

**SUPPORTING STATEMENT**  
**For the Paperwork Reduction Act Information Collection Submission for**  
**Rule 154**

**A. JUSTIFICATION**

**1. Necessity for the Information Collection**

The federal securities laws generally prohibit an issuer, underwriter, or dealer from delivering a security for sale unless a prospectus meeting certain requirements accompanies or precedes the security. Rule 154 (17 CFR 230.154) under the Securities Act of 1933 (15 U.S.C. 77a) (the “Securities Act”) permits, under certain circumstances, delivery of a single prospectus to investors who purchase securities from the same issuer and share the same address (“householding”) to satisfy the applicable prospectus delivery requirements.<sup>1</sup> The purpose of rule 154 is to reduce the amount of duplicative prospectuses delivered to investors sharing the same address.

Under rule 154, a prospectus is considered delivered to all investors at a shared address, for purposes of the federal securities laws, if the person relying on the rule delivers the prospectus to the shared address and the investors consent to the delivery of a single prospectus. The rule applies to prospectuses and prospectus supplements. Currently, the rule permits householding of all prospectuses by an issuer, underwriter, or dealer relying on the rule if, in addition to the other conditions, set forth in the rule, the issuer, underwriter, or dealer has

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<sup>1</sup> The Securities Act requires the delivery of prospectuses to investors who buy securities from an issuer or from underwriters or dealers who participate in a registered distribution of securities. *See* Securities Act sections 2(a)(10), 4(1), 4(3), 5(b) (15 U.S.C. 77b(a)(10), 77d(1), 77d(3), 77e(b)); *see also* rule 174 under the Securities Act [17 CFR 230.174] (regarding the prospectus delivery obligation of dealers); and rule 15c2-8 under the Securities and Exchange Act of 1934 [17 CFR 240.15c2-8] (prospectus delivery (continued . . .))

obtained from each investor written or implied consent to householding.<sup>2</sup> The rule requires issuers, underwriters, or dealers that wish to household prospectuses with implied consent to send a notice to each investor stating that the investors in the household will receive one prospectus in the future unless the investors provide contrary instructions. In addition, at least once a year, issuers, underwriters, or dealers relying on rule 154 for the householding of prospectuses relating to open-end management investment companies that are registered under the Investment Company Act of 1940 (“mutual funds”) and each series thereof must explain to investors who have provided written or implied consent how they can revoke their consent. Preparing and sending the notice and the annual explanation of the right to revoke are collections of information.

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

The rule allows issuers, underwriters, or dealers to household prospectuses if certain conditions are met. Among the conditions with which a person relying on the rule must comply are providing notice to each investor that only one prospectus will be sent to the household and, in the case of issuers that are mutual funds and any series thereof, providing to each investor who consents to householding an annual explanation of the right to revoke consent to the delivery of a single prospectus to multiple investors sharing an address. The purpose of the notice and annual explanation requirements of the rule is to ensure that investors who wish to receive individual copies of prospectuses are able to do so.

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obligations of brokers and dealers).

<sup>2</sup> Rule 154 permits the householding of prospectuses that are delivered electronically to investors only if delivery is made to a shared electronic address and the investors give written consent to householding. Implied consent is not permitted in such a situation. *See* (continued . . .)

### **3. Consideration Given to Information Technology**

The Commission's electronic filing project (Electronic Data Gathering, Analysis and Retrieval System or "EDGAR") is designed to automate the filing, processing and dissemination of full disclosure filings. The system permits publicly held companies to transmit their filings to the Commission electronically. Such automation has increased the speed, accuracy and availability of information, generating benefits to investors and financial markets. Prospectuses are required to be filed with the Commission electronically on EDGAR. [17 CFR 232.101(a)(i)]. The public may access filings on EDGAR through the Commission's website at <http://www.sec.gov>.

Prospectuses may be sent to investors by electronic means if the investors consent.<sup>3</sup> The Commission has no information concerning the percentage of prospectuses that are sent electronically, but believes it is a small percentage. For the purposes of Part II of Form 83-I, the Commission estimates 2% of these documents are sent electronically.

### **4. Duplication**

The requirements of rule 154 are not duplicated elsewhere in federal securities laws, and similar information is not available from other sources.

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rule 154(b)(4).

<sup>3</sup> See Use of Electronic Media for Delivery Purposes, Securities Act Rel. No. 7233; Exchange Act Rel. No. 36345; Investment Company Act Rel. No. 21399 (Oct. 6, 1995) [60 FR 53458 (Oct. 13, 1995)]. In addition, rule 172 under the Securities Act allows certain issuers to satisfy the prospectus delivery obligations of Section 5(b)(2) of that Act through electronic delivery if certain specified conditions are met. Rule 172 was recently amended to make electronic delivery available to offerings by registered closed-end funds and business development companies. See Securities Offering Reform for Closed-End Investment Companies, Investment Company Act Release IC-33836 (Apr. 8, 2020) [85 FR 33353 (June, 1, 2020)]. Rule 172's electronic delivery provisions do not apply to (continued . . .)

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

Rule 154 is available to any issuer, underwriter, or dealer, including those that are small entities, that wishes to meet its prospectus delivery requirements by transmitting a single prospectus to multiple investors sharing an address. Any issuer, underwriter, or dealer that wishes to rely on rule 154 must comply with its information collection requirements. These requirements are necessary for investor protection.

## **6. Consequences of Not Conducting Collection**

Rule 154 requires issuers, underwriters, or dealers that wish to household prospectuses with implied consent to send a notice to each investor stating that the investors in the household will receive one prospectus in the future unless the investors provide contrary instructions. In addition, at least once a year, issuers, underwriters, or dealers relying on rule 154 for the householding of mutual fund prospectuses must explain to investors who have provided written or implied consent how they can revoke their consent. Less frequent collection would result in investors who wish to receive individual copies of prospectuses not being able to do so unless the investors remember without any reminders to inform the issuer, underwriter, or dealer of such a wish. The purpose of the notice and annual explanation requirements associated with the rule is to ensure that investors who wish to receive individual copies of prospectuses are able to do so. In addition, the rule only requires the notice informing investors of the householding of prospectuses to be sent once, before householding begins.

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

None.

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mutual funds. *See* Rule 172(d)(1).

## **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 staff with a means of ascertaining and acting upon paperwork burdens confronting the industry. The Commission also requested public comment on the collection of information requirements with respect to rule 154 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**

No information of a sensitive nature, including social security numbers, will be required under this collection of information.

## **12. Burden of Information Collection**

The purpose of the notice and annual explanation requirements is to give reasonable assurance that all investors have access to the prospectus. Preparing and sending the notice and the annual explanation of the right to revoke consent are collections of information. The notices are typically short, one-page statements that are enclosed with other written materials sent to shareholders, such as annual shareholder reports or account statements. The Commission

estimates that the annual burden associated with the notice requirement of the rule is 20 hours per respondent. In addition, the Commission estimates that the annual burden for preparing and delivering the annual explanation of the right to revoke is 1 hour per respondent. Although rule 154 is not limited to mutual funds, the Commission believes that it will be used mainly by mutual funds and by broker-dealers that deliver mutual fund prospectuses.

The Commission estimates that, as of June 30, 2021, there were approximately 13,182 mutual fund series registered on Form N-1A,<sup>4</sup> approximately 1,279 of which are directly sold and therefore deliver their own prospectuses. Of these, the Commission estimates that approximately half (640 mutual fund series): (i) do not send the implied consent notice requirement because they obtain affirmative written consent to household prospectuses in the fund's account opening documentation; or (ii) do not take advantage of the householding provision because of electronic delivery options which lessen the economic and operational benefits of rule 154 when compared with the costs of compliance. Therefore, the Commission estimates that each of the 640 directly sold mutual fund series will spend an average of 20 hours per year complying with the notice requirement of the rule, for a total of 12,800 burden hours at an internal cost of \$2,272,512.<sup>5</sup> In addition, of the approximately 1,279 mutual fund series that

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<sup>4</sup> This aggregate figure includes approximately 2,028 registered mutual fund series that are underlying funding options for variable annuity and/or variable life insurance products. The Commission estimates that approximately 11,154 registered mutual fund series are offered within the retail and institutional mutual fund markets.

<sup>5</sup> Calculated as follows: 640 mutual fund series x 20 hours = 12,800 hours per year; the staff estimates that two-thirds of each fund series' annual hourly burden is performed by clerical staff preparing and mailing notices (12,800 hours x 2/3 x \$64 per hour for a General Clerk = \$540,672), and the remaining one-third is performed evenly by compliance personnel using a blended average hourly rate of \$410 for the Chief  
(continued . . .)

are directly sold, the Commission estimates that approximately 75% (or 960) will each spend 1 hour complying with the annual explanation of the right to revoke requirement of the rule, for a total of 960 hours at an internal cost of \$61,440.<sup>6</sup>

The Commission estimates that, as of December 31, 2020, there were approximately 462 broker-dealers that have customer accounts with mutual funds, and which therefore may be required to deliver mutual fund prospectuses. The Commission estimates that each affected broker-dealer will spend, on average, 20 hours complying with the notice requirement of the rule, for a total of 9,240 hours at a cost of \$1,640,470.<sup>7</sup> Each broker-dealer will also spend one hour complying with the annual explanation of the right to revoke requirement, for a total of 462 hours

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Compliance Officer, Compliance Attorney and Compliance Manager (12,800 hours x 1/3 x \$410 per hour = \$1,731,840). Therefore, the total internal cost for 12,800 burden hours is \$2,272,512 (\$540,672 + \$1,731,840).

All hourly rates in this Supporting Statement are derived from the average annual salaries reported in SIFMA's Management & Professional Earnings in the Securities Industry 2013, modified by Commission staff to account for an 1800-hour work-year and inflation, and multiplied by 5.35 to account for bonuses, firm size, employee benefits and overhead.

<sup>6</sup> The Commission estimates that approximately 25% (or 320) of the 1,279 mutual fund series that engage in direct marketing do not take advantage of the householding provision (and therefore do not prepare annual notices to shareholders) because, as discussed above, the benefits of the rule do not outweigh the costs of compliance. The staff estimates the total internal cost associated with this internal burden to be \$61,440 (960 funds x 1 burden hour x \$64 per hour for a General Clerk).

<sup>7</sup> Calculated as follows: 462 broker-dealers x 20 hours = 9,240 hours per year. The staff estimates that two-thirds of each broker-dealer's annual hourly burden is performed by clerical staff preparing and mailing notices (9,240 hours x 2/3 x \$64 per hour for a General Clerk = \$390,298) and the remaining 1/3 is performed evenly by compliance personnel using a blended average hourly rate of \$410 for the Chief Compliance Officer, Compliance Attorney and Compliance Manager (3,500 hours x 1/3 x \$410 per hour = \$1,250,172). Therefore, the total internal cost associated with the 9,240 burden hours spent on the notice requirement is \$1,640,470 (\$390,298 + \$1,250,172).

at a cost of \$29,568.<sup>8</sup>

The total number of respondents for rule 154 is estimated to be 1,422 (960<sup>9</sup> mutual fund series plus 462 broker-dealers), and the estimated total internal hour burden is approximately 23,462 hours (13,760 hours for mutual fund series, plus 9,702 hours for broker-dealers). The Commission estimates the total internal cost of the hourly burden associated with rule 154 to be \$4,003,990.<sup>10</sup>

**Table 1: Summary of Revised Annual Responses and Burden Hours Estimates**

Rule 154	Annual No. of Responses			Annual Time Burden (Hrs.)		
	<i>Previously approved</i>	<i>Requested</i>	<i>Change</i>	<i>Previously approved</i>	<i>Requested</i>	<i>Change</i>
Notice (mutual fund series)	200	640	440	4,000	12,800	8,800
Explanation of rights (mutual fund series)	100	960	860	300	960	660
Both Notice and Explanation of rights (broker-dealers)	175	924	749	3675	9,702	6,027
Total :	475	2,524	+2,049	7,975	23,462	+15,487

### 13. Cost to Respondents

The Commission believes there will be no other financial costs since much of the delivery

<sup>8</sup> The staff estimates this internal cost to be \$29,568 (462 burden hours x \$64 per hour for a General Clerk).

<sup>9</sup> The Commission estimates that 640 mutual fund series prepare both the implied consent notice and the annual explanation of the right to revoke consent + 320 mutual fund series that prepare only the annual explanation of the right to revoke.

<sup>10</sup> This estimate is based on the following calculation: \$2,272,512 + \$61,440 + \$1,640,470 + \$29,568 = \$4,003,990.

process has been automated by the industry, the householding notice usually accompanies other documents transmitted to shareholders (*e.g.*, the annual shareholder report), and the required notices are generally short in length.

**14. Costs to Federal Government**

The rule does not impose any additional costs on the Federal government.

**15. Changes in Burden**

The increase in burden from 7,975 hours to 23,462 hours (an increase of 15,487 hours) is due to an increase in the estimated number of mutual funds that are directly sold and broker-dealers that have customer accounts with mutual funds (and may be required to deliver mutual fund prospectuses), as well as a change in methodology that corrects certain estimates for the number of responses and burden hours in the previous PRA.

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

Not applicable.

**17. Approval to Omit OMB Expiration Date**

Not applicable.

**18. Exceptions to Certification for Paperwork Reduction Act Submissions**

Not applicable.

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

Not applicable.