

**SUPPORTING STATEMENT**  
**For the Paperwork Reduction Act Information Collection Submission for**  
**FORM N-4**

**A. JUSTIFICATION**

**1. Necessity for the Information Collection**

Form N-4 is the form used by insurance company separate accounts organized as unit investment trusts that offer variable annuity contracts 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(b) of the Securities Act makes it unlawful to carry or cause to be carried a security for purposes of sale or for delivery after the sale “unless accompanied or preceded” by a prospectus that meets the requirements of section 10(a) of the Act (which, in turn, generally requires a prospectus relating to a security to contain the information contained in the registration statement). For separate accounts organized as unit investment trusts that offer variable annuity contracts, Form N-4 provides the information required to appear in prospectus meeting the requirements of section 10(a) of the Securities Act (as well as the information required to appear in the statement of additional information (“SAI”).

On October 30, 2018, the Commission issued a release proposing rule and form amendments designed to enhance disclosures for variable annuities and variable life insurance contracts (together, “variable contracts”). The proposed rules use a layered disclosure approach that would permit a person to satisfy its prospectus delivery obligations under the Securities Act for a variable contract by sending or giving a summary prospectus that presents key information about a variable contract’s terms,

benefits, and risks, with access to more detailed information available online and electronically or in paper format on request.<sup>1</sup> The Commission also proposed amendments to the registration forms for variable contracts, including Form N-4, to update and enhance the disclosures to investors in these contracts, and to implement the proposed summary prospectus framework. The Commission proposed to amend certain disclosure requirements that Form N-4 currently includes, as well as to require certain new disclosures regarding, among other things: an overview of the contract, key information about the contract, principal risks, optional benefits under the contract, loans, and the portfolio companies available under the contract.

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

The purpose of Form N-4 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 a 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. Consideration Given to 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

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<sup>1</sup> Updated Disclosure Requirements and Summary Prospectus for Variable Annuity and Variable Life Insurance Contracts, Investment Company Act Release No. 33286 (Oct. 30, 2016), available at <https://www.sec.gov/rules/proposed/2018/33-10569.pdf>.

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-4 is required to be filed with the Commission electronically on EDGAR. *See* (17 CFR 232.101(a)(1)(i) and (iv)). The public may access filings on EDGAR through the Commission's internet website (<http://www.sec.gov>) or by using an EDGAR terminal located in the Commission's public reference room. Prospectuses and SAIs may be sent to investors by electronic means so long as certain requirements are met.<sup>2</sup>

#### **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-4 are not generally duplicated elsewhere.

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

The Commission reviews all rules periodically, as required by the Regulatory Flexibility Act (5 U.S.C. 601 *et seq.*), to identify methods to minimize recordkeeping or reporting requirements affecting small businesses. The current and proposed disclosure requirements for registration statements on Form N-4 do not distinguish between small entities and other registrants. The burden on smaller registrants, however, to prepare and file registration statements may be greater than for larger registrants. This burden includes the cost of producing, printing, filing, and disseminating prospectuses and SAIs. The Commission believes, however, that imposing different requirements on smaller

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<sup>2</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)].

entities would not be consistent with investor protection and the purposes of registration statements. In any event, no small entities currently file registration statements on Form N-4.

**6. Consequences of Not Conducting Collection**

The purpose of Form N-4 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 a 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 a security.

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

Not applicable.

**8. Consultation Outside the Agency**

Before determining whether to adopt the proposed amendments to Form N-4, 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 the staff with a means of ascertaining and acting upon paperwork burdens that may confront the industry.

**9. Payment or Gift**

Not Applicable.

**10. Confidentiality**

Not Applicable.

**11. Sensitive Questions**

No information of a sensitive nature, including social security numbers, will be required under this collection of information. The information collection collects basic Personally Identifiable Information (PII) that may include names, job titles, and work addresses. However, the agency has determined that the information collection does not constitute a system of record for purposes of the Privacy Act. Information is not retrieved by a personal identifier. In accordance with Section 208 of the E-Government Act of 2002, the agency has conducted a Privacy Impact Assessment (PIA) of the EDGAR system, in connection with this collection of information. The EDGAR PIA, published on 1/29/2016, is provided as a supplemental document and is also available at <https://www.sec.gov/privacy>.

**12. 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 (44 U.S.C. 3501 et seq.) and are not derived from a comprehensive or even representative survey or study of the cost of Commission rules and forms.

Form N-4 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. Providing the information required by Form N-4 is mandatory, and responses will not be kept confidential.

In our most recent Paperwork Reduction Act submission for Form N-4, Commission staff estimated that the total internal compliance burden to comply with Form N-4's collection of information requirement was 271,914 hours annually, with an estimated external cost of \$32,111,916 each year.<sup>3</sup>

Based on a review of Form N-4 filings made with the Commission, Commission staff estimates that 35 initial filings and 1,326 post-effective amendments will be filed on Form N-4 per year.<sup>4</sup>

The proposed amendments would include certain disclosure changes and new disclosures, but also would simplify certain current disclosure requirements in Form N-4. Based on this, we estimate that, on a net basis, the proposed amendments to Form N-4 would increase the burden of preparing an initial registration statement on Form N-4 by 5 hours per initial registration statement. Amortizing this burden over a three-year period results in an estimated average annual burden of 1.7 hours per year,<sup>5</sup> at an estimated

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<sup>3</sup> These estimates are based on the last time Form N-4's information collection was submitted for PRA renewal in 2018.

<sup>4</sup> Commission staff reviewed initial filings and post effective amendments for Form N-4 filed with the Commission from January 1, 2015 to December 31, 2017. There were 34, 44, and 26 initial Form N-4 filings filed during 2015, 2016, and 2017, respectively. Averaging those initial Form N-4 filings over three years results in an average of approximately 35 initial Form N-4 filings per year. This estimate is based on the following calculation:  $(34 + 44 + 26) / 3 \text{ years} = 34.67$ , or approximately 35 initial filings per year.

There were 1,315, 1,415, and 1,247 post-effective amendments filed during 2015, 2016, and 2017, respectively. Averaging those post-effective amendments over three years results in an average of approximately 1,326 post-effective amendments per year. This estimate is based on the following calculation:  $(1,315 + 1,415 + 1,247) / 3 \text{ years} = 1,325.67$ , or approximately 1,326 post-effective amendments per year.

<sup>5</sup> The estimate of 1.7 hours is based upon the following calculation:  $(5 + 0 + 0) / 3 \text{ years} = 1.67$  (rounded up to 1.7 hours per year). We are assuming 0 hours in years 2 and 3 because, after year 1, the registrant would prepare and file post-effective amendments to the registration statement, and the hour burden of this is captured in the paragraph accompanying *infra* note 7.

internal time cost equivalent of \$571.<sup>6</sup>

We estimate a one-time burden of an additional 20 hours per registration statement the first time the registration statement is amended by post-effective amendment following adoption of the proposed amendments. Subsequently, we estimate an ongoing burden of an additional 5 hours per registration statement to prepare and file a post-effective amendment. Amortizing these burdens over a three-year period results in an estimated average annual burden of an additional 10 hours per registration statement to prepare and file a post-effective amendment,<sup>7</sup> at an estimated internal time cost equivalent of \$3,360.<sup>8</sup>

Therefore, we estimate that the proposed amendments to Form N-4 would cause registrants to incur an additional annual burden of 13,320 hours,<sup>9</sup> at an internal time cost equivalent of \$4,475,345.<sup>10</sup>

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<sup>6</sup> The internal time cost equivalent of \$571 is calculated by multiplying the hour burden (1.7 hours) by the estimated hourly wage of \$336.

The estimated wage figure is based on published rates for Compliance Attorneys (\$352) and Senior Programmers (\$319). These hourly figures are from SIFMA's Management & Professional Earnings in the Securities Industry 2013, modified to account for an 1,800-hour work year; multiplied by 5.35 to account for bonuses, firm size, employee benefits and overhead; and adjusted to account for the effects of inflation. 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 \$336  $((\$352 + \$319) / 2 = 335.5)$ .

<sup>7</sup> The estimate of 10 hours is based upon the following calculation: (20 hours in year 1) + (5 hours in year 2) + (5 hours in year 3) / 3 years = 10 hours.

<sup>8</sup> The internal time cost equivalent of \$3,360 is calculated by multiplying the hour burden (10 hours) by the estimated hourly wage of \$336.

<sup>9</sup> The estimate of 13,320 hours is based upon the following calculation. For initial registration statements: 1.7 hours x 35 initial filings on Form N-4 = approximately 60 hours. For post-effective amendments: 10 hours x 1,326 post-effective amendments = 13,260 hours. 60 + 13,260 = 13,320.

<sup>10</sup> The estimate of \$4,475,345 is based upon the following calculation. For initial registration statements: \$571 x 35 initial filings on Form N-4 = \$19,985. For post-

In the aggregate, we estimate the total annual hour burden as a result of the proposed amendments would be 285,234 hours, at an internal time cost equivalent of \$95,838,624.<sup>11</sup>

The estimates associated with Form N-4's burden hours are as follows:

**Table 1: Summary of Annual Responses, Burden Hours, and Burden Hour Costs Estimates for the Information Collection in Proposed Form N-4**

<b>Form N-4</b>	<b>No. of Responses</b>	<b>Burden Hours</b>	<b>Total Burden Hour Costs</b>
Initial Registration Statements	35	9,823	3,300,528
Post-Effective Amendments	1,326	275,411	92,538,096
<b>TOTAL:</b>	<b>1,361</b>	<b>285,234</b>	<b>\$95,838,624</b>

### 13. Cost to Respondents

Cost burden is the cost of goods and services purchased to prepare and update filings on Form N-4, such as for the services of independent auditors and outside counsel. The external cost burden does not include the cost of the internal hour burden discussed in Item 12. Estimates are based on the Commission's experience with the filing of registration forms. In our most recently approved Paperwork Reduction Act submission for Form N-4, Commission staff estimated the cost burden for preparing an initial Form

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effective amendments:  $\$3,360 \times 1,326$  post-effective amendments =  $\$4,455,360$ .  $\$19,985 + \$4,455,360 = \$4,475,345$ .

<sup>11</sup> This estimate is based on the following calculation: For initial registration statements:  $35$  filings  $\times$  ( $278.95$  hours current burden  $+ 1.7$  hour under proposed amendments) =  $9,823$  hours. For post-effective amendments:  $1,326$  post-effective amendments  $\times$  ( $197.7$  current burden  $+ 10$  hours under proposed amendments) =  $275,411$  hours.  $9,823 + 275,411 = 285,234$  hours. The internal time cost equivalent of  $\$95,838,624$  is calculated by multiplying the hour burden ( $285,234$ ) by the estimated hourly wage of  $\$336$ . See *supra* note 5.

N-4 is \$24,858 per initial filing, with \$23,561 for each post-effective amendment. The current estimated total annual cost burden allocated to Form N-4 is \$32,111,916.<sup>12</sup>

We do not estimate any change to the external costs per filing associated with the proposed amendments to Form N-4. Therefore, we estimate registrants on Form N-4 would continue to incur annual external costs of \$32,111,916.

**Table 2: Summary of Annual Responses and Total External Cost Estimates for the Information Collection in Proposed Form N-4**

<b>Form N-4</b>	<b>No. of Filings</b>	<b>Total External Costs</b>
Initial Registration Statements	35	\$870,030
Post-Effective Amendments	1,326	\$31,241,886
<b>TOTAL:</b>	<b>1,361</b>	<b>\$32,111,916</b>

#### **14. Cost to the Federal Government**

The annual cost of reviewing and processing registration statements, post-effective amendments, proxy statements, and shareholder reports of investment companies amounted to approximately \$22.2 million in fiscal year 2017, 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-4 filings submitted to the Commission.

#### **15. Changes in Burden**

Currently, the approved total annual hour burden for preparing and filing registration statements on Form N-4 is 271,914 internal burden hours. We estimate that the new internal burden would be approximately 285,234 hours annually, reflecting an increase of 13,320 internal burden hours associated with the proposed amendments to

<sup>12</sup> This estimate is based on the following calculation: (35 initial registration statements x \$24,858) + (1,326 post-effective amendments x \$23,561) = \$32,111,916.

Form N-4. This increase is due to the increased burden hours per filing as a result of the proposed amendments.

The current estimate for the external annual cost burdens associated with preparing and filing initial and post-effective registration statements on Form N-4 is \$32,111,916. We estimate that the new external cost burden would remain the same at \$32,111,916.

**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 for design and IT project scheduling reasons. The OMB control number will be displayed.

**18. Exceptions to Certification Statement for Paperwork Reduction Act Submission**

Not applicable.

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

Not applicable.