

FOR RELEASE Friday, July 2, 1971

SECURITIES AND EXCHANGE COMMISSION  
Washington, D. C. 20549

INVESTMENT COMPANY ACT OF 1940

Release No. 6600

ADOPTION OF RULES 27d-1, 27d-2, 27e-1, 27f-1, 27g-1,  
27h-1 AND FORMS N-27D-1, N-27E-1, AND N-27F-1  
UNDER THE INVESTMENT COMPANY ACT OF 1940  
WITH RESPECT TO RESERVE, NOTICE AND REFUND  
REQUIREMENTS IN CONNECTION WITH THE SALE OF  
PERIODIC PAYMENT PLAN CERTIFICATES

On April 29, 1971, the Securities and Exchange Commission published notice (Investment Company Act Release No. 6493) that it had under consideration the adoption of Rules 27d-1, 27e-1, 27f-1, 27g-1 and 27h-1, and Forms N-27D-1, N-27E-1, N-27F-1, N-27F-2 and N-27F-3 under the Investment Company Act of 1940 ("Act") as amended by the Investment Company Amendments Act of 1970 ("the 1970 Act"), and the amendment of Rules 27a-1, 27a-2, 27a-3 and 27c-1 under the Act. All interested persons were invited to comment on the proposals. Pursuant to notice (Investment Company Act Release No. 6527, May 17, 1971), a Public Conference was held on May 28, 1971, at which time interested persons were heard by the Commission. On June 10, 1971 (Investment Company Act Release No. 6559), the Commission adopted, in the form originally proposed, the amendments to Rules 27a-1, 27a-2, 27a-3 and 27c-1, effective June 14, 1971.

The Commission has considered all of the comments and suggestions received and has determined to adopt Rules 27d-1, 27d-2, 27e-1, 27f-1, 27g-1, 27h-1, and Forms N-27D-1, N-27E-1 and N-27F-1 in the form set forth below. Adoption of the Rules and Forms is made pursuant to the authority granted the Commission in Sections 27(d), 27(e), 27(f), 38(a) and 6(c) of the Act.

Sections 27(d) and 27(f) provide that the Commission may make rules and regulations applicable to underwriters for and depositors of registered investment companies issuing periodic payment plan certificates specifying such reserve requirements as it deems necessary or appropriate in order for such underwriters and depositors to carry out the obligations to refund charges as required by those sections. Sections 27(e) and 27(f) provide that the Commission may make rules specifying the method, form and contents of the notices required by those sections. Section 38(a) of the Act authorizes the Commission to issue such rules as are necessary or appropriate to the exercise of the powers conferred upon the Commission in the Act.

Section 6(c) of the Act provides that the Commission by rule, regulation or order may exempt any person or transactions from any provision of the Act if and to the extent that such exemption is necessary or appropriate in the public interest and consistent with the protection of investors and the purposes fairly intended by the policy and provisions of the Act.

The 1970 Act did not change the provisions of Section 27(a) which, among other things, permit a deduction for sales load of 50 percent of the first twelve monthly payments or their equivalent. However, new subsections (d), (e), and (f) afford holders of periodic payment plan certificates certain specified rights of refund, withdrawal and notice, while Sections (g) and (h) permit registered investment companies issuing periodic payment plan certificates to elect to sell them subject to a "spread load", under which the sales load is restricted to not more than 20 percent of any payment and not more than an average of 16 percent of the first forty-eight monthly payments or their equivalent.

Periodic payment plan certificates sold subject to Section 27(d), typically with a 50 percent "front-end load", must provide that the certificate holder may surrender his certificate at any time prior to the expiration of eighteen months after issuance of the certificate and receive in payment thereof, in cash, the value of his account plus an amount from the underwriter for, or depositor of, the issuer equal to that part of the excess paid for sales loading which exceeds 15 percent of the gross payments made by the certificate holder.

Section 27(f) applies to all periodic payment plans whether sold pursuant to Section 27(d), Section 27(h), or otherwise. Under it a certificate holder, within 60 days after the issuance to him of his periodic payment plan certificate must be given a written notice of his right to withdraw from the plan within 45 days of the date of mailing the notice. Any certificate holder who exercises his right of withdrawal is entitled to receive a refund of the amount equal to the value of his account plus an amount, from the underwriter or depositor, equal to the difference between the gross payments made and the net amount invested, i.e., a complete refund of all charges.

#### Rule 27d-1 and Rule 27d-2

Rule 27d-1 requires principal underwriters and depositors to deposit and maintain funds in a segregated trust account to enable them to carry out their obligation to refund charges under Sections 27(d) and 27(f) of the Act. Rule 27d-2 permits an insurance company obligation as an optional alternative to the segregated trust account. Rules 27d-1 and 27d-2, as adopted, differ from Rule 27d-1 as originally proposed principally as follows:

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- (1) A level reserve under which 45 percent of the excess sales load must be deposited into and 35 percent of the refundable sales load maintained in the segregated trust account has been substituted for the proposed step rate reserve;
- (2) The type of securities in which the segregated trust account may be invested has been expanded to include certain negotiable certificates of deposit;
- (3) For plans under which the certificate holder may, under state law or otherwise, receive a refund of the total payments made the 100 percent reserve obligation has been modified to apply only to plans on which \$1,000 has been paid;
- (4) Computation of and adjustments in the amounts in the segregated trust account must be made at least on a monthly basis rather than on a weekly basis;
- (5) A single segregated trust account may be used by one depositor or underwriter offering several contractual plans;
- (6) A written undertaking of an insurance company, which meets certain qualifications, guaranteeing the performance of the obligation to refund charges may be substituted for the segregated trust account; and
- (7) Specification of a seven day limit on delays in payment of refunds has been added.

As adopted, Rule 27d-1 provides that every depositor of or principal underwriter for the issuer of a periodic payment plan certificate sold subject to Section 27(d) and/or Section 27(f) of the Act shall deposit and maintain funds in a segregated trust account as a reserve and as security for the purpose of assuring the refund of charges required by Sections 27(d) and 27(f) of the Act. The assets of the segregated trust account may be (a) held as cash or invested in negotiable certificates of deposit issued by a bank having capital and surplus of at least \$10,000,000, or in government securities (except equity securities) and (b) withdrawn only as specified in the rule.

Under the Rule, depositors or principal underwriters are required to deposit at least 45 percent of the excess sales load (defined as that portion of the sales load which is in excess of 15 percent of any payment) on each monthly payment made on periodic payment plan certificates sold subject to Section 27(d). For all certificates for which they are liable for the refund of any sales load they are required to maintain in the trust account an amount equal to not less than 35 percent of the refundable sales load. A schedule of the amounts which would be required to be deposited, maintained and refunded pursuant to Rule 27d-1 on a plan requiring payments of \$100 per month is included as an Appendix to this release.

On certificates sold subject to only the 45 day refund right, an amount equal to 20 percent of the charges subject to refund must be deposited and maintained in the segregated trust account, except that on plans requiring monthly payments in excess of \$100 the applicable rate is 30 percent.

If no refund is required to be made under Section 27(d), as in the case of single payment plans and of "level load plans", i.e., plans on which the sales load does not exceed 9 percent of any payment, no amount is required to be deposited or maintained in the trust account to meet refund obligations pursuant to that Section. Further, if no refund of excess sales load is required to be made within 18 months following the issuance of the certificate, the certificate need not include a provision that upon its surrender at any time within the first 18 months after its issuance the holder may receive "that portion of the excess paid for sales loading which is over 15 percentum of the gross payments made."

Principal underwriters or depositors who wish to do so may (a) limit the number of payments to be made by a certificate holder during the period for which they would be obligated to make refunds pursuant to the 45 day refund provision of Section 27(f) and (b) deposit and maintain sufficient funds in the trust account to cover all refunds which may possibly be made during the period.

Rule 27d-1 permits withdrawals from the segregated trust account to refund amounts specified in Section 27(d) and Section 27(f). The principal underwriter or depositor is also permitted to withdraw assets subject to specified limitations. The Rule also provides for an accounting of the segregated trust account which must be filed with the Commission quarterly on Form N-27D-1 during the two years after the effective date of the rule and annually thereafter.

The underwriter or depositor is required to compute the amount of the reserves to be maintained and make any adjustments required at least monthly. A single consolidated segregated trust account may be used by a principal underwriter or depositor, acting as such, for more than one issuer of periodic payment plan certificates.

Rule 27d-2 provides an alternative to Rule 27d-1. Instead of establishing and maintaining a segregated trust account as a reserve for the purpose of assuring the refund of charges required by Sections 27(d) and 27(f) of the Act, a principal underwriter or depositor will be exempt from the requirements of Rule 27d-1 if an insurance company guarantees the performance of all of the obligations of such underwriter or depositor to refund such charges. However, the insurance company must have capital and surplus at least equal to the larger of \$1,000,000 or 200 percent of the amount of the principal underwriter's or depositor's total obligation to refund charges pursuant to Section 27(f) and 27(d) less any liability reserve established by the insurance company to meet such obligations.

Rule 27d-1 and Rule 27d-2 each require that refunds be made in cash not more than seven days from receipt of the certificate in proper form by the custodian bank or other designated paying agent.

The Commission intends to review the reserve requirements in light of actual experience as soon as sufficient data becomes available. Such data would include numbers and frequency of payments and refunds, sales volume, aggregate indebtedness, net capital and excess net capital of principal underwriters and depositors. In order to facilitate such review the Commission may propose the filing of appropriate forms and also require the maintenance of certain records not now required to be kept.

Rule 27e-1

Section 27(e) requires that notice of the right of surrender be sent to certificate holders who have the benefit of the refund rights specified in Section 27(d) and who miss certain payments during the first 18 months after the issuance of their certificates. Rule 27e-1 specifies the method, form and contents of such notice. Under the Rule as originally proposed any payment not made within 10 business days after it was due was defined as a "missed payment" whether or not an equivalent payment was made subsequently. As adopted the Rule substitutes 31 calendar days for the 10 business days in the definition. Proposed Form N-27E-1, prescribed for use by depositors or underwriters to inform certificate holders of their right of surrender, has been modified in certain respects as adopted.

The Rule exempts the principal underwriter or depositor from the requirement of sending a notice to a certificate holder if, at the time the notice would be required to be mailed, no excess sales load would be payable to the certificate holder, as in the case of level load and single payment plans.

Rule 27f-1

Rule 27f-1 prescribes the method, form and contents of the notice and statement of charges ("Notice") required by Section 27(f) and includes a number of exemptions from Section 27(f) of the Act for certain single payment and level load periodic payment plan certificates. The Rule as adopted differs from that originally proposed in that the notice may be mailed together with the plan certificate, a confirmation statement and any notice required by applicable state law. It also permits the notice to be mailed by a record keeping agent for the issuer as well as the custodian bank, the issuer, or the principal underwriter for or depositor of the issuer under the circumstances specified in the Rule as proposed. The proposal that notices be forwarded to beneficial owners has been omitted from the Rule as adopted.

Solely for purposes of Section 27(f), a certificate holder is deemed to have "surrendered" a certificate at the time he mails it. <sup>1/</sup> Form N-27F-1 is prescribed to inform certificate holders of front-end load and spread load plans of their right of withdrawal pursuant to Section 27(f) of the Act. The Commission is considering the adoption of Forms of Notice of withdrawal rights to holders of periodic payment plan certificates issued on single payment and level load plans, and to variable annuities subject to Section 27(f).

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<sup>1/</sup> Of course, Rule 22e-1 would continue to govern computation of the redemption price.

Single payment and level load plan certificates upon which the total charges to be deducted from any payment do not exceed 9 percent of such payment are exempted from Section 27(f) provided that (1) the certificate holder has the annual right to withdraw up to at least 80 percent of the value of his account not more frequently than once during a period of 12 consecutive months and not sooner than 90 days after the withdrawal to reinvest the proceeds at the then current net asset value; (2) no sales charge is imposed on reinvestment of dividends; and (3) the certificate holder is entitled to designate beneficiaries who would be entitled to the certificate in the event of his death.

Variable annuities issued by registered separate accounts and used to fund plans qualified under Sections 401, 403(b) and 404(a) of the Internal Revenue Code and upon which the charges deducted from any payment (exclusive of insurance charges and premium taxes) do not exceed 9 percent of such payment will be exempt from Section 27(f) until June 14, 1972. The Commission has afforded them such a transitional period in order that insurance companies may have an opportunity to establish accounts, the assets of which are derived solely from tax qualified plans (other than Section 403(b) plans) and thus excepted from the definition of investment company by Section 3(c)(11) of the Act, or alternatively, to attempt to obtain any necessary rulings from the Internal Revenue Service to maintain tax qualification in light of the application of the refund obligations of Sections 27(f) and 27(d) of the Act to plans issued by them upon the expiration of this period.

Section 27(c)(1) of the Act, in effect, requires that any periodic payment plan certificate (including a variable annuity) must be a redeemable security; that is, redeemable at any time at the option of the holder for approximately his proportionate share of the issuer's current net assets. Section 22(e) of the Act prevents the right of redemption from being suspended for more than seven days. However, in 1969 the Commission adopted Rule 27c-1 which in effect exempted a participation in a separate account from the redeemability requirement of Section 27(c) during the annuity payout period, and also adopted Rule 22e-1 which gave similar exemptive treatment to variable annuities with respect to the redeemability requirement of Section 22(e) of the Act. Notwithstanding Rules 22e-1 and 27c-1, paragraph (f) of Rule 27f-1 requires that the holder of an immediate variable annuity be given the refund rights provided by Section 27(f) for the longer of (A) 20 days from the mailing of the notice required by Section 27(f) or (B) until, but not including, the day upon which the first payment is made to the certificate holder and that such variable annuity be fully redeemable during such period. Such period may not be longer than 45 days from the mailing of the notice. To assure full redeemability during this period, the rule defines the value of the certificate holder's account as the holder's proportionate share of the issuer's current net assets without deduction of any redemption or termination charges.

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Rule 27g-1

Section 27(g) permits issuers of periodic payment plan certificates to elect to be governed by the provisions of Section 27(h) rather than by the provisions of subsections (a) and (d) of Section 27. Rule 27g-1 provides that such election shall be made by means of a written Notice of Election which must be filed as an exhibit to the company's registration statement under the Securities Act of 1933. The Rule permits such a notice to be withdrawn by filing a written Notice of Withdrawal in a similar manner. However, no such Notice of Withdrawal may be filed within 12 months of a filing of a Notice of Election and no subsequent Notice of Election can be filed by the same registrant within 12 months of the filing of a Notice of Withdrawal.

Rule 27h-1

Section 27(h) provides for the sale of periodic payment plan certificates subject to a "spread load" of up to 20 percent of any payment and not more than an average of 16 percent of the first 48 payments or their equivalent. Paragraph (4) of that subsection requires that the deduction for sales load on the excess payments in any month over the minimum monthly payment or its equivalent may not exceed the sales load applicable to payments subsequent to the first forty-eight monthly payments or their equivalent i.e., the "trail" rate.

Rule 27h-1 exempts certain payments from the requirement at Section 27(h)(4) that they be at the "trail rate." As adopted, the Rule allows a "spread load" to be charged on that portion of the first payment which equals the amount of five minimum monthly payments and on a payment or payments in any subsequent quarter of an amount equal to three minimum monthly payments. Any payments in addition to five in the first quarter or three in any other quarter would be at the "trail" rate. Payments of arrears and payments made out of the proceeds of completion insurance received upon the death of a certificate holder would also be made at the spread load rate.

The Commission action is as follows:

Rule 27d-1, 27d-2, 27c-1, 27f-1, 27g-1, 27h-1 and Forms N-27D-1, N-27E-1 and N-27F-1 under the Investment Company Act of 1940 are adopted in the form set forth below.

Rule 27d-1. Reserve Requirements for Principal Underwriters and Depositors to Carry Out the Obligations to Refund Charges Required by Section 27(d) and Section 27(f) of the Act.

a.

- (1) Every depositor of or principal underwriter for the issuer of a periodic payment plan certificate sold subject to Section 27(d) or Section 27(f) of the Act or both, shall deposit and maintain funds in a segregated trust account as a reserve and as security for the purpose of assuring the refund of charges required by Sections 27(d) and 27(f) of the Act.
- (2) The assets of such trust account may be held as cash or invested only in one or more of (A) government securities as defined in Section 2(a)(16) of the Act (except equity securities) or (B) negotiable certificates of deposit issued by a bank, as defined in Section 2(a)(5) of the Act and having capital and surplus of at least \$10 million; Provided, that no such investment may have a maturity of more than five years, no more than 50 percent of the assets may be invested in obligations having a maturity of more than one year, and certificates of deposit of a single issuer may not constitute more than 10 percent of the value of the assets in the account.
- (3) Any income, gains or losses from assets allocated to such account, whether or not realized, shall be credited to or charged against such account without regard to other income, gains or losses of the depositor or principal underwriter.
- (4) The assets of such trust account may be withdrawn only as permitted by paragraph (f) of this rule and shall in no event be chargeable with liabilities arising out of any aspect of the business of the depositor or principal underwriter other than assuring the ability of the depositor or principal underwriter to refund the amounts required by such sections.

b. For purposes of this rule:

- (1) "Excess sales load" on any payment is that portion of the sales load in excess of 15 percent of that payment.



- (2) "Monthly payment" shall be the amount of the smallest monthly installment scheduled to be paid during the life of the plan. If payments are required or permitted to be made on a basis less frequently than monthly, an equivalent monthly payment shall be the amount determined by dividing the smallest minimum payment required or permitted in a payment period by the number of months included in such period.
- (3) The assets in the segregated trust account shall be valued as follows: (a) with respect to securities for which market quotations are readily available, the market value of such securities; and (b) with respect to other securities, fair value as determined in good faith by the depositor or principal underwriter.

c. For every periodic payment plan certificate governed by Section 27(d), the depositor or principal underwriter shall deposit into the segregated trust account not less than 45 percent of the excess sales load on each monthly payment or its equivalent.

d. For all periodic payment plan certificates governed by Section 27(d) which have not been surrendered in accordance with their terms, and for which the depositor or principal underwriter may be liable for the refund of any sales load, the depositor or principal underwriter shall maintain in the segregated trust account an amount equal to not less than 35 percent of the total refundable sales load on the payments made on those certificates. The depositor or principal underwriter shall also maintain in the segregated trust account such additional amounts as the Commission by order may require for the depositor or principal underwriter to carry out refund obligations pursuant to Sections 27(d) and 27(f) of the Act.

e. For every periodic payment plan certificate governed by Section 27(f) of the Act, and for which the depositor or principal underwriter has no obligation to refund any excess sales load pursuant to Section 27(d) of the Act, the depositor or principal underwriter shall deposit and maintain during the refund period, at least the following amounts in the segregated trust account:

- (1) for certificates that require monthly payments of \$100 or less, 20 percent of the difference between the gross payments made and the net amount invested;
- (2) for certificates that require monthly payments in excess of \$100 and for single payment plan certificates, 30 percent of the difference between the gross payments made and the net amount invested;
- (3) for certificates with respect to which the holder is entitled to receive the greater of the refund provided by Section 27(f) or a refund of total payments and upon which a total of at least \$1,000 has been paid, 100 percent of the difference between the gross payments made and net amount invested; and

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- (4) such additional amounts as the Commission by order may require to carry out the obligation to refund charges pursuant to Section 27(f) of the Act.

f. Assets may be withdrawn from the segregated trust account by each depositor or principal underwriter:

- (1) to refund excess sales load to a certificate holder exercising the right of surrender specified in Section 27(d) of the Act; or
- (2) to refund to a certificate holder exercising the right of withdrawal specified in Section 27(f) of the Act the difference between the amount of his gross payments and the net amount invested; or
- (3) for any other purpose: Provided, however, that such withdrawal shall not reduce the segregated trust account to an amount less than the sum of (A) 130 percent of the amount required to be maintained by paragraph (d) of this rule, if any, and (B) 100 percent of that amount required to be maintained by paragraph (e) of this rule, if any.

g. The minimum amounts required to be maintained by paragraphs (d) and (e) of this rule shall be computed at least monthly. Any additional deposits required by paragraphs (d) or (e) shall be made immediately after such computation, and any withdrawals permitted by paragraph (f)(3) may be made only at such time.

h. Nothing in this rule shall be construed to prohibit a depositor or principal underwriter, acting as such for two or more registered investment companies issuing periodic payment plan certificates, from combining in a single segregated trust account the reserves for such companies required by this rule.

i. The refunds required to be made to certificate holders pursuant to Sections 27(d) and 27(f) shall be paid in cash not more than seven days from the date the certificate is received in proper form by the custodian bank or such other paying agent as may be designated under the periodic payment plan.

j. Each depositor or principal underwriter shall file with the Commission, within the appropriate period of time specified, an Accounting of Segregated Trust Account. Form N-27D-1 is hereby prescribed as such Accounting Form.

Form N-27D-1

ACCOUNTING OF SEGREGATED TRUST ACCOUNT

For period \_\_\_\_\_ to \_\_\_\_\_

Balance at beginning of period \$ \_\_\_\_\_

Deposits

Pursuant to paragraph (c) of Rule 27d-1	\$ _____
Pursuant to paragraph (e) of Rule 27d-1	\$ _____
Additional deposits	\$ _____
Interest income (received and accrued)	\$ _____
Gains or (losses) on sales of securities	\$ _____
Unrealized appreciation (depreciation) of investments	\$ _____
Total	\$ _____

Withdrawals

To provide refunds pursuant to paragraph (f)(1) of Rule 27d-1	\$ _____
To provide refunds pursuant to paragraph (f)(2) of Rule 27d-1	\$ _____
Other withdrawals pursuant to paragraph (f)(3) of Rule 27d-1	\$ _____
Total	\$ _____

Balance at end of period \$ \_\_\_\_\_

Minimum amount required to be maintained at end of period pursuant to paragraph (d) of Rule 27d-1 \$ \_\_\_\_\_

Minimum amount required to be maintained at end of period pursuant to paragraph (e) of Rule 27d-1 \$ \_\_\_\_\_

Total minimum amount required to be maintained at end of period pursuant to Rule 27d-1 \$ \_\_\_\_\_

Minimum amount required before withdrawals pursuant to paragraph (f) (3) of Rule 27d-1 may be permitted \$ \_\_\_\_\_

Instructions.

1. During the first two years after the effective date of Rule 27d-1, this Form is to be filed for each calendar quarter within 15 business days after the end of such quarter; thereafter, it shall be filed for each year on or before January 31 of the following year. The first such Form shall be filed not later than October 22, 1971.

2. The balance at the beginning of the period shall be the same in amount as the balance shown at the end of the immediately preceding period.

3. If an item is not applicable, enter "N.A."

4. If a single combined segregated trust account is used for the periodic payment plans of two or more registered investment companies, the depositor or principal underwriter shall indicate separately for each registered investment company the deposits pursuant to paragraphs (c) and (e), the withdrawals pursuant to paragraphs f(1) and f(2) and the minimum amounts required to be maintained pursuant to paragraphs (d) and (e) of Rule 27d-1.

5. This Form shall be signed by the chief executive or chief financial officer of the depositor or principal underwriter, whichever is appropriate.

Rule 27d-2. Insurance Company Undertaking in Lieu of Segregated Trust Account.

a. Any depositor of or principal underwriter for the issuer of a periodic payment plan certificate sold subject to Section 27(d) or Section 27(f) of the Act, or both, shall be exempt from the requirements of Rule 27d-1 if an insurance company (as defined in Section 2(a)(17) of the Act) undertakes in writing to guarantee the performance of all obligations of such depositor or principal underwriter to refund charges under Sections 27(d) and 27(f) of the Act and paragraph (b) of this Rule provided however, that:

- (1) such insurance company at all times shall have (i) combined capital paid-up, gross paid in and contributed surplus and unassigned surplus, if a stock company, or (ii) unassigned surplus, if a mutual company, at least equal to the larger of (A) \$1,000,000 or (B) 200 percent of the amount of the total refund obligation of the depositor or underwriter pursuant to Sections 27(d) and 27(f) less any liability reserve established by such insurance company to meet such obligations; and
- (2) such depositor or underwriter shall file or cause to be filed with the Commission as an exhibit to the registration statement or any amendment thereto pursuant to the Securities Act of 1933 of the registered investment company issuing periodic payment plan certificates (A) a copy of such written undertaking, and any amendment thereto, (B) an annual statement certified by a responsible officer of the insurance company indicating that at least on a monthly basis throughout its fiscal year the insurance company has met the requirements of proviso (1) under this rule, and (C) a Statement of Financial Condition (Balance Sheet) of the insurance company certified by an independent public accountant. Such balance sheet shall be filed at least annually, within 90 days after the close of the insurance company's fiscal year.

b. The refunds required to be made to certificate holders pursuant to Sections 27(d) and 27(f) shall be paid in cash not more than seven days from the date the certificate is received in proper form by the custodian bank or such other paying agent as may be designated under the periodic payment plan.

Rule 27e-1. Requirements for Notice to be Mailed to Certain Purchasers of Periodic Payment Plan Certificates Sold Subject to Section 27(d) of the Act.

a. The notice required by Section 27(e) of the Act shall be sent by first class mail and shall be accompanied by a written instruction sheet and a return form to be used in connection with the exercise of the surrender right described in the notice. No other written or graphic material may be included with such notice.

b. In the event that regular payments throughout the first 18 months of the plan are required less frequently than monthly, such a notice shall be mailed to any certificate holder who has missed any payment or payments equal to or greater in amount than the amount of payments which, if missed, would have required the mailing of a notice if equal monthly payments had been required during such 15 or 18 month periods.

c. Any payment not made within 31 days after it is due shall be deemed a missed payment whether or not an equivalent payment is made subsequently by the certificate holder.

d. In the event any such notice is not mailed prior to 15 days before the expiration of the 18th month, the certificate holder shall have 15 days from the date such notice is mailed within which to exercise the right of surrender described therein. Nothing herein contained shall require a second notice to be mailed to any certificate holder who has been mailed a notice within 30 days following 15 months after the issuance of his certificate.

e. Notwithstanding the requirements of Section 27(e) of the Act, no notice need be mailed to a certificate holder if, at the time such notice would be required to be mailed, he would not be entitled to receive any refund of sales loading upon surrender of his certificate.

f. Form N-27E-1 is hereby prescribed to inform certificate holders of their right to surrender their certificates pursuant to Section 27(d) of the Act.

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Form N-27E-1. Notice to Periodic Payment Plan Certificate Holders  
of 18 Month Surrender Rights With Respect to  
Periodic Payment Plan Certificates.

IMPORTANT

(Date of Mailing)

Re: (1)

Dear       (2)      :

This notice is required to be sent to you pursuant to laws administered by the United States Securities and Exchange Commission. You should read it carefully and retain it with your financial records.

You have missed       (3)       after your       (4)       plan certificate was issued. Until       (5)       you will be entitled to surrender your plan certificate and receive, in addition to the value of your account on the date your certificate is received, a refund of that portion of the sales charges you have paid in excess of 15 percent of the gross payments under your plan.

For example, if your certificate had been received for surrender       (6)       you would have received a total of \$       (7)       for it (the value of your account \$       (8)       plus a refund of \$       (9)       of the sales charges you have paid). After your right expires you will be entitled to receive only the value of your account. Of course, the value of your account will vary from day to day and by the date your right expires it may be more or less than it is today.

In determining whether to exercise your right to terminate your plan, you should consider that, while the average sales charge deducted from your payments has amounted to       (10)       percent of the total payments made, the sales charge for the remainder of the payments under the plan, if you continue the plan, will be       (11)       and the average sales charge if you complete the plan will be       (12)       percent. Exercising your right to terminate your plan, however, will result in a net sales charge of 15 percent of your total payments. Accordingly, if you believe you may discontinue making further payments on your plan, it would probably be to your advantage to exercise this right now.

If you wish to exercise your right to terminate your plan, you may return your certificate to       (13)       by       (14)       in accordance with the enclosed instructions.

Very truly yours,

      (15)

Instructions for use of Form N-27E-1FORM N-27E-1  
INSTRUCTIONSGeneral Instructions

- A. The notice shall be legible and shall be printed or typed on letter-size paper. It shall be in modern type at least as large as 10-point modern type. All type shall be leaded at least 2 points. Parenthetical references should be completed in accordance with the Itemized Instructions below and need not be underlined or bold-faced.
- B. The notice shall bear the letterhead of the sender and the mailing date. An inconspicuous reference to the form number may appear on the notice.

Itemized Instructions

Insert the following in the corresponding numbered spaces on Form N-27E-1.

- (1) The name of the plan and the account number of the certificate holder. An additional internal record keeping reference may also be included at the option of the sender.
- (2) The name of certificate holder or an identification such as "Investor" or "Planholder".
- (3) Whichever of the following statements is appropriate: "three or more payments during the first 15 months" or "a payment after the 15th month".
- (4) The name of the plan.
- (5) The date of the first business day which is 18 months from the date of the issuance of the certificate or in the event such notice is not mailed prior to 15 days before the expiration of the 18th month, the date of the first business day which is 15 days from the date such notice is mailed.
- (6) A date which is not more than two business days prior to the date of the notice.
- (7) The sum of Items 8 and 9.
- (8) The value of the account payable to the certificate holder if the certificate had been received on the date set forth in Item 6. In the event such certificate holder has made a partial withdrawal in accordance with the terms of his certificate, the notice may state after the first sentence in the third paragraph that "The value of your account reflects the partial withdrawal which you made previously."



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- (9) The amount as of the date set forth in Item 6 which is equal to that part of the excess paid for sales loading which is over 15 percent of the gross payments made by the certificate holder.
- (10) Average percentage deducted for sales charges to the date set forth in Item 6.
- (11) The percentage to be deducted for sales charges after the date set forth in Item 6.

If the holder has made less than 12 monthly payments, the following shall be substituted for the first sentence of the third paragraph of the notice:

"In determining whether to exercise your right to terminate your plan, you should consider that, while the sales charge deducted from your payments has amounted to (10) percent of the total payments made, the sales charge for the next (11a) payments will be (11b) percent and the sales charge for the remainder of the payments will be (11c) percent. If you complete the plan, the average sales charge will be (12) percent."

- (11a) The number of payments yet to be made which are subject to the initial sales percentage.
- (11b) The percentage to be deducted for sales charges from such payments.
- (11c) The percentage to be deducted for sales charges from all subsequent payments.
- (12) Average percentage to be deducted for sales charges from inception of the plan to completion.
- (13) Name and address of custodian bank.
- (14) Same date as in Item 5.
- (15). The name of a responsible officer of the sender, with his title.

Rule 27E-1. Notice of Right of Withdrawal Required to be Mailed to Periodic Payment Plan Certificate Holders and Exemption from Section 27(f) for Certain Periodic Payment Plan Certificates

a. The notice and statement of charges ("notice") required by Section 27(f) of the Act shall be sent by first class mail and shall be accompanied by a written instruction sheet and a return form to be used in connection with the exercise of the right of withdrawal described in the notice. Except for a confirmation slip, the plan certificate, and any notice required by applicable state law, no other written or graphic material may be included with such notice.

b. The notice may be mailed by the issuer, the principal underwriter for, or the depositor of, the issuer or a record-keeping agent for the issuer if the custodian bank has delegated the mailing of the notice to any of them or the issuer has been permitted to operate without a custodian bank by Commission order.

c. Solely for purposes of Section 27(f) of the Act, the postmark date on the envelope containing the certificate shall determine whether a certificate has been surrendered within the 45 day period.

d. Until June 14, 1972, variable annuity contracts which are issued by a registered separate account and which

- (1) are purchased in connection with a plan which meets the requirements for qualification under Section 401 of the Internal Revenue Code ("Code"), as amended, or the requirements for deduction of the employer's contributions under Section 404(a)(2) of the Code or
- (2) meet the requirements of Section 403(b) of the Code

shall be exempt from the provisions of Section 27(f) of the Act; Provided, however, that the charges to be deducted from any payment (exclusive of insurance charges and premium taxes) do not exceed 9 percent of that payment.

e. Any periodic payment plan certificate upon which the total charges to be deducted from any payment (exclusive of insurance charges and issue taxes) do not exceed 9 percent of any payment shall be exempt from the provisions of Section 27(f) of the Act; provided that the planholder may (A) annually, not more frequently than once during a period of 12 consecutive months, withdraw up to at least 80 percent of the value of his account and, not sooner than 90 days after the withdrawal, reinvest with no sales charges the proceeds at the net asset value at the time of reinvestment; (B) reinvest dividends with no charges other than customary fees to the custodian bank; and (C) designate beneficiaries who would be entitled to the certificate in the event of the holder's death.

f. With respect to any periodic payment plan certificate of the type defined in clause (B) of Section 2(a)(27) of the Act upon which payments based upon life contingencies are required to be made within 105 days after the issuance of such certificate, the period during which the certificate holder may surrender his certificate and receive in payment thereof the

value of his account and the refund of charges as required by Section 27(f) shall be the longer of (A) 20 days from the mailing of the notice required by Section 27(f) or (B) until, but not including, the day upon which the first payment under the periodic payment plan is made to the certificate holder; but in no event shall the period be longer than 45 days from the mailing of the notice. Any provisions of Rule 22e-1 and Rule 27c-1 to the contrary notwithstanding, for purposes of this paragraph the "value of his account" shall mean the holder's proportionate share of the issuer's current net assets, without deduction of any redemption or termination charges.

g. Form N-27F-1 is hereby prescribed to inform certificate holders, other than holders of plans upon which the total charges to be deducted from any payment (exclusive of insurance charges and premium taxes) do not exceed 9 percent of any payment and variable annuity contracts, of their withdrawal right pursuant to Section 27(f) of the Act.

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Form N-27F-1. Notice to Periodic Payment Plan Certificate Holders of  
45 day Withdrawal Right with Respect to Periodic  
Payment Plan Certificates

IMPORTANT (Date of Mailing)

Re: (1)

Dear (2):

This notice is required to be sent to you pursuant to laws administered by the United States Securities and Exchange Commission. You should read it carefully and retain it with your financial records.

Of the \$ (3) you have paid on your (4) plan \$ (5) has been deducted for various charges. A total of \$ (6) or (7) percent of your first (8) monthly payments will be deducted from those payments for similar charges. Charges of \$ (9) or (10) percent will be deducted from each subsequent payment. You have until (11) to surrender your certificate for any reason and receive a refund of all of the charges which have been deducted from your payments, and, in addition, the value of your account on the date your certificate is received.

In determining whether or not to exercise your right you should consider, among other things, the projected cost of your investment and your ability to make the scheduled payments over the life of your plan as they become due. Your plan provides for payments of \$ (12) per (13) over a period of (14) years, or total payments of \$ (15). If you made all of the scheduled payments over the full term of your plan, the total deductions would be \$ (16) or an effective charge of (17) percent of your total payments. However, if you do not complete your program, the deduction of various charges from your initial payments will result in your paying effective charges in excess of that rate. For a more complete description of the charges deducted under your plan, carefully review your prospectus.

If you wish to exercise your right of withdrawal, return your plan certificate to (18) by (19) in accordance with the enclosed instructions.

Very truly yours,

(20)

Instructions for use of Form N-27F-1FORM N-27F-1  
INSTRUCTIONSGeneral Instructions

- A. The notice shall be legible and shall be printed or typed on letter-size paper. It shall be in modern type at least as large as 10-point modern type. All type shall be leaded at least 2 points. Parenthetical references should be completed in accordance with the Itemized Instructions below and need not be underlined or bold-faced.
- B. The notice shall bear the letterhead of the sender and the mailing date. An inconspicuous reference to the form number may appear on the notice.

Itemized Instructions

Insert the following in the corresponding numbered spaces on Form N-27F-1.

- (1) The name of the Plan and the account number of the certificate holder. An additional internal record keeping reference may also be included at the option of the sender.
- (2) The name of certificate holder or an identification such as "investor" or "Planholder."
- (3) The total amount paid by the certificate holder as of the date of the mailing.
- (4) The name of the plan.
- (5) The total amount deducted for all charges from the amount paid by the certificate holder as of the date of the mailing.
- (6) The total dollar amount of all charges scheduled to be deducted from the payments made by the certificate holder before the first regular payment upon which there would be a reduction in the rate of the applicable sales charge below 9 percent of the certificate holder's gross payment.
- (7) The percentage that the total charges set forth in Item 6 are of the total payments included under Instruction 6 above.
- (8) The number of regular monthly payments required to be made before the rate of the sales charges deducted from such regular payment is reduced to less than 9 percent of the certificate holder's gross payment.

- (9) The dollar amount of the charges to be deducted from each payment made by the certificate holder after the first regular payment upon which there would be a reduction in the rate of the applicable sales charge below 9 percent of the certificate holder's gross payment.
- (10) The percentage that the amount of the charges set forth in Item 9 are of the amount of the payment included under Instruction 9 above.
- (11) The date which is 45 days from the date on which the Notice will be mailed.
- (12) The dollar amount of each scheduled periodic payment to be made by the certificate holder.
- (13) The period (eg., month, quarter) for which payments are scheduled to be made under the plan.
- (14) The total number of years constituting the full term of the plan.
- (15) The dollar amount of total payments scheduled to be made over the full term of the plan by the certificate holder.
- (16) The total dollar amount of all charges scheduled to be deducted over the full term of the plan.
- (17) The percentage that the total charges as set forth in Item 16 are of the total payments scheduled to be made by the certificate holder over the full term of the plan.
- (18) The name and address of the custodian bank.
- (19) The date which is 45 days from the date on which the notice will be mailed.
- (20) The name of a responsible officer of the sender with his title.

Rule 27g-1. Election to be Governed by Section 27(h)

a. If any registered investment company which issues or intends to issue a periodic payment plan certificate chooses to be governed by the provisions of Section 27(h) rather than the provisions of Sections 27(a) and (d), it shall signify such choice by filing with the Commission as an exhibit to its registration statement filed under the Securities Act of 1933 a written Notice of Election to be so governed.

b. Any registered investment company issuing periodic payment plan certificates which has elected, in accordance with paragraph (a) of this rule, to be governed by the provisions of Section 27(h) of the Act may thereafter withdraw such election by filing with the Commission, in the manner specified for filing a Notice of Election, a written Notice of Withdrawal of Election: Provided, however, that no such withdrawal of election shall be made within 12 months of an election by such company under paragraph (a) hereof and, provided further that such company may not thereafter elect to be governed by the provisions of Section 27(h) until an additional 12 month period has elapsed.

Rule 27h-1. Exemptions from Section 27(h)(4) for Certain Payments

a. For purposes of this rule and Section 27(h)(4) of the Act (1) "minimum monthly payment, or its equivalent," shall be the amount of the smallest monthly installment scheduled to be made during the life of the plan; and (2) "quarter" shall be the three month period which commences on the date a periodic payment plan is issued and each three month period thereafter.

b. The provisions of Section 27(h)(4) shall not apply to:

- (i) that portion of the first payment on a periodic payment plan certificate which equals the amount of five minimum monthly payments; Provided, however, that the deduction for sales load on any other payments received during the first quarter after the issuance of the certificate may not exceed the sales load applicable to payments subsequent to the first 48 monthly payments or their equivalent;
- (ii) a payment or payments received in any subsequent quarter which equals the amount of three minimum monthly payments; Provided, however, that after an amount equivalent to three minimum monthly payments (not including payments of arrears) is received in any such subsequent quarter the deduction for sales load on any additional payments received in such quarter may not exceed the sales load applicable to payments subsequent to the first 48 monthly payments or their equivalent;

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- (iii) payments of arrears by a certificate holder who is delinquent in his payments; and
- (iv) any payments made on a periodic payment plan certificate out of the proceeds of completion insurance received upon the death of the certificate holder.

\* \* \* \*

The Commission, having considered the necessity of adopting rules as soon as possible which would enable registered investment companies to operate under those provisions of Section 27 which became effective on June 14, 1971, taking into account the views and comments received with respect to the proposal as set forth in Investment Company Act Release No. 6493 (April 29, 1971) and the oral statements given at the Public Conference held by the Commission on May 28, 1971 finds that good cause exists for declaring the foregoing rules effective as soon as practicable. Accordingly, the Commission action is declared effective July 12, 1971, except that for periodic payment plan certificates issued on and after June 14, 1971 through July 11, 1971, (1) paragraph (c) of Rule 27d-1, relating to amounts to be deposited in the segregated trust account, shall not apply to any payments made on such certificates before July 12, 1971, (2) paragraph (d) of Rule 27d-1, relating to amounts to be maintained in the segregated trust account shall take effect with respect to such certificates as at the close of business on July 30, 1971, (3) paragraph (e) of Rule 27d-1 as it relates to amounts to be deposited shall not apply to any payments made on such certificates before July 12, 1971 and (4) paragraph (e) of Rule 27d-1 as it relates to amounts to be maintained shall take effect with respect to such certificates as at the close of business on July 30, 1971.

By the Commission,

Theodore L. Humes  
Associate Secretary

**NOTICE**

In corresponding with the Commission about mailing list changes and delisting, please include ALL MAILING LIST CODES AND SYMBOLS appearing in your address as presently shown.



Schedule of Amounts Required to be Deposited  
and Maintained in the Segregated Trust Account  
on a \$100 per Month Periodic Payment Plan Subject  
to the 18 month refund requirement of Section 27(d)

<u>Number of minimum monthly payments</u>	<u>Total Sales Load</u> <sup>1/</sup>	<u>Refundable Sales load</u> <sup>2/</sup>	<u>Total Deposits</u> <sup>3/</sup>	<u>Maintain</u> <sup>4/</sup>
1	\$ 50	\$ 35	\$ 15.75	\$ 12.25
2	100	70	31.50	24.50
3	150	105	47.25	36.75
4	200	140	63.00	49.00
5	250	175	78.75	61.25
6	300	210	94.50	73.50
7	350	245	110.25	85.75
8	400	280	126.00	98.00
9	450	315	141.75	110.25
10	500	350	157.50	122.50
11	550	385	173.25	134.75
12	600	420	189.00	147.00
13	650	455	204.75	159.25
14	654	444	204.75	155.40
15	658	433	204.75	151.55
16	662	422	204.75	147.70
17	666	411	204.75	143.85
18	670	400	204.75	140.00
19	674	389	204.75	136.15

\*

1/ Total sales load deducted, assuming 50% sales load on first 13 minimum monthly payments and 4% thereafter.

2/ Amount of sales load to be returned upon surrender.

3/ Total of payments into the segregated trust account, equal to 45% of excess sales load on first 13 minimum monthly payments.

4/ Minimum amount to be maintained in the segregated trust account, equal to 35% of refundable sales load.

\* If more than 19 payments are made during the 18 month period, the total deposits will remain at \$204.75, and the minimum amount to be maintained will equal 35% of refundable sales load.