

**SUPPORTING STATEMENT**  
**For the Paperwork Reduction Act Information Collection Submission for**  
**Rule 6c-7**

**A. JUSTIFICATION**

**1. Necessity for the Information Collection**

Applicable Texas law restricts the redeemability of variable annuity contracts sold by registered insurance company separate accounts. These restrictions are not permitted by various provisions of the Investment Company Act of 1940 (“1940 Act”). Therefore, registered insurance company separate accounts proposing to offer or sell variable annuity contracts to certain employees of Texas institutions of higher education were required to file applications to obtain exemptive relief under the 1940 Act. In an effort to reduce the number of routine applications filed under the 1940 Act, the Commission exercised its rulemaking authority under Section 6(c) by adopting Rule 6c-7 (17 CFR 270.6c-7), an exemptive rule. Rule 6c-7 codified the conditions under which the Commission previously had issued exemptive orders to companies offering or selling in Texas, thereby reducing significantly the number of routine applications.

Rule 6c-7 imposes three reporting requirements for separate accounts relying on the rule. First, paragraphs (a) and (b) of Rule 6c-7 require that a separate account disclose in its prospectus and sales literature the restrictions on redeemability imposed by Texas law. Second, paragraph (d) requires that the separate account obtain from a purchaser, prior to or at the time of purchase, a signed document acknowledging these restrictions on redeemability. Finally, subparagraph (e) requires that a separate account disclose in Part II of its registration statement under the Securities Act of 1933 (“1933 Act”) that it is relying on Rule 6c-7. The burden imposed by these three reporting requirements is substantially outweighed by the elimination of a substantial number of applications.

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

Without this rule, separate accounts and their sponsoring life insurers would bear the expense of filing individual exemptive applications in order to obtain the relief needed to sell their contracts in the Texas higher education market. Additionally, the Commission staff would be required to process such applications, which would be a lengthy and burdensome process for both the life insurers and the SEC's staff. Without disclosure of the restrictions on redeemability under Texas law, however, purchasers of the variable annuity contracts would be unable to evaluate the effect of the restrictions on redeemability on their investments.

## **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.

## **4. Duplication**

The information is not duplicated elsewhere, and similar information is not available from other sources.

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

The Commission staff takes the position that because separate accounts are part of the sponsoring insurance company, there are no insurance company separate accounts that are "small entities" for purposes of Rule 0-10 under the 1940 Act (17 CFR 270.0-10).

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

Disclosure of the restrictions on redemption is required in the offering account's registration

statement under the 1933 Act relating to the prospectus. Because Section 10 of the 1933 Act requires that the information in a prospectus be as of a date no more than sixteen months prior to its use, a registrant making an offer under the 1933 Act must update its prospectus and file it with the Commission as part of a post-effective amendment to the registration statement approximately annually. Less frequent collection would inhibit dissemination of the timely information that enables investors to make informed investment decisions.

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

Not applicable.

**8. Consultations Outside the Agency**

The Commission requested public comment on the collection of information requirements in Rule 6c-7 before it submitted this request for revision 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**

Not applicable.

**12. Burden of Information Collection**

The burden of compliance with Rule 6c-7, in connection with registrants obtaining from a purchaser, prior to or at the time of purchase, a signed document acknowledging the restriction on redeemability, is estimated to be approximately 3 minutes of professional time per response for each

of approximately 5,900 purchasers annually, for a total annual burden of 295 hours.<sup>1</sup> Based upon an estimated cost of \$84 per hour,<sup>2</sup> the aggregate cost to comply with the rule’s requirements is estimated to be \$24,780 annually, which is borne by approximately 129 companies that are governed by Rule 6c-7. These estimates are based on a review of registration statements and informal contacts with investment companies and state employees.

The Commission includes the estimated burden of complying with other information collection required by Rule 6c-7 in the total number of burden hours estimated for completing the relevant registration statements and reported on the separate PRA submissions for those statements (see the separate PRA submissions for Form N-3 [17 CFR 274.11b] and Form N-4 [17 CFR 274.11c]).

IC Title	Annual No. of Responses			Annual Time Burden (Hrs.)			Burden Cost Burden (\$)		
	<i>Previously approved</i>	<i>Requested</i>	<i>Change</i>	<i>Previously approved</i>	<i>Requested</i>	<i>Change</i>	<i>Previously approved</i>	<i>Requested</i>	<i>Change</i>
Rule 6c-7	6,500	5,900	-600	325	295	-30	\$23,400	\$24,780	+\$1,380

### 13. Cost to Respondents

It is estimated that there is no cost of the paperwork burdens of Rule 6c-7 beyond the cost of the hour burden identified in Item 12 of this Supporting Statement.

<sup>1</sup> 5,900 purchaser estimate extrapolated from previous PRA submission. 6,500 purchasers/142 companies that are governed by Rule 6c-7 (last estimated number) = approximately 5,900 purchasers/129 companies that are governed by Rule 6c-7. 5,900 purchasers x 3 minutes = 17,700 minutes. 17,700 minutes / 60 minutes = 295 hours.

<sup>2</sup> \$84/hour figure for a Compliance Clerk is based on the Commission’s estimates concerning the allocation of burden hours and the relevant wage rates from the Commission’s 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. See Securities Industry and Financial Markets Association, Report on Management & Professional Earnings in the Securities Industry 2013.

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

Rule 6c-7 reduced the Commission’s staff’s operational cost attributable to the reviewing and processing of exemptive applications. Because separate accounts rely on the rule without the need for prior Commission approval, cost to the government is minimal. Moreover, operational costs are far less than those incurred in processing individual applications.

**15. Explanation of Changes in Burden**

The Commission estimates the burden hours for compliance with Rule 6c-7, regarding obtaining from a purchaser, prior to or at the time of purchase, a signed document acknowledging the restrictions on redeemability as follows:

Calculation of Hours Burden:

Number of purchasers	5,900
Minutes per response	3
Total Annual Hour Burden	
To Obtain Statements [3 x 5,900/ 60 minutes] =	295 hrs.

The estimated number of purchasers is based on extrapolating information previously obtained from the Texas Higher Education Coordinating Board, and the annual hourly burden is based on consulting a sample of insurance companies. The estimated annual burden hours are made solely for the purposes of the Paperwork Reduction Act and are not derived from a comprehensive or even representative survey or study of the cost of Commission rules. The estimated total annual hour burden has decreased from 325 hours to 295 hours, and the estimated total annual burden cost has increased from \$23,400 to \$24,780. This decrease in hour burden is the result of a decrease in the number of companies that are governed by Rule 6c-7, while the increase in burden cost is the result of an increase in the estimated hourly wages of compliance clerks.

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

Not applicable.

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

Not applicable.

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

Not applicable.

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

Not applicable.