

SUPPORTING STATEMENT REVISIONS TO FORM ADV

A. JUSTIFICATION

1. Necessity for the Information Collection

The Securities and Exchange Commission (the “Commission”) is amending Form ADV^{NOTEREF_Ref296596779 \h * MERGEFORMAT} and rule 204-1^{NOTEREF_Ref296596779 \h * MERGEFORMAT} and adopting new rule 204-4^{NOTEREF_Ref296596779 \h * MERGEFORMAT} under the Investment Advisers Act of 1940 (the “Advisers Act” or the “Act”), to implement provisions of the Dodd-Frank Wall Street Reform and Consumer Protection Act.^{NOTEREF_Ref296596779 \h * MERGEFORMAT} In order to give effect to provisions in Title IV of the Dodd-Frank Act, we are amending to Part 1A of Form ADV to reflect the new statutory threshold for registration with the Commission and to restructure it to accommodate filings by exempt reporting advisers. Additionally, to enhance our ability to oversee investment advisers, including those private fund advisers that will be required to register as a result of the Dodd-Frank Act, we are amending Part 1A of Form ADV to require advisers to provide us additional information regarding: (i) private funds they advise; (ii) their advisory business and business practices that may present significant conflicts of interest; and (iii) advisers’ non-advisory activities and their financial industry affiliations.^{NOTEREF_Ref296596779 \h * MERGEFORMAT} We also are making certain additional

^{NOTEREF_Ref296596779 \h * MERGEFORMAT} 17 CFR 279.1.

^{NOTEREF_Ref296596779 \h * MERGEFORMAT} 17 CFR 275.204-1.

^{NOTEREF_Ref296596779 \h * MERGEFORMAT} To be codified at 17 CFR 275.204-4.

^{NOTEREF_Ref296596779 \h * MERGEFORMAT} Pub. L. No. 111-203, 124 Stat. 1376 (2010). The adopting release is attached as Appendix A.

^{NOTEREF_Ref296596779 \h * MERGEFORMAT} See section II.C. of Appendix A.

changes intended to improve our ability to assess compliance risks and to enable us to identify the advisers that are covered by section 956 of the Dodd-Frank Act addressing certain incentive-based compensation arrangements.

Form ADV is the two-part investment adviser registration form. Part 1 of Form ADV contains information used primarily by Commission staff, and Part 2 is the client brochure. Rule 203-1 requires every person applying for investment adviser registration with the Commission to file Form ADV.^{NOTEREF _Ref296596779 \h * MERGEFORMAT} New rule 204-4 requires certain investment advisers exempt from registration with the Commission to file reports with the Commission by completing a limited number of items on Form ADV (“exempt reporting advisers”). Rule 204-1 requires each SEC-registered adviser to file amendments to Form ADV at least annually. As amended, rule 204-1 requires *any* adviser that is required to complete Form ADV to update the form at least annually, including the exempt reporting advisers that will report to the Commission pursuant to rule 204-4. The paperwork burdens associated with rules 203-1 and 204-1 are included in the approved annual burden associated with Form ADV and thus, do not entail a separate collection of information. The paperwork burdens associated with new rule 204-4 are also included in the approved annual burden associated with Form ADV and likewise does not entail a separate collection of information. The amendments to Form ADV and rule 204-1, and the adoption of rule 204-4, affect the annual aggregate burden associated with the collections of information for Form ADV. The collections are necessary to provide advisory clients, prospective clients, and the Commission with information about the adviser, and its business, conflicts of interest and personnel.

^{NOTEREF _Ref296596779 \h * MERGEFORMAT} The Commission is also amending rule 203-1 to delay registration of certain advisers to private funds. This amendment will not, however, create a collection of information for PRA purposes. See section III of Appendix A.

The title of the affected collection of information is: “Form ADV under the Investment Advisers Act of 1940.” Its OMB control number is 3235-0049. An agency may not conduct or sponsor, and a person is not required to respond to, a collection of information unless it displays a currently valid OMB control number.

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 an adviser, and its business, conflicts of interest and personnel. 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 an adviser and, if hired, how to manage that relationship.

This collection of information is found at 17 CFR 275.203-1, 275.204-1, 275.204-4, and 279.1, and it is mandatory. Responses are not kept confidential. Most of the respondents to the Form ADV collection of information are investment advisers registered with the Commission or applying for registration with the Commission. As a result of the adoption of new rule 204-4, additional respondents to the Form ADV collection of information are exempt reporting advisers. The information collected takes the form of disclosures to respondents’ clients, potential clients, and the Commission.

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 and reporting to the Commission. 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.

Exempt reporting advisers are subject to reporting, but not registration, requirements and must submit their reports through the IARD using the same process as registered investment advisers. Because exempt reporting advisers may be required to register on Form ADV with one or more state securities authorities, use of the existing form and filing system will also permit these advisers to satisfy both state and Commission requirements with a single electronic filing. Our approach permits an adviser to transition from filing reports with us to applying for registration under the Act by simply amending its Form ADV; the adviser would check the box to indicate it is filing an initial application for registration, complete the items it did not have to answer as an exempt reporting adviser, and update the pre-populated items that it already has on file.

4. Efforts to Identify Duplication

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

5. Effect on Small Entities

The requirements of the amendments to Form ADV are the same for all investment advisers registered with the Commission, and they are the same for all exempt reporting advisers, including (in both cases) those advisers that are small entities. Our rule and form amendments do not affect most advisers that are small entities because they are generally required to be registered with one or more state securities authorities and not with us.

6. Consequences of Less Frequent Collection

The collection of information required by the form is necessary to protect investors by providing clients and potential clients, as well as the Commission, with information about the adviser, and its business, conflicts of interest and personnel. 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 hire an adviser and, if hired, how to manage that relationship. 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

In its release proposing amendments to Form ADV and related rules (the “Implementing Proposing Release”), the Commission requested public comment on the effect of information collections under these amendments. NOTEREF_Ref296596779 \h * MERGEFORMAT

The Commission has considered all comments received on the proposal. Only a few commenters addressed the accuracy of our burden estimates for the proposed collection of information, and they suggested in general terms that our estimates were too low. NOTEREF_Ref296596779 \h * MERGEFORMAT These commenters did not provide empirical data or suggest alternatives by which to recalculate our estimates, making it difficult to evaluate these assertions or determine the magnitude by which their estimates differ from ours.

NOTEREF_Ref296596779 \h * MERGEFORMAT See *Rules Implementing Amendments to the Investment Advisers Act of 1940*, Investment Advisers Act Release No. 3110 (Nov. 19, 2010) [75 FR 77052 (Dec. 10, 2010)] (“Implementing Proposing Release”); Dodd-Frank Wall Street Reform and Consumer Protection Act, Pub. L. No. 111-203, 124 Stat. 1376 (2010).

NOTEREF_Ref296596779 \h * MERGEFORMAT Comment letter of the Alternative Investment Management Association (Jan. 24, 2011) (“AIMA Letter”); comment letter of Berkeley Center for Law, Business and the Economy (Jan. 31, 2011) (“BCLBE Letter”); comment letter of Gunderson Dettmer Stough Villeneuve Franklin & Hachigian, LLP (Jan. 24, 2011) (“Gunderson Letter”); comment letter of the Investment Adviser Association (by Valerie M. Baruch) (Jan. 24, 2011) (“IAA General Letter”).

To address these and other comments we received, however, we are adopting Form ADV with a number of changes that improve the clarity and utility of the information collected and reduce the amount of information required by the proposed amendments.^{NOTEREF_Ref296596779\h * MERGEFORMAT} In addition, the Commission 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

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

11. Sensitive Questions

Not applicable.

12. Estimates of Hour Burden

The current total annual burden for all advisers completing, amending, and filing Form ADV (Part 1 and Part 2) with the Commission, approved recently in connection with amendments we adopted recently to Part 2,^{NOTEREF_Ref296596779\h * MERGEFORMAT} is

^{NOTEREF_Ref296596779\h * MERGEFORMAT} See section II.C. of the Implementing Release.

^{NOTEREF_Ref296596779\h * MERGEFORMAT} See *Amendments to Form ADV*, Investment Advisers Act Release No. 3060 (July 28, 2010) [75 FR 49234 (Aug. 12, 2010)] (“Part 2 Release”), section VI at nn. 341 and 342 and accompanying text. This estimate includes the annual burden associated with advisers’ obligations to deliver to clients copies of their codes of ethics upon request.

268,457 hours.^{NOTEREF_Ref296596779 \h * MERGEFORMAT} This burden is based on an average total collection of information burden of 36.24 hours per adviser for the first year that an adviser completes Form ADV.

We expect that an increase in the information requested in Form ADV Part 1A as a result of the amendments will increase the currently approved collection of information associated with Form ADV. We expect, however, that the total annual burden associated with Form ADV will experience a net decrease because the reduction in burden resulting from the decrease in the number of respondents that are registered advisers will have a greater effect on the total burden than the increase resulting from the use of the form by exempt reporting advisers and the additional information required by amendments to the form. We discuss below, in three sub-sections, the estimated revised collection of information requirements for Form ADV: first, we address the change to the collection as a result of our amendments to Part 1A of Form ADV *excluding* those related to private fund reporting for registered advisers; second, we discuss the amendments related to private fund reporting for registered advisers; and third, we address the amendments to Part 1A of Form ADV for its use as a reporting form by exempt reporting advisers.

1. Changes in Average Burden Estimates and New Burden Estimates

a. Estimated Change in Burden Related to Part 1A Amendments (Not Including Private Fund Reporting)

We are adopting amendments to several items in Part 1A, some that are merely technical changes or very simple in nature, and others that will require more of an

^{NOTEREF_Ref296596779 \h * MERGEFORMAT} The approved burden is comprised of 11,658 advisers preparing an initial filing of Form ADV at 36.24 hours, which is amortized over a three-year period (the estimated period that advisers are expected to use Form ADV) for an annual burden of 152,909 hours. The burden also includes two amendments to Form ADV annually, one annual amendment and one other than annual amendment, for an annual burden of 87,435 hours; an annual burden of 11,658 hours to account for new brochure supplements that advisers are required to prepare; and 16,455 hours attributable to the obligation to deliver to clients codes of ethics upon request.

adviser's time. The paperwork burdens of filing an amended Part 1A of Form ADV will, however, vary among advisers, depending on factors such as the size of the adviser, the complexity of its operations, and the number or extent of its affiliations. Although burdens will vary among advisers, we believe that the revisions to Part 1A will impose few additional burdens on advisers in collecting information because advisers should have ready access to all the information necessary to respond to the revised items in their normal course of operations. We also are working with FINRA, as our IARD contractor, to implement measures intended to minimize the burden for advisers filing the amended Form ADV on the IARD (*e.g.*, pre-populating fields and drop-down boxes for common responses). We anticipate, moreover, that the responses to many of the questions are unlikely to change from year to year, minimizing the ongoing reporting burden associated with these questions.

As we explained in the Implementing Proposing Release, in large part, the changes we are making to Part 1A of Form ADV, including those to account for the statutory increase in the threshold for Commission registration, primarily refine or expand existing questions or request information advisers already have for compliance or fund offering purposes. For instance, some of the changes to Item 5 require advisers to provide numerical responses to certain questions about their employees. An adviser likely already had this information in order to respond to those questions in the previous version of the form by checking boxes that correspond to a range of numbers. Likewise, the amendments to Item 8 require an adviser to expand on information it provided in response to Item 8 in the previous version of the form, such as whether the broker-dealers the adviser recommends or has discretion to select for client transactions are related persons of the adviser. Other questions expand upon existing requirements to elicit information advisers already have available for compliance purposes, such as whether the

soft dollar benefits they reported receiving under the previous version of Item 8 qualify for the safe harbor under section 28(e) of the Exchange Act for eligible research or brokerage services. As amended, Item 2 requires an adviser to report to us its basis for registration or reporting, as already determined for compliance purposes. Other amendments to Items 5, 6 and 7 expand lists of information advisers already provided to us on the previous version of Form ADV, such as types of advisory activities the advisers perform and other types of business engaged in by advisers and their related persons. Amendments to Item 9 better align the information required to be reported with information advisers have for purposes of complying with rule 206(4)-2. Finally, we believe that several of the new questions merely require advisers to provide readily available or easily accessible information. NOTEREF_Ref296596779 \h * MERGEFORMAT

We anticipate that other amended questions may take longer for advisers to complete, even with readily available information, such as calculating regulatory assets under management according to our revised instruction. Other new items will likely present greater burdens for some advisers but not others, depending on the nature and complexity of their businesses, such as the requirement to provide a list of the Commission file numbers of investment companies they advise or providing expanded information about related person financial industry affiliates. NOTEREF_Ref296596779 \h * MERGEFORMAT

NOTEREF_Ref296596779 \h * MERGEFORMAT For example, Item 1 requires advisers to provide contact information for their Chief Compliance Officers and report whether they have \$1 billion or more in assets; Item 3 requires advisers to indicate their form of organization. See section II.C.6. of Appendix A.

NOTEREF_Ref296596779 \h * MERGEFORMAT Advisers may, however, omit certain related persons from their Schedule D reporting requirements in accordance with our revised instruction. We expect this change from the proposal will significantly reduce burdens associated with this item. See note 300 of Appendix A.

We estimate that these amendments, taken as a whole, will require an average of approximately 4.5 hours per adviser to complete. We have arrived at this estimate, in part, by comparing the relative complexity and availability of the information elicited by the amended items and the nature of the response required (*i.e.*, checking a box as opposed to providing a narrative response) to the current form and its approved burden. As a result, we estimate that the average total collection of information burden will increase to 40.74 hours per adviser for the first year that an adviser completes Form ADV (Part 1 and Part 2).^{NOTEREF_Ref296596779 \h * MERGEFORMAT}

b. New Estimated Burden Related to Private Fund Reporting Requirements

Revised Item 7.B. and Section 7.B. of Schedule D will provide us with basic census data on private funds and will permit us to conduct a more robust risk assessment of private fund advisers for purposes of targeting our examinations. As discussed in the Implementing Proposing Release, the information will include fund data such as basic organizational, operational, and investment characteristics of the fund; the gross amount of assets held by the fund; and the fund's service providers, or gatekeepers. We believe much of this information is readily available to private fund advisers because, among other things, it is information that private fund investors commonly seek in their due diligence questionnaires or it is the kind of information that is often included in a private placement memorandum offering fund shares, and commenters confirmed our understanding.^{NOTEREF_Ref296596779 \h * MERGEFORMAT}

^{NOTEREF_Ref296596779 \h * MERGEFORMAT} Current approved per adviser total (36.24) + estimated per adviser increase (4.5) = 40.74.

^{NOTEREF_Ref296596779 \h * MERGEFORMAT} See, with respect to private fund reporting under Item 7.B. specifically, Comment letter of Katten Muchin Rosenman LLP (on behalf of non-U.S. Advisers) (Jan. 24, 2011) ("Katten Foreign Advisers Letter") ("Virtually all of the requested information would already have been provided to investors in the fund through an offering document or follow up status reports.") and comment letter of the National Regulatory Services (Jan. 24, 2011) ("NRS Letter") (arguing that the expanded private

Although we understand that the required information is readily available to private fund advisers, we expect that these amendments could subject advisers, particularly those with many private funds, to a significantly increased paperwork burden. For this reason, as we explained in the Implementing Proposing Release, we have included several measures to minimize the increased burden associated with private fund reporting. First, an adviser will be permitted to exclude from its reporting on Section 7.B.(1) of Schedule D any private fund for which another adviser is filing Section 7.B.(1). Second, an adviser managing a master-feeder arrangement will be permitted to submit a single Schedule D for the master fund and all of the feeder funds if separately submitted data would otherwise be substantially identical. Finally, an adviser with a principal office and place of business outside the United States may omit from Section 7.B.(1) of Schedule D any private fund that, during the adviser’s last fiscal year, was not a United States person, was not offered in the United States and was not beneficially owned by any United States person. We are also working with FINRA to implement measures in the IARD intended to minimize the burden for advisers filing amended Form ADV, such as the ability to automatically pre-populate private fund service provider information provided for other funds managed by the same adviser. In addition, although we are generally expanding the information previously required in Section 7.B.(1), we have removed the requirement that advisers report the funds that their related persons manage.

fund disclosures on Schedule D would “replicate the due diligence questionnaire information...”). *See also* Comment letter of the American Bar Association, Section of Business Law, Committee on Federal Regulation of Securities, Committee on State Regulation of Securities, and the Committee on Private Equity and Venture Capital (Jan. 31, 2011) (“ABA Committees Letter”) (“We expect that most [exempt reporting advisers] will already have most of the information requested by Form ADV Part 1 readily available.”); comment letter of Georg Merkl (Jan. 25, 2011) (“Merkl Implementing Letter”) (confirming that the disclosure requirements would not impose a significant burden on advisers).

Considering the changes to Item 7.B. and Section 7.B. of Schedule D as a whole, as well as our efforts to mitigate the reporting burden and to make technological upgrades to the IARD, we estimate that each adviser managing private funds will spend, on average, 1 hour per private fund to complete these questions.

c. New Estimated Burden Related to Exempt Reporting Adviser Reporting Requirements

Exempt reporting advisers are required to complete a limited number of items in Part 1A of Form ADV (consisting of Items 1, 2.B., 3, 6, 7, 10, 11 and corresponding schedules), and are not required to complete Part 2. We believe the information required by these items should be readily available to any adviser, particularly the identifying data and control person information required by Items 1, 3, and 10, and commenters agreed.^{NOTEREF_Ref296596779 \h * MERGEFORMAT} As we noted in the Implementing Proposing Release, the check-the-box style of most of these items, as well as some of the features of the IARD (such as drop-down boxes for common responses) should also keep the average completion time for these advisers to a minimum.^{NOTEREF_Ref296596779 \h * MERGEFORMAT} Moreover, in our staff's experience, the types of advisers that will meet the criteria for exempt reporting advisers are unlikely to have significantly large numbers of affiliations, and we do not expect that they will need to report disciplinary events at a greater rate than currently registered advisers.^{NOTEREF_Ref296596779 \h * MERGEFORMAT} We estimate that these items, other than Item 7.B., will take each exempt reporting adviser approximately 2 hours to complete. We anticipate that, like registered advisers, exempt reporting advisers

^{NOTEREF_Ref296596779 \h * MERGEFORMAT} See *id.*

^{NOTEREF_Ref296596779 \h * MERGEFORMAT} See Implementing Proposing Release, *supra* note 7, at section V.B.1.c.

^{NOTEREF_Ref296596779 \h * MERGEFORMAT} As of April 7, 2011, approximately 13% of SEC-registered investment advisers reported a disclosure in Item 11 of Form ADV.

will each spend 1 additional hour per private fund to complete Item 7.B. and Section 7.B of Schedule D.

2. Annual Burden Estimates

a. Estimated Annual Burden Applicable to All Registered Investment Advisers

i. Estimated Initial Hour Burden (Not Including Burden Applicable to Private Funds)

As a result of the transition filing discussed in the Commission's release adopting these rules, ^{NOTEREF_Ref296596779 \h * MERGEFORMAT} we expect the total number of registered advisers responding to this collection of information will be 9,750. Approximately 11,500 investment advisers are currently registered with the Commission. ^{NOTEREF_Ref296596779 \h * MERGEFORMAT} We expect 3,200 will withdraw from registration. ^{NOTEREF_Ref296596779 \h * MERGEFORMAT} We expect about 750 advisers who currently rely on the private adviser exemption to apply for registration with us, and we estimate that approximately 700 new advisers will register with us each year following effectiveness of the Dodd-Frank Act amendments. ^{NOTEREF_Ref296596779 \h * MERGEFORMAT}

The estimated total annual burden applicable to these registered advisers, including new registrants, but excluding private fund reporting requirements, is 397,215 hours. ^{NOTEREF_Ref296596779 \h * MERGEFORMAT} As discussed in the Implementing Proposing

^{NOTEREF_Ref296596779 \h * MERGEFORMAT} See section V.B.1. of Appendix A.

^{NOTEREF_Ref296596779 \h * MERGEFORMAT} Based on IARD data as of April 7, 2011.

^{NOTEREF_Ref296596779 \h * MERGEFORMAT} As a consequence of section 410 of the Dodd-Frank Act, we estimate that approximately 3,200 advisers currently registered with the Commission will be required to withdraw their registration and register with one or more state securities authorities. See section V.B.1. of Appendix A.

^{NOTEREF_Ref296596779 \h * MERGEFORMAT} $(3,200 \text{ (SEC advisers expected to withdraw from registration)} / 11,500 \text{ (total SEC advisers)}) \times 1000 \text{ (average number of new advisers registered with the Commission each year)} = 0.28 \times 1000 = 280 \text{ (number of additional new advisers registering with the states, not the SEC). } 1000 - 280 = 720. \text{ We have rounded this number to 700 for purposes of our analysis.}$

^{NOTEREF_Ref296596779 \h * MERGEFORMAT} $40.74 \text{ per-adviser burden} \times 9,750 = 397,215 \text{ hours.}$

Release, we believe that most of the paperwork burden will be incurred in advisers' initial submission of the new and amended items of Part 1A of Form ADV, and that over time this burden will decrease substantially because advisers will generally only need to report updating information.^{NOTEREF_Ref296596779 \h * MERGEFORMAT} Amortizing this total burden over a three-year period to reflect the anticipated average period of time that advisers will use the revised form will result in an average estimated burden of 132,405 hours per year,^{NOTEREF_Ref296596779 \h * MERGEFORMAT} or 13.58 hours per year for each new applicant and for each currently registered adviser that will remain registered with the Commission.^{NOTEREF_Ref296596779 \h * MERGEFORMAT}

ii. Estimated Initial Hour Burden Applicable to All Registered Advisers to Private Funds

The amount of time that a registered adviser managing private funds will incur to complete Item 7.B. and Section 7.B. of Schedule D will vary depending on the number of private funds the adviser manages. Of the advisers currently registered with us, we estimate that approximately 2,850 advise private funds, will remain registered with us following effectiveness of the Dodd-Frank Act amendments and have a December 31 fiscal year end.^{NOTEREF_Ref296596779 \h * MERGEFORMAT} Based on these advisers' Form ADV filings, we estimate that 52% of them, or approximately 1,480, currently advise an average of 3 private funds each; 43%, or approximately 1,230 advisers, currently advise

^{NOTEREF_Ref296596779 \h * MERGEFORMAT} See Implementing Proposing Release, *supra* note 7, at section V.B.2.a.i.

^{NOTEREF_Ref296596779 \h * MERGEFORMAT} $397,215 / 3 = 132,405$.

^{NOTEREF_Ref296596779 \h * MERGEFORMAT} $132,405 / 9,750 = 13.58$.

^{NOTEREF_Ref296596779 \h * MERGEFORMAT} IARD data as of April 7, 2011 show that 3,700 advisers indicate by reporting a fund in Schedule D, Section 7.B. that they, or a related person, advise private funds or investment-related funds. Based on IARD data, we estimate that 850 of these 3,700 advisers have a fiscal year end other than December 31 or will switch to state registration. See note 529 of Appendix A. With respect to these 850 advisers, the burden of reporting this information is accounted for under rule 203A-5. See note 768 of Appendix A. $3,700 - 850 = 2,850$.

an average of 10 private funds each; and the remaining 5%, or approximately 140

advisers, currently advise an average of 79 private funds

each. ^{NOTEREF_Ref296596779 \h *} MERGEFORMAT As we discussed above, we estimate that private fund advisers will spend, on average, 1 hour per private fund completing Item 7.B. and Section 7.B. of Schedule D. As a result, the private fund reporting requirements that will be applicable to registered investment advisers will add 27,800 hours to the overall annual burden applicable to registered advisers. ^{NOTEREF_Ref296596779 \h *} MERGEFORMAT

In addition to currently registered private fund advisers, we estimate that about 200 new private fund advisers will register with us annually ^{NOTEREF_Ref296596779 \h *} MERGEFORMAT and that 750 advisers will register with us that previously relied on the private adviser exemption. We believe that these 950 newly registering private fund advisers will, on average, be similar to the currently registered private fund advisers. However, in contrast to the currently registered advisers, this group is unlikely to include any advisers managing a large number of private funds. For example, among the 750 advisers that currently rely on the private adviser exemption, we would not expect any of them to have more than 14 private fund clients, the most that had been allowed under the exemption provided by section 203(b)(3) of the Advisers Act. In addition, for the 200 new private fund advisers that we expect to register each year, the

^{NOTEREF_Ref296596779 \h *} MERGEFORMAT Based on IARD data as of April 7, 2011. Form ADV currently asks for an adviser to report about investment-related partnerships and limited liability companies advised by the adviser *and* its related persons. As a result, the data we have obtained from IARD over-estimates the average number of funds as a result of reporting of the same fund multiple times by affiliated registered advisers.

^{NOTEREF_Ref296596779 \h *} MERGEFORMAT $(1,480 \text{ advisers} \times 3 \text{ hours (3 funds} \times 1 \text{ hour per fund)}) + (1,230 \text{ advisers} \times 10 \text{ hours (10 funds} \times 1 \text{ hour per fund)}) + (140 \text{ advisers} \times 79 \text{ hours} \times 1 \text{ hour per fund}) = 4,440 + 12,300 + 11,060 = 27,800.$

^{NOTEREF_Ref296596779 \h *} MERGEFORMAT About 30% of current registrants report that they advise one or more private funds. (3,700 advisers to private funds / 11,500 registered advisers). Applying the same proportion to the 700 new registrants that we have estimated will register with us annually results in approximately 210 additional advisers to private funds each year. ($700 \times 0.30 = 210$).

elimination of the private adviser exemption means that they will be subject to registration requirements even if they have only a single private fund client as long as they are not eligible for another exemption. As a result, we estimate that the average newly registering private fund adviser will (like the average currently registered private fund adviser) manage approximately 6 private funds, ^{NOTEREF _Ref296596779 \h * MERGEFORMAT} but we do not anticipate that any subgroup of these new registrants will manage a large number of private funds (unlike the 5% of currently registered private fund advisers that we estimate manage an average of 79 private funds each). Based on these estimates, we expect that private fund reporting requirements will add 4,500 hours attributable to the 750 advisers registering because of the elimination of the private adviser exemption ^{NOTEREF _Ref296596779 \h * MERGEFORMAT} and 1,200 hours attributable to private fund advisers registering as a result of normal growth. ^{NOTEREF _Ref296596779 \h * MERGEFORMAT}

The total annual burden related to private fund reporting by registered advisers is 33,500 hours. ^{NOTEREF _Ref296596779 \h * MERGEFORMAT} As we discussed in the Implementing Proposing Release, we believe that most of the paperwork burden will be incurred in connection with advisers' initial submission of private fund data, and that over time this burden would decrease substantially because the paperwork burden will be limited to updating information. ^{NOTEREF _Ref296596779 \h * MERGEFORMAT} Amortizing this total burden

^{NOTEREF _Ref296596779 \h * MERGEFORMAT} Approximately 65% of advisers that reported a fund in Schedule D, Section 7.B. listed five or fewer funds and 72% of advisers that registered since April 1, 2010 and reported a fund reported five or fewer private funds. The average number of private funds reported by new registrants in the past year is about 6 funds.

^{NOTEREF _Ref296596779 \h * MERGEFORMAT} 750 advisers x 6 private funds on average x 1 hour/private fund = 4,500.

^{NOTEREF _Ref296596779 \h * MERGEFORMAT} 200 advisers x 6 private funds on average x 1 hour/private fund = 1,200.

^{NOTEREF _Ref296596779 \h * MERGEFORMAT} 27,800 for existing registered advisers + 4,500 for no longer exempt advisers + 1,200 for estimated new registrants due to growth = 33,500.

^{NOTEREF _Ref296596779 \h * MERGEFORMAT} See Implementing Proposing Release, *supra* note 7, at section V.B.2.a.ii.

imposed by Form ADV over a three-year period, as we did above with respect to the initial filing or re-filing of the rest of the form, results in an average estimated burden of 11,167 hours per year,^{NOTEREF _Ref296596779 \h * MERGEFORMAT} or 2.94 hours per year for each new private fund adviser and for each private fund adviser currently registered with the Commission.^{NOTEREF _Ref296596779 \h * MERGEFORMAT}

iii. Estimated Annual Burden Associated with Amendments, New Brochure Supplements and Delivery Obligations

The currently approved collection of information burden for Form ADV has three elements not discussed above: (i) the annual burden associated with annual and other amendments to Form ADV; (ii) the annual burden associated with creating new Part 2 brochure supplements for advisory employees and filing interim amendments to existing brochure supplements throughout the year; and (iii) the annual burden associated with delivering codes of ethics to clients as a result of the offer of such codes contained in the brochure. Although we do not anticipate that the amendments we are adopting to Form ADV will affect the per adviser burden imposed by these three elements, the Dodd-Frank Act's amendments to sections 203A and 203(b)(3) will change our estimates of the number of advisers subject to them, which will result in a change to the total annual burden associated with these elements of the collection of information for Form ADV.^{NOTEREF _Ref296596779 \h * MERGEFORMAT}

Based on IARD data, we continue to estimate that, on average, each adviser filing Form ADV through the IARD will amend its form two times during the

^{NOTEREF _Ref296596779 \h * MERGEFORMAT} $33,500 / 3 = 11,167.$

^{NOTEREF _Ref296596779 \h * MERGEFORMAT} $11,167 / (2,850 + 200 + 750) = 2.94.$

^{NOTEREF _Ref296596779 \h * MERGEFORMAT} We anticipate that the clarification we are making to the brochure supplement (Part 2B) would not affect this burden estimate. See note 337 of Appendix A and accompanying text for a discussion of this clarifying amendment.

year.^{NOTEREF_Ref296596779 \h * MERGEFORMAT} On average, these consist of one interim updating amendment (at an estimated 0.5 hours per amendment) and one annual updating amendment (at an estimated 6 hours per amendment) each year. In addition, we estimate that each adviser will, on average, spend 1 hour per year making interim amendments to brochure supplements and an additional 1 hour per year to prepare new brochure supplements as required by Part 2.^{NOTEREF_Ref296596779 \h * MERGEFORMAT} We also expect advisers to continue to spend an average of 1.3 hours annually to meet obligations to deliver codes of ethics to clients.^{NOTEREF_Ref296596779 \h * MERGEFORMAT} These obligations will add 95,550 hours annually to the collection of information, consisting of 63,375 hours attributable to annual and interim updating amendments,^{NOTEREF_Ref296596779 \h * MERGEFORMAT} 9,750 hours attributable to interim amendments to brochure supplements,^{NOTEREF_Ref296596779 \h * MERGEFORMAT} 9,750 hours attributable to the creation of new brochure supplements,^{NOTEREF_Ref296596779 \h * MERGEFORMAT} and 12,675 hours for delivery of codes of ethics.^{NOTEREF_Ref296596779 \h * MERGEFORMAT}

b. Estimated Annual Burden Applicable to Exempt Reporting Advisers

i. Estimated Initial Hour Burden

Based on publications, reports, and general information publicly available from trade organizations, financial research companies, and news organizations as well as safe

^{NOTEREF_Ref296596779 \h * MERGEFORMAT} Based on IARD data regarding the number of filings of Form ADV amendments. *See* Part 2 Release, *supra* note 10, at n.329.

^{NOTEREF_Ref296596779 \h * MERGEFORMAT} *See* Part 2 Release, *supra* note 10, at nn.333, 336-37 and accompanying text.

^{NOTEREF_Ref296596779 \h * MERGEFORMAT} *Id.*

^{NOTEREF_Ref296596779 \h * MERGEFORMAT} (9,750 advisers x 0.5 hours/other than annual amendment) + (9,750 advisers x 6 hours/annual amendment) = 63,375.

^{NOTEREF_Ref296596779 \h * MERGEFORMAT} 9,750 advisers x 1 hour = 9,750.

^{NOTEREF_Ref296596779 \h * MERGEFORMAT} 9,750 advisers x 1 hour = 9,750.

^{NOTEREF_Ref296596779 \h * MERGEFORMAT} 9,750 advisers x 1.3 hours = 12,675.

harbor filings with the SEC, we expect approximately 2,000 investment advisers will qualify for an exemption from registration but will be required to submit reports to us on Form ADV. NOTEREF _Ref296596779 \h * MERGEFORMAT As we explained in the Implementing Proposing Release, the paperwork burden applicable to these new exempt reporting advisers will consist of the burden attributable to completing a limited number of items in Part 1A as well as the burden attributable to the private fund reporting requirements of Item 7.B. and Section 7.B. of Schedule D. NOTEREF _Ref296596779 \h * MERGEFORMAT We estimated the burden to complete the subset of items in Part 1A applicable to exempt reporting advisers to be 2 hours, which would result in an annual burden of approximately 4,000 hours.

As discussed above, we estimate the private fund reporting requirements of the form to be 1 hour per private fund. We assume that each exempt reporting adviser currently relies on the private adviser exemption and, therefore, has 14 or fewer private fund clients. Based on reporting by registered advisers to private funds and industry publications and reports, we expect each of these advisers, on average, advises 6 private funds. NOTEREF _Ref296596779 \h * MERGEFORMAT Accordingly, we attribute an additional 12,000

NOTEREF _Ref296596779 \h * MERGEFORMAT This estimate was collectively derived from various sources including the National Venture Capital Association's 2010 Yearbook (<http://www.nvca.org>), First Research reports (<http://www.firstresearch.com>), Preqin reports (<http://www.preqin.com>), Bloomberg (<http://www.bloomberg.com>), the Managed Funds Association (<http://www.managedfunds.org>), PerTrac data (<http://www.pertrac.com>), and Form D data. Specific data relevant to the number or types of advisers that would be exempt reporting advisers were not available, but the information located did inform the staff to the probable number of exempt reporting advisers.

NOTEREF _Ref296596779 \h * MERGEFORMAT See section V.B.2.b.i. of Appendix A.

NOTEREF _Ref296596779 \h * MERGEFORMAT *Id.* Based upon the reported general number of private funds and the estimated number of advisers to these private funds, it is estimated that each adviser advises 6 private funds on average. Approximately 2,000 exempt reporting advisers x 6 private funds/adviser = 12,000 private funds. This represents an increase from our estimate of 10,000 private funds in the Implementing Proposing Release, which is attributable to updated IARD data that indicate each private fund adviser now advises approximately 6 funds, instead of 5. Compare note 700 of Appendix A with Implementing Proposing Release, *supra* note 7, at n.406.

burden hours to exempt reporting advisers' private fund reporting

requirements. NOTEREF _Ref296596779 \h * MERGEFORMAT

The estimated total annual hour burden applicable to exempt reporting advisers is 16,000 hours. NOTEREF _Ref296596779 \h * MERGEFORMAT We believe that most of the paperwork burden will be incurred in respect of the initial submission of Form ADV, and that over time this burden will decrease substantially because the paperwork burden will be limited to updating information. Amortizing this total burden imposed by Form ADV over a three-year period, as we did above with respect to the initial filing for registered advisers, results in an average burden of an estimated 5,330 hours per year, NOTEREF _Ref296596779 \h * MERGEFORMAT or 2.67 hours per year, on average, for each exempt reporting adviser. NOTEREF _Ref296596779 \h * MERGEFORMAT

ii. Estimated Annual Burden Associated with Amendments and Final Filings

In addition to the burdens associated with initial completion and filing of the portion of the form that exempt reporting advisers will be required to prepare, as in the Implementing Proposing Release, we estimate that, on average: (i) each exempt reporting adviser will prepare an annual updating amendment; (ii) 20% of these advisers will file

NOTEREF _Ref296596779 \h * MERGEFORMAT 2,000 exempt reporting advisers x 6 private funds/adviser x 1 hour/private fund = 12,000.

NOTEREF _Ref296596779 \h * MERGEFORMAT 4,000 hours attributable to the portions of Form ADV that these advisers are required to file other than the private fund reporting + 12,000 hours attributable to private fund reporting = 16,000 hours.

NOTEREF _Ref296596779 \h * MERGEFORMAT 16,000 / 3 = 5,330.

NOTEREF _Ref296596779 \h * MERGEFORMAT 5,330 / 2,000 = 2.67.

an interim updating amendment; ^{NOTEREF_Ref296596779 \h * MERGEFORMAT} and (iii) 5% of these advisers will file a final filing. ^{NOTEREF_Ref296596779 \h * MERGEFORMAT}

With respect to an exempt reporting adviser's annual updating amendment of Form ADV, we expect that advisers will not need to spend a significant amount of time entering responses into the electronic version of the form to file their annual updating amendments because the IARD will automatically pre-populate their prior responses. Based on this consideration, we estimate that the average exempt reporting adviser will spend 1 hour per year completing its annual updating amendment to Form ADV. This estimate is based on our estimate for registered advisers, but it is 85% shorter because exempt reporting advisers will be required to complete and update only a limited number of items in Part 1A of the form. We also estimate that 20% of the exempt reporting advisers will file an interim updating amendment to Items 1, 3, 10 or 11 of Form ADV, ^{NOTEREF_Ref296596779 \h * MERGEFORMAT} and we estimate that each such amendment will require 0.5 hours. Based on the foregoing estimates, the total paperwork burden of amendments to Form ADV and final filings on Form ADV will be 2,200 hours per year for all exempt reporting advisers. ^{NOTEREF_Ref296596779 \h * MERGEFORMAT}

^{NOTEREF_Ref296596779 \h * MERGEFORMAT} Approximately 20% of advisers with a fiscal year end of December that filed an other-than-annual amendment changed Item 1 or 11 between April 1, 2009, and December 31, 2009 (period between annual amendment filing time).

^{NOTEREF_Ref296596779 \h * MERGEFORMAT} Approximately 5% of advisers withdrew their SEC registrations in 2010 and did not switch to state registration, based on IARD data. We are assuming the same percentage of exempt reporting advisers will submit final reports and not simultaneously apply for registration with the Commission. Exempt reporting advisers filing a final report because they are applying for registration are not included in this count because there is no independent burden associated with making this type of final filing; they are, therefore, included in the number of advisers expected to register each year as a result of normal annual growth. *See supra* note 22.

^{NOTEREF_Ref296596779 \h * MERGEFORMAT} *See* amended Form ADV: General Instruction 4.

^{NOTEREF_Ref296596779 \h * MERGEFORMAT} 2,000 advisers x 1 hour = 2,000 hours per year for annual amendments. (2,000 advisers x 20%) x 0.5 hours = 200 hours per year for interim amendments. 200 + 2,000 = 2,200 hours. Exempt reporting advisers are not required to complete Part 2 of Form ADV and so will not incur an hour burden to prepare new brochure supplements or the cost burden that registered advisers will incur with respect to

3. Monetized Total Hour Burden

The revised total annual collection of information burden for registered advisers to file and complete the revised Form ADV (Parts 1 and 2), including the initial burden for both existing and anticipated new registrants, including private fund advisers, plus the burden associated with amendments to the form, preparing brochure supplements and delivering codes of ethics to clients is estimated to be approximately 239,122 hours per year, ^{NOTEREF_Ref296596779 \h * MERGEFORMAT} for a monetized total of

\$60,736,988. ^{NOTEREF_Ref296596779 \h * MERGEFORMAT} The total annual collection of information burden for exempt reporting advisers to file and complete the required Items of Part 1A of Form ADV, including the burden associated with amendments to the form, is estimated to be 7,530 hours, ^{NOTEREF_Ref296596779 \h * MERGEFORMAT} for a monetized total of \$1,912,620. ^{NOTEREF_Ref296596779 \h * MERGEFORMAT} We, therefore, estimate that the total annual

that part of the form. Exempt reporting advisers also will not be required to meet obligations to deliver codes of ethics to clients, as is required of registered advisers.

^{NOTEREF_Ref296596779 \h * MERGEFORMAT} 132,405 hours per year attributable to initial preparation of Form ADV + 11,167 hours per year attributable to initial private fund reporting requirements + 63,375 hours per year for amendments to Form ADV + 9,750 hours per year for brochure supplements for new employees + 9,750 hours per year for brochure interim amendments + 12,675 hours per year to meet code of ethics delivery obligations = 239,122 hours.

^{NOTEREF_Ref296596779 \h * MERGEFORMAT} We expect that the performance of this function would most likely be equally allocated between a senior compliance examiner and a compliance manager, or persons performing similar functions. Data from the SIFMA Management and Earnings Report, modified to account for an 1,800-hour work-year and multiplied by 5.35 to account for bonuses, firm size, employee benefits and overhead, suggest that costs for these positions are \$235 and \$273 per hour, respectively. [119,561 hours x \$235 = \$28,096,835] + [119,561 hours x \$273 = \$32,640,153] = \$60,736,988. For a registered adviser that does not already have a senior compliance examiner or a compliance manager, we expect that a person performing a similar function would have similar hourly costs.

^{NOTEREF_Ref296596779 \h * MERGEFORMAT} 5,330 hours per year attributable to initial preparation of Form ADV + 2,200 hours per year for amendments = 7,530 hours.

^{NOTEREF_Ref296596779 \h * MERGEFORMAT} We expect that the performance of this function would most likely be equally allocated between a senior compliance examiner and a compliance manager, or persons performing similar functions. Data from the SIFMA Management and Earnings Report, modified to account for an 1,800-hour work-year and multiplied by 5.35 to account for bonuses, firm size, employee benefits and overhead, suggest that costs for these positions are \$235 and \$273 per hour, respectively. [3,765 hours x \$235 = \$884,775] + [3,765 hours x \$273 = \$1,027,845] = \$1,912,620. For an exempt reporting

hour burden for the form will decrease by 21,805 hours to 246,652, ^{NOTEREF_Ref296596779 \h * MERGEFORMAT} for a monetized total of \$62,649,608. ^{NOTEREF_Ref296596779 \h * MERGEFORMAT} The resulting blended average per adviser amortized burden for Form ADV is 20.99 hours ^{NOTEREF_Ref296596779 \h * MERGEFORMAT} (for a monetized total of approximately \$5,332), ^{NOTEREF_Ref296596779 \h * MERGEFORMAT} which consists of an average annual amortized burden of 24.52 hours (for a monetized total of approximately \$6,229) for each of the estimated 9,750 registered advisers, and 3.77 hours (for a monetized total of approximately \$956) for each of the estimated 2,000 exempt reporting advisers. ^{NOTEREF_Ref296596779 \h * MERGEFORMAT}

13. Estimate of Total Annual Cost Burden

The currently approved collection of information burden for Form ADV has a one-time initial cost for outside legal and compliance consulting fees in connection with the initial preparation of Part 2 of Form ADV. Although we do not anticipate that the amendments we are adopting to Form ADV will affect the per adviser cost burden estimates for outside legal and compliance consulting fees, the Dodd-Frank Act’s amendments to sections 203A and 203(b)(3) of the Advisers Act will result in a significant change to our estimates of the number of advisers subject to these costs. We discuss this aspect of the annual cost burden more fully below. In addition to the

adviser that does not already have a senior compliance examiner or a compliance manager, we expect that a person performing a similar function would have similar hourly costs.

^{NOTEREF_Ref296596779 \h * MERGEFORMAT} $239,122 + 7,530 = 246,652.$

^{NOTEREF_Ref296596779 \h * MERGEFORMAT} $\$60,736,988 + \$1,912,620 = \$62,649,608.$

^{NOTEREF_Ref296596779 \h * MERGEFORMAT} $246,652 / 11,750 = 20.99.$

^{NOTEREF_Ref296596779 \h * MERGEFORMAT} $62,649,608 / 11,750 = 5,331.88$

^{NOTEREF_Ref296596779 \h * MERGEFORMAT} Hours: registered advisers ($239,122 / 9,750 = 24.52$), exempt reporting advisers ($7,530 / 2,000 = 3.77$). Monetized cost: registered advisers ($\$60,736,988 / 9,750 = \$6,229.43$), exempt reporting advisers ($\$1,912,620 / 2,000 = \956.31).

estimated legal and compliance consulting fees, we also anticipate that some registered advisers may incur additional outside costs related to the Form ADV amendments we are adopting today that require advisers to report the fair value of private fund assets.

Advisers to private funds that do not use fair value methodologies will likely incur costs to comply with the requirement to report the fair value of those assets on Form ADV, which could (but is not required to) include reliance on a third party or outside valuation service. We anticipate that these costs will vary, but we understand that private fund advisers, including those that may not use fair value methodologies for reporting purposes, perform administrative services, including valuing assets, internally as a matter of business practice. Based on registered advisers' responses to Items 5.D., 7.B., and 9.C. of Form ADV, we estimate that approximately 3% of registered advisers have at least one private fund client that may not be audited. These advisers therefore may incur costs to fair

See Form ADV: Instructions for Part 1A, instr. 5.b.(4).

For example, an adviser to a hedge fund may value fund assets for purposes of allowing new investments in the fund or redemptions by existing investors, which may be permitted on a regular basis after an initial lock-up period. An adviser to a private equity fund may obtain valuation of portfolio companies in which the fund invests in connection with financing obtained by those companies. Advisers to private funds also may value portfolio companies each time the fund makes (or considers making) a follow-on investment in the company. Private fund advisers could use these valuations as a basis for complying with the fair valuation requirement with respect to private fund assets.

Item 5.D. asks advisers to identify the types of clients they have, including clients that are pooled investment vehicles. Item 7.B. asks if the adviser or its related person is a general partner in an investment-related limited partnership or manager of an investment-related limited liability company, or if the adviser advises any other "private fund." Item 9.C. asks whether an independent public accountant audits annually the pooled investment vehicles that the adviser manages and if audited financial statements are distributed to investors in the pools.

A fund that is relying on the audit provision in our custody rule will have provided the fair value of its assets in its audited financial statements that are prepared in accordance with GAAP.

value their private fund assets.^{NOTEREF _Ref296596779 \h * MERGEFORMAT} As explained above, we estimate that approximately 4,270 registered advisers have, or after registering with us will have, at least one private fund client.^{NOTEREF _Ref296596779 \h * MERGEFORMAT} We therefore estimate that approximately 130 registered advisers may incur costs as a result of the fair value requirement.^{NOTEREF _Ref296596779 \h * MERGEFORMAT} We estimated in the Implementing Proposing Release that an adviser without the internal capacity to value specific illiquid assets would obtain pricing or valuation services from an outside administrator or other service provider at a cost ranging from \$250 to \$75,000 annually.^{NOTEREF _Ref296596779 \h * MERGEFORMAT} Commenters did not address these estimates, and we continue to believe they are accurate. Accordingly, we estimate that the 130 advisers will incur costs of \$37,625 each on an annual basis, which is the middle of the range of estimated fair value costs, for an aggregate annual cost of \$4,891,250.^{NOTEREF _Ref296596779 \h * MERGEFORMAT}

With respect to outside legal assistance or outside consulting services, the currently approved collection of information burden is based on an estimate that some, but not all, registered advisers will elect to obtain these services on a one-time basis to draft the new narrative brochure for a total cost of

^{NOTEREF _Ref296596779 \h * MERGEFORMAT} We note, however, that at least some of these advisers may currently fair value private fund assets. For instance, funds that do not prepare financial statements in accordance with GAAP (which is required to rely on an exception in our custody rule) may nonetheless use a fair value standard other than that specified in GAAP and thus may not incur any additional costs. See notes 98-100 of Appendix A and accompanying text (explaining that an adviser may adopt a fair valuation standard other than GAAP or another international accounting standard that will satisfy the requirement, if developed and applied in good faith).

^{NOTEREF _Ref296596779 \h * MERGEFORMAT} See note 637 of Appendix A.

^{NOTEREF _Ref296596779 \h * MERGEFORMAT} $4,270 \times 0.03 = 128.1$.

^{NOTEREF _Ref296596779 \h * MERGEFORMAT} See Implementing Proposing Release, *supra* note 7, at n.369 and accompanying text.

^{NOTEREF _Ref296596779 \h * MERGEFORMAT} $130 \times \$37,625 = \$4,891,250$.

\$22,775,400.^{NOTEREF _Ref296596779 \h * MERGEFORMAT} By the time the amendments to Form ADV that we are adopting today become effective, substantially all registered advisers will have completed their initial filing of the narrative brochure required by our recent amendments to Part 2 of Form ADV and will have already incurred these estimated one-time costs.^{NOTEREF _Ref296596779 \h * MERGEFORMAT} As a result, the only respondents that we expect will incur legal and consulting costs for the initial drafting of Part 2 of Form ADV, subsequent to the effective date of the amendments to Form ADV we are adopting today, will consist of the estimated 700 new advisers that we expect to register annually and the estimated 750 advisers that will have to register as a result of the elimination of the private adviser exemption.^{NOTEREF _Ref296596779 \h * MERGEFORMAT}

For purposes of estimating the currently approved amount of this one-time cost, we divided advisers into three groups – small, medium and large – based on their number of employees. Different costs per adviser were assigned based on the group to which the adviser belongs.^{NOTEREF _Ref296596779 \h * MERGEFORMAT} We expect that the 750 newly registering private fund advisers and 700 new advisers registering annually will be medium-sized.^{NOTEREF _Ref296596779 \h * MERGEFORMAT} In the Part 2 Release, we estimated that the initial cost related to preparation of Part 2 of Form ADV would be \$4,400 for legal

^{NOTEREF _Ref296596779 \h * MERGEFORMAT} See Part 2 Release, *supra* note 10, at text accompanying n.328. We estimated that a total of 2,941 advisers would elect to obtain outside legal assistance and that 3,441 advisers would elect to obtain outside consulting services.

^{NOTEREF _Ref296596779 \h * MERGEFORMAT} See *id.* at section V.

^{NOTEREF _Ref296596779 \h * MERGEFORMAT} See *supra* note 22 and text following note 30.

^{NOTEREF _Ref296596779 \h * MERGEFORMAT} For purposes of this estimate, we categorize small advisers as advisers with 10 or fewer employees, medium advisers as having between 11 and 1,000 employees, and large advisers as those with 1,000 or more employees. See Part 2 Release, *supra* note 10, at nn.301 and 324.

^{NOTEREF _Ref296596779 \h * MERGEFORMAT} We would not expect these advisers to be large in this sense because advisers are likely to have become subject to registration obligations before engaging 1,000 or more employees. Some of these advisers may be small, but the increase in the threshold for registration with the Commission will limit the number of small advisers registering with us.

services and \$5,000 for compliance consulting services, in each case, for those medium-sized advisers who engaged legal counsel or consultants.¹ The currently approved burden anticipates that a quarter of medium-sized advisers would seek the help of outside legal services and half would seek the help of compliance consulting services. Accordingly, we estimate that 350 of these advisers would use outside legal services, for a total cost burden of \$1,540,000,² and 725 advisers would use outside compliance consulting services, for a total cost burden of \$3,625,000,³ resulting in a total cost burden among all respondents of \$5,165,000 for outside legal and compliance consulting fees related to drafting narrative brochures.⁴

Together, we estimate that the total cost burden among all respondents for outside legal and compliance consulting fees related to drafting narrative brochures and for third party or outside valuation services to be \$10,056,250.⁵

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

The revised total annual collection of information burden for registered advisers to file and complete the revised Form ADV (Parts 1 and 2), including the initial burden for both existing and anticipated new registrants, including private fund advisers, plus the burden associated with amendments to the form, preparing brochure supplements and delivering codes of ethics to clients is estimated to be approximately 239,122 hours per

¹ See Part 2 Release, *supra* note 10, at text accompanying nn.324 and 325.

² $25\% \times (750 \text{ private fund advisers} + 700 \text{ new advisers registering annually}) =$ approximately 350 advisers. $\$4,400 \text{ for legal services} \times 350 \text{ advisers} = \$1,540,000.$

³ $50\% \times (750 \text{ private fund advisers} + 700 \text{ new advisers registering annually}) = 725$ advisers. $\$5,000 \text{ for consulting services} \times 725 \text{ advisers} = \$3,625,000.$

⁴ $\$1,540,000 + \$3,625,000 = \$5,165,000.$

⁵ $\$5,165,000 \text{ (legal and consulting services)} + \$4,891,250 \text{ (third party fair valuation services)} = \$10,056,250$

year.⁶ This burden represents a decrease of 29,335 hours from the current approved burden.⁷ This decrease is attributable primarily to the 3,200 advisers that we expect to withdraw from SEC registration.

Registered investment advisers are also expected to incur an annual cost burden of \$10,056,250, a reduction from the current approved cost burden of \$22,775,400. The decrease in annual cost burden is attributed to the nature of the costs, which are one-time initial costs to draft the narrative brochure. As the transition to the narrative brochure will have substantially been completed, the on-going costs arise from new registrants.

The total annual collection of information burden for exempt reporting advisers to file and complete the required Items of Part 1A of Form ADV, including the burden associated with amendments to the form, is 7,530 hours.⁸

We estimate that, as a result of the amendments to Form ADV, the total annual hour burden for the form will decrease by 21,805 hours to 246,652.⁹ The resulting blended average per adviser amortized burden for Form ADV is 20.99 hours,¹⁰ which consists of an average annual amortized burden of 24.52 hours for the estimated 9,750 registered advisers and 3.77 hours for the estimated 2,000 exempt reporting advisers.¹¹

16. Information Collection Planned for Statistical Purposes

Not applicable.

⁶ 132,405 hours per year attributable to initial preparation of Form ADV + 11,167 hours per year attributable to initial private fund reporting requirements + 63,375 hours per year for amendments to Form ADV + 9,750 hours per year for brochure supplements for new employees + 9,750 hours per year for brochure interim amendments + 12,675 hours per year to meet code of ethics delivery obligations = 239,122 hours.

⁷ Current approved burden of 268,457 hours - revised burden 239,122 hours = 29,335 decrease in hours.

⁸ 5,330 hours per year attributable to initial preparation of Form ADV + 2,200 hours per year for amendments = 7,530 hours.

⁹ 239,122 + 7,530 = 246,652.

¹⁰ 246,652 / 11,750 = 20.99.

¹¹ Registered advisers (239,122 / 9,750 = 24.52), exempt reporting advisers (7,530 / 2,000 = 3.77).

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.