

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.”¹ The certificate holder then has forty-five days from the mailing of the notice to surrender his or her certificate and receive “in payment thereof, in cash, the sum of (1) the value of his account, and (2) an amount, from the underwriter or depositor, equal to the difference between the gross payments made and the net amount invested.”

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

¹ As discussed below, the Military Personnel Financial Services Protection Act banned the issuance or sale of new periodic payment plans, effective October 2006.

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. Purpose 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 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. 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.

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. Consultation 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

Effective October 27, 2006, the Military Personnel Financial Services Protection Act banned the issuance or sale of new periodic payment plans. Accordingly, the staff estimates that there is no information collection burden associated with rule 27f-1 and Form N-27F-1. For administrative purposes, however, we are requesting approval for an information collection burden of one hour per year. This estimate of burden hours 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

For the reasons discussed above, the staff estimates that there is no cost burden associated with rule 27f-1 or Form N-27F-1.

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 \$337 to zero is attributable to the above-mentioned statutory ban on periodic payment plans.

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.