from the report in the Notice is optional, and at the fund’s election, but if the fund decides to include such content, then the Notice must be filed with the Commission in reports on Form N–CSR. We believe that many funds—we estimate about half of those relying on rule 30e–3—will wish to include content from the shareholder report in the Notice that they believe is particularly informative to their investors. However, we also believe that many funds—we estimate about half—will wish to preserve the maximum cost savings allowed under the rule and will therefore wish to include in the Notice only that information that is required by the rule. We therefore estimate that 50% of fund Notices will include content from the shareholder report. Pursuant to the amendment being adopted today, we estimate that each of these funds would incur one annual burden hour to file the Notice as part of their reports on Form N–CSR (not including preparation of the Notice).

We estimate that of the 10,715 funds to rely on rule 30e–3 that could add content to the Notice from the report to which it relates, that 5,358 funds would add content from the shareholder Report to the Notice and would therefore be required to file such Notices with reports on Form N–CSR.578 Consequently, we estimate that the aggregate annual hour burden associated with the amendments to Form N–CSR is 5,358 hours.579

V. Final Regulatory Flexibility Analysis

This Final Regulatory Flexibility Analysis (“FRFA”) has been prepared in accordance with Section 4(a) of the Regulatory Flexibility Act (“RFA”).580 It relates to new rule 30e–3, amendments to Forms N–1A, N–2, N–3, N–4, N–6, and N–CSR, amendments to rule 498 under the Securities Act, and amendments to rule 14a–16 under the Exchange Act. An Initial Regulatory Flexibility Analysis (“IRFA”) was prepared in accordance with the RFA and included in the Proposing Release.581 The Proposing Release included, and solicited comment on, the IRFA.

A. Need For and Objectives of the Rule, Rule Amendments and Form Amendments

Rule 30e–3 is designed to modernize the manner in which periodic information is transmitted to investors. Rule 30e–3 will provide certain funds with an optional means to satisfy shareholder transmission requirements by making the reports and other materials publicly accessible on a website, provided that certain other conditions are satisfied. We believe the rule will improve investors’ experience while reducing expenses associated with printing and mailing shareholder reports that are borne by investment companies and ultimately their investors.

In connection with our adoption of rule 30e–3, we are also adopting related amendments to certain of our rules and forms. We are amending rule 498 and certain fund registration forms to require that funds intending to rely on rule 30e–3 include during the extended

565 640 funds x (1 hour for the first report in the first year + 0.5 hours for the second report in the first year) = 960 hours. 640 funds x 0.5 hours x 2 reports in the second year = 640 hours. 640 funds x 0.5 hours in the third year = 0 hours. (960 + 640 + 0 hours) x 3 years = 533 hours per year on an amortized basis.

566 853 hours = 320 hours + 533 hours.

567 See supra note 553.

568 See supra note 478 and accompanying and following text. 14 funds x 0.9 x 13 funds.

569 13 funds x 1 hour in the first year = 13 hours. 13 funds x 0.5 hours in the second year = 7 hours. 13 funds x 0.5 hours in the third year = 0 hours. (13 + 7 + 0 hours) x 3 years = 533 hours per year on an amortized basis.

570 13 funds x (1 hour for the first report in the first year + 0.5 hours for the second report in the first year) = 20 hours. 13 funds x 0.5 hours x 2 reports in the second year = 13 hours. 13 funds x 0.5 hours in the third year = 0 hours. (20 + 13 + 0 hours) x 3 years = 11 hours per year on an amortized basis.

571 18 hours = 7 hours + 11 hours.

572 See supra note 478 and accompanying and following text. 1,653 responses x 0.9 = 1,488 responses.

573 1,488 responses x 1 hour in the first year = 1,488 hours. 1,488 responses x 0.5 hours in the second year = 744 hours. 1,488 responses x 0 hours in the third year = 0 hours. (1,488 + 744 + 0 hours)

574 See supra note 478 and accompanying and following text. 472 responses x 0.9 = 425 responses.

575 425 responses x 1 hour in the first year = 425 hours. 425 responses x 0.5 hours in the second year = 213 hours. 425 responses x 0 hours in the third year = 0 hours. (425 + 213 + 0 hours) x 3 years = 213 hours per year on an amortized basis.

576 See supra Section II.B.2.b.i.

577 11,906 funds = 9,360 mutual funds + 1,821 ETFs (1,829 ETFs less 8 UIT ETFs) + 711 closed-end funds + 14 funds that could file registration statements or amendments to registration statements on Form N–3. See supra note 553. 11,906 funds relying on the rule x 0.90 = 10,715 funds estimated to rely on rule 30e–3. See supra note 478 and accompanying and following text.

578 10,715 funds x 0.5 = 5,358 funds.

579 5,358 funds x 1 hour per year = 5,358 hours.


581 See Proposing Release, supra note 14, at Section VI.
transition period prominent disclosures on the cover page or beginning of their summary prospectuses and cover pages of their statutory prospectuses and shareholder reports as discussed above.\textsuperscript{582} We believe that these disclosures will provide important information to both current and prospective investors in advance of the rule’s effective date that not only notifies them of the intent of their fund to rely on the rule, but will also provide them with an overview of the rule’s operation, including the fact that reports will be made available on a website and that they will be able to retain delivery of their reports in paper if they should so desire. Beginning January 1, 2022, these cover page and other prominent disclosures will no longer be required. We are also amending Form N–CSR to require the filing of fund Notices that include content from the shareholder report to enable Commission review of disclosure in the Notices in conjunction with its overall review of shareholder reports and other disclosure filings.

B. Significant Issues Raised by Public Comments

In the Proposing Release, we requested comment on each aspect of the IRFA, including the number of small entities that would be affected by the proposed amendments, the existence or nature of the potential impact of the proposals on small entities discussed in the analysis and how to quantify the impact of the proposed rules. As discussed above, we received extensive comments regarding the potential costs and benefits of the proposals.\textsuperscript{583} However, we did not receive comments specifically addressing the impact of proposed rule 30e–3 and related amendments on small entities subject to the rule.

C. Small Entities Subject to the Rule

An investment company is a small entity if, together with other investment companies in the same group of related investment companies, it has net assets of $50 million or less as of the end of its most recent fiscal year.\textsuperscript{584} Commission staff estimates that, as of December 31, 2017, approximately 88 registered investment companies, including 54 open- and 34 closed-end funds and 6 UITs are small entities.\textsuperscript{585}

D. Projected Reporting, Recordkeeping, and Other Compliance Requirements

The amendments will create, amend, and eliminate current reporting, recordkeeping and other compliance requirements for small entities. Rule 30e–3 is designed to provide funds with an optional method to satisfy requirements to transmit shareholder reports by posting reports online if they meet certain conditions.\textsuperscript{586} Funds that do not maintain websites or that otherwise wish to transmit shareholder reports in paper or pursuant to the Commission’s existing electronic delivery guidance would continue to be able to satisfy their transmission requirements by those transmission methods.

We estimate that approximately 88 registered investment companies are small entities that will rely on the rule.\textsuperscript{587} Because funds generally already maintain websites and send materials to shareholders, for most funds, no additional professional skills beyond those currently possessed by funds are generally needed to comply with the rule’s conditions. However, some funds, including funds that are small entities, that do not currently have a website, would require professional skills to develop a web page and post the required documents, and as discussed above, we estimate for such funds an external burden cost of $2,000 per fund in the first year to develop a website and an initial 24 hours internal burden for staff to develop a web page and post the required documents on the web page.

To the extent possible, we have attempted to quantify the costs and savings that will be experienced by small entities relying upon rule 30e–3. However, we note that the average costs and savings incurred by such small entities may in some cases be lower or higher than the costs and savings incurred by the average fund relying upon rule 30e–3. As discussed above, we estimate that reliance on rule 30e–3 will result in certain costs and benefits related to the website availability of shareholder reports for each fund, including small entities, with savings of approximately $20,285 per year for each fund with respect to their regulatory obligation to deliver shareholder reports to investors in savings related to printing and mailing costs for shareholder reports, and costs of $7,847 per year for each fund to implement new rule 30e–3 in costs related to website accessibility requirements, Notice preparation, and printing, mailing, and processing fees for the Notices.\textsuperscript{588}

We received no direct comments on the IRFA analysis of rule 30e–3 but as discussed above, we received comments on the rule and projected expense savings from the rule. We have discussed these comments in our discussion of the final rule and our cost/benefit and PRA estimates above.\textsuperscript{589}

We are amending rule 498 under the Securities Act and certain fund registration forms to require that funds intending to rely on rule 30e–3 include prominent disclosures on the cover page (or beginning) of their summary prospectuses, statutory prospectuses, and shareholder reports in advance of the date on which funds could begin to rely upon the rule.\textsuperscript{590} We believe that these disclosures will provide important information to both current and prospective investors in advance of a fund’s use of the rule that not only notifies them of the intent of their fund to rely on the rule, but also provides an overview of the rule’s operation, including the fact that reports will be made available on a website and that they will be able to preserve delivery of their reports in paper if they should so desire. Beginning January 1, 2022, these cover page disclosures will no longer be required. Similarly, we are amending rule 14a–16 under the Exchange Act, as proposed, to include a Notice required by rule 30e–3 among the materials that are permitted to accompany a Notice of Internet Availability of Proxy Materials.\textsuperscript{591}

We estimate that the costs of these related disclosures will be $284–$721 in the first year and $142–$437 in each of the second and third years for each fund that relies upon rule 30e–3 and that could file registration statements or amendments to registration statements on Form N–1A (including funds that rely upon rule 498), Form N–2, Form

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\textsuperscript{582} See new paragraph (b)(1)(vii) of rule 498; new paragraph (a)(5) to Item 1 of Form N–1A; new paragraph (d)(6) to Item 27 of Form N–1A; new paragraph 1.1 to Item 1 of Form N–2; new instruction 6.g to Item 28 of Form N–3; new paragraph (a)(x) to Item 1 of Form N–4; new paragraph (a)(6) to Item 1 of Form N–6. See also supra Section II.B.2.f.

\textsuperscript{583} See supra Section II.A.1.

\textsuperscript{584} 17 CFR 270.0–10(a).

\textsuperscript{585} See supra note 372 (estimating aggregate annual gross savings to funds relying on rule 30e–3 of $230,575,360), 393 (estimating aggregate annual gross costs of $89,202,128).\textsuperscript{586}\textsuperscript{587}\textsuperscript{588}\textsuperscript{589}\textsuperscript{590}\textsuperscript{591}\textsuperscript{592}\textsuperscript{593}\textsuperscript{594}\textsuperscript{595}\textsuperscript{596}\textsuperscript{597}\textsuperscript{598}\textsuperscript{599}\textsuperscript{600}\textsuperscript{601}\textsuperscript{602}\textsuperscript{603}\textsuperscript{604}\textsuperscript{605}\textsuperscript{606} See generally Sections II, III.B–D, IV.C, and IV.E.

\textsuperscript{592} See supra Section II.B.2.f.

\textsuperscript{593} See id.
We are amending Form N–CSR to require that for fund Notices that include content from the shareholder report to which it relates, a copy of the Notice must be filed as part of the fund’s report on Form N–CSR.593 We estimate that the costs for each such report that is filed (including those by 88 small entities) will be $2,677 in the first year and $1,903 in each subsequent year.594

E. Agency Action To Minimize Effect on Small Entities

The RFA directs the Commission to consider significant alternatives that would accomplish our stated objective, while minimizing any significant economic impact on small entities. The Commission considered the following alternatives for small entities in relation to our forms and form amendments and rules and rule amendments: (i) Establishing different reporting requirements or timetables that take into account resources available to small entities; (ii) the clarification, consolidation, or simplification of compliance and reporting requirements under the rule for such small entities;

(2) See supra notes 425 (estimating 10,063 funds that could file registration statements or amendments to registration statements on Form N–1A and that will rely upon rule 30e–3), 430 (estimating disclosure costs related to rule 30e–3 in the first year of $7,144,872 and in the each of the second and third years of $4,286,980), $7,144,872 + 10,063 funds = $710. $4,286,980 + 10,063 funds = $426; see supra notes 432 (estimating 640 funds that could file registration statements or amendments to registration statements on Form N–2 and that will rely upon rule 30e–3), 436 (estimating disclosure costs related to rule 30e–3 in the first year of $272,640 and in each of the second and third years of $454,400 and $640 funds = $710. $272,640 + 640 funds = $426; supra note 438 (estimating 13 funds that could file registration statements or amendments to registration statements on Form N–3 and that will rely upon rule 30e–3), 442 (estimating disclosure costs related to rule 30e–3 in the first year of $9,372 and in each of the second and third years of $5,680), $9,372 = 13 funds = $721. $5,680 + 13 funds = $437; 443 (estimating 1,488 funds that could file registration statements or amendments to registration statements on Form N–4 and that will rely upon rule 30e–3), 445 (estimating disclosure costs related to rule 30e–3 in the first year of $422,592 and in each of the second and third years of $211,296), $422,592 = 1,488 funds = $284. $211,296 = 1,488 funds = $142. $272,640 + 640 funds = $426; supra note 438 (estimating 13 funds that could file registration statements or amendments to registration statements on Form N–3 and that will rely upon rule 30e–3), 446 (estimating disclosure costs related to rule 30e–3 in the first year of $120,700 and in each of the second and third years of $60,402), $120,700 + 425 funds = $284. $60,402 + 425 funds = $142.

593 See supra Section II.B.2.h.i.

594 See supra notes 578 (estimating 5,358 funds that will file a Notice with content from the report it relates). 402 (estimating Form N–CSR preparation and filing costs related to rule 30e–3 in the first year of $14,341,169 and each following year of $10,195,144), $14,341,169 + 5,358 funds = $2,677. $10,195,144 + 5,358 funds = $1,903. see supra Section II.B.2.h.i.

We are adopting the rule and form amendments contained in this document under the authority set forth in the Securities Act, particularly Sections 5, 6, 7, 10, and 19 thereof [15 U.S.C. 77a et seq.], the Exchange Act, particularly, Sections 3(b), 10, 13, 14, 15, and 36 thereof [15 U.S.C. 78a et seq.], the Investment Company Act, particularly, Sections 6, 8, 20, 24, 30, and 38 thereof [15 U.S.C. 80a et seq.], and 44 U.S.C. 3506, 3507.

List of Subjects

17 CFR Part 200

Administrative practice and procedure, Organization and functions (Government agencies).

17 CFR Parts 230, 239, 240, 249, 270, and 274

Investment companies, Reporting and recordkeeping requirements, Securities.

For reasons set forth in the preamble, title 17, chapter II of the Code of Federal Regulations is amended as follows:

PART 200—ORGANIZATION; CONDUCT AND ETHICS; AND INFORMATION AND REQUESTS

Subpart N—Commission Information Collection Requirements Under the Paperwork Reduction Act: OMB Control Numbers

1. The authority citation for subpart N of part 200 continues to read as follows: Authority: 44 U.S.C. 3506; 44 U.S.C. 3507.

2. Effective January 1, 2019, amend § 200.800 in paragraph (b) by adding an entry in numerical order by part and section number for “Rule 30e–3”, to read as follows:

§ 200.800 OMB control numbers assigned pursuant to the Paperwork Reduction Act.

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Rule 30e–3 ....... 270.30e–3

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PART 230—GENERAL RULES AND REGULATIONS, SECURITIES ACT OF 1933

§ 230.498 Summary Prospectuses for open-end management investment companies.

* * * * *
(b) * * *
(1) * * *
(v) The following legend:
Before you invest, you may want to review the Fund’s prospectus, which contains more information about the Fund and its risks. You can find the Fund’s prospectus, reports to shareholders, and other information about the Fund online at [____]. You can also get this information at no cost by calling [____] or by sending an email request to [____] or by calling [____].
(A) The legend must provide a website address, other than the address of the Commission’s electronic filing system; toll free (or collect) telephone number; and email address that investors can use to obtain the Statutory Prospectus and other information. The website address must be specific enough to lead investors directly to the Statutory Prospectus and other materials that are required to be accessible under paragraph (e)(1) of this section, rather than to the home page or other section of the website on which the materials are posted. The website could be a central site with prominent links to each document. The legend may indicate, if applicable, that the Statutory Prospectus and other information are available from a financial intermediary (such as a broker-dealer or bank) through which shares of the Fund may be purchased or sold.
(B) If a Fund incorporates any information by reference into the Summary Prospectus, the legend must identify the type of document (e.g., Statutory Prospectus) from which the information is incorporated and the date of the document. If a Fund incorporates by reference a part of a document, the legend must clearly identify the part by page, paragraph, caption, or otherwise.

If information is incorporated from a source other than the Statutory Prospectus, the legend must explain that the incorporated information may be obtained, free of charge, in the same manner as the Statutory Prospectus. A Fund may modify the legend to include a statement to the effect that the Summary Prospectus is intended for use in connection with a defined contribution plan that meets the requirements for qualification under section 401(k) of the Internal Revenue Code (26 U.S.C. 401(k)), a tax-deferred arrangement under section 403(b) or 457 of the Internal Revenue Code (26 U.S.C. 403(b) or 457), or a variable contract as defined in section 817(d) of the Internal Revenue Code (26 U.S.C. 817(d)), as applicable, and is not intended for use by other investors.
(vi) The Summary Prospectus may provide instructions describing how a shareholder can elect to receive prospectuses or other documents and communications by electronic delivery.
(vii) A statement to the following effect, if applicable:
Beginning on [date], as permitted by regulations adopted by the Securities and Exchange Commission, paper copies of the Fund’s shareholder reports will no longer be sent by mail, unless you specifically request paper copies of the reports from the Fund [or from your financial intermediary, such as a broker-dealer or bank]. Instead, the reports will be made available on a website, and you will be notified by mail each time a report is posted and provided with a website link to access the report.
If you already elected to receive shareholder reports electronically, you will not be affected by this change and you need not take any action. You may elect to receive shareholder reports and other communications from the Fund [or your financial intermediary] electronically by [insert instructions].
You may elect to receive all future reports in paper free of charge. You can inform the Fund [or your financial intermediary] that you wish to continue receiving paper copies of your shareholder reports by [insert instructions]. Your election to receive reports in paper will apply to all funds held with [the fund complex/your financial intermediary].

The addition reads as follows:

§ 230.498 Summary Prospectuses for open-end management investment companies.

* * * * *
(b) * * *
(1) * * *
(v) * * *
(A) * * * If a Fund relies on § 270.30e–3 of this chapter to transmit a report, the legend must also include the website address required by § 270.30e–3(c)(1)(iii) of this chapter if different from the website address required by this paragraph (b)(1)(v)(A).
* * * * *
§ 230.498 [Amended]

PART 249—FORMS PRESCRIBED UNDER THE SECURITIES ACT OF 1933

§ 249.14a–16 [Amended]

9. Effective January 1, 2019, amend § 240.14a–16 paragraph (f)(2)(iii) by adding the phrase “a Notice under § 270.30e–3 of this chapter,” after “§ 270.30e(b) of this chapter,”.

PART 249—FORMS, SECURITIES EXCHANGE ACT OF 1934

§ 249.14a–16 [Amended]

10. The authority citation for part 249 continues to read, in part, as follows:

Authority: 15 U.S.C. 77c, 77d, 77g, 77j, 77s, 77zd–2, 77zd–3, 77sss, 77v, 78, 78b, 78f, 78g, 78i, 78j, 78l, 78m, 78n, 78o, 78p, 78q, 78r, 78s, 78t, 78u, 78z, 78-7 note, 78u–5, 78w(a), 78l, 78m, 78n, 78o–2(a), 80–3, 80–4, 80–9, 80–10, 80–13, 80–34, 80–26, 80–29, 80–30, and 80–37; and sec. 503, Pub. L. 112–106, 115 Stat. 89, unless otherwise noted.

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PART 270—RULES AND REGULATIONS, INVESTMENT COMPANY ACT OF 1940

§ 270.30e–3 Internet availability of reports to shareholders.

(a) General. A Company may satisfy its obligation to transmit a report required by § 270.30e–1 or § 270.30e–2 (“Report”) to a shareholder of record if all of the conditions set forth in paragraphs (b) through (e), and (i) of this section are satisfied.

(b) Availability of report to shareholders and other materials. (1) The following materials are publicly accessible, free of charge, at the website address specified in the Notice from the date the Company transmits the Report as required by § 270.30e–1 or § 270.30e–2 until the Company next transmits a report required by § 270.30e–1 or § 270.30e–2 with respect to the Fund:


(ii) Prior report to shareholders. Any report with respect to the Fund for the prior reporting period that was transmitted to shareholders of record pursuant to § 270.30e–1 or § 270.30e–2.

(iii) Complete portfolio holdings from reports containing a summary schedule of investments. If a report specified in paragraph (b)(1)(i) or (b)(1)(ii) of this section includes a summary schedule of investments (§ 210.12–12B of this chapter) in lieu of Schedule I—Investments in securities of unaffiliated issuers (§ 210.12–12 of this chapter), the Fund’s complete portfolio holdings as of the close of the period covered by the report, presented in accordance with the schedules set forth in §§ 210.12–12 through 210.12–14 of Regulation S–X (§§ 210.12–12 through 210.12–14 of this chapter), which need not be audited.

(iv) Portfolio holdings for most recent first and third fiscal quarters. For a Fund other than a Fund that is regulated as a money market fund under § 270.2a–7 or a small business investment company registered on Form N–5 (§§ 239.24 and 274.5 of this chapter), the Fund’s complete portfolio holdings as of the close of the Fund’s most recent first and third fiscal quarters, if any, after the date on which the Fund’s registration statement became effective, presented in accordance with the schedules set forth in §§ 210.12–12 through 210.12–14 of Regulation S–X (§§ 210.12–12 through 210.12–14 of this chapter), which need not be audited. The complete portfolio holdings required by this paragraph (b)(1)(iv) must be made publicly available not later than 60 days after the close of the fiscal quarter.

(2) The website address relied upon for compliance with this section may not be the address of the Commission’s electronic filing system.

(3) The materials that are accessible in accordance with paragraph (b)(1) of this section must be presented on the website in a format, or formats, that are convenient for both reading online and printing out.

(4) Persons accessing the materials specified in paragraph (b)(1) of this section must be able to permanently retain, free of charge, an electronic version of such materials in a format, or formats, that meet the conditions of paragraph (b)(3) of this section.

(5) The conditions set forth in paragraphs (b)(1) through (b)(4) of this section shall be deemed to be met, notwithstanding the fact that the materials specified in paragraph (b)(1) of this section are not available for a time in the manner required by paragraphs (b)(1) through (b)(4) of this section, provided that:

(i) The Company has reasonable procedures in place to ensure that the specified materials are available in the manner required by paragraphs (b)(1) through (b)(4) of this section; and

(ii) The Company takes prompt action to ensure that the specified documents become available in the manner required by paragraphs (b)(1) through (b)(4) of this section, as soon as practicable following the earlier of the time at which it knows or reasonably should have known that the documents are not available in the manner required by paragraphs (b)(1) through (b)(4) of this section.

(c) Notice. A paper notice (“Notice”) meeting the conditions of this paragraph (c) must be sent to the shareholder within 70 days after the close of the period for which the Report is being made. The Notice may contain only the information specified by paragraphs (b)(1), (2), (3) of this section, and may include pictures, logos, or similar design elements so long as the design is not misleading and the information is clear.

(1) The Notice must be written using plain English principles pursuant to paragraph (d) of this section and:

(i) Contain a prominent legend in bold-face type that states “[An Important Report[s] to [Shareholders] of [Fund] [is/are] Now Available Online and In Print by Request.” The Notice may also include information identifying the Fund, the Fund’s sponsor (including any investment adviser or sub-adviser to the Fund), a variable annuity or variable life insurance contract or insurance company issuer thereof, or a financial intermediary through which shares of the Fund are held.

(ii) State that the Report contains important information about the Fund, including its portfolio holdings and financial statements. The statement may also include a brief listing of other types of information contained in the Report.

(iii) State that the Report is available at the website address specified in the Notice or, upon request, by mail, and encourage the shareholder to access and review the Report.

(iv) Include a website address where the Report and other materials specified in paragraph (b)(1) of this section are available. The website address must be specific enough to lead investors directly to the documents that are required to be accessible under paragraph (b)(1) of this section, rather than to the home page or section of the website other than on which the documents are posted. The website may be a central site with prominent links to each document. In addition to the website address, the Notice may contain any other equivalent method or means to access the Report or other materials specified in paragraph (b)(1) of this section.

(v) Provide a toll-free (or collect) telephone number to contact the Company or the shareholder’s financial intermediary, and:

(A) Provide instructions describing how a shareholder may request a paper or email copy of the Report and other materials specified in paragraph (b)(1) of this section at no charge, and an indication that he/she will not otherwise receive a paper or email copy;

(B) Explain that the shareholder can at any time elect to receive print reports in the future and provide instructions describing how a shareholder may make that election (e.g., by contacting the Company or by contacting the shareholder’s financial intermediary);

(C) If applicable, provide instructions describing how a shareholder can elect
to receive shareholder reports or other documents and communications by electronic delivery.

(2) The Notice may include additional methods by which a shareholder can contact the Company or the shareholder’s financial intermediary (e.g., by email or through a website), which may include any information needed to identify the shareholder.

(3) A Notice relating to a Report required by § 270.30e–1 may include content from the Report if such content is set forth after the information required by paragraph (c)(1) of this section.

(4) The Notice may not be incorporated into, or combined with, another document, except that the Notice may incorporate or combine one or more other Notices.

(5) The Notice must be sent separately from other types of shareholder communications and may not accompany any other document or materials; provided, however, that the Notice may accompany:

(i) One or more other Notices;

(ii) A current Summary Prospectus, Statutory Prospectus, Statement of Additional Information, or Notice of Internet Availability of Proxy Materials under § 240.14a–16 of this chapter;

(iii) In the case of a Fund held in a separate account funding a variable annuity or variable life insurance contract, such contract or the Statutory Prospectus and Statement of Additional Information for such contract; or

(iv) The shareholder’s account statement.

(6) A Notice required by this paragraph (c) will be considered transmitted to a shareholder of record if the conditions set forth in § 270.30e–1(f), § 270.30e–2(b), § 240.14a–3(e), or § 240.14c–3(c) of this chapter are satisfied with respect to that shareholder.

(d) Plain English requirements.

(1) To enhance the readability of the Notice, plain English principles must be used in the organization, language, and design of the Notice.

(2) The Notice must be drafted so that, at a minimum, it substantially complies with each of the following plain English writing principles:

(i) Short sentences;

(ii) Definite, concrete, everyday words;

(iii) Active voice;

(iv) Tabular presentation or bullet lists for complex material, whenever possible;

(v) No legal jargon or highly technical business terms; and

(vi) No multiple negatives.

(e) Delivery of paper copy upon request. A paper copy of any of the materials specified in paragraph (b)(1) of this section must be transmitted to any person requesting such a copy, at no cost to the requestor and by U.S. first class mail or other reasonably prompt means, within three business days after a request for a paper copy is received.

(f) Investor elections to receive future reports in paper. (1) This section may not be relied upon to transmit a Report to a shareholder if the shareholder has notified the Company (or the shareholder’s financial intermediary) that the shareholder wishes to receive paper copies of shareholder reports at any time after the Company has first notified the shareholder of its intent to rely on the rule or provided a Notice to the shareholder.

(2) A shareholder who has notified the Company (or the shareholder’s financial intermediary) that the shareholder wishes to receive paper copies of shareholder reports with respect to a Fund will be deemed to have requested paper copies of shareholder reports with respect to:

(i) Any and all current and future Funds held through an account or accounts with:

(A) The Fund’s transfer agent or principal underwriter or agent thereof for the same “group of related investment companies” as such term is defined in § 270.0–10; or

(B) A financial intermediary; and

(ii) Any and all Funds held currently and in the future in a separate account funding a variable annuity or variable life insurance contract.

(g) Delivery of other documents. This section may not be relied upon to transmit a copy of a Fund’s currently effective Statutory Prospectus or Statement of Additional Information, or both, under the Securities Act of 1933 (15 U.S.C. 77a et seq.) as otherwise permitted by paragraph (d) of § 270.30e–1.

(h) Definitions. For purposes of this section:

(1) Company means a Fund required to transmit a report to shareholders pursuant to § 270.30e–1 or a unit investment trust required to transmit a report to shareholders pursuant to § 270.30e–2.

(2) Fund means a registered management company and any separate series of the management company.

(3) Statement of Additional Information means the statement of additional information required by Part B of the applicable registration form.

(4) Statutory Prospectus means a prospectus that satisfies the requirements of section 10(a) of the Securities Act of 1933 (15 U.S.C. 77(j)(a)).

(5) Summary Prospectus means the summary prospectus described in paragraph (b) of § 230.498 of this chapter.

(i) Transition period. (1) A Company may rely on this section to first transmit a Report to a shareholder:

(i) Beginning on January 1, 2021, if:

(A) The Company has included the required statement on each prospectus, summary prospectus, annual report to shareholders, and semi-annual report to shareholders, as applicable, required to be delivered or transmitted to shareholders for the period beginning on the date the Company first publicly offers its shares, and ending on December 31, 2020; or

(B) The Company first publicly offers its shares on or after January 1, 2021; or

(ii) In all other cases, after the Company has included the required statement on each prospectus, summary prospectus, annual report to shareholders, and semi-annual report to shareholders, as applicable, required to be delivered or transmitted to shareholders for a period of two years or January 1, 2022, whichever comes first.

(2) For purposes of this paragraph (i), a “required statement” means the statement regarding the Company’s intent to rely on this section specified by:

(i) Its applicable registration form, and

(ii) In the case of a Fund that uses a summary prospectus, § 230.498 of this chapter.

Note to § 270.30e–3: For a discussion of how the conditions and requirements of this rule may apply in the context of investors holding Fund shares through financial intermediaries, see Investment Company Release No. 33115 (June 5, 2018).

13. Effective January 1, 2022, amend § 270.30e–3 by:

a. In paragraph (a), removing “,” and (i)”;

b. Removing paragraph (i).

PART 274—FORMS PRESCRIBED UNDER THE INVESTMENT COMPANY ACT OF 1940

14. The authority citation for part 274 continues to read, in part, as follows:

Authority: 15 U.S.C. 77f, 77g, 77h, 77j, 77s, 78(b), 78l, 78m, 78n, 78o(d), 80a–8, 80a–24, 80a–26, 80a–29, and Pub. L. 111–203, sec. 939A, 124 Stat. 1376 (2010), unless otherwise noted.

15. Effective January 1, 2019, Form N–1A (referenced in §§ 239.15A and 274.11A) is amended by:

a. In Item 1, adding paragraph (a)(5); and

b. In Item 27, adding paragraph (d)(8).
The additions read as follows:

Note: The text of Form N–1A does not, and this amendment will not, appear in the Code of Federal Regulations.

Form N–1A
* * * * * 

Item 1. Front and Back Cover Pages
(a) * * * 
(5) If applicable, the statement required by rule 498(b)(1)(vii) under the Securities Act.

Item 27. Financial Statements
* * * * * 

(d) * * * 
(8) Front Cover Page or beginning of Annual and Semi-Annual Report.

Form N–2
* * * * * 

Item 1. Outside Front Cover
1. * * * 
1. A statement to the following effect, if applicable:

Beginning on [date], as permitted by regulations adopted by the Securities and Exchange Commission, paper copies of the Registrant’s shareholder reports will no longer be sent by mail, unless you specifically request paper copies of the reports from the Registrant [or from your financial intermediary, such as a broker-dealer or bank]. Instead, the reports will be made available on a website, and you will be notified by mail each time a report is posted and provided with a website link to access the report.

If you already elected to receive shareholder reports electronically, you will not be affected by this change and you need not take any action. You may elect to receive shareholder reports and other communications from the Registrant [or your financial intermediary] electronically by [insert instructions].

You may elect to receive all future reports in paper free of charge. You can inform the Registrant [or your financial intermediary] that you wish to continue receiving paper copies of your shareholder reports by [insert instructions]. Your election to receive reports in paper will apply to all funds held with [the fund complex/your financial intermediary].

18. Effective January 1, 2022, Form N–2 (referenced in §§ 239.14 and 274.11a–1) is further amended by:

(a) In Item 1, removing paragraph 1.j; and
(b) In Item 24, adding Instruction 6.g.

The additions read as follows:

Note: The text of Form N–2 does not, and this amendment will not, appear in the Code of Federal Regulations.

Form N–3
* * * * * 

Item 1. Cover Pages
(a) * * * 
(xi) A statement to the following effect, if applicable:

Beginning on [date], as permitted by regulations adopted by the Securities and Exchange Commission, paper copies of the Registrant’s shareholder reports will no longer be sent by mail, unless you specifically request paper copies of the reports from the Registrant [or from your financial intermediary, such as a broker-dealer or bank]. Instead, the reports will be made available on a website, and you will be notified by mail each time a report is posted and provided with a website link to access the report.

If you already elected to receive shareholder reports electronically, you will not be affected by this change and
you need not take any action. You may elect to receive shareholder reports and other communications from the Registrant [or your financial intermediary] electronically by [insert instructions].

You may elect to receive all future reports in paper free of charge. You can inform the Registrant [or your financial intermediary] that you wish to continue receiving paper copies of your shareholder reports by [insert instructions]. Your election to receive reports in paper will apply to all funds held with [the fund complex/your financial intermediary].

* * * * *

Item 28. Financial Statements

(a) * * *

Instructions

* * * * *

b. In Item 28(a), removing Instruction 6(vii).

■ 20. Effective January 1, 2022, Form N–3 (referenced in §§ 239.17a and 274.11b) is amended by adding Instruction 6(vii).

■ 21. Effective January 1, 2019, Form N–4 (referenced in §§ 239.17b and 17 CFR 274.11c) is amended by adding new paragraph (a)(x) to Item 1.

The additions read as follows:

Note: The text of Form N–4 does not, and these amendments will not, appear in the Code of Federal Regulations.

Form N–4

* * * * *

Item 1. Cover Page

(a) * * *

(x) A statement to the following effect, if applicable:

Beginning on [date], as permitted by regulations adopted by the Securities and Exchange Commission, paper copies of the shareholder reports for portfolio companies [available under your contract] will no longer be sent by mail, unless you specifically request paper copies of the reports from the Registrant [or from your financial intermediary]. Instead, the reports will be made available on a website, and you will be notified by mail each time a report is posted and provided with a website link to access the report.

If you already elected to receive shareholder reports electronically, you will not be affected by this change and you need not take any action. You may elect to receive shareholder reports and other communications from the Registrant [or your financial intermediary] electronically by [insert instructions].

You may elect to receive all future reports in paper free of charge. You can inform the Registrant [or your financial intermediary] that you wish to continue receiving paper copies of your shareholder reports by [insert instructions]. Your election to receive reports in paper will apply to all funds held with [the fund complex/your financial intermediary].

* * * * *

■ 22. Effective January 1, 2022, Form N–4 (referenced in §§ 239.17b and 274.11c) is amended by removing paragraph (a)(x) of Item 1.

■ 23. Effective January 1, 2019, Form N–6 (referenced in 17 CFR 274.11c and 274.11d) is amended by adding new paragraph (a)(6) to Item 1.

The additions read as follows:

Note: The text of Form N–6 does not, and these amendments will not, appear in the Code of Federal Regulations.

Form N–6

* * * * *

Item 1. Front and Back Cover Pages

(a) * * *

(6) A statement to the following effect, if applicable:

Beginning on [date], as permitted by regulations adopted by the Securities and Exchange Commission, paper copies of the shareholder reports for portfolio companies [available under your contract] will no longer be sent by mail, unless you specifically request paper copies of the reports from the Registrant [or from your financial intermediary]. Instead, the reports will be made available on a website, and you will be notified by mail each time a report is posted and provided with a website link to access the report.

If you already elected to receive shareholder reports electronically, you will not be affected by this change and you need not take any action. You may elect to receive shareholder reports and other communications from the Registrant [or your financial intermediary] electronically by [insert instructions].

You may elect to receive all future reports in paper free of charge. You can inform the Registrant [or your financial intermediary] that you wish to continue receiving paper copies of your shareholder reports by [insert instructions]. Your election to receive reports in paper will apply to all funds held with [the fund complex/your financial intermediary].

* * * * *

■ 24. Effective January 1, 2022, Form N–6 (referenced in §§ 239.17c and 274.11d) is further amended by removing paragraph (a)(6) of Item 1.

■ 25. Effective January 1, 2021, Form N–CSR (referenced in §§ 249.331 and 274.128) is amended by:

a. In Item 1, designating as paragraph (a) “Include a copy of the report transmitted to stockholders pursuant to Rule 30e–1 under the Act (17 CFR 270.30e–1).”

b. In Item 1, adding new paragraph (b)

The designation and addition read as follows:

Note: The text of Form N–CSR does not, and these amendments will not, appear in the Code of Federal Regulations.

Form N–CSR

* * * * *

Item 1. Reports to Stockholders.

(a) Include a copy of the report transmitted to stockholders pursuant to Rule 30e–1 under the Act (17 CFR 270.30e–1).

(b) Include a copy of each notice transmitted to stockholders in reliance on Rule 30e–3 under the Act (17 CFR 270.30e–3) that contains disclosures

* * * * *
specified by paragraph (c)(3) of that rule.

By the Commission.

Dated: June 5, 2018.

Brent J. Fields,
Secretary.

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