

SUPPORTING STATEMENT
Rule 498

A. JUSTIFICATION

1. Necessity for the Information Collection

Sections 5(b)(1) and 2(10) of the Securities Act of 1933 (“Securities Act”)¹ require that communications in writing, by radio or television that offer securities for sale constitute a prospectus meeting the requirements of section 10 of the Securities Act.² Section 10(a) of the Securities Act describes the type of information required to be included in a prospectus and grants the Commission discretion to omit such required information as not being necessary or appropriate in the public interest or for the protection of investors. Additionally, sections 10(b) of the Securities Act and 24(g) of the Investment Company Act of 1940³ permit the Commission to allow the use of a prospectus that omits or summarizes information required by section 10(a).

Under such authority, the Commission adopted Rule 498 of the Securities Act,⁴ which permits open-end management investment companies (or a series of an investment company organized as a series company, which offers one or more series of shares representing interests in separate investment portfolios) (“funds”) to provide investors with a “profile” that contains a summary of key information about a fund, including the fund’s investment objectives, strategies, risks and performance, and fees, in a

¹ 15 U.S.C. 77e(b)(1) and 77b(10).

² 15 U.S.C. 77j.

³ 15 U.S.C. 80a-24(g).

⁴ 17 CFR § 230.498.

standardized format. This standardization assists investors in evaluating and comparing funds. The profile provides investors the option of buying fund shares based on the information in the profile or reviewing the fund's prospectus before making an investment decision. Investors purchasing shares based on a profile receive the fund's prospectus prior to or with confirmation of their investment in the fund.

2. Purpose of the Information Collection

The profile is designed to provide a summary of key fund information to investors considering the purchase of fund shares. Additional information, however, would be available to the potential investor. Funds using a profile must respond to a request for the fund's prospectus, Statement of Additional Information or shareholder reports, within three business days of receiving such request, by first-class mail or other means designed to provide equally prompt delivery. This requirement allows investors to select the amount of information they want to review before making a fund investment.

The Commission reviews profiles for compliance with Rule 498. A profile must be filed with the Commission's electronic filing system, EDGAR, thirty days before first use. A definitive version of such profile must be filed five days after first use. A profile with changes to a previously filed profile is not required to be filed before use if filed no later than the fifth business day after the date the profile is used.

On June 1, 2000, the Commission no longer required the filing requirement that it must also receive two copies of the profile, in the primary form (e.g. printed brochure) intended for distribution to investors, no later than the fifth business day after first use. The reason for this change was to avoid the unnecessary administrative burden on funds

that file most forms with the Commission electronically. The Commission expected that the format and use of the profile would be routine and standardized by June 1, 2000, and the pre-use filing of the profile on EDGAR would be sufficient to monitor compliance with Rule 498.

3. Role of Improved Information Technology

The Commission's electronic filing system, EDGAR, is designed to automate the filing, processing and dissemination of all disclosure filings. The system permits publicly held companies to transmit their filings to the Commission electronically over the Internet, increasing the speed and accuracy of filings. This automation has increased the speed, accuracy and availability of information, generating benefits to investors and financial markets. All registered investment companies are required to use EDGAR for filing most documents with the Commission.

4. Efforts to Identify Duplication

A profile and a prospectus include similar information about a fund. For example, Form N-1A under the Investment Company Act⁵ requires a prospectus to contain a risk/return summary that includes substantially similar information as a profile. Despite such similarities, however, the disclosure requirements for these separate documents are designed so that they can be used by funds for different purposes. The Commission believes that there are no other duplicative, overlapping or conflicting federal rules with respect to profiles.

5. Effect on Small Entities

⁵ 17 CFR 274.11A.

Rule 498 does not impose any additional compliance burdens on small entities. Use of the profile is optional for funds. Funds preferring not to develop and use a profile can continue to sell shares based on the prospectus alone. Development of a profile, however, should not be significantly burdensome for small entities choosing to do so. The profile consists of the disclosure of nine items, which is a summary of information required in the prospectus. The first three items of the profile are substantially identical to the disclosure required in the risk/return summary at the beginning of a fund prospectus. Because the profile is a standardized summary of information included in a fund's prospectus, it should not impose substantial additional compliance burdens.

6. Consequences of Less Frequent Collection

Sections 5(b)(1) and 2(10) of the Securities Act require that communications in writing, by radio or television offering securities for sale constitute a prospectus that meet the requirements of section 10. This legal requirement prevents the Commission from specifying less frequent distribution of the profile, which is deemed a prospectus, to investors when offering securities for sale.

Reducing the frequency of pre-use profile filings would inhibit the Commission's ability to monitor compliance with Rule 498, which specifies the content and format of the profile. Such a reduction would create the risk that investors would not receive sufficient information about a particular fund to make informed investment decisions. Exemption from the requirement to file definitive copies electronically would eliminate a minimal burden while depriving the Commission of the ability to monitor compliance with Rule 498. Exempting issuers from the requirement to file definitive copies of the profile electronically also would deprive investors access to the profile on EDGAR.

The requirement that funds that use a profile must respond to an investor's request for additional information within three business days ensures that investors who wish to review additional information before making an investment decision will be able to do so.

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

Not applicable.

8. Consultation Outside the Agency

Comments are generally received from registrants, trade associations, the legal and accounting professions, and other interested parties. In addition, the Commission and staff of 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 medium of ascertaining and acting upon paperwork burdens confronting the industry.

The Commission requested public comment on the collection of information requirements in Rule 498 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.

9. Payment or Gift to Respondents

Not applicable.

10. Assurance of Confidentiality

Not applicable.

11. Sensitive Questions

Not applicable.

12. Estimate of Hour Burden

Rule 498 results in two types of reporting burdens for the fund industry: the burden of preparing and filing (1) initial profiles and (2) updated profiles. Profiles may also contain information for several portfolios. The Commission estimates that each profile includes an average of 1.25 portfolios.

Calculation of Hour Burden of Preparing and Filing Initial Profiles

- Number of initial profiles filed in calendar year 2007 16
- Average number of portfolios per profile 1.25
- Number of portfolios in initial profiles filed in calendar year 2007 20
- Hours to prepare and file an initial profile per portfolio 25
- Hour burden of preparing and filing initial profiles
20 [number of portfolios in initial profiles] x 25 [number of hours to prepare and file an initial profile per portfolio] = 500

Calculation of Hour Burden of Preparing and Filing Updated Profiles

- Number of updated profiles filed in calendar year 2007 274
- Average number of portfolios per profile 1.25
- Number of portfolios in updated profiles filed in calendar year 2007 343
- Hours to prepare and file an updated profile per portfolio 10
- Hour burden of preparing and filing all updated profiles
343 [number of portfolios in updated profiles] x 10 [number of hours to prepare and file an updated profile per portfolio] = 3,430

Total Hour Burden

- Total profile burden hours
500 [burden hours to prepare and file initial profiles]
+ 3,430 [burden hours to prepare and file updated profiles] = 3,930

The approximate total burden hours of 3,930 represents an increase of 749 hours from the prior estimate of 3,181. The Commission, using an estimated hourly wage rate of \$295 for attorneys, estimates that the total annual cost of the hour burden imposed by Rule 498 is approximately \$1,159,350 (3,930 [annual hour burden] x \$295 [hourly wage rate]).⁶

The number of burden hours and costs may vary considerably between individual funds and fund complexes with multiple funds because of economies of scale and accumulated experience with profiles. These estimates 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 and forms.

13. Estimate of Total Annual Cost Burden

The cost to develop an initial profile on a portfolio basis, including the cost of outside legal counsel, consulting and other services not included in item 12, is estimated to be approximately \$7,500. Ongoing annual costs for preparing and filing profiles are estimated to be approximately \$3,000 per portfolio. Based on these estimates, the annual cost to develop initial profiles is approximately \$150,000 (20 [number of profiles in initial profiles per year] x \$7,500 [cost per portfolio]). The annual cost of preparing and filing

⁶ The \$295/hour figure for an Attorney is from SIFMA's Management & Professional Earnings in the Securities Industry 2007, modified by Commission staff to account for an 1800-hour work-year and multiplied by 5.35 to account for bonuses, firm size, employee benefits and overhead.

updated profiles is approximately \$1,029,000 (343 [number of profiles in updated profiles per year] x \$3,000 [cost per portfolio]). The total annual cost burden to the fund industry (excluding item 12 costs) is approximately \$1,179,000 (\$150,000 + \$1,029,000), representing an increase of \$224,625 from the prior estimate of \$954,375. This increase in cost is attributable to the higher number of profiles actually prepared and filed as compared to the previous estimates.

14. Estimate of Cost to the Federal Government

The annual operation cost of reviewing and processing all new registration statements, post-effective amendments, proxy statements, and shareholder reports of investment companies amounted to approximately \$20.8 million in fiscal year 2007, based on our computation of the value of staff time devoted to this activity and related overhead.

The increase in the number of profiles filed with the Commission should only marginally affect the amount of staff time required to review profiles. Reviewing profiles is only a minimal cost to the Commission since profiles are brief, standardized summaries of information included in a fund's registration statement on Form N-1A, which is filed with and already reviewed by the Commission. Consequently, profiles do not present the Commission staff with substantial additional disclosure issues.

15. Explanation of Changes in Burden

The increase in burden hours and cost burden for preparing and filing initial and updated profiles under Rule 498 is attributable to the higher number of profiles actually prepared and filed as compared to previous estimates.

16. Information Collection Planned for Statistical Purposes

Not applicable.

17. Approval to not be Display Expiration Date

Not applicable.

18. Exceptions to Certification Statement

Not applicable.

B. COLLECTION OF INFORMATION EMPLOYING STATISTICAL METHODS

Not applicable.