

**SUPPORTING STATEMENT**  
**Rule 6c-7**

**A. JUSTIFICATION**

**1. Necessity for the Information Collection**

Applicable Texas law restricts the redeemability of variable annuity contracts sold by registered insurance company separate accounts. These restrictions are not permitted by various provisions of the Investment Company Act of 1940 ("1940 Act"). Therefore, registered insurance company separate accounts proposing to offer or sell variable annuity contracts to certain employees of Texas institutions of higher education were required to file applications to obtain exemptive relief under the 1940 Act. In an effort to reduce the number of routine applications filed under the 1940 Act, the Commission exercised its rulemaking authority under Section 6(c) by adopting Rule 6c-7 (17 CFR 270.6c-7), an exemptive rule. Rule 6c-7 codified the conditions under which the Commission previously had issued exemptive orders to companies offering or selling in Texas, thereby reducing significantly the number of routine applications.

Rule 6c-7 imposes three reporting requirements for separate accounts relying on the rule. First, paragraphs (a) and (b) of Rule 6c-7 require that a separate account disclose in its prospectus and sales literature the restrictions on redeemability imposed by Texas law. Second, paragraph (d) requires that the separate account obtain from a purchaser, prior to or at the time of purchase, a signed document acknowledging these restrictions on redeemability. Finally, subparagraph (e) requires that a separate account disclose in Part II of its registration statement under the Securities Act of 1933 ("1933 Act") that it is relying on Rule 6c-7. The burden imposed by these three reporting requirements is substantially outweighed by the elimination of a substantial number of applications.

**2. Purpose of the Information Collection**

Without this rule, separate accounts and their sponsoring life insurers would bear the expense of filing individual exemptive applications in order to obtain the relief needed to sell their contracts in the Texas higher education market. Additionally, the Commission staff would be required to process such applications, which would be quite lengthy and burdensome on both the life insurers and the SEC's staff. Without disclosure of the restrictions on redeemability under Texas law, however, purchasers of the variable annuity contracts would be unable to evaluate the effect of the restrictions on redeemability on their investments.

**3. Role of Improved Information Technology**

The Commission's electronic filing project (Electronic Data Gathering, Analysis and Retrieval System or "EDGAR") is designed to automate the filing, processing and dissemination of full disclosure filings. The system permits publicly held companies to transmit their filings to the Commission electronically. Such automation has increased the speed, accuracy and availability of information, generating benefits to investors and financial markets. As of November 6, 1995,

phase-in of all registered investment companies for mandatory utilization of EDGAR was complete.

#### **4. Efforts to Identify Duplication**

The information is not duplicated elsewhere, and similar information is not available from other sources.

#### **5. Effect on Small Entities**

The Commission staff takes the position that because separate accounts are part of the sponsoring insurance company, there are no insurance company separate accounts that are "small entities" for purposes of Rule 0-10 under the 1940 Act (17 CFR 270.0-10).

#### **6. Consequences of Less Frequent Collection**

Disclosure of the restrictions on redemption is required in the offering account's registration statement under the 1933 Act relating to the prospectus. Because Section 10 of the 1933 Act requires that the information in a prospectus be as of a date no more than sixteen months prior to its use, a registrant making an offer under the 1933 Act must update its prospectus and file it with the Commission as part of a post-effective amendment to the registration statement approximately annually. Less frequent collection would inhibit dissemination of the timely information that enables investors to make informed investment decisions.

#### **7. Inconsistencies with Guidelines in 5 CFR 1320.5(d)(2)**

Not applicable.

#### **8. Consultations Outside the Agency**

The Commission requested public comment on the collection of information requirements in Rule 6c-7 before it submitted this request for extension and approval to the Office of Management and Budget. <sup>1</sup> The Commission received no comments in response to its request.

#### **9. Payment or Gift to Respondents**

Not applicable.

#### **10. Assurances of Confidentiality**

Not applicable.

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<sup>1</sup> 1 Release No. IC-12 745 (Oct. 18, 1982), 47 F.R. 47860 (Oct. 28, 1982).

**11. Sensitive Questions**

Not applicable.

**12. Estimate of Hour Burden**

The burden of compliance with Rule 6c-7, in connection with registrants obtaining from a purchaser, prior to or at the time of purchase, a signed document acknowledging the restriction on redeemability, is estimated to be approximately 3 minutes of professional time per response for each of approximately 2,600 purchasers annually, for a total annual burden of 130 hours. Based upon an estimated cost of \$70 per hour, the aggregate cost to comply with the rule’s requirements is estimated not to exceed \$9,100 annually, which is borne by approximately 80 companies that are governed by Rule 6c-7. These estimates are based on a review of registration statements and informal contacts with investment companies and state employees.

The Commission includes the estimated burden of complying with other information collection required by Rule 6c-7 in the total number of burden hours estimated for completing the relevant registration statements and reported on the separate PRA submissions for those statements (see the separate PRA submissions for Form N-3 [17 CFR 274.11b] and Form N-4 [17 CFR 274.11c]).

**13. Estimate of Total Annual Cost Burden**

It is estimated that there is no cost of the paperwork burdens of Rule 6c-7 beyond the cost of the hour burden identified in Item 12 of this Supporting Statement.

**14. Estimate of Cost to the Federal Government**

Rule 6c-7 reduced the Commission's staff's operational cost attributable to the reviewing and processing of exemptive applications. Because separate accounts rely on the rule without the need for prior Commission approval, cost to the government is minimal. Moreover, operational costs are far less than those incurred in processing individual applications.

**15. Explanation of Changes in Burden**

The Commission estimates the burden hours for compliance with Rule 6c-7, regarding obtaining from a purchaser, prior to or at the time or purchase, a signed document acknowledging the restrictions on redeemability as follows:

Calculation of Hours Burden:

Number of purchasers	2600
Minutes per response	3
Total Annual Hour Burden	
To Obtain Statements [3 x 2600 / 60 minutes] =	130 hrs.

The estimated number of purchasers is based on information maintained by the Texas Higher Education Coordinating Board and the annual hourly burden is based on consulting a sample of insurance companies. The estimated annual burden hours are made solely for the purposes of the Paperwork Reduction Act and are not derived from a comprehensive or even representative survey or study of the cost of Commission rules.

Based on consultation with a sample of filers, the Commission estimates that an appropriate wage rate for the brokers commonly used in the collection of the information is approximately \$70 per hour. Based upon the total hours complying with this recordkeeping requirement, the total cost to the securities industry of the hour burden is \$9,100.

**16. Information Collection Planned for Statistical Purposes**

Not applicable.

**17. Approval to not Display Expiration Date**

Not applicable.

**18. Exceptions to Certification Statement**

Not applicable.

**B. COLLECTIONS OF INFORMATION EMPLOYING STATISTICAL METHODS**

Not applicable.