

**SUPPORTING STATEMENT**  
**For the Paperwork Reduction Act Information Collection Submission for**  
**FORM ADV**

**A. JUSTIFICATION**

**1. Necessity for the Information Collection**

Form ADV<sup>1</sup> is the two-part investment adviser registration form. Part 1 of Form ADV contains information used primarily by Securities and Exchange Commission (the “Commission” or “SEC”) staff, and Part 2 is the client brochure. Rule 203-1<sup>2</sup> under the Investment Advisers Act of 1940 (the “Advisers Act” or “Act”) requires every person applying for investment adviser registration with the Commission to file Form ADV. Rule 204-4<sup>3</sup> under the Advisers Act 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<sup>4</sup> under the Advisers Act requires any adviser that is required to complete Form ADV to update the form at least annually, including exempt reporting advisers that 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 rule 204-4 are also included in the approved annual burden associated with Form ADV and likewise do not entail a separate collection of information.

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<sup>1</sup> 17 CFR 279.1.

<sup>2</sup> 17 CFR 275.203-1.

<sup>3</sup> 17 CFR 275.204-4.

<sup>4</sup> 17 CFR 275.204-1.

Form ADV contains “collection of information” requirements within the meaning of the Paperwork Reduction Act of 1995.<sup>5</sup> 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. Responses are not kept confidential.

The title of this collection of information is: “Form ADV under the Investment Advisers Act of 1940” and the Commission previously submitted this collection to the Office of Management and Budget (“OMB”) for review in accordance with 44 U.S.C. 3507(d) and 5 CFR 1320.11. OMB approved, and subsequently extended, this collection under control number 3235-0049 (expiring on August 31, 2014). 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. This collection of information is codified at 17 CFR 279.1, 17 CFR 275.203-1, 17 CFR 275.204-1 and 17 CFR 275.204-4 and is mandatory. The respondents are investment advisers registered with the Commission or applying for registration with the Commission or exempt reporting advisers.

## **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.

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<sup>5</sup> 44 U.S.C. 3501 to 3520.

This collection of information is found at 17 CFR 275.203-1, 275.204-1, 275.204-4, and 275.279.1, and it is mandatory. Responses are not kept confidential. The majority of the respondents to the Form ADV collection of information are investment advisers registered with the Commission or applying for registration with the Commission while the 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 permits 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. Duplication**

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

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

The requirements of 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. Investment advisers with less than \$100 million in assets under management generally are not permitted to register with the Commission and must register with state securities authorities.

#### **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**

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.

The Commission requested public comment on the collection of information requirements in Form ADV before it submitted this request for extension and approval to the Office of Management and Budget. The Commission received no comments in response to its request.

**9. Payment or Gift**

None.

**10. Confidentiality**

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

**11. Sensitive Questions**

Form ADV collects Personally Identifiable Information (PII). Form ADV requires filers to provide names, dates of birth and social security numbers (the social security numbers are screened from public view). The IARD system contains an embedded check which prevents individuals from providing social security numbers. All individuals (and entities other than trusts) are required to obtain CRD numbers, which do not constitute PII. Such collection and usage is necessary for verification purposes.

Commission staff uses this information for positive verification of individuals and entities. Alternative identifiers are used for all individuals and entities other than trusts because a social security number is the only identifier available to them. The Commission complies with section 7 of the Privacy Act of 1974 because the Advisers Act authorizes the Commission to collect this information on Form ADV from advisers.<sup>6</sup> Filing Form ADV is mandatory. A System of Records Notice has been published in the Federal Register at 66 FR 7820. It, along with instructions on how to obtain the applicable Privacy Impact Assessment, can be found at <http://www.sec.gov/about/privacy/secprivacyoffice.htm>.

## **12. Burden of Information Collection**

The current total annual burden for all advisers completing, amending, and filing Form ADV (Part 1 and Part 2) with the Commission, approved in connection with amendments we adopted in 2011 to Form ADV,<sup>7</sup> is 246,652 hours. As of December 2, 2013, there were 10,946 SEC registered advisers and 2,570 exempt reporting advisers that file Form ADV through the IARD system. Not including private fund reporting, the currently approved estimate of the average total collection of information burden per SEC registered adviser for the first year that an adviser completes Form ADV (Part 1 and Part 2) is 40.74 hours. Based on IARD system data, we estimate that there will be approximately 1,000 new SEC registered investment advisers filing Form ADV annually. Therefore, we estimate that the total annual burden applicable to these SEC registered advisers for the first year that they complete Form ADV but excluding private fund

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<sup>6</sup> See 15 U.S.C. §§ 80b-3 and 80b-4.

<sup>7</sup> See *Rules Implementing Amendments to the Investment Advisers Act of 1940*, Investment Advisers Act Release No. 3221 (June 22, 2011) [76 FR 42949 (July 19, 2011)].

reporting requirements is 40,740.<sup>8</sup> Not including private fund reporting, the currently approved estimate of the average total collection of information burden per exempt reporting adviser for the first year that an exempt reporting adviser completes Form ADV (limited subset of Part 1 only) is 2 hours. Based on IARD system data, we estimate that there will be 400 new exempt reporting advisers filing Form ADV annually. Therefore, we estimate that the total annual burden applicable to these exempt reporting advisers for the first year that they complete Form ADV but excluding private fund reporting requirements is 800 hours.<sup>9</sup>

The currently approved estimate for private fund advisers, regardless of whether they are SEC registered advisers or exempt reporting advisers, is that they will spend, on average, 1 hour per private fund completing Item 7.B and Section 7.B of Schedule D on Form ADV. Based on IARD system data, we estimate that, on average, 300 SEC registered advisers making their initial filing will report approximately 822 funds resulting in a total annual burden of 822 hours. Based on IARD system data, we estimate that, on average, 400 exempt reporting advisers making their initial filing will report approximately 894 funds, resulting in a total annual burden of 894 hours. As a result, we estimate that the annual private fund reporting requirement applicable to advisers (both SEC registered advisers and exempt reporting advisers) for the first year of filing will be 1,716.<sup>10</sup>

Based on IARD data, we estimate that each SEC registered investment adviser filing Form ADV through the IARD system will amend its form two times per year. On

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<sup>8</sup> 40.74 hours x 1000 SEC registered advisers = 40,740 hours.

<sup>9</sup> 2 hours x 400 exempt reporting advisers = 800 hours.

<sup>10</sup> 822 hours attributable to SEC registered investment advisers + 894 hours attributable to exempt reporting advisers = 1,716 hours.

average, these consist of one interim updating amendment (at an estimated 0.5 hours per amendment)<sup>11</sup> and one annual updating amendment (at an estimated 6 hours per amendment)<sup>12</sup> each year. Therefore we estimate the total annual burden for SEC registered advisers attributable to Form ADV amendments is 71,149 hours.<sup>13</sup> In addition, we estimate that each SEC registered investment adviser will, on average, spend 1 hour per year making interim amendments to brochure supplements<sup>14</sup> and an additional 1 hour per year to prepare new brochure supplements as required by Part 2.<sup>15</sup> We also expect advisers to spend an average of 1.3 hours annually to meet obligations to deliver codes of ethics to clients.<sup>16</sup> Therefore we estimate the total annual burden for SEC registered advisers attributable to amendments, brochure supplements and obligations to deliver codes of ethics to be 107,270.80 hours.<sup>17</sup>

Based on IARD data, we estimate that each exempt reporting adviser filing Form ADV through the IARD system will amend its form 2 times per year. On average, these consist of one interim updating amendment (at an estimated 0.5 hours per amendment)<sup>18</sup> and one annual updating amendment (at an estimated 1 hour per amendment)<sup>19</sup> each year. In addition, we anticipate 200 final filings by exempt reporting advisers annually (at an estimated 0.1 hours per filing).<sup>20</sup>

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<sup>11</sup> 10,946 SEC registered investment advisers x 0.5 hours = 5,473 hours.

<sup>12</sup> 10,946 SEC registered investment advisers x 6 hours = 65,676 hours.

<sup>13</sup> 5,473 hours + 65,676 hours = 71,149 hours.

<sup>14</sup> 10,946 SEC registered investment advisers x 1 hour = 10,946 hours.

<sup>15</sup> 10,946 SEC registered investment advisers x 1 hour = 10,946 hours.

<sup>16</sup> 10,946 SEC registered investment advisers x 1.3 hours = 14,229.80 hours.

<sup>17</sup> 71,149 hours + 10,946 hours + 10,946 hours + 14,229.8 hours = 107,270.80 hours.

<sup>18</sup> 2,570 exempt reporting advisers x .5 hours = 1,285 hours.

<sup>19</sup> 2,570 exempt reporting advisers x 1 hour = 2,570 hours.

<sup>20</sup> 200 exempt reporting advisers x 0.1 hours = 20 hours.

The revised total annual collection of information burden for SEC registered advisers to file and complete the revised Form ADV (Parts 1 and 2), including private fund reporting, plus the burden associated with amendments to the form, preparing brochure supplements and delivering codes of ethics to clients is estimated to be approximately 148,832.80 hours per year,<sup>21</sup> for a monetized total of \$35,347,790.<sup>22</sup> 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 5,569,<sup>23</sup> for a monetized total of \$1,322,637.50.<sup>24</sup> We, therefore, estimate that the total annual hour burden for the form

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<sup>21</sup> 40,740 hours per year attributable to initial preparation of Form ADV + 822 hours per year attributable to initial private fund reporting requirements + 71,149 hours per year for amendments to Form ADV + 10,946 hours per year for brochure supplements for new employees + 10,946 hours per year for brochure interim amendments + 14,229.80 hours per year to meet code of ethics delivery obligations = 148,832.80 hours.

<sup>22</sup> 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 \$206 and \$269 per hour, respectively.  $74,416.40 \text{ hours} \times \$206 = \$15,329,778.40 + 74,416.40 \text{ hours} \times \$269 = \$20,018,011.60 = \$35,347,790$ . For a SEC 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.

<sup>23</sup> 1,694 hours per year attributable to initial preparation of Form ADV (800 hours attributable to initial preparation not including private funds, 894 hours attributable to private funds) + 3,875 hours per year for amendments and final filings = 5,569 hours.

<sup>24</sup> 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 \$206 and \$269 per hour, respectively.  $2,784.5 \text{ hours} \times \$206 = \$573,607 + 2,784.5 \text{ hours} \times \$269 = \$749,030.50 = \$1,322,637.50$ . For an exempt reporting 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.

will decrease by 92,250.20 hours to 154,401.80,<sup>25</sup> for a monetized total of \$36,670,427.50.<sup>26</sup> The resulting blended average per adviser burden for Form ADV is 11.42 hours<sup>27</sup> (for a monetized total of approximately \$2,713.11),<sup>28</sup> which consists of an average annual burden of 13.60 hours (for a monetized total of approximately \$3,229.29) for each of the estimated 10,946 SEC registered advisers, and 2.17 hours (for a monetized total of approximately \$514.65) for each of the estimated 2,570 exempt reporting advisers.<sup>29</sup>

### 13. Costs to Respondents

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.

We expect that 1000 new advisers will register annually with the Commission. We estimate that the initial cost related to preparation of Part 2 of Form ADV would be \$4,400 for legal services and \$5,000 for compliance consulting services, in each case, for those advisers who engaged legal counsel or consultants. We anticipate that a quarter of these advisers would seek the help of outside legal services and half would seek the help of compliance consulting services. Accordingly, we estimate that 250 of these advisers would use outside legal services, for a total cost burden of \$1,100,000,<sup>30</sup> and 500 advisers would use outside compliance consulting services, for a total cost burden of

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<sup>25</sup>  $148,832.80 + 5,569 = 154,401.80.$

<sup>26</sup>  $\$35,347,790 + \$1,322,637.50 = \$36,670,427.50.$

<sup>27</sup>  $154,401.80 / 13,516 = 11.42.$

<sup>28</sup>  $36,670,427.50 / 13,516 = \$2,713.11.$

<sup>29</sup> Hours: SEC registered advisers ( $148,832.80 / 10,946 = 13.60$ ), exempt reporting advisers ( $5,569 / 2,570 = 2.17$ ). Monetized cost: SEC registered advisers ( $\$35,347,790 / 10,946 = \$3,229.29$ ), exempt reporting advisers ( $\$1,322,637.50 / 2,570 = \$514.65$ ).

<sup>30</sup>  $25\% \times 1000$  SEC registered advisers = approximately 250 advisers.  $\$4,400$  for legal services  $\times 250$  advisers = \$ 1,100,000.

\$2,500,000,<sup>31</sup> resulting in a total cost burden among all respondents of \$3,600,000 for outside legal and compliance consulting fees related to drafting narrative brochures.<sup>32</sup>

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

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

#### **15. Explanation of Changes in Burden**

The revised total annual collection of information burden for SEC registered advisers to file and complete the revised Form ADV (Parts 1 and 2), including the initial burden for new registrants, including private fund reporting, plus the burden associated with amendments to the form, preparing brochure supplements and delivering codes of ethics to clients is estimated to be approximately 148,832.80 hours per year.<sup>33</sup> This burden represents a decrease of 90,289.20 hours from the current approved burden.<sup>34</sup> This decrease is attributable primarily to the fact that the current approved burden reflects a large number of advisers that were required to register or file for the first time.

SEC registered investment advisers are also expected to incur an annual cost burden of \$3,600,000, a reduction from the current approved cost burden of \$10,056,250. 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. The on-going costs arise from new registrants, a population that is much smaller now than at the time of the prior estimate.

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<sup>31</sup> 50% x 1000 SEC registered advisers = 500 advisers. \$5,000 for consulting services x 500 advisers = \$2,500,000.

<sup>32</sup> \$1,100,000 + \$2,500,000 = \$3,600,000.

<sup>33</sup> 40,740 hours per year attributable to initial preparation of Form ADV + 822 hours per year attributable to initial private fund reporting requirements + 71,149 hours per year for amendments to Form ADV + 10,946 hours per year for brochure supplements for new employees + 10,946 hours per year for brochure interim amendments + 14,229.80 hours per year to meet code of ethics delivery obligations = 148,832.80 hours.

<sup>34</sup> Current approved burden of 239,122 hours - revised burden of 148,832.80 hours = 90,289.20 decrease in hours.

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 5,569 hours.<sup>35</sup>

We estimate that the total annual hour burden for the form will decrease by 92,250.20 hours to 154,401.80.<sup>36</sup> The resulting blended average per adviser burden for Form ADV is 11.42 hours<sup>37</sup> (for a monetized total of approximately \$2,713.11),<sup>38</sup> which consists of an average annual burden of 13.60 hours (for a monetized total of approximately \$3,229.29) for each of the estimated 10,946 SEC registered advisers, and 2.17 hours (for a monetized total of approximately \$514.65) for each of the estimated 2,570 exempt reporting advisers.<sup>39</sup>

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

Not applicable.

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<sup>35</sup> 1,694 hours per year attributable to initial preparation of Form ADV (800 hours attributable to initial preparation not including private funds, 894 hours attributable to private funds) + 3,875 hours per year for amendments and final filings = 5,569 hours.

<sup>36</sup>  $148,832.80 + 5,560 = 154,401.80$ .

<sup>37</sup>  $154,401.80 / 13,516 = 11.42$ .

<sup>38</sup>  $36,670,427.50 / 13,516 = \$2,713.11$ .

<sup>39</sup> Hours: SEC registered advisers ( $148,832.80 / 10,946 = 13.60$ ), exempt reporting advisers ( $5,569 / 2,570 = 2.17$ ). Monetized cost: SEC registered advisers ( $\$35,347,790 / 10,946 = \$3,229.29$ ), exempt reporting advisers ( $\$1,322,637.50 / 2,570 = \$514.65$ ).

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

We request authorization to omit the expiration date on the electronic version of the form, although the OMB control number will be displayed. Including the expiration date on the electronic version of this form will result in increased costs, because the need to make changes to the form may not follow the application's scheduled version release dates.

**18. Exceptions to Certification Statement**

Not applicable.

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

Not applicable.