

SUPPORTING STATEMENT
Rule 154

A. JUSTIFICATION

1. Necessity for the Information Collection

The federal securities laws generally prohibit an issuer, underwriter, or dealer from delivering a security for sale unless a prospectus meeting certain requirements accompanies or precedes the security. Rule 154 (17 CFR 230.154) under the Securities Act of 1933 (15 U.S.C. 77a) (the “Securities Act”) permits, under certain circumstances, delivery of a single prospectus to investors who purchase securities from the same issuer and share the same address (“householding”) to satisfy the applicable prospectus delivery requirements.¹ The purpose of Rule 154 is to reduce the amount of duplicative prospectuses delivered to investors sharing the same address.

Under Rule 154, a prospectus is considered delivered to all investors at a shared address, for purposes of the federal securities laws, if the person relying on the rule delivers the prospectus to the shared address and the investors consent to the delivery of a single prospectus. The rule applies to prospectuses and prospectus supplements. Currently, the rule permits householding of all prospectuses by an issuer, underwriter, or dealer relying on the rule if, in addition to the other conditions set forth in the rule, the issuer, underwriter, or dealer has obtained from each investor written or implied consent to householding.² The rule requires

¹ The Securities Act requires the delivery of prospectuses to investors who buy securities from an issuer or from underwriters or dealers who participate in a registered distribution of securities. See Securities Act sections 2(a)(10), 4(1), 4(3), 5(b) (15 U.S.C. 77b(a)(10), 77d(1), 77d(3), 77e(b)); see also Rule 174 under the Securities Act (17 CFR 230.174) (regarding the prospectus delivery obligation of dealers); Rule 15c2-8 under the Securities and Exchange Act of 1934 (17 CFR 240.15c2-8) (prospectus delivery obligations of brokers and dealers).

issuers, underwriters, or dealers that wish to household prospectuses with implied consent to send a notice to each investor stating that the investors in the household will receive one prospectus in the future unless the investors provide contrary instructions. In addition, at least once a year, issuers, underwriters, or dealers, relying on Rule 154 for the householding of prospectuses relating to open-end mutual funds, must explain to investors who have provided written or implied consent how they can revoke their consent. Preparing and sending the initial notice and the annual explanation of the right to revoke are collections of information.

2. Purpose of the Information Collection

The rule allows issuers, underwriters, or dealers to household prospectuses and prospectus supplements if certain conditions are met. Among the conditions with which a person relying on the rule must comply are providing notice to each investor that only one prospectus will be sent to the household and, in the case of issuers that are open-end mutual funds, providing to each investor who consents to householding an annual explanation of the right to revoke consent to the delivery of a single prospectus to multiple investors sharing an address. The purpose of the notice and annual explanation requirements of the rule is to ensure that investors who wish to receive individual copies of shareholder reports are able to do so.

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

[?] Rule 154 permits the householding of prospectuses that are delivered electronically to investors only if delivery is made to a shared electronic address and the investors give written consent to householding. Implied consent is not permitted in such a situation. See Rule 154(b)(4).

their filings to the Commission electronically. Such automation has increased the speed, accuracy and availability of information, generating benefits to investors and financial markets. Prospectuses are required to be filed with the Commission electronically on EDGAR. (17 CFR 232.101(a)(i)). The public may access filings on EDGAR through the Commission's website (<http://www.sec.gov>) or at EDGAR terminals located at the Commission's public reference rooms.

Prospectuses may be sent to investors by electronic means if the investors consent.³ The Commission has no information concerning the percentage of prospectuses that are sent electronically, but believes it is a small percentage. For the purposes of Part II of Form 83-I, the Commission estimates 2% of these documents are sent electronically.

4. Efforts to Identify Duplication

The requirements of Rule 154 are not duplicated elsewhere in federal securities laws, and similar information is not available from other sources.

5. Effect on Small Entities

Rule 154 is available to any issuer, underwriter, or dealer, including those that are small entities, that wishes to meet its prospectus delivery requirements by transmitting a single prospectus to multiple investors sharing an address. Any issuer, underwriter, or dealer that

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[?] See Use of Electronic Media for Delivery Purposes, Securities Act Rel. No. 7233; Exchange Act Rel. No. 36345; Investment Company Act Rel. No. 21399 (Oct. 6, 1995) (60 FR 53458 (Oct. 13, 1995)). In addition, Rule 172 under the Securities Act allows certain issuers to satisfy the prospectus delivery obligations of Section 5(b)(2) of that Act through electronic delivery, if certain specified conditions are met. (17 CFR 230.172). However, the electronic delivery provisions of Rule 172 do not apply to registered management investment companies or business development companies. See (17 CFR 230.172(d)(1) and (2)).

wishes to rely on Rule 154 must comply with its information collection requirements. These requirements are necessary for investor protection.

6. Consequences of Less Frequent Collection

Rule 154 requires issuers, underwriters, or dealers that wish to household prospectuses with implied consent to send a notice to each investor stating that the investors in the household will receive one prospectus in the future unless the investors provide contrary instructions. In addition, at least once a year, issuers, underwriters, or dealers, relying on Rule 154 for the householding of open-end management investment company prospectuses, must explain to investors who have provided written or implied consent how they can revoke their consent. Less frequent collection would result in investors who wish to receive individual copies of prospectuses not being able to do so unless the investors remember without any reminders to inform the issuer, underwriter, or dealer of such a wish. The purpose of the notice and annual explanation requirements associated with the rule is to ensure that investors who wish to receive individual copies of shareholder reports are able to do so. In addition, the rule only requires the notice informing investors of the householding of prospectuses to be sent once, before householding begins.

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

None.

8. Consultation Outside the Agency

When Rule 154 was proposed in 1997,⁴ the Commission sought public comment on all aspects of the proposed rule, including any requirements that would result in paperwork burdens. The final rule reflected changes to the rule to address commenters' suggestions. The Commission also requested public comment on the collection of information requirements of Rule 154 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.

In addition, the Commission and its staff 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 its 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 purpose of the notice and annual explanation requirements is to give reasonable

⁴ Rule 154 was proposed for public comment on November 13, 1997. (See *Delivery of Disclosure Documents to Households*, Securities Act Rel. No. 7475; Exchange Act Rel. No. 39321; Investment Company Act Rel. No. 22884 (Nov. 13, 1997) (62 FR 61933 (Nov. 20, 1997))). Rule 154 was adopted on November 4, 1999. (See *Delivery of Disclosure Documents to Households*, Securities Act Rel. No. 7766, Exchange Act Rel. No. 42101, Investment Company Act Rel. No. 24123 (Nov. 4, 1999) (64 FR 62540 (Nov. 16, 1999))).

assurance that all investors have access to the prospectus. Preparing and sending the notice and the annual explanation of the right to revoke consent are collections of information. The notices are typically short, one-page statements that are enclosed with other written materials sent to shareholders, such as account statements. Therefore, the average annual number of burden hours spent preparing and arranging delivery of the notices is low. The Commission estimates that the annual burden associated with the notice requirement of the rule is 20 hours per respondent. In addition, the Commission estimates that the annual burden for preparing and delivering the annual explanation of the right to revoke is 1 hour per respondent.

Although Rule 154 is not limited to investment companies, the Commission believes that it will be used mainly by open-end mutual funds and by broker-dealers that deliver mutual fund prospectuses. The Commission is unable to estimate the number of issuers other than mutual funds that will rely on the rule. The Commission estimates that, as of September 2006, there are approximately 2,400 open-end mutual funds, approximately 200 of which engage in direct marketing and therefore deliver their own prospectuses. The Commission estimates that each direct-marketed fund will spend an average of 20 hours per year complying with the notice requirement of the rule, for a total of 4,000 hours. The Commission estimates that each direct-marketed fund will spend 1 hour complying with the explanation of the right to revoke requirement of the rule, for a total of 200 hours. The Commission estimates that there are approximately 361 broker-dealers that carry customer accounts and, therefore, may be required to deliver mutual fund prospectuses. The Commission estimates that each affected broker-dealer will spend, on average, 20 hours complying with the notice requirement of the rule, for a total of 7,220 hours. Each broker-dealer will also spend one hour complying with the annual

explanation of the right to revoke requirement, for a total of 361 hours. Therefore, the total number of respondents for Rule 154 is 561 (200 mutual funds plus 361 broker-dealers), and the estimated total hour burden is approximately 11,781 hours (4,200 hours for mutual funds plus 7,581 hours for broker-dealers).

The Commission is unable to estimate the cost of the hourly burden. However, the Commission believes the cost to be de minimis since much of the delivery process has been automated by the industry and the householding notice usually accompanies other documents transmitted to shareholders.

13. Estimate of Total Annual Cost Burden

The rule is not estimated to impose any burdens other than those discussed in item 12 above.

14. Estimate of Cost to the Federal Government

The rule does not impose any additional costs on the Federal government.

15. Explanation of Changes in Burden

The increase in burden from 10,500 hours to 11,781 hours is due to an increase in the number of broker-dealers that carry customer accounts and therefore, may be required to deliver mutual fund prospectuses.

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.