

**SUPPORTING STATEMENT  
FORM PF**

**A. JUSTIFICATION**

**1. Necessity for the Information Collection**

The Dodd-Frank Wall Street Reform and Consumer Protection Act (“Dodd-Frank Act”) established the Financial Stability Oversight Council (“FSOC”) to monitor emerging risks to U.S. financial stability. Sections 404 and 406 of the Dodd-Frank Act direct the Securities and Exchange Commission (“SEC”) to supply FSOC with information for use in monitoring systemic risk by establishing reporting requirements for private fund advisers.<sup>1</sup> On January 26, 2011, in a joint release with the Commodity Futures Trading Commission, the SEC proposed a new rule 204(b)-1 under the Investment Advisers Act of 1940 (“Advisers Act”). This rule would implement sections 404 and 406 of the Dodd-Frank Act by requiring private fund advisers to report certain information regarding the private funds they advise. Under the proposal, registered investment advisers would periodically file with the SEC all or part of a new reporting form, titled Form PF, and the information would be made available to FSOC for use in its risk-monitoring activities.

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<sup>1</sup> Section 404 of the Dodd-Frank Act provides that the required reports may include such information as the SEC deems necessary and appropriate in the public interest and for investor protection or for the assessment of systemic risk. A “private fund” is a company that would be an investment company, as defined in the Investment Company Act of 1940, but for exemptions in that Act allowing for certain privately offered companies to be unregistered if they have fewer than a specified number of investors or all their investors meet a minimum standard of sophistication. For purposes of this supporting statement, a “private fund adviser” is any investment adviser that (i) is registered or required to register with the SEC and (ii) advises one or more private funds. See Reporting by Investment Advisers to Private Funds and Certain Commodity Pool Operators and Commodity Trading Advisors on Form PF, Investment Advisers Act Release No. 3145 (January 26, 2011), 76 FR 8,068 (February 11, 2011) (“Form PF Proposing Release”).

The proposed Form PF contains a new “collection of information” within the meaning of the Paperwork Reduction Act of 1995 (“PRA”).<sup>2</sup> The title for the new collection of information is: “Form PF under the Investment Advisers Act of 1940, reporting by investment advisers to private funds.” If rule 204(b)-1 is adopted, the paperwork burden associated with the proposed rule would be included in the collection of information burden associated with proposed Form PF and, therefore, would not entail a separate collection of information.

Form PF would divide respondents into two broad groups, Large Private Fund Advisers and smaller private fund advisers. “Large Private Fund Advisers” would be advisers with \$1 billion or more in hedge fund, liquidity fund or private equity fund assets under management.<sup>3</sup> All other respondents would be considered smaller private fund advisers.

Under the proposal, smaller private fund advisers would be required to file Form PF only on an annual basis. These advisers would provide a limited amount of basic information about the operations of the private funds they advise.<sup>4</sup> In contrast, Large Private Fund Advisers would be required to file Form PF on a quarterly basis and to report additional information regarding the private funds they advise. Although all Large Private Fund Advisers would report on a quarterly basis, certain types of Large Private Fund Adviser would report more information than others. Specifically, the additional information required of large hedge fund advisers would be more extensive

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<sup>2</sup> 44 U.S.C. 3501-3521.

<sup>3</sup> See the Form PF Proposing Release for definitions of “hedge fund,” “liquidity fund” and “private equity fund.”

<sup>4</sup> See section II.B of the Form PF Proposing Release for a description of who would be required to file Form PF, section II.C of the Form PF Proposing Release for information regarding the frequency with which smaller private fund advisers would be required to file Form PF, and section II.D.1 of the Form PF Proposing Release for a description of the information that smaller private fund advisers would be required to report on Form PF. See also proposed Instruction 8 to Form PF for information regarding the frequency with which smaller private fund advisers would be required to file Form PF.

than the additional information required from large liquidity fund advisers, which in turn would be more extensive than that required from large private equity fund advisers.<sup>5</sup>

In addition to periodic filings, a private fund adviser would be required to file very limited information on Form PF in three situations. First, any adviser that transitions from quarterly to annual filing because it has ceased to be a Large Private Fund Adviser would be required to file a Form PF indicating that it is no longer obligated to report on a quarterly basis. Second, filers who are no longer subject to Form PF's periodic reporting requirements would file a final report indicating that fact. Finally, an adviser experiencing technical difficulties in submitting Form PF may request a temporary hardship exemption by filing portions of Form PF in paper format.<sup>6</sup>

The SEC has sought to minimize the reporting burden on private fund advisers to the extent appropriate. In particular, the SEC has designed the reporting frequency based on when it understands advisers to private funds are already collecting certain information that Form PF would require. In addition, the SEC has based certain more specific reporting items on information that it understands large hedge fund advisers frequently collect for purposes of reporting to investors in the funds.<sup>7</sup>

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

Form PF would provide information for FSOC's use in monitoring systemic risk and otherwise fulfilling its obligations under the Dodd-Frank Act relating to nonbank

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<sup>5</sup> See section II.B of the Form PF Proposing Release for a description of who would be required to file Form PF, section II.C of the Form PF Proposing Release for information regarding the frequency with which Large Private Fund Advisers would be required to file Form PF, section II.D.2 of the Form PF Proposing Release for a description of the information that large hedge fund advisers would be required to report on Form PF, and sections II.D.3 and II.D.4 of the Form PF Proposing Release for a description of the information that large liquidity and private equity fund advisers would be required to report on Form PF. See also proposed Instruction 8 to Form PF for information regarding the frequency with which Large Private Fund Advisers would be required to file Form PF.

<sup>6</sup> See proposed rule 204(b)-1(f). The proposed rule would require that the adviser provide limited information describing the nature of the hardship.

<sup>7</sup> See note 155 of the Form PF Proposing Release and accompanying text.

financial companies.<sup>8</sup> The SEC also may use the information in connection with its regulatory and examination programs. The respondents to Form PF would be private fund advisers, as defined above. Compliance with proposed Form PF would be mandatory for any private fund adviser. Responses to the information collections would be kept confidential to the extent permitted by law.<sup>9</sup>

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

Under proposed rule 204(b)-1(b), respondents would need to file Form PF through an electronic system that the SEC will designate for this purpose. Registered investment advisers are separately obligated to file annual reports on Form ADV, which must be submitted electronically through the existing Investment Adviser Registration Depository (“IARD”) system. Respondents to Form PF would include only registered advisers, so there may be efficiencies realized if the existing IARD platform were expanded for this purpose. These efficiencies would include the possible interconnectivity of Form ADV filings and Form PF filings and possible ease of filing with one password.

While the SEC has not proposed to require that Form PF be filed in eXtensible Markup Language (“XML”) tagged data format, the SEC expects to look for a filing system that could accept information filed in XML format and to establish data tags to allow Form PF to be submitted in XML format. Accordingly, advisers would be able to file Form PF in XML format if they choose.

Collecting information electronically would reduce the regulatory burden upon investment advisers by providing a convenient portal for quickly transmitting reports and, for advisers that submit their reports in XML format in particular, allowing them to automate aspects of their reporting.

<sup>8</sup> See sections I.A and II.A of the Form PF Proposing Release.

<sup>9</sup> See section A.10 of this supporting statement below.

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

The collection of information requirements of the proposed Form PF are not duplicated elsewhere.

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

Under SEC rules, for the purposes of the Advisers Act and the Regulatory Flexibility Act, an investment adviser generally is a small entity if it: (i) has assets under management having a total value of less than \$25 million; (ii) did not have total assets of \$5 million or more on the last day of its most recent fiscal year; and (iii) does not control, is not controlled by, and is not under common control with another investment adviser that has assets under management of \$25 million or more, or any person (other than a natural person) that had total assets of \$5 million or more on the last day of its most recent fiscal year.<sup>10</sup>

Under section 203A of the Advisers Act, most advisers qualifying as small entities are prohibited from registering with the SEC and are instead registered with state regulators. Therefore, few small advisers would be subject to the proposed rule and form. The SEC has estimated that as of December 1, 2010, approximately 50 advisers that were small entities were registered with the SEC and advised one or more private funds.<sup>11</sup> These advisers would be considered “smaller private fund advisers” for purposes of Form PF and would, as a result, be subject to reduced reporting requirements relative to Large Private Fund Advisers.

#### **6. Consequences of Less Frequent Collection**

The collection of information required by the form is intended to implement the requirements of sections 404 and 406 of the Dodd-Frank Act and is necessary to provide FSOC with timely information for purposes of monitoring systemic risk. The frequency

<sup>10</sup> 17 CFR 275.0-7(a).

<sup>11</sup> Based on IARD data.

of collection would vary depending on whether an adviser is a Large Private Fund Adviser or smaller private fund adviser, which balances the need for (and value of) current information against the relative reporting burden for large and small advisers. In addition, if the information is either not collected or is collected less frequently, FSOC's ability to monitor systemic risk, and the SEC's ability to protect investors, may be reduced.

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

Under applicable federal regulations, OMB generally will not approve a collection of information that includes a pledge of confidentiality unless the pledge is "supported by disclosure and data security policies that are consistent with the pledge..."<sup>12</sup> In addition, if an agency proposes to collect confidential information, it must be able to "demonstrate that it has instituted procedures to protect the information's confidentiality to the extent permitted by law."<sup>13</sup>

As discussed in section A.10 of this supporting statement, Form PF would elicit non-public information about private funds and their trading strategies, and this information would be kept confidential to the extent permitted by law. The staff of the SEC is working to establish disclosure and data security policies that are consistent with the confidentiality provisions of section 404 of the Dodd-Frank Act and to institute procedures to protect the information's confidentiality. Based on the proposed compliance date for rule 204(b)-1, advisers would not begin submitting Form PF until January 2012.<sup>14</sup> The staff anticipates that policies and procedures for safeguarding the confidentiality of the collected information will be in place prior to the date on which advisers begin submitting Form PF.

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<sup>12</sup> 5 CFR 1320.5(d)(2)(vii).

<sup>13</sup> 5 CFR 1320.5(d)(2)(viii).

<sup>14</sup> The proposed compliance date is December 15, 2011, with the result that large private fund advisers would begin filing Form PF by January 15, 2012, and smaller private fund advisers whose fiscal year ends on December 31 would begin filing by March 31, 2012. See section II.C of the Form PF Proposing Release.

## **8. Consultation Outside the Agency**

In the Form PF Proposing Release, the SEC requested public comment on the effect of information collections under the proposed rule and form. The request for comment was published in the Federal Register on February 11, 2011, and can be found at page 8,086 of Volume 76. The SEC will consider all comments received on the proposal. In addition, the SEC and the staff of the Division of Investment Management 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 confronting the industry.

## **9. Payment or Gift to Respondents**

None.

## **10. Assurance of Confidentiality**

Form PF would elicit non-public information about private funds and their trading strategies the public disclosure of which, in many cases, could adversely affect the funds and their investors. As discussed in section II of the Form PF Proposing Release, the SEC does not intend to make public Form PF information identifiable to any particular adviser or private fund, although the SEC may use Form PF information in an enforcement action. Amendments to the Advisers Act added by the Dodd-Frank Act preclude the SEC from being compelled to reveal the information except in very limited circumstances.<sup>15</sup> The SEC would make information collected through Form PF available

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<sup>15</sup> See section 404 of the Dodd-Frank Act stating that “[n]otwithstanding any other provision of law, the Commission [SEC] may not be compelled to disclose any report or information contained therein required to be filed with the Commission [SEC] under this subsection” except to Congress upon agreement of confidentiality. Section 404 also provides that nothing prevents the SEC from complying with a request for information from any other federal department or agency or any self-regulatory organization requesting the report or information for purposes within the scope of its jurisdiction or an order of a court of the U.S. in an action brought by the U.S. or the SEC. Section 404 of the Dodd-Frank Act also states that the SEC shall make available to FSOC copies of all reports, documents, records, and information filed with or provided to the SEC by an

to FSOC, as is required by the Dodd-Frank Act, subject to the confidentiality provisions of the Dodd-Frank Act.<sup>16</sup>

**11. Sensitive Questions**

See section A.10 of this supporting statement.

**12. Estimates of Hour Burden**

**(a) Burden Estimates for Annual Reporting by Smaller Private Fund**

**Advisers**

In a separate but related proposing release, the SEC recently estimated that 3,500 currently registered advisers would become subject to proposed private fund reporting requirements.<sup>17</sup> The SEC further estimated that 200 advisers to private funds would register with the SEC as a result of normal growth in the population of registered advisers and that 750 advisers to private funds would register as a result of the Dodd-Frank Act's elimination of the private adviser exemption.<sup>18</sup> As a result, the SEC estimates that a total of approximately 4,450 registered investment advisers would become subject to the separately proposed private fund reporting requirements.<sup>19</sup> Because these same advisers would also be required to report on Form PF, the SEC accordingly estimates that

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investment adviser under section 404 of the Dodd-Frank Act as FSOC may consider necessary for the purpose of assessing the systemic risk posed by a private fund and that FSOC shall maintain the confidentiality of that information consistent with the level of confidentiality established for the SEC in section 404 of the Dodd-Frank Act.

<sup>16</sup> See section 404 of the Dodd-Frank Act.

<sup>17</sup> The separate release concerned amendments to the existing Form ADV, which investment advisers file annually. If adopted, the proposals in the Implementing Release would, among other things, require enhanced reporting by advisers to private funds. See section V.B.2.a.ii of Rules Implementing Amendments to the Investment Advisers Act of 1940, Investment Advisers Act Release No. 3110 (Nov. 19, 2010), 75 FR 77,052 (Dec. 10, 2010) ("Implementing Release").

<sup>18</sup> *Id.* The estimates of registered private fund advisers are based in part on the number of advisers that reported a fund in Section 7.B of Schedule D to the current version of Form ADV. Because these responses include funds advised by a related person rather than the adviser, these data may over-estimate the total number of private fund advisers.

<sup>19</sup> 3,500 currently registered advisers to private funds + 200 advisers to private funds registering as a result of normal growth + 750 newly registered advisers to private funds = 4,450 advisers.



approximately 4,450 advisers would be required to file all or part of Form PF.<sup>20</sup> Out of this total number, the SEC estimates that approximately 3,920 would be smaller private fund advisers, not meeting the thresholds for reporting as Large Private Fund Advisers.<sup>21</sup>

Smaller private fund advisers would be required to complete all or portions of section 1 of Form PF and to file on an annual basis. As discussed in greater detail in the Form PF Proposing Release, section 1 of Form PF would require basic data regarding the reporting adviser's identity and certain information about the private funds it manages, such as performance, leverage, and investor concentration data.<sup>22</sup> If the reporting adviser advises any hedge funds, section 1 also would require basic information regarding those funds, including their investment strategies, trading counterparty exposures, and trading and clearing practices.

Based on the SEC's experience with other data filings, it estimates that smaller private fund advisers would require an average of approximately 10 burden hours to compile, review and electronically file the required information in section 1 of Form PF for the initial filing and an average of approximately 3 burden hours for subsequent filings.<sup>23</sup> Accordingly, the amortized average annual burden of periodic filings would be

<sup>20</sup> If a private fund is advised by both an adviser and one or more subadvisers, only one of these advisers would be required to complete Form PF. See section II.B.4 of the Form PF Proposing Release. As a result, it is likely that some portion of these advisers either would not be required to file Form PF or would be subject to a reporting burden lower than is estimated for purposes of this PRA analysis. The SEC has not attempted to adjust the burden estimates downward for this purpose because the SEC does not currently have reliable data with which to estimate the number of funds that have subadvisers.

<sup>21</sup> Based on the estimated total number of registered private fund advisers that would not meet the thresholds to be considered Large Private Fund Advisers. (4,450 estimated registered private fund advisers – 200 large hedge fund advisers – 80 large liquidity fund advisers – 250 large private equity fund advisers = 3,920 smaller private fund advisers.) See section II.B.2 of the Form PF Proposing Release.

<sup>22</sup> See section II.D.1 of the Form PF Proposing Release.

<sup>23</sup> These estimates reflect the SEC's understanding that much of the information in section 1 of Form PF is currently maintained by most private fund advisers in the ordinary course of business. In addition, the time required to determine a private fund adviser's aggregate assets under management and the amount of assets under management that relate to private funds of various types largely is expected to be included in the approved burden associated with the SEC's Form ADV (this information would only differ if the adviser managed parallel managed accounts). As a result, responding to questions on Form PF that relate to assets under management and

5 hours per smaller private fund adviser for each of the first three years,<sup>24</sup> and the amortized aggregate annual burden of periodic filings for smaller private fund advisers would be 19,600 hours for each of the first three years.<sup>25</sup>

**(b) Burden Estimates for Quarterly Reporting by Large Private Fund Advisers**

The SEC estimates that 530 of the private fund advisers registered with the SEC would meet one or more of the thresholds for reporting as Large Private Fund Advisers.<sup>26</sup> As discussed in section II.D of the Form PF Proposing Release, Large Private Fund Advisers would be required to report more information on Form PF than smaller private fund advisers and would be required to report on a quarterly basis. The amount of additional information reported by a Large Private Fund Adviser would depend, in part, on whether it is a large hedge fund adviser, a large liquidity fund adviser, or large private equity fund adviser. A large hedge fund adviser would be required to report more information with respect to itself and the funds it advises than would a large liquidity fund adviser, which in turn would report more information than a large private equity fund adviser.<sup>27</sup> Of the total number of Large Private Fund Advisers, the SEC estimates that 200 are large hedge fund advisers, 80 are large liquidity fund advisers, and 250 are large private equity fund advisers.<sup>28</sup>

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determining whether an adviser is a Large Private Fund Adviser should impose little or no additional burden on private fund advisers.

<sup>24</sup> The SEC estimates that a smaller private fund adviser would make 3 annual filings in three years, for an amortized average annual burden of 5 hours (1 initial filing x 10 hours + 2 subsequent filings x 3 hours = 16 hours; and 16 hours ÷ 3 years = approximately 5 hours). After the first three years, filers generally would not incur the start-up burdens applicable to the first filing.

<sup>25</sup> 5 burden hours on average per year x 3,920 smaller private fund advisers = 19,600 burden hours per year.

<sup>26</sup> See section II.B.2 of the Form PF Proposing Release for estimates of the numbers of large hedge fund advisers, large liquidity fund advisers, and large private equity fund advisers. (200 large hedge fund advisers + 80 large liquidity fund advisers + 250 large private equity fund advisers = 530 Large Private Fund Advisers.)

<sup>27</sup> See sections II.D.2, II.D.3 and II.D.4 of the Form PF Proposing Release.

<sup>28</sup> See section II.B.2 of the Form PF Proposing Release.

Because the proposed reporting requirements on Form PF for large hedge fund advisers would be the most extensive of the Large Private Fund Advisers, the SEC estimates that these advisers would require, on average, more hours than other Large Private Fund Advisers to configure systems and to compile, review and electronically file the required information. Accordingly, the SEC estimates that large hedge fund advisers would require an average of approximately 75 burden hours for an initial filing and 35 burden hours for each subsequent filing.<sup>29</sup> In contrast, large liquidity fund advisers, which would report more information than smaller private fund advisers or large private equity fund advisers but less information than large hedge fund advisers, would require an average of approximately 35 burden hours for an initial filing and 16 burden hours for each subsequent filing. Finally, the SEC estimates that large private equity fund advisers, which would report more information than smaller private fund advisers but less than other Large Private Fund Advisers, would require an average of approximately 25 burden hours for an initial filing and 12 burden hours for each subsequent filing. Based on these estimates, the amortized average annual burden of periodic filings would be 153 hours per large hedge fund adviser,<sup>30</sup> 70 hours per large liquidity fund adviser,<sup>31</sup> and 52 hours

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<sup>29</sup> The United Kingdom's Financial Services Authority (the "FSA") has conducted a voluntary semi-annual survey since October 2009 by sampling the largest hedge fund groups based in the United Kingdom. See, e.g., Financial Services Authority, *Assessing Possible Sources of Systemic Risk from Hedge Funds: A Report on the Findings of the Hedge Fund as Counterparty Survey and the Hedge Fund Survey* (Jul. 2010), available at [http://www.fsa.gov.uk/pubs/other/hf\\_report.pdf](http://www.fsa.gov.uk/pubs/other/hf_report.pdf) ("FSA Survey"). The estimates of hour burdens and costs for Large Private Fund Advisers provided in this PRA analysis are based on burden data provided by advisers in response to the FSA hedge fund survey and on the experience of SEC staff. These estimates also assume that some Large Private Fund Advisers will find it efficient to automate some portion of the reporting process, which would increase the burden of the initial filing but reduce the burden of subsequent filings, which has been taken into consideration in these burden estimates.

<sup>30</sup> The SEC estimates that a large hedge fund adviser would make 12 quarterly filings in three years, for an amortized average annual burden of 153 hours (1 initial filing x 75 hours + 11 subsequent filings x 35 hours = 460 hours; and 460 hours ÷ 3 years = approximately 153 hours). After the first three years, filers generally would not incur the start-up burdens applicable to the first filing.

<sup>31</sup> The SEC estimates that a large liquidity fund adviser would make 12 quarterly filings in three years, for an amortized average annual burden of 70 hours (1 initial filing x 35 hours + 11 subsequent filings x 16 hours = 211 hours; and 211 hours ÷ 3 years = approximately 70 hours). After the first three years, filers generally would not incur the start-up burdens applicable to the first filing.

per large private equity fund adviser, in each case for each of the first three years.<sup>32</sup> In the aggregate, the amortized annual burden of periodic filings would then be 30,600 hours for large hedge fund advisers,<sup>33</sup> 5,600 hours for large liquidity fund advisers,<sup>34</sup> and 13,000 hours for large private equity fund advisers,<sup>35</sup> in each case for each of the first three years.

**(c) Burden Estimates for Transition Filings, Final Filings and Temporary Hardship Exemption Requests**

In addition to periodic filings, a private fund adviser would be required to file very limited information on Form PF in three situations.

First, any adviser that transitions from quarterly to annual filing because it has ceased to be a Large Private Fund Adviser would be required to file a Form PF indicating that it is no longer obligated to report on a quarterly basis. The SEC estimates that approximately 9 percent of Large Private Fund Advisers would need to make a transition filing each year with a burden of 0.25 hours, or a total of 12 burden hours per year for all private fund advisers.<sup>36</sup>

Second, filers who are no longer subject to Form PF's periodic reporting requirements would file a final report indicating that fact. The SEC estimates that approximately 8 percent of the advisers required to file Form PF would have to file such

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<sup>32</sup> The SEC estimates that a large private equity fund adviser would make 12 quarterly filings in three years, for an amortized average annual burden of 52 hours (1 initial filing x 25 hours + 11 subsequent filings x 12 hours = 157 hours; and 157 hours ÷ 3 years = approximately 52 hours). After the first three years, filers generally would not incur the start-up burdens applicable to the first filing.

<sup>33</sup> 153 burden hours on average per year x 200 large hedge fund advisers = 30,600 hours.

<sup>34</sup> 70 burden hours on average per year x 80 large liquidity fund advisers = 5,600 hours.

<sup>35</sup> 52 burden hours on average per year x 250 large private equity fund advisers = 13,000 hours.

<sup>36</sup> Estimate is based on IARD data on the frequency of advisers to one or more private funds ceasing to have assets under management sufficient to cause them to be Large Private Fund Advisers. (530 Large Private Fund Advisers x 0.09 x 0.25 hours = 12 hours.)

an amendment each year with a burden of 0.25 of an hour, or a total of 89 burden hours per year for all private fund advisers.<sup>37</sup>

Finally, an adviser experiencing technical difficulties in submitting Form PF may request a temporary hardship exemption by filing portions of Form PF in paper format.<sup>38</sup> The information that must be filed is comparable to the information that Form ADV filers provide on Form ADV-H when requesting a temporary hardship exemption relating to that form. In the case of Form ADV-H, the SEC has estimated that the average burden of filing is 1 hour and that approximately 1 in every 1,000 advisers will file annually.<sup>39</sup> Assuming that Form PF filers request hardship exemptions at the same rate and that the applications impose the same burden per filing, the SEC would expect approximately 4 filers to request a temporary hardship exemption each year<sup>40</sup> for a total of 4 burden hours.<sup>41</sup>

#### **(d) Aggregate Burden Hour Estimates**

Based on the foregoing, the SEC estimates that Form PF would result in an aggregate of 68,905 burden hours per year for all private fund advisers for each of the first three years, or 15 burden hours per year on average for each private fund adviser over the same period.<sup>42</sup>

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<sup>37</sup> Estimate is based on IARD data on the frequency of advisers to one or more private funds withdrawing from SEC registration. (4,450 private fund advisers x 0.08 x 0.25 hours = 89 hours.)

<sup>38</sup> See proposed SEC rule 204(b)-1(f). The proposed rule would require that the adviser complete and file Item A of Section 1a and Section 5 of Form PF, checking the box in Section 1a indicating that the filing is a request for a temporary hardship exemption.

<sup>39</sup> See section V.F of the Implementing Release.

<sup>40</sup> 4,450 private fund advisers x 1 request per 1,000 advisers = approximately 4 advisers.

<sup>41</sup> 4 advisers x 1 hour per response = 4 hours.

<sup>42</sup> 19,600 hours for periodic filings by smaller advisers + 30,600 hours for periodic filings by large hedge fund advisers + 5,600 hours for periodic filings by large liquidity fund advisers + 13,000 hours for periodic filings by large private equity fund advisers + 12 hours per year for transition filings + 89 hours per year for final filings + 4 hours per year for temporary hardship requests = approximately 68,905 hours per year. 68,905 hours per year ÷ 4,450 total advisers = 15 hours per year on average.

**(e) Monetized Total Hour Burden**

The SEC expects that the costs of reporting would be most significant for the first report that a private fund adviser is required to file because the adviser would need to familiarize itself with the new reporting form and may need to configure its systems in order to efficiently gather the required information. The SEC also anticipates that the initial report would require more attention from senior personnel, including compliance managers and senior risk management specialists, than would subsequent reports. In addition, the SEC expects that some Large Private Fund Advisers would find it efficient to automate some portion of the reporting process, which would increase the burden of the initial filing but reduce the burden of subsequent filings.

In subsequent reporting periods, the SEC anticipates that filers would incur significantly lower costs because much of the work involved in the initial report is non-recurring and because of efficiencies realized from system configuration and reporting automation efforts accounted for in the initial reporting period. In addition, the SEC estimates that senior personnel would bear less of the reporting burden in subsequent reporting periods, reducing costs though not necessarily reducing the burden hours.

Based on the foregoing, the SEC estimates<sup>43</sup> that, for the purposes of the PRA, the periodic filing requirements under Form PF (including configuring systems and compiling, automating, reviewing and electronically filing the report) would impose:

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<sup>43</sup> The hourly wage data used in this PRA analysis is based on the Securities Industry and Financial Markets Association's *Report on Management & Professional Earnings in the Securities Industry 2010*. This data has been modified to account for an 1,800-hour work-year and multiplied by 5.35 for management and professional employees and by 2.93 for general and compliance clerks to account for bonuses, firm size, employee benefits and overhead.

(1) 10 burden hours at a cost of \$3,410<sup>44</sup> per smaller private fund adviser for the initial annual report;

(2) 3 burden hours at a cost of \$830<sup>45</sup> per smaller private fund adviser for each subsequent annual report;

(3) 75 burden hours at a cost of \$23,270<sup>46</sup> per large hedge fund adviser for the initial quarterly report;

(4) 35 burden hours at a cost of \$9,700<sup>47</sup> per large hedge fund adviser for each subsequent quarterly report;

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<sup>44</sup> The SEC expects that for the initial report these activities will most likely be performed equally by a compliance manager at a cost of \$273 per hour and a senior risk management specialist at a cost of \$409 per hour and that, because of the limited scope of information required from smaller private fund advisers, these advisers generally would not realize significant benefits from or incur significant costs for system configuration or automation.  $(\$273/\text{hour} \times 0.5 + \$409/\text{hour} \times 0.5) \times 10 \text{ hours} = \text{approximately } \$3,410.$

<sup>45</sup> The SEC expects that for subsequent reports senior personnel will bear less of the reporting burden. As a result, the SEC estimates that these activities will most likely be performed equally by a compliance manager at a cost of \$273 per hour, a senior compliance examiner at a cost of \$235 per hour, a senior risk management specialist at a cost of \$409 per hour and a risk management specialist at a cost of \$192 per hour.  $(\$273/\text{hour} \times 0.25 + \$235/\text{hour} \times 0.25 + \$409/\text{hour} \times 0.25 + \$192/\text{hour} \times 0.25) \times 3 \text{ hours} = \text{approximately } \$830.$

<sup>46</sup> The SEC expects that for the initial report, of a total estimated burden of 75 hours, approximately 45 hours will most likely be performed by compliance professionals and 30 hours will most likely be performed by programmers working on system configuration and reporting automation. Of the work performed by compliance professionals, the SEC anticipates that it will be performed equally by a compliance manager at a cost of \$273 per hour and a senior risk management specialist at a cost of \$409 per hour. Of the work performed by programmers, the SEC anticipates that it will be performed equally by a senior programmer at a cost of \$304 per hour and a programmer analyst at a cost of \$224 per hour.  $(\$273/\text{hour} \times 0.5 + \$409/\text{hour} \times 0.5) \times 45 \text{ hours} + (\$304/\text{hour} \times 0.5 + \$224/\text{hour} \times 0.5) \times 30 \text{ hours} = \text{approximately } \$23,270.$

<sup>47</sup> The SEC expects that for subsequent reports senior personnel will bear less of the reporting burden and that significant system configuration and reporting automation costs will not be incurred. As a result, the SEC estimates that these activities will most likely be performed equally by a compliance manager at a cost of \$273 per hour, a senior compliance examiner at a cost of \$235 per hour, a senior risk management specialist at a cost of \$409 per hour and a risk management specialist at a cost of \$192 per hour.  $(\$273/\text{hour} \times 0.25 + \$235/\text{hour} \times 0.25 + \$409/\text{hour} \times 0.25 + \$192/\text{hour} \times 0.25) \times 35 \text{ hours} = \text{approximately } \$9,700.$

(5) 35 burden hours at a cost of \$10,860<sup>48</sup> per large liquidity fund adviser for the initial quarterly report;

(6) 16 burden hours at a cost of \$4,440<sup>49</sup> per large liquidity fund adviser for each subsequent quarterly report;

(7) 25 burden hours at a cost of \$7,760<sup>50</sup> per large private equity fund adviser for the initial quarterly report; and

(8) 12 burden hours at a cost of \$3,330<sup>51</sup> per large private equity fund adviser for each subsequent quarterly report.

Assuming that there are 3,920 smaller private fund advisers, 200 large hedge fund advisers, 80 large liquidity fund advisers, and 250 large private equity fund advisers, the

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<sup>48</sup> The SEC expects that for the initial report, of a total estimated burden of 35 hours, approximately 21 hours will most likely be performed by compliance professionals and 14 hours will most likely be performed by programmers working on system configuration and reporting automation. Of the work performed by compliance professionals, the SEC anticipates that it will be performed equally by a compliance manager at a cost of \$273 per hour and a senior risk management specialist at a cost of \$409 per hour. Of the work performed by programmers, the SEC anticipates that it will be performed equally by a senior programmer at a cost of \$304 per hour and a programmer analyst at a cost of \$224 per hour.  $(\$273/\text{hour} \times 0.5 + \$409/\text{hour} \times 0.5) \times 21 \text{ hours} + (\$304/\text{hour} \times 0.5 + \$224/\text{hour} \times 0.5) \times 14 \text{ hours} = \text{approximately } \$10,860.$

<sup>49</sup> The SEC expects that for subsequent reports senior personnel will bear less of the reporting burden and that significant system configuration and reporting automation costs will not be incurred. As a result, the SEC estimates that these activities will most likely be performed equally by a compliance manager at a cost of \$273 per hour, a senior compliance examiner at a cost of \$235 per hour, a senior risk management specialist at a cost of \$409 per hour and a risk management specialist at a cost of \$192 per hour.  $(\$273/\text{hour} \times 0.25 + \$235/\text{hour} \times 0.25 + \$409/\text{hour} \times 0.25 + \$192/\text{hour} \times 0.25) \times 16 \text{ hours} = \text{approximately } \$4,440.$

<sup>50</sup> The SEC expects that for the initial report, of a total estimated burden of 25 hours, approximately 15 hours will most likely be performed by compliance professionals and 10 hours will most likely be performed by programmers working on system configuration and reporting automation. Of the work performed by compliance professionals, the SEC anticipates that it will be performed equally by a compliance manager at a cost of \$273 per hour and a senior risk management specialist at a cost of \$409 per hour. Of the work performed by programmers, the SEC anticipates that it will be performed equally by a senior programmer at a cost of \$304 per hour and a programmer analyst at a cost of \$224 per hour.  $(\$273/\text{hour} \times 0.5 + \$409/\text{hour} \times 0.5) \times 15 \text{ hours} + (\$304/\text{hour} \times 0.5 + \$224/\text{hour} \times 0.5) \times 10 \text{ hours} = \text{approximately } \$7,760.$

<sup>51</sup> The SEC expects that for subsequent reports senior personnel will bear less of the reporting burden and that significant system configuration and reporting automation costs will not be incurred. As a result, the SEC estimates that these activities will most likely be performed equally by a compliance manager at a cost of \$273 per hour, a senior compliance examiner at a cost of \$235 per hour, a senior risk management specialist at a cost of \$409 per hour and a risk management specialist at a cost of \$192 per hour.  $(\$273/\text{hour} \times 0.25 + \$235/\text{hour} \times 0.25 + \$409/\text{hour} \times 0.25 + \$192/\text{hour} \times 0.25) \times 12 \text{ hours} = \text{approximately } \$3,330.$



foregoing estimates would suggest an annual cost of periodic filings equal to \$30,200,000<sup>52</sup> for all private fund advisers in the first year of reporting and an annual cost of periodic filings equal to \$15,800,000 in subsequent years.<sup>53</sup>

In addition, as discussed above, a private fund adviser would be required to file very limited information on Form PF if it needed to transition from quarterly to annual filing, if it were no longer subject to the reporting requirements of Form PF or if it required a temporary hardship exemption under proposed rule 204(b)-1(f). The SEC estimates that transition and final filings would, collectively, cost private fund advisers as a whole approximately \$6,770 per year.<sup>54</sup> The SEC further estimates that hardship exemption requests would cost private fund advisers as a whole approximately \$760 per year.<sup>55</sup>

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<sup>52</sup> (3,920 smaller private fund advisers x \$3,410 per initial annual report) + (200 large hedge fund advisers x \$23,270 per initial quarterly report) + (200 large hedge fund advisers x 3 quarterly reports x \$9,700 per subsequent quarterly report) + (80 large liquidity fund advisers x \$10,860 per initial quarterly report) + (80 large liquidity fund advisers x 3 quarterly reports x \$4,440 per subsequent quarterly report) + (250 large private equity fund advisers x \$7,760 per initial quarterly report) + (250 large private equity fund advisers x 3 quarterly reports x \$3,330 per subsequent quarterly report) = approximately \$30,200,000.

<sup>53</sup> (3,920 smaller private fund advisers x \$830 per subsequent annual report) + (200 large hedge fund advisers x 4 quarterly reports x \$9,700 per subsequent quarterly report) + (80 large liquidity fund advisers x 4 quarterly reports x \$4,440 per subsequent quarterly report) + (250 large private equity fund advisers x 4 quarterly reports x \$3,330 per subsequent quarterly report) = approximately \$15,800,000.

<sup>54</sup> The SEC estimates that, for the purposes of the PRA, transition filings will impose 12 burden hours per year on private fund advisers in the aggregate and that final filings will impose 89 burden hours per year on private fund advisers in the aggregate. The SEC anticipates that this work will most likely be performed by a compliance clerk at a cost of \$67 per hour. (12 burden hours + 89 burden hours) x \$67/hour = approximately \$6,770.

<sup>55</sup> The SEC estimates that, for the purposes of the PRA, requests for temporary hardship exemptions will impose 4 burden hours per year on private fund advisers in the aggregate. The SEC anticipates that five-eighths of this work will most likely be performed by a compliance manager at a cost of \$273 per hour and that three-eighths of this work will most likely be performed by a general clerk at a cost of \$50 per hour. ((\$273 per hour x 5/8 of an hour) + (\$50 per hour x 3/8 of an hour)) x 4 hours = approximately \$760.

Aggregating together the estimated costs of both periodic and event-driven filings and averaging the cost of periodic filings over three years, the total annual cost of Form PF based on the foregoing estimates would be \$20,607,530.<sup>56</sup>

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

Under the proposal, advisers filing Form PF would be required to pay fees to the operator of the Form PF filing system that reflect the reasonable costs associated with the filings and the establishment and maintenance of the filing system.<sup>57</sup> The amount of these fees has not yet been determined but would need to be approved by the SEC in a separate action. The SEC anticipates that Large Private Fund Advisers' filing fees would be set at a higher amount than fees for smaller advisers because their filings would be responsible for a larger proportion of system needs due to their more frequent and extensive filings.

The SEC has designed the reporting frequency for Form PF based on when it understands advisers to private funds are already collecting certain information that Form PF would require. In addition, the SEC has based certain more specific reporting items on information that it understands large hedge fund advisers frequently collect for purposes of reporting to investors in the funds.<sup>58</sup> As a result, the SEC expects that, other than the burden hours that are accounted for in section A.12 above and filing fees, the costs of preparing and filing Form PF would generally be incurred as a part of customary and usual business practices and so are not attributable to the proposed information collection.

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<sup>56</sup>  $(\$30,200,000 \text{ for periodic filings in the first year} + \$15,800,000 \text{ for periodic filings in each subsequent year} \times 2 \text{ years of subsequent filings}) \div 3 \text{ years} = \$20,600,000 \text{ average annual cost of periodic filings over 3 years. } \$20,600,000 \text{ average annual cost of periodic filings over 3 years} + \$6,770 \text{ annual cost of transition and final filings} + \$760 \text{ annual cost of hardship requests} = \$20,607,530 \text{ total annual cost of Form PF.}$

<sup>57</sup> See section 204(c) of the Advisers Act. See also proposed Advisers Act rule 204(b)-1(d).

<sup>58</sup> See note 155 of the Form PF Proposing Release and accompanying text.

The SEC understands that some advisers may outsource all or a portion of their Form PF reporting responsibilities to a filing agent, software consultant, or other third-party service provider. The SEC believes, however, that an adviser would engage third-party service providers only if the external costs were comparable, or less than, the estimated internal costs of compiling, reviewing, and filing the Form PF, which are already accounted for above. For this reason, no separate cost burden has been attributed to this potential expenditure.

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

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

**15. Explanation of Changes in Burden**

Form PF would be a new collection of information.

**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.