

## **SUPPORTING STATEMENT FORM ADV**

### **A. JUSTIFICATION**

#### **1. Necessity for the Information Collection**

Form ADV is the investment adviser registration form. The collection of information under Form ADV is necessary to provide advisory clients, prospective clients, and the Commission with information about the adviser, its business, and its conflicts of interest. Rule 203-1 requires every person applying for investment adviser registration with the Commission to file Form ADV. Rule 204-1 requires each SEC-registered adviser to file amendments to Form ADV at least annually, and requires advisers to submit electronic filings through the Investment Adviser Registration Depository (“IARD”), an Internet-based system that investment advisers access through computers in their offices, without the need for specialized software or hardware. The collection of information has been previously approved and subsequently extended. This collection of information is found at 17 CFR 275.203-1, 275.204-1, and 279.1 and it is mandatory. Responses are not kept confidential. Respondents to the Form ADV collection of information are investment advisers registered with the Commission or applying for registration with the Commission. The information collected takes the form of disclosures to their clients and potential clients.

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

The purpose of this collection of information is to provide advisory clients, prospective clients, and the Commission with information about the adviser, its business, and its conflicts of interest. We use the information to determine eligibility for registration with us and to manage our regulatory, examination, and enforcement

programs. Clients use certain of the information to determine whether to hire or retain an adviser. The purpose of the information collection, which has previously been submitted to OMB, would not change.

### **3. Role of Improved Information Technology**

The information collected pursuant to Form ADV takes the form of disclosures made by investment advisers to their clients and potential clients. Investment advisers currently file their Form ADV electronically on the IARD system. This method of collecting information reduces the regulatory burden upon investment advisers by permitting them to file applications for registration, and amendments thereto, at one central location, rather than filing Form ADV separately with the Commission and the states for notice filing purposes.

### **4. Efforts to Identify Duplication**

The collection of information requirements of the form are not duplicated elsewhere.

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

The requirements of the Form ADV are the same for all investment advisers registered with the Commission, including those that are small entities. Therefore, there is no change that would effect small entities.

**6. Consequences of Less Frequent Collection**

The collection of information required by the rule is necessary to protect investors by providing clients and potential clients, as well as the Commission, with information about the adviser, its business, and its conflicts of interest. The consequences of not collecting this information would be that clients and prospective clients may not have the information they need in order to evaluate the adviser's business practices and to determine whether to select or retain that adviser. In addition, if the information is either not collected or is collected less frequently, the Commission's ability to protect investors would be reduced.

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

Not applicable.

**8. Consultation Outside the Agency**

The Commission and the staff of the Division of Investment Management continue to participate in an ongoing dialogue with representatives of the investment adviser 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 facing the industry.

**9. Payment or Gift to Respondents**

None.

**10. Assurance of Confidentiality**

The information collected pursuant to Form ADV are filings with the Commission. These disclosures are not kept confidential.

## **11. Sensitive Questions**

Not applicable.

## **12. Estimate of Hour Burden**

The currently approved total annual burden for all advisers completing and amending Form ADV is 137,403 hours.<sup>1</sup> As of August 31, 2007, there were 10,787 SEC registered advisers that file Form ADV through the IARD system.

Based on the estimated average collection of information burden of 22.25 hours per adviser, the total collection of information would amount to 22,250 hours for new registrants and 240,010.75 hours for currently registered advisers to file Form ADV through the IARD system, for a total of 262,260.75 hours.<sup>2</sup>

We previously amortized, and continue to believe it is appropriate to do so, the total burden imposed by Form ADV over a fifteen-year period, which would result in an average burden of an estimated 17,484 hours per year,<sup>3</sup> or of 1.48 hours per year for each new applicant and for each adviser currently registered with the Commission that would file Form ADV through the IARD.<sup>4</sup>

In addition to the burden associated with the filing of Form ADV, we estimate that on average, each adviser filing Form ADV through the IARD system will likely

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<sup>1</sup> This approved annual burden of 22.25 hours per adviser includes the annual burdens under rules 203-1 and 204-1.

<sup>2</sup> Based on historic IARD registration data, we estimate that there are approximately 1,000 new applicants for registration with the Commission each year.  $(10,787 \text{ current registrants} \times 22.25 \text{ hours}) + (1,000 \text{ new applicants} \times 22.25 \text{ hours}) = 240,010.75 \text{ hours} + 22,250 \text{ hours} = 262,260.75 \text{ hours}$ .

<sup>3</sup>  $262,260.75 \text{ hours} / 15 \text{ years} = 17,484.05 \text{ hours/year}$ .

<sup>4</sup>  $17,484.05 \text{ hours} / 11,787 \text{ advisers} = 1.48 \text{ hours/adviser}$ .

amend their form 1.5 times during the year.<sup>5</sup> We estimate that the collection of information burden for amendments would be 0.75 hours per amendment. Thus, we estimate that advisers will file an estimated total of 17,680 amendments per year for an estimated total paperwork burden of 13,260 hours per year.<sup>6</sup>

Therefore, the total annual burden for all advisers completing and amending Form ADV would be 30,705 hours.<sup>7</sup>

In addition to these estimated burdens, under this collection of information there is also a burden associated with advisers' obligation to comply with the Form ADV requirements relating to delivery to clients of copies of adviser codes of ethics.<sup>8</sup>

Thus, the estimated revised annual hourly burden under this collection of information would be 109,678 hours.<sup>9</sup>

An adviser would likely use a staff consisting of compliance clerks (clerks) to prepare the Form ADV and the Chief Compliance Officer (CCO) would review the prepared Form ADV. The Commission staff (staff) estimates that it would take 10.2

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<sup>5</sup> This estimate is based on IARD system data regarding the number of filings of Form ADV amendments.

<sup>6</sup>  $11,787 \text{ advisers} \times 1.5 \text{ amendments per year} = 17,680 \text{ amendments per year}$ .  $17,680 \text{ amendments} \times 0.75 \text{ hours} = 13,260 \text{ hours}$ .

<sup>7</sup>  $13,260 \text{ hours per year attributable to amendments} + (1,000 \text{ new registrants each year} \times 1.48 \text{ hours (amortized over a fifteen year period)}) + (10,787 \text{ currently-registered advisers} \times 1.48 \text{ hours from the continued amortization from the first year the revised form was used}) = 13,260 \text{ hours} + 1,480 \text{ hours} + 15,965 \text{ hours} = 30,705 \text{ hours}$ .

<sup>8</sup> The current approval of this collection estimates that ten percent of an adviser's clients would make such requests.  $0.10 \times 670$  (the estimated average number of clients per adviser) = 67.0 requests per registrant. We continue to estimate that responding to such requests involves a burden of 0.10 hours, amounting to an annual burden of 6.7 hours for each adviser stemming from the obligation to deliver copies of their codes of ethics to clients.  $67.0 \text{ requests per adviser} \times 0.10 \text{ hours} = 6.7 \text{ hours/adviser}$ . This obligation applies to both currently-registered (10,787 respondents) and newly-registered advisers (1,000 respondents), for a total annual burden of 78,973 hours.  $11,787 \text{ respondents} \times 6.7 \text{ hours} = 78,973 \text{ hours}$ .

<sup>9</sup>  $30,705 \text{ hours} + 78,973 \text{ hours} = 109,678 \text{ hours}$ .

hours per adviser to prepare and review the Form ADV.<sup>10</sup> The staff estimates that 90% of the work would be done by the compliance clerks with the CCO's review making up the remaining 10% of the time. The staff estimates the hourly wage for a compliance clerk to be \$56 per hour, and the CCO's hourly wage to be \$407 per hour<sup>11</sup> including benefits. The total cost per adviser, therefore would be an estimated \$922.<sup>12</sup> Form ADV now results in a total collection of information cost of \$9,945,614.<sup>13</sup>

These estimates of average burden hours and average costs of those average burden hours are made solely for the purposes of the Paperwork Reduction Act and are not derived from a comprehensive or representative survey or study, or the cost of Commission rules and forms.

### **13. Estimate of Total Annual Cost Burden**

We estimate that the increase in registrants would not impose a material cost burden, apart from the cost of the burden hours with respect to all the information collections, except that the currently-approved collection of information for Form ADV includes a non-labor cost estimate of \$3,695,000. As discussed above, we estimate the annual aggregate hour burden under the collection would decrease by 27,725 hours (from 137,403 to 109,678 hours). We estimate there would be a proportional decrease in the non-labor cost estimate to \$2,949,428.<sup>14</sup>

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<sup>10</sup> 109,678 hours/10,787 advisers = 10.2 hours.

<sup>11</sup> The \$56/hour figure for a compliance clerk and \$407/hour for a chief compliance officer is from the SIA Report on Management & Professional Earnings in the Securities Industry 2006.

<sup>12</sup> (9.2 hours per compliance clerk x \$56) + (1.0 hours per chief compliance officer x \$407) (\$515 + \$407) = \$922.

<sup>13</sup> \$922 per adviser x 10,787 advisers = \$9,945,614.

<sup>14</sup>

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

There are no costs to the government directly attributable to Form ADV.

**15. Explanation of Changes in Burden**

Neither the number of responses per investment adviser nor the number of hours per response changed since the last estimate. However, as discussed in Item 12 above, the number of respondents has increased from approximately 10,449 investment advisers to approximately 10,787 investment advisers. The total burden hours for all respondents has decreased from 137,403 hours per year to 109,678 hours per year. Although the number of investment advisers has increased marginally, the decreased burden reflects the continued amortization from the first year the revised form was used.

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

Not applicable.

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

Not applicable.

**18. Exceptions to Certification Statement**

Not applicable.

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

Not applicable.