

**SUPPORTING STATEMENT**  
**For the Paperwork Reduction Act Information Collection Submission for**  
**FORM N-3**

**A. JUSTIFICATION**

**1. Necessity for the Information Collection**

Form N-3 (17 CFR 239.17a and 274.11b) is the form used by separate accounts offering variable annuity contracts which are organized as management investment companies to register under the Investment Company Act of 1940 (15 U.S.C. 80a-1 *et seq.*) (“Investment Company Act”) and/or to register their securities under the Securities Act of 1933 (15 U.S.C. 77a *et seq.*) (“Securities Act”).

Form N-3 is also the form used to file a registration statement under the Securities Act (and any amendments thereto) for variable annuity contracts funded by separate accounts which would be required to be registered under the Investment Company Act as management investment companies except for the exclusion provided by Section 3(c)(11) of the Investment Company Act (15 U.S.C. 80a-3(c)(11)). Section 5 of the Securities Act (15 U.S.C. 77e) requires the filing of a registration statement prior to the offer of securities to the public and that the statement be effective before any securities are sold, and Section 8 of the Investment Company Act (15 U.S.C. 80a-8) requires a separate account to register as an investment company.

Form N-3 also permits separate accounts offering variable annuity contracts which are organized as investment companies to provide investors with a prospectus and a statement of additional information (“SAI”) covering essential information about the separate account when it makes an initial or additional offering of its securities. Section 5(b) of the Securities Act requires that investors be provided with a prospectus containing the information required in a registration statement prior to the sale or at the time of confirmation or delivery of the securities.

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

The purpose of Form N-3 is to meet the filing and disclosure requirements of the Securities Act and the Investment Company Act and to enable filers to provide investors with information necessary to evaluate an investment in the security. This information collection differs significantly from many other federal information collections, which are primarily for the use and benefit of the collecting agency. The information required to be filed with the Commission permits verification of compliance with securities law requirements and assures the public availability and dissemination of the information.

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

The Commission's electronic filing system (Electronic Data Gathering, Analysis and Retrieval or "EDGAR") is designed to automate the filing, processing, and dissemination of full disclosure filings. The system permits publicly held companies to transmit filings to the Commission electronically. This automation has increased the speed, accuracy, and availability of information, generating benefits to investors and financial markets. Form N-3 is required to be filed with the Commission electronically on EDGAR. (17 CFR 232.101(a)(1)(i) and (iv)). The public may access filings on EDGAR through the Commission's Internet Web site (<http://www.sec.gov>) or at EDGAR terminals located at the Commission's public reference rooms. Prospectuses and SAIs may be sent to investors by electronic means so long as certain requirements are met.<sup>1</sup> The Commission has no information concerning the percentage of such documents sent electronically, but believes it is a small percentage.

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<sup>1</sup> See Use of Electronic Media for Delivery Purposes, Securities Act Release No. 7233, Exchange Act Release No. 36345, Investment Company Act Release No. 21399 (Oct. 6, 1995) (60 FR 53458 (Oct. 13, 1995)).

#### **4. Duplication**

The Commission periodically evaluates rule-based reporting and recordkeeping requirements for duplication, and reevaluates them whenever it proposes a rule or a change in a rule. The requirements of Form N-3 are not generally duplicated elsewhere.

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

The current disclosure requirements for Form N-3 do not distinguish between small entities and larger entities. The burden on smaller entities may be greater than for larger entities. This burden includes the cost of producing, printing, and filing, and disseminating prospectuses and SAIs. The Commission believes, however, that imposing different requirements on smaller investment companies would not be consistent with investor protection and the purposes of the registration statements. The Commission reviews all rules periodically, as required by the Regulatory Flexibility Act, to identify methods to minimize recordkeeping or reporting requirements affecting small businesses.

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

The purpose of Form N-3 is to meet the filing and disclosure requirements of the Securities Act and the Investment Company Act and to enable filers to provide investors with information necessary to evaluate an investment in the security. Less frequent filing would be inconsistent with the filing and disclosure requirements of the Securities Act and the Investment Company Act. In addition, if the form were to be filed less frequently, investors may not be provided with the information necessary to evaluate an investment in the security.

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

Not Applicable.

## **8. Consultation Outside the Agency**

The Commission and the staff of the Division of Investment Management participate in an ongoing dialogue with representatives of the investment company industry and 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. The Commission requested public comment on the collection of information requirements in Form N-3 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**

Not Applicable.

## **10. Confidentiality**

Not Applicable.

## **11. Sensitive Questions**

Form N-3 collects Personally Identifiable Information (PII). Records include information on officers, directors, principal shareholders, and certain other persons having a relationship with or transaction with a registrant. The records describe the individual's relationship to a registrant and other relevant material business information about the individual. The records do not include Social Security Numbers. A System of Records Notice has been published in the Federal Register at 4 FR 4550 and can also be found at

<http://www.sec.gov/about/privacy/sorn/secsorn1.pdf>.

## **12. Estimate of Hour Burden**

The estimate of the annual number of registration statements filed on Form N-3 is based on the average annual number of filings received by the Commission in the 12-month period ending December 31, 2014. The hour burden estimates for preparing and filing Form N-3 are based on the Commission's experience with the contents of the form. The number of burden hours may vary depending on, among other things, the complexity of the filing and whether preparation of the form is performed by internal staff or outside counsel. The estimated average burden hours are made solely for purposes of the Paperwork Reduction Act and are not derived from a quantitative, comprehensive, or even representative survey or study of the burdens associated with Commission rules and forms.

Form N-3 generally imposes two types of reporting burdens on investment companies: (1) the burden of preparing and filing the initial registration statement; and (2) the burden of preparing and filing post-effective amendments to a previously effective registration statement. Separate accounts organized as management investment companies and offering variable annuities register as investment companies under the Investment Company Act and register their securities under the Securities Act on Form N-3. Based on a review of Form N-3 filings made with the Commission, Commission staff estimates that the annual burden hours imposed by Form N-3 are as follows:<sup>2</sup>

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<sup>2</sup> Commission staff reviewed initial filings and post-effective amendments for Form N-3 filed with the Commission from January 1, 2014 to December 31, 2014. There were no initial filings of Form N-3 during that time period.

Calculation of Hour Burden of Initial Form N-3 Filings

• Number of initial Form N-3 filings annually	0
• Average number of portfolios per filing	0
• Number of portfolios referenced in initial Form N-3 filings annually	0
• Current hour burden per portfolio for initial Form N-3 filing	0
• Total annual hour burden for initial Form N-3 filings	0

Calculation of Hour Burden of Post-Effective Amendments

• Number of post-effective amendments filed annually	10	
• Average number of portfolios per filing		2
• Number of portfolios in post-effective amendments to Form N-3 filings annually		20
• Current hour burden per portfolio for preparing post-effective amendments		155.2
• Total annual hour burden to prepare post-effective amendments (20 x 155.2)		
	3104	

Total Annual Hour Burden

• Annual hours for post effective amendments + annual hours for initial Form N-3 filings (0 + 3104)	3104
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Based on an estimated hourly wage rate of \$318.50, Commission staff estimates the annual internal time cost equivalent of the hour burden of Form N-3 is approximately \$988,624.<sup>3</sup>

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<sup>3</sup> The internal time cost equivalent is calculated by multiplying the total annual hour burden (3104 hours) by the estimated hourly wage rate of \$318.50. The estimated wage figure is based on published rates for Compliance Attorneys (\$334) and Senior Programmers (\$303). The \$334/hour figure for a Compliance Attorney and \$303/hour figure for a Senior Programmer are from SIFMA's Management & Professional Earnings in the Securities Industry 2013, 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. The estimated wage rate was further based on the estimate that Compliance Attorneys and Senior Programmers would divide time equally, resulting in a weighted wage rate of \$318.50 (((\$334 x .50) + (\$303 x .50)).

### 13. Estimate of Total Annual Cost Burden

Cost burden is the cost of goods and services purchased to prepare and update Form N-3, such as for the services of independent auditors and outside counsel. The cost burden does not include the hour burden discussed in Item 12. Estimates are based on Commission staff's discussions with fund representatives and the Commission's experience with the filing of registration forms.

As discussed above, Commission staff estimates that, on an annual basis, 0 portfolios will be referenced in initial filings on Form N-3 and 20 portfolios will be referenced in post-effective amendments of Form N-3 filings. Commission staff further estimates the cost burden for preparing a post-effective amendment to a previously effective registration statement is \$10,259<sup>4</sup> per portfolio. Thus, the total cost burden allocated to Form N-3 would be as follows:

#### Cost Burden of Preparing and Filing Initial Form N-3

• Cost burden per portfolio for initial Form N-3 filings	\$0
• Number of portfolios referenced in initial Form N-3 filings annually	0
• Cost burden of initial Form N-3 filings	\$0

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<sup>4</sup> The previous cost burden for preparing a post-effective amendment to a previously effective registration statement on Form N-3 was \$9,950 per portfolio. To account for the effects of inflation since 2012, a rate of 3.11% was applied, which was calculated using the Consumer Price Index.

Cost Burden of Preparing and Filing Post-Effective Amendments

- Cost burden per portfolio of post-effective amendments Form N-3 filings \$10,259
- Number of portfolios referenced in post-effective amendments to Form N-3 filings annually 20
- Cost burden of post-effective amendments to Form N-3 filings (20 x \$10,259) \$205,180

Total Cost Burden for Form N-3

- Initial Form N-3 filings + post-effective amendments (\$0 + \$205,180) \$205,180

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

The annual cost of reviewing and processing registration statements, post-effective amendments, proxy statements, shareholder reports, and other filings of investment companies amounted to approximately \$19.2 million in fiscal year 2014, based on the Commission's computation of the value of staff time devoted to this activity and related overhead. A portion of those costs relate to processing and reviewing Form N-3 filings submitted to the Commission.

**15. Explanation of Changes in Burden**

Annual Hour Burden. Currently, the approved annual hour burden for preparing and filing registration statements on Form N-3 is 2172.8 hours based on the previous estimate of 14 responses per year. The new estimate of the total annual hour burden is 3104 hours based on the new estimate of 20 responses per year. The increase in the total annual hour burden is 931.2 hours. This increase is due to the increase in our estimates of the annual number of responses for both initial and post-effective amendments.

Total Cost Burden. The current approved total cost burden for preparing and filing registration statements on Form N-3 is \$139,300, based on the previous estimate of 14 responses



per year. Based on the new estimate of 20 responses per year, the new estimate of the total cost burden is \$205,180 in external costs per year, resulting in an increase of \$65,880 per year. This increase is due to the increase in our estimates of the annual number of responses for both initial and post-effective amendments.

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

Not Applicable.

**17. Approval to Omit OMB expiration date**

We request authorization to omit the expiration date on the electronic version of the form. Including the expiration date on the electronic version of the form will result in increased costs, because the need to make changes to the form may not follow the application's scheduled version release dates. The OMB control number will be displayed.

**18. Exceptions to Certification Statement**

Not Applicable.

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

Not Applicable.