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SECURITIES AND EXCHANGE COMMISSION

Submission for OMB Review; Comment Request

Upon Written Request, Copies Available From  
Securities and Exchange Commission  
Office of FOIA Services  
100 F Street, NE  
Washington, DC 20549-2736

Extension: Rule 17f-4

SEC File No. 270-232, OMB Control No. 3235-0225

Notice is hereby given that, pursuant to the Paperwork Reduction Act of 1995 (44 U.S.C. 3501-3520) (the “Paperwork Reduction Act”), the Securities and Exchange Commission (the “Commission”) has submitted to the Office of Management and Budget a request for extension of the previously approved collection of information discussed below.

Section 17(f) (15 U.S.C. 80a-17(f)) under the Investment Company Act of 1940 (the “Act”)<sup>1</sup> permits registered management investment companies and their custodians to deposit the securities they own in a system for the central handling of securities (“securities depositories”), subject to rules adopted by the Commission.

Rule 17f-4 (17 CFR 270.17f-4) under the Act specifies the conditions for the use of securities depositories by funds<sup>2</sup> and their custodians.

The Commission staff estimates that 142 respondents (including an estimated 80 active

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<sup>1</sup> 15 U.S.C. 80a.

<sup>2</sup> As amended in 2003, rule 17f-4 permits any registered investment company, including a unit investment trust or a face-amount certificate company, to use a security depository. See Custody of Investment Company Assets With a Securities Depository, Investment Company Act Release No. 25934 (Feb. 13, 2003) (68 FR 8438 (Feb. 20, 2003)). The term “fund” is used in this Notice to mean a registered investment company.

funds that may deal directly with a securities depository, an estimated 49 custodians, and 13 possible securities depositories)<sup>3</sup> are subject to the requirements in rule 17f-4. The rule is elective, but most, if not all, funds use depository custody arrangements.<sup>4</sup>

Rule 17f-4 contains two general conditions. First, a fund's custodian must be obligated, at a minimum, to exercise due care in accordance with reasonable commercial standards in discharging its duty as a securities intermediary to obtain and thereafter maintain financial assets. If the fund deals directly with a depository, the depository's contract or written rules for its participants must provide that the depository will meet similar obligations. All funds that deal directly with securities depositories in reliance on rule 17f-4 should have either modified their contracts with the relevant securities depository, or negotiated a modification in the securities depository's written rules when the rule was amended. Therefore, we estimate there is no ongoing burden associated with this collection of information.<sup>5</sup>

Second, the custodian must provide, promptly upon request by the fund, such reports as are available about the internal accounting controls and financial strength of the custodian. If a fund deals directly with a depository, the depository's contract with or written rules for its

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<sup>3</sup> The Commission staff estimates that, as permitted by the rule, an estimated 2% of all active funds may deal directly with a securities depository instead of using an intermediary. The number of custodians is estimated based on information from Morningstar Direct<sup>SM</sup>. The Commission staff estimates the number of possible securities depositories by adding the 12 Federal Reserve Banks and one active registered clearing agency. The Commission staff recognizes that not all of these entities may currently be acting as a securities depository for fund securities.

<sup>4</sup> Based on responses to Item 18 of Form N-SAR (17 CFR 274.101), approximately 97 percent of funds' custodians maintain some or all fund securities in a securities depository pursuant to rule 17f-4.

<sup>5</sup> The Commission staff assumes that new funds relying on 17f-4 would choose to use a custodian instead of directly dealing with a securities depository because of the high costs associated with maintaining an account with a securities depository. Thus, new funds would not be subject to this condition.

participants must provide that the depository will provide similar financial reports. Custodians and depositories usually transmit financial reports to funds twice each year.<sup>6</sup> The Commission staff estimates that 49 custodians spend approximately 914 hours (by support staff) annually in transmitting such reports to funds.<sup>7</sup> In addition, approximately 80 funds (*i.e.*, two percent of all funds) deal directly with a securities depository and may request periodic reports from their depository. Commission staff estimates that depositories spend approximately 19 hours (by support staff) annually transmitting reports to the 80 funds.<sup>8</sup> The total annual burden estimate for compliance with rule 17f-4's reporting requirement is therefore 933 hours.<sup>9</sup>

If a fund deals directly with a securities depository, rule 17f-4 requires that the fund implement internal control systems reasonably designed to prevent an unauthorized officer's instructions (by providing at least for the form, content, and means of giving, recording, and reviewing all officers' instructions). All funds that seek to rely on rule 17f-4 should have already implemented these internal control systems when the rule was amended. Therefore, there is no ongoing burden associated with this collection of information requirement.<sup>10</sup>

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<sup>6</sup> The estimated 49 custodians would handle requests for reports from 3,917 fund clients (approximately 80 fund clients per custodian) and the depositories from the remaining 80 funds that choose to deal directly with a depository. It is our understanding based on staff conversations with industry representatives that custodians and depositories transmit these reports to clients in the normal course of their activities as a good business practice regardless of whether they are requested. Therefore, for purposes of this PRA estimate, the Commission staff assumes that custodians transmit the reports to all fund clients.

<sup>7</sup>  $(3,917 \text{ fund clients} \times 2 \text{ reports}) = 7,834 \text{ transmissions}$ . The staff estimates that each transmission would take approximately 7 minutes for a total of approximately 914 hours (7 minutes  $\times$  7,834 transmissions).

<sup>8</sup>  $(80 \text{ fund clients who may deal directly with a securities depository} \times 2 \text{ reports}) = 160 \text{ transmissions}$ . The staff estimates that each transmission would take approximately 7 minutes for a total of approximately 19 hours (7 minutes  $\times$  160 transmissions).

<sup>9</sup> 914 hours for custodians and 19 hours for securities depositories.

<sup>10</sup> The Commission staff assumes that new funds relying on 17f-4 would choose to use a custodian

Based on the foregoing, the Commission staff estimates that the total annual hour burden of the rule's collection of information requirements is 933 hours.

The estimate of average burden hours is made solely for the purposes of the Paperwork Reduction Act. This estimate is not derived from a comprehensive or even representative survey or study of the costs of Commission rules.

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 public may view the background documentation for this information collection at the following website, [www.reginfo.gov](http://www.reginfo.gov). Comments should be directed to: (i) Desk Officer for the Securities and Exchange Commission, Office of Information and Regulatory Affairs, Office of Management and Budget, Room 10102, New Executive Office Building, Washington, DC 20503, or by sending an e-mail to: [Lindsay.M.Abate@omb.eop.gov](mailto:Lindsay.M.Abate@omb.eop.gov) ; and (ii) Charles Riddle, Acting Director/Chief Information Officer, Securities and Exchange Commission, c/o Candace Kenner, 100 F Street, NE, Washington, DC 20549 or send an email to:

[PRA\\_Mailbox@sec.gov](mailto:PRA_Mailbox@sec.gov). Comments must be submitted to OMB within 30 days of this notice.

Eduardo A. Aleman  
Deputy Secretary

February 1, 2019

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instead of directly dealing with a securities depository because of the high costs associated with maintaining an account with a securities depository. Thus new funds would not be subject to this condition.

[FR Doc. 2019-01372 Filed: 2/6/2019 8:45 am; Publication Date: 2/7/2019]