

**SUPPORTING STATEMENT**  
**For the Paperwork Reduction Act Information Collection Submission for**  
**FORM N-6**

**A. JUSTIFICATION**

**1. Necessity for the Information Collection**

Form N-6 (17 C.F.R. 239.17c and 274.11d) is the form used by insurance company separate accounts organized as unit investment trusts that offer variable life insurance policies to register as investment companies 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”). 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-6 also requires separate accounts organized as unit investment trusts that offer variable life insurance policies 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.

On October 11, 2017, the Commission issued a release proposing amendments to certain of the Commission’s forms that are used by investment companies, including

Form N-6.<sup>1</sup> The Commission proposed amendments to Rule 102 of Regulation S-T to apply hyperlinking and HyperText Markup Language (“HTML”) format requirements to registrants filing Form N-6 to facilitate access to the Form’s exhibits for investors and other users of the information. Under the proposed amendments, affected registrants would be required to include a hyperlink to each exhibit identified in a filing’s exhibit index, unless the exhibit is filed in paper pursuant to a temporary or continuing hardship exemption under Rule 201 or Rule 202 of Regulation S-T, or pursuant to Rule 311 of Regulation S-T. This requirement would apply to registration statements on Form N-6. Consistent with our rules for operating companies, we are not proposing to require registrants to refile electronically any exhibits filed only in paper. Under the proposed amendments, an electronic filer would also be required to correct an inaccurate or nonfunctioning link or hyperlink to an exhibit.<sup>2</sup>

In connection with the proposed exhibit hyperlinking requirements, the Commission is also proposing amendments to Rule 105 of Regulation S-T to require investment company registrants to make Form N-6 filings that include exhibits in HTML format. Currently, investment company registrants must submit electronic filings to the Commission using the EDGAR system in either American Standard Code for Information Interchange (“ASCII”) format or HTML format. Because the ASCII format does not support hyperlink functionality, the exhibit hyperlinking requirement would be feasible only if registrants are required to file in HTML. Under the proposed requirement, registrants would be required to file Form N-6 in HTML format. While the

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<sup>1</sup> Investment Company Act Release No. 32858 (Oct. 11, 2017) (the “Proposing Release”).

<sup>2</sup> See Proposing Release at footnotes 315-18.

affected Form N-6 filings would be required to be filed in HTML pursuant to the proposed amendments to Rule 105, registrants would continue to be permitted to file in ASCII any schedules or forms that are not subject to the exhibit filing requirements, such as proxy statements, or other documents included with a filing, such as an exhibit. The proposed amendments are intended to facilitate access to these exhibits for investors and other users of the information.

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

The purpose of Form N-6 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-6 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.

#### **4. Efforts to Identify 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-6 are not generally duplicated elsewhere.

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

The current disclosure requirements for the registration statements and shareholder reports do not distinguish between small entities and other funds. The burden on smaller funds, however, to prepare and file registration statements may be greater than for larger funds. This burden includes the cost of producing, printing, filing, and disseminating the 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.

In any event, no small entities currently file registration statements on Form N-6.

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

The Investment Company Act requires that insurance company separate accounts make initial filings and file annual amendments to their registration statements on Form N-6. Less frequent collection of the information collected on Form N-6 would mean that current information might not be available for investors in these life insurance policies.

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

This collection is not inconsistent with 5 CFR 1320.5(d)(2).

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

Before adopting the proposed amendments to Form N-6, the Commission will receive and evaluate public comments on the proposal and its collection of information requirements. Moreover, 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 staff with a means of ascertaining and acting upon paperwork burdens confronting the industry.

**9. Payment or Gift to Respondents**

No payment or gift to respondents was provided.

**10. Assurance of Confidentiality**

No assurance of confidentiality was provided.

**11. Sensitive Questions**

Form N-6 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 and Cost Burden of Information Collection**

The following estimates of average burden hours and costs are made solely for purposes of the Paperwork Reduction Act of 1995<sup>3</sup> and are not derived from a comprehensive or even representative survey or study of the cost of Commission rules and forms. Compliance with the disclosure requirements of Form N-6 is mandatory. Responses to the disclosure requirements will not be kept confidential

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<sup>3</sup> 44 U.S.C. 3501 *et seq.*

Form N-6 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. In our most recent Paperwork Reduction Act submission for Form N-6, Commission staff estimated the annual compliance burden to comply with the collection of information of Form N-6 to be 85,269 burden hours with an internal cost burden of approximately \$27,158,176.50, and an external cost burden estimate of \$5,316,892.<sup>4</sup> The proposed amendments to Form N-6 are expected to increase the burdens and costs for registrants to prepare and file registration statements and reports on the affected forms, but we believe the burdens associated with hyperlinking exhibits would be small.<sup>5</sup> We assume that the average burden hours of requiring exhibit hyperlinks would vary based on the number of exhibits that are included with a filing. For purposes of the PRA, based on an estimated average and median number of exhibits filed with Form N-6 and the staff's experience, we estimate that the average burden for a registrant to hyperlink to exhibits would be one hour per response for each of the affected forms. As discussed in the Proposing Release, we are not making any adjustments to the paperwork burden of affected forms due to the proposed amendments to simplify and modernize the rules and forms governing incorporation by reference.<sup>6</sup>

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<sup>4</sup> This estimate is based on the last time the rule's information collection was submitted for PRA renewal in 2015.

<sup>5</sup> See Proposing Release at Section IV.B.2.c.

<sup>6</sup> See Proposing Release at Section IV.B.3.b.

The table below shows the total annual compliance burden, in hours and in costs, of the collection of information on Form N-6 resulting from the proposed amendments.<sup>7</sup> The burden estimates were calculated by multiplying the estimated number of responses by the estimated average amount of time it would take an issuer to prepare and review the exhibit hyperlinks. The portion of the burden carried by outside professionals is reflected as a cost, while the portion of the burden carried by the issuer internally is reflected in hours. For purposes of the PRA, we estimate that 25% of the burden of preparation is carried by the registrant internally and that 75% of the burden of preparation is carried by outside professionals retained by the company at an average cost of \$400 per hour.<sup>8</sup>

Form	Proposed number of affected responses (A)	Incremental burden hours/form (B)	Total incremental burden hours (C) = (A) × (B)	25% internal burden (D) = (C) × 0.25	75% outside professional (E) = (C) × 0.75	Professional costs (F) = E × \$400
Form N-6	472	1	472	118	354	\$141,600

The figures above reflect our estimated increase of approximately 0.25 internal burden hours per fund. Given an estimated time cost of \$329 per fund (based on updated data concerning funds and fund personnel salaries),<sup>9</sup> we estimate that in the aggregate,

<sup>7</sup> For convenience, the estimated hour and cost burdens in the table have been rounded to the nearest whole number.

<sup>8</sup> We recognize that the costs of retaining outside professionals may vary depending on the nature of the professional services, but for purposes of this PRA analysis, we estimate that such costs would be an average of \$400 per hour. These estimates are based on our estimates for the parallel requirement for operating companies

<sup>9</sup> The Commission's estimates concerning the allocation of burden hours and the relevant wage rates are based on consultations with industry representatives and on salary information for the securities industry compiled by the Securities Industry and Financial Markets Association's Office Salaries in the Securities Industry 2013. The estimated wage figures are modified by Commission staff to account for an 1800-hour work-year and multiplied by 2.93 to account for bonuses, firm size, employee benefits, overhead, and adjusted to account for the effects of inflation, yielding effective hourly rates of \$345 and \$313, respectively. *See* Securities Industry and Financial Markets Association, Report on Management & Professional Earnings in the Securities Industry 2013. We estimate that compliance attorneys and senior programmers would divide their time

funds will annually incur an additional internal burden of 118 hours<sup>10</sup> and time cost of \$38,822<sup>11</sup> to comply with the proposed amendments to Form N-6.

We estimate that with the additional hour burdens and time costs associated with the proposed amendments the total annual internal burden to comply would be 85,387 burden hours,<sup>12</sup> and time costs of \$27,196,998.5,<sup>13</sup> for Form N-6.

### **13. Estimate of Cost to the Federal Government**

The annual cost of reviewing and processing disclosure documents, including new registration statements, post-effective amendments, proxy statements, and shareholder reports of investment companies amounted to approximately \$22.9 million in fiscal year 2016, based on the Commission's computation of the value of staff time devoted to this activity and related overhead.

### **14. Explanation of Changes in Burden**

The total hour burden associated with Form N-6 has increased from 85,269 to 85,387 (an increase of 118). In addition, the annual external cost burden has increased from \$5,316,892 to \$5,458,492 (an increase of \$141,600). The changes in burden hours and external cost burdens are due to the staff's estimates of the time costs and external costs that would result from our proposed amendments to Form N-6 regarding hyperlinking.

### **15. Information Collection Planned for Statistical Purposes**

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equally, yielding an estimated hourly wage rate of \$329.  $(\$345 \text{ per hour for compliance attorneys} + \$313 \text{ per hour for senior programmers}) \div 2 = \$329 \text{ per hour.}$

<sup>10</sup> This estimate is based on the following calculation:  $0.25 \text{ internal burden hours} \times 472 \text{ responses} = 118 \text{ hours.}$

<sup>11</sup> This estimate is based on the following calculation:  $118 \text{ hours} \times \$329 \text{ (blended rate for a compliance attorney } (\$345) \text{ and a senior programmer } (\$313)) = \$38,822.$

<sup>12</sup> This estimate is based on the following calculation:  $85,269 + 118 = 85,387 \text{ hours.}$

<sup>13</sup> This estimate is based on the following calculation:  $\$27,158,176.5 + \$38,822 = \$27,196,998.5.$



The results of any information collection will not be published.

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

The Commission is not seeking approval to not display the expiration date for OMB approval.

**17. Exceptions to Certification Statement**

The Commission is not seeking an exception to the certification statement.

**B. Collections of Information Employing Statistical Methods**

The collection of information will not employ statistical methods.