

**SUPPORTING STATEMENT**  
**Rule 27f-1 and Form N-27F-1**

**A. JUSTIFICATION**

**1. Necessity for the Information Collection**

Section 27(f) of the Investment Company Act of 1940 (“Act”) (15 U.S.C. 80a-27(f)) provides that “[w]ith respect to any periodic payment plan (other than a plan under which the amount of sales load deducted from any payment thereon does not exceed 9 per centum of such payment), the custodian bank for such plan shall mail to each certificate holder, within sixty days after the issuance of the certificate, a statement of charges to be deducted from the projected payments on the certificate and a notice of his right of withdrawal as specified in this section.”

Section 27(f) authorizes the Securities and Exchange Commission (“Commission”) to “make rules specifying the method, form, and contents of the notice required by this subsection.” Rule 27f-1 (17 CFR 270.27f-1) under the Act, entitled “Notice of Right of Withdrawal Required to be Mailed to Periodic Payment Plan Certificate Holders and Exemption from Section 27(f) for Certain Periodic Payment Plan Certificates,” provides instructions for the delivery of the notice required by section 27(f).

Rule 27f-1(d) prescribes Form N-27F-1 (17 CFR 274.127f-1), which sets forth the language that custodian banks for periodic payment plans must use in informing certificate holders of their withdrawal right pursuant to section 27(f). The instructions to the form provide that the notice must be on the sender’s letterhead. The Commission does not receive a copy of the form N-27F-1 notice.

The Form N-27F-1 notice informs certificate holders of their rights in connection with the certificates they hold. Specifically, it is intended to encourage new purchasers of plan certificates to reassess the costs and benefits of their investment and to provide them with an

opportunity to recover their initial investment without penalty. The disclosure assists certificate holders in making careful and fully informed decisions about whether to invest in periodic payment plan certificates.

## **2. Purposes of the Information Collection**

The information disseminated to third parties in accordance with rule 27f-1 satisfies the mandate in section 27(f) of the Act. By prescribing the precise language to be used and specifying the information to be provided, Form N-27F-1 ensures that important facts about certificate holders' investments are presented to them in a consistent and understandable manner. The rule and form provide clear guidance about how to satisfy the requirements in section 27(f). In the absence of the rule and the associated form, it would be difficult for the industry and the Commission to ensure the requisite quality and consistency of the statutorily mandated notification.

## **3. Role of Improved Information Technology**

Improved technology has reduced the burden on the industry associated with rule 27f-1 by facilitating the timely and accurate generation of the required notices. Rule 27f-1 mandates that the notices be sent to certificate holders by first-class mail. The first-class postmark serves to evidence the date of delivery, which is relevant to an assessment of compliance with the rule and begins the forty-five day period within which the certificate holder may surrender his certificate. Therefore, the rule does not authorize the use of electronic delivery of the required notice.

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

The information provided under rule 27f-1 may repeat certain information provided in the fund prospectus. Nevertheless, the manner in which the information is presented is tailored to highlight the circumstances of the investor receiving the notice. Moreover, the rule implements

the statutory mandate that information be provided to holders of periodic payment plan certificates at times Congress believed this information would be particularly valuable to them.

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

The notification requirements prescribed by rule 27f-1 apply to all investment companies and their depositors or underwriters, regardless of their size. The Commission would not be able to minimize the burden on small entities without compromising the mandates set forth in section 27(f) of the Act. The Commission does not believe that the requirements in rule 27f-1 and the form it prescribes have a significant effect on small entities. Moreover, none of the entities currently required to send notices under rule 27f-1 is a small entity.

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

Because section 27(f) requires that the Form N-27F-1 notice be sent within sixty days after the issuance of the periodic payment plan, the Commission is unable to revise rule 27f-1 in a way that would reduce the frequency of the mailings.

#### **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 27f-1 and Form N-27f-1 before it submitted this request for extension and approval to the Office of Management and Budget. The Commission received no comments in response to its request.

More generally, the Commission and the staff at the Division of Investment Management participate in an ongoing dialogue with representatives of the investment company industry through public conferences, meetings, and informal exchanges. These various forums provide

the Commission and the staff with a means of ascertaining and acting upon paperwork burdens confronting the industry.

**9. Payment or Gift to Respondents**

Not applicable.

**10. Assurance of Confidentiality**

Not applicable.

**11. Sensitive Questions**

Not applicable.

**12. Estimate of Hour Burden**

The staff spoke with representatives of a number of firms in the industry that currently have periodic payment plan accounts. Based upon these conversations, the staff estimates that only 3 respondents send out an aggregate of approximately 535 notices per year. The staff estimates that all these firms hire outside contractors to send the notices, and none spends any time printing or distributing the notices. Thus, the Commission estimates that the total annual burden of Form N-27F-1 is zero hours. Nevertheless, for administrative purposes, the Commission requests approval for one burden hour for Form N-27F-1.

This estimate of burden hours is based on informal conversations between Commission staff and representatives of periodic payment plan issuers, and is not derived from a comprehensive or necessarily even representative study of the cost of the Commission's rules and forms.

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

The staff estimates that respondents spend approximately \$337 annually to print and mail the Form N-27F-1 notices.<sup>1</sup> This estimate is based on informal conversations between

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<sup>1</sup> This estimate was based on the following calculation: \$0.63 (printing, handling, and mailing costs per notice) x 535 (number of notices sent per year) = \$337.

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

Because rule 27f-1 does not require the entity compiling and distributing the information to send the notice to the Commission, the federal government does not incur any cost in receiving or reviewing these notices.

**15. Explanation of Changes in Burden**

The estimated annual hour burden is not changed. It remains zero hours. For administrative purposes, however, we are requesting approval for an information collection burden of one hour per year. The decrease in estimated total annualized cost burden, from \$4,000 to \$337, results from a decrease in the estimated number of Form N-27F-1 notices printed and mailed, as reported by the entities surveyed.

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

Not applicable.

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

Not applicable.

**18. Exceptions to Certification**

Not applicable.

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

Not applicable.