

**SUPPORTING STATEMENT**  
**Rule 206(4)-7**

**A. JUSTIFICATION**

**1. Necessity of the Information Collection**

Rule 206(4)-7 requires each investment adviser registered with the Commission to (i) adopt and implement internal compliance policies and procedures, (ii) review those policies and procedures annually, (iii) designate a chief compliance officer, and (iv) maintain certain compliance records. The rule is designed to protect investors by fostering better compliance with the securities laws. This collection of information is found at 17 CFR 275.206(4)-7 and is mandatory.

The collection of information under rule 206(4)-7 is necessary to assure that investment advisers maintain comprehensive internal programs that promote the advisers' compliance with the Advisers Act. The respondents are investment advisers registered with the Commission. The Commission's examination and oversight staff may review the information collected to assess investment advisers' compliance programs.

**2. Purpose of the Information Collection**

The purpose of the information collection requirements in rule 206(4)-7 is to ensure that advisers maintain comprehensive, written internal compliance programs that promote compliance with the federal securities laws. The information collection in the rule also assists the Commission's examination staff in assessing the adequacy of advisers' compliance programs.

**3. Role of Improved Information Technology**

Rule 206(4)-7 does not require the reporting of any information or the filing of any documents with the Commission. The rule requires advisers to maintain written policies and procedures. Each adviser is required to maintain for at least five years copies of any records documenting the adviser's annual review of its compliance policies and procedures. The Commission permits advisers to maintain the records required under rule 204-2 through electronic media.

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

Rule 206(4)-7 imposes a broad requirement that advisers have in place written compliance policies and procedures. Advisers currently are subject to a certain requirements elsewhere in the federal securities laws that require them to maintain written policies and procedures. Rule 206(4)-7, however, does not require advisers to maintain duplicate copies of records covered by these more targeted requirements. The staff believes, therefore, that any duplication of regulatory requirements is limited and does not impose significant additional costs on advisers.

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

Advisers, regardless of their size, are subject to the requirements in rule 206(4)-7. Effective internal compliance programs are essential for firms of all sizes. Rule 206(4)-7 affords advisers the flexibility to tailor their compliance program to the nature of their business. Small advisers, which generally have less complex and more limited operations, would likely need less extensive compliance programs than their larger counterparts. Thus, rule 206(4)-7 should not inappropriately burden small advisers. The Commission believes that it could not adjust the rule to lessen the burden on small entities of complying with the rule without jeopardizing the interests of clients of small advisers.

**6. Consequences of Less Frequent Collection**

Rule 206(4)-7 requires advisers to review their policies and procedures annually. The annual reviews required under the rule are integral to detecting and correcting any gaps in the program before irrevocable or widespread harm is inflicted upon investors, and extending the time between reviews increases the likelihood that such harm could go unchecked.

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

Rule 206(4)-7 requires advisers to maintain their internal compliance policies and procedures and documents related to the annual review of those policies and procedures for at least five years. Although this period exceeds the three-year guideline for most kinds of records under 5 CFR 1320.5(d)(2)(iv), the staff believes that this is warranted because the rule contributes to the effectiveness of the Commission's examination and inspection program. Because the period between examinations may be as long as five years, it is important that the Commission have access to records that cover the entire period between examinations.

**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 adviser profession through public conferences, meetings, and informal exchanges. These various forums provide the Commission and the staff with a mean of ascertaining and acting upon paperwork burdens facing the industry. The Commission requested public comment on the collection of information requirements in Rule 206(4)-7 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 to Respondents**

Not applicable.

**10. Assurance of Confidentiality**

The information documented pursuant to the rule 206(4)-7 is reviewed by the Commission's examination staff, it will be accorded the same level of confidentiality accorded to other responses provided to the Commission in the context of its examination and oversight program.<sup>1</sup>

**11. Sensitive Questions**

Not applicable.

**12. Estimate of Hour Burden**

---

<sup>1</sup> Section 201(b) of the Advisers Act (15 U.S.C. 10(b)).

Rule 206(4)-7 requires investment advisers to (i) adopt and implement internal compliance policies and procedures, (ii) review those policies and procedures annually, (iii) designate a chief compliance officer, and (iv) maintain certain compliance records. The current approved total collection of information for rule 206(4)-7 is 716,800 hours per year based on an average annual burden of 80 hours per adviser.

We are updating and revising the total collection of information burden based upon new data.<sup>2</sup> Our new data indicates that there are 10,817 advisers registered with the SEC. Using this new number of total respondents for our calculation, the revised total of estimated collection of information burden imposed by rule 206(4)-7 is now increased to 865,360 hours.<sup>3</sup>

We estimate that on average each respondent would have compliance professionals perform 60 of its 80 burden hours and the remaining 20 hours of work would be performed by compliance clerical staff. Our new data indicate the hourly wage for compliance professional is \$245 an hour, while the hourly wage for a compliance clerical worker is \$41.00 an hour.<sup>4</sup> Using the new hourly wages and new number of respondents, rule 204(6)-7 now results in a total cost of \$167,879,840.<sup>5</sup>

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

---

<sup>2</sup> The data are collected from the Form ADVs filed through the IARD system as of September 30, 2007.

<sup>3</sup> 10,817 respondents x 80 hours per respondent = 865,360 hours.

<sup>4</sup> The data are from the SIA Report on Management & Professional Earnings in the Securities Industry 2006. The hourly figures include benefits.

<sup>5</sup> (10,817 registered investment advisers x 60 hours by compliance professionals x \$245 per hour) + (10,817 registered investment advisers x 20 hours by compliance clerical worker x \$41 per hour) = \$167,879,840.

The staff estimates that the rule 204(6)-7 will not impose a material cost burden on advisers, apart from the cost of the burden hours. Although the rule requires advisers to maintain certain records for five years, these records may be maintained electronically and, even if maintained in hard copy, are unlikely to be voluminous.

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

Rule 206(4)-7 does not impose any costs on the Federal government, since there is no separate filing required with the Commission. However, Commission staff may review records produced pursuant to the rule in order to assist the Commission in carrying out its examination and oversight program.

**15. Explanation of Changes in Burden**

We have revised the estimated burden based on new information on the number of SEC-registered investment advisers. The revised number of registered investment advisers was obtained from Form ADVs filed through the IARD as of September 31, 2007.

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

Not applicable.

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

Not applicable.

**18. Exceptions to Certification Requirement**

Not applicable.

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

Not applicable.

