

**SUPPORTING STATEMENT FOR PAPERWORK REDUCTION ACT SUBMISSION
AMENDMENTS TO FORM ADV
UNDER THE INVESTMENT ADVISERS ACT OF 1940
(17 CFR 279.1)**

A. JUSTIFICATION

1. Necessity for the Information Collection

On April 18, 2018, the Securities and Exchange Commission (the “Commission” or “SEC”) issued a release proposing amendments to Form ADV¹, and related rules under the Investment Advisers Act of 1940 (the “Advisers Act” or “Act”), which would add new Form ADV Part 3: Form CRS (the relationship summary) requiring certain registered investment advisers to prepare and file a relationship summary for retail investors. The Commission uses the information on Form ADV to determine eligibility for registration with us and to manage our regulatory and examination programs. Clients would use the information required in Form ADV (including proposed Part 3) to determine whether to hire or retain an investment adviser, as well as what types of accounts and services are appropriate for their needs.

Form ADV is currently a 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. The Commission did not propose amendments to Part 1 or 2.² Rule 203-1³ under the Advisers Act requires every person applying for investment adviser registration with the Commission to file Form ADV. Rule 204-4⁴ under the Advisers Act

¹ 17 CFR 279.1.

² The Commission proposed conforming technical amendments to the General Instructions of Form ADV to add references to the Part 3, but these amendments would not affect the burden of Part 1 or Part 2.

³ 17 CFR 275.203-1.

⁴ 17 CFR 275.204-4.

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 204-1⁵ 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 and requires advisers to submit electronic filings through the Investment Adviser Registration Depository (“IARD”). 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.

Form ADV contains “collection of information” requirements within the meaning of the Paperwork Reduction Act of 1995.⁶ Proposed Part 3 of Form ADV contains collections of information for which the annual aggregate burden will likely be affected as a result of the amendments. 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, 2020). An agency may not

⁵ 17 CFR 275.204-1.

⁶ 44 U.S.C. 3501 to 3520.

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 and Use 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 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. Consideration Given to 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, including the amendments to the form, are not duplicated elsewhere. The Commission periodically evaluates rule-based reporting and recordkeeping requirements for duplication, and reevaluates these requirements whenever it adopts amendments to its rules.

5. Effect on Small Entities

The requirements of Form ADV, including the amendments, 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. The Commission reviews all rules periodically, as required by the Regulatory Flexibility Act, to identify methods to minimize recordkeeping or reporting requirements affecting small businesses.

6. Consequences of Not Conducting 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, the Commission requested public comment on the effect of information collections under the proposed rule amendments. The Commission and staff of the Division of Investment Management participate in an ongoing dialogue with representatives of the investment advisory and industry through public conferences, meetings, and informal exchanges. These various

forums provide the Commission and staff with a means of ascertaining and acting upon paperwork burdens confronting the industry.

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

- a. No information of a sensitive nature will be required under this collection of information. The IARD system contains an embedded check which prevents individuals' social security numbers from being subject to public view.
- b. The information collection collects basic Personally Identifiable Information (PII) that may include names, dates of birth and social security numbers (the social security numbers are screened from public view). The agency has determined that the information collection constitutes a system of record for purposes of the Privacy Act and is covered under System of Records Notice (SORN) SEC-50 "Investment Adviser Records". The Investment Adviser Records SORN is provided as a supplemental document and is also available at <https://www.sec.gov/privacy>. A Privacy Act Statement is applicable for the information collection and is available on the paper form and web platform.
- c. In accordance with Section 208 of the E-Government Act of 2002, the agency has conducted a Privacy Impact Assessment (PIA) of the IARD system, in connection with

this collection of information. The IARD PIA, published on July 8, 2014, is provided as a supplemental document and is also available at <https://www.sec.gov/privacy>.

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 identities 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.⁷ 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 currently approved total aggregate annual hour burden estimate for all advisers of completing, amending and filing Form ADV (Part 1 and Part 2) with the

⁷ See 15 U.S.C. §§ 80b-3 and 80b-4.

Commission is 363,082 hours,⁸ or a blended average of 23.77 hours per adviser,⁹ with a monetized total of \$92,404,369, or \$6,051 per adviser.¹⁰ The currently approved annual cost burden is \$13,683,500. This burden estimate is based on: (i) the total annual collection of information burden for SEC-registered advisers to file and complete Form ADV (Part 1 and Part 2); and (ii) the total annual collection of information burden for exempt reporting advisers to file and complete the required items of Part 1A of Form ADV. Broken down by adviser type, the current approved total annual hour burden is 29.22 hours per SEC-registered adviser, and 3.60 hours per exempt reporting adviser.¹¹ The proposed amendments would increase the current burden estimate to 31.74 hours per SEC-registered adviser, and 3.60 hours per exempt reporting adviser due in part to the proposed amendments to Form ADV to add Form ADV Part 3 (the relationship summary) and the increased number of investment advisers and exempt reporting advisers since the last burden estimate. As noted above, we are not proposing any changes to Part 1 or Part 2 of Form ADV.

The respondents to current Form ADV are investment advisers registered with the Commission or applying for registration with the Commission and exempt reporting advisers.¹² As of December 31, 2017, 12,721 investment advisers were registered with

⁸ See Form ADV and Investment Advisers Act Rules, Final Rule, Investment Advisers Act Release No. 4509 (Aug. 25, 2016) [81 FR 60418 (Sep. 1, 2016)] (“2016 Form ADV Paperwork Reduction Analysis”).

⁹ $363,082 \text{ hours} / (12,024 \text{ registered advisers} + 3,248 \text{ exempt reporting advisers}) = 23.77 \text{ hours}$.

¹⁰ $\$92,404,369 \text{ hours} / (12,024 \text{ registered advisers} + 3,248 \text{ exempt reporting advisers}) = \$6,051$.

¹¹ See 2016 Form ADV Paperwork Reduction Analysis, *supra* note 8, at 81 FR 60454.

¹² An exempt reporting adviser is an investment adviser that relies on the exemption from investment adviser registration provided in either section 203(l) of the Advisers Act because it is an adviser solely to one or more venture capital funds or 203(m) of the

the Commission, and 3,848 exempt reporting advisers report information to the Commission.

Only those registered investment advisers offering services to retail investors would be required to prepare and file a relationship summary. Based on IARD system data, the Commission estimates that 7,625 registered investment advisers provide advice to individual high net worth and individual non-high net worth clients.¹³ This would leave 5,096 registered investment advisers that do not provide advice to retail investors¹⁴ and 3,848 exempt reporting advisers that would not be subject to Form ADV Part 3 requirements, but are included in the PRA analysis for purposes of updating the overall Form ADV information collection.¹⁵

The proposed amendments to Form ADV to add Part 3 would increase the information collection burden for registered investment advisers with retail investors.

The Commission proposed to require that those investment advisers file their Form ADV

Advisers Act because it is an adviser solely to private funds and has assets under management in the United States of less than \$150 million. An exempt reporting adviser is not a registered investment adviser and therefore would not be subject to the relationship summary requirements.

¹³ Based on responses to Item 5.D. of Form ADV. These advisers indicated that they advise either high net worth individuals or individuals (other than high net worth individuals), which includes trusts, estates, and 401(k) plans and IRAs of individuals and their family members, but does not include businesses organized as sole proprietorships. The proposed definition of retail investor would include a trust or other similar entity that represents natural persons, even if another person is a trustee or managing agent of the trust. We are not able to determine, based on responses to Form ADV, exactly how many advisers provide investment advice to these types of trusts or other entities; however, we believe that these advisers most likely also advise individuals and are therefore included in our estimate.

¹⁴ 12,721 registered investment advisers – 7,625 = 5,096 registered investment advisers not providing advice to retail investors.

¹⁵ Based on IARD system data. We also note that these figures include the burdens for 366 registered broker-dealers that are dually registered as investment advisers as of December 31, 2017.

Part 3 with the Commission electronically through IARD in the same manner as they currently file Form ADV Parts 1 and 2. Under the proposal, investment advisers also would need to amend and file an updated relationship summary within 30 days whenever any information becomes materially inaccurate.

For investment advisers not required to prepare and file Form ADV Part 3, the per adviser annual hour burden for meeting their Form ADV requirements would remain the same, at 29.22 hours per registered investment adviser without Form ADV Part 3 obligations. Similarly, because exempt reporting advisers would not have Form ADV Part 3 obligations, the annual hour burden for exempt reporting advisers to meet their Form ADV obligations would remain the same, at 3.60 hours per exempt reporting adviser. However, although we are not proposing changes to Form ADV Part 1 and Part 2, and the per adviser information collection burden would not increase for those without the obligation to prepare and file Form ADV Part 3, the information collection burden attributable to Parts 1 and 2 of Form ADV would increase due to an increase in the number of registered investment advisers and exempt reporting advisers since the last information collection burden estimate.

a. Initial Preparation and Filing of Relationship Summary

For investment advisers that provide advice to retail investors, we estimate that the initial first year burden for preparing and filing the relationship summary would be five hours per registered adviser. We therefore estimate that the total burden of preparing and filing the relationship summary would be 38,125 hours.¹⁶

¹⁶ 5.0 hours x 7,625 investment advisers = 38,125 total aggregate initial hours.

As with the Commission's prior Paperwork Reduction Act estimates for Form ADV, we believe that most of the paperwork burden would be incurred in advisers' initial preparation and submission of Form ADV Part 3, and that over time this burden would decrease substantially because the paperwork burden would be limited to updating information.¹⁷ As under the currently approved collection, the estimated initial burden associated with preparing the relationship summary would be amortized over the estimated period that advisers would use the relationship summary, *i.e.*, over a three-year period.¹⁸ The annual hour burden of preparing and filing the relationship summary would therefore be 12,708.¹⁹ In addition, based on IARD system data, the Commission assumes that 1,000 new investment advisers will file Form ADV with us annually. Of these, we estimate that 477 would be required to prepare and file the relationship summary.²⁰ Therefore, the aggregate initial burden for newly registered advisers to prepare the relationship summary would be 2,385²¹ and, amortized over three years, 795 on an annual basis.²² In sum, the annual hour burden for existing and newly registered

¹⁷ We discuss the burden for advisers making annual updating amendments to Form ADV below.

¹⁸ See 2016 Form ADV Paperwork Reduction Analysis, *supra* note 8.

¹⁹ 5.0 hours x 7,625 investment advisers / 3 = 12,708 total annual aggregate hours.

²⁰ The number of new investment advisers is calculated by looking at the number of new advisers in 2016 and 2017 and then determining the number each year that serviced retail investors. (455 for 2016 + 499 for 2017) / 2 = 477.

²¹ 477 new RIAs required to prepare relationship summary x 5.0 hours = 2,385 hours for new RIAs to prepare relationship summary.

²² 477 x 5.0 hours / 3 = 795.

investment advisers to prepare and file a relationship summary would be 13,503 hours,²³ or 1.67 hours per adviser.²⁴

b. Initial Preparation and Filing of Relationship Summary

The current approved information collection burden for Form ADV also includes the hour burden associated with annual and other amendments to Form ADV, among other requirements. We anticipate that the proposed relationship summary would increase the annual burden associated with Form ADV by 0.5 hours²⁵ due to amendments to the relationship summary,²⁶ for those advisers required to prepare and file a relationship summary. We do not expect amendments to be frequent, but based on the historical frequency of amendments made on Form ADV Parts 1 and 2, estimate that on average, each adviser preparing a relationship summary will likely amend the disclosure an average of 1.80 times per year.²⁷ The collection of information burden of 0.5 hours for amendments to the relationship summary would include filing it. Based on the number of other-than-annual amendments filed by investment advisers with retail investors last year, we estimate that advisers will file an estimated total of 1.80²⁸

²³ $(38,125 + 2,385) / 3 \text{ years} = 13,503$ annual hour burden for existing and new advisers to prepare and file relationship summary.

²⁴ $13,503 \text{ hours} / (7,625 \text{ existing advisers} + 477 \text{ new advisers}) = 1.67$ hours per year.

²⁵ We have previously estimated that investment advisers would incur 0.5 hours to prepare an interim (other-than-annual) amendment to Form ADV. *See* 2016 Form ADV Paperwork Reduction Analysis, *supra* note 8, at 81 FR at 60452. We believe that an amendment to the relationship summary would take a similar amount of time, if not less.

²⁶ Similarly, we estimated that 0.5 hours would be required for interim updating amendments to Form ADV Part 2. *See* Amendments to Form ADV, Investment Advisers Act Release No. 3060 (Jul. 28, 2010) [75 FR 49233 (Aug. 12, 2010)], at 75 FR at 49257.

²⁷ This estimate is based on IARD system data regarding the number of filings of Form ADV amendments.

²⁸ Based on IARD data, 7,625 investment advisers with retail clients filed 13,756 other-than-annual amendments to Form ADV. $13,756 \text{ other-than-annual amendments} / 7,625 \text{ investment advisers} = 1.80$ amendments per investment adviser.

relationship summary amendments per year for an estimated total paperwork burden of 6,878 hours per year.²⁹

For existing and newly-registered advisers with relationship summary obligations, the additional burden attributable to amendments to Form ADV to add Part 3, (including the initial preparation and filing of the relationship summary and amendments thereto) totals 20,381 hours,³⁰ or 2.52 hours per adviser,³¹ and a monetized cost of \$5,248,193, or \$648 per adviser.³² The incremental external legal and compliance cost is estimated to be \$4,251,792.³³

As discussed above, the currently approved total aggregate annual hour burden for all registered advisers completing, amending, and filing Form ADV (Part 1 and Part 2) with the Commission is 363,082 hours, or a blended average per adviser burden of 23.77 hours, with a monetized cost of \$92,404,369, or \$6,051 per adviser. This includes the total annual hour burden for registered advisers of 351,386 hours, or 29.22 hours per registered adviser, and 11,696 hours for exempt reporting advisers, or 3.60 hours per exempt reporting adviser. For purposes of updating the total information collection based

²⁹ 7,625 investment advisers amending relationship summaries x 1.80 amendments per year x 0.5 hours = 6,878 hours.

³⁰ 13,503 hours for initial preparation and filing of the relationship summary + 6,878 hours for amendments to the relationship summary = 20,381 total aggregate annual hour burden attributable to the Form ADV amendments to add Part 3: Form CRS.

³¹ 20,381 hours / (7,625 existing advisers + 477 newly registered advisers) = 2.52 hours per adviser.

³² 20,381 total aggregate annual hour burden for preparing and filing a relationship summary. We expect that performance of this function will most likely be equally allocated between a senior compliance examiner and a compliance manager. Data from the SIFMA Management and Professional Earnings Report suggest that costs for these positions are \$229 and \$298 per hour, respectively. 20,381 hours x 0.5 x \$229 = \$2,211,375. 20,381 hours x 0.5 x \$298 = \$3,036,819. \$2,211,375 + \$3,036,819 = \$5,248,193. \$5,248,193 / (7,625 existing registered advisers + 477 newly registered advisers) = \$648 per adviser.

³³ See Proposed Item 2.B.4. of Form CRS.

on the proposed amendments to Form ADV, we consider three categories of respondents, as noted above: (i) existing and newly-registered advisers preparing and filing a relationship summary, (ii) registered advisers with no obligation to prepare and file a relationship summary, and (iii) exempt reporting advisers.

For existing and newly-registered advisers preparing and filing a relationship summary, including amendments to the disclosure, the total annual collection of information burden for preparing all of Form ADV, updated to reflect the proposed amendments to Form ADV, equals 31.74 hours per adviser, with 2.52 hours attributable to the proposed amendments.³⁴ On an aggregate basis, this totals 257,122 hours for existing and newly registered advisers, with a monetized value of \$66,208,857.³⁵

As noted above, we estimate 5,096, or approximately 40% of existing registered advisers, would not have retail investors; therefore, they would not be obligated to prepare and file relationship summaries, so their annual per adviser hour burden would remain unchanged.³⁶ To that end, using the currently approved total annual hour estimate of 29.22 hours per registered investment adviser to prepare and amend Form ADV, we estimate that the updated annual hourly burden for all existing and newly-registered

³⁴ 29.22 hours + 2.52 hours for increase in burden attributable to initial preparation and filing of, and amendments to, relationship summary = 31.74 hours total.

³⁵ 31.74 hours x 7,625 existing RIAs required to prepare a relationship summary + 477 newly registered RIAs required to prepare a relationship summary = 257,122 total aggregate annual hour burden for preparing, filing and amending a relationship summary. We expect that performance of this function will most likely be equally allocated between a senior compliance examiner and a compliance manager. Data from the SIFMA Management and Professional Earnings Report suggest that costs for these positions are \$229 and \$298 per hour, respectively. 257,122 hours x 0.5 x \$229 = \$27,897,712. 257,122 hours x 0.5 x \$298 = \$38,311,144. \$27,897,712 + \$38,311,144 = \$66,208,857.

³⁶ 12,721 registered investment advisers – 7,625 registered investment advisers with retail investors = 5,096 registered investment advisers without retail investors.

investment advisers not required to prepare a relationship summary would be 164,187,³⁷ with a monetized value of \$43,263,322.³⁸ The revised total annual collection of information burden for exempt reporting advisers, using the currently approved estimate of 3.60 hours per exempt reporting adviser, would be 15,653 hours,³⁹ for a monetized cost of \$4,124,513, or \$949 per exempt reporting adviser.⁴⁰

In summary, factoring in the proposed amendments to Form ADV to add Part 3, the revised aggregate burden for Form ADV for all registered advisers and exempt reporting advisers would be 436,962,⁴¹ for a monetized cost of \$115,139,422.⁴² This results in a blended average per adviser burden for Form ADV of 26.37 hours⁴³ and

³⁷ 29.22 hours x (5,096 existing and 523 newly-registered investment advisers without retail investors) = approximately 164,187 total annual hour burden for RIAs not preparing a relationship summary.

³⁸ We expect that performance of this function for registered advisers will most likely be equally allocated between a senior compliance examiner and a compliance manager. Data from the 2018 SIFMA Management and Professional Earnings Report suggest that costs for these positions are \$229 and \$298 per hour, respectively. 164,187 hours x 0.5 x \$229 = \$18,799,432. 164,187 hours x 0.5 x \$298 = \$24,463,890. \$18,799,432 + \$24,463,890 = \$43,263,322.

³⁹ 3.60 hours x 3,848 exempt reporting advisers currently + 500 new exempt reporting advisers = 15,653 hours.

⁴⁰ As with preparation of the Form ADV for registered advisers, we expect that performance of this function for exempt reporting advisers will most likely be equally allocated between a senior compliance examiner and a compliance manager. Data from the 2018 SIFMA Management and Professional Earnings Report suggest that costs for these positions are \$229 and \$298 per hour, respectively. 15,653 hours x 0.5 x \$229 = \$1,792,246. 15,653 hours x 0.5 x \$298 = \$2,322,267. \$1,792,246 + \$2,322,267 = \$4,124,513. \$4,124,513 / (3,848 exempt reporting advisers currently + 500 new exempt reporting advisers) = \$949 per exempt reporting adviser.

⁴¹ 257,122 annual hour burden for RIAs preparing relationship summary + 164,187 annual hour burden for RIAs not preparing relationship summary + 15,653 annual hour burden for exempt reporting advisers = 436,962 total updated Form ADV annual hour burden.

⁴² \$66,208,857 for RIAs preparing relationship summary + \$43,263,890 for RIAs not preparing relationship summary + \$4,124,513 for exempt reporting advisers = \$115,139,422 total updated Form ADV annual monetized hourly burden.

⁴³ 436,962 / (12,721 registered investment advisers + 3,843 exempt reporting advisers) = 26.37 hours per adviser.

\$6,949 per adviser.⁴⁴ This is an increase of 73,880 hours,⁴⁵ or \$22,735,053⁴⁶ in the monetized value of the hour burden, from the currently approved annual aggregate burden estimates, increases which are attributable primarily to the proposed burden estimates on the larger registered investment adviser and exempt reporting adviser population since the most recent approval, adjustments for inflation, and the amendments to Form ADV.

13. Cost to Respondents

The currently approved annual cost burden for Form ADV is \$13,683,500, \$3,600,000 of which is attributable to external costs incurred by new advisers to prepare Form ADV Part 2, and \$10,083,500 of which is attributable to obtaining the fair value of certain private fund assets.⁴⁷ The currently approved total annual collection of information burden estimate for Form ADV anticipates that there will be external costs, including (i) a one-time initial cost for outside legal and compliance consulting fees in connection with the initial preparation of Part 2 of Form ADV, and (ii) the cost for investment advisers to private funds to report the fair value of their private fund assets.⁴⁸

⁴⁴ $\$115,139,422 / 12,721$ registered investment advisers + 3,843 exempt reporting advisers) = \$6,949 per adviser.

⁴⁵ 436,962 hours estimated – 363,082 hours currently approved = 73,880 hour increase in aggregate annual hourly burden.

⁴⁶ $\$115,139,422$ monetized hourly burden - $\$92,404,369$ = $\$22,735,053$ increase in aggregate annual monetized hourly burden.

⁴⁷ See 2016 Form ADV Paperwork Reduction Analysis, *supra* note 8, at 81 FR at 60452-53. The \$10,083,500 is based on 4,469 registered advisers reporting private fund activity as of May 16, 2016.

⁴⁸ See 2016 Form ADV Paperwork Reduction Analysis, *supra* note 8, at 81 FR 60452. We do not anticipate that the amendments that the Commission proposed to add Form ADV Part 3 will affect those per adviser cost burden estimates for outside legal and compliance consulting fees. The estimated external costs of outside legal and consulting services for the relationship summary are in addition to the estimated hour burden discussed above.

We do not anticipate that the amendments discussed here would affect the per adviser cost burden for those existing requirements but anticipate that some advisers may incur a one-time initial incremental cost for outside legal and consulting fees in connection with the initial preparation of the relationship summary. We do not anticipate external costs to investment advisers in the form of website set-up, maintenance, or licensing fees because they would not be required to establish a website for the sole purpose of posting their relationship summary if they do not already have a website. We also do not expect other ongoing external costs for the relationship summary. We believe that the amount of time, and thus cost, required for outside legal and compliance review is unlikely to vary substantially among those advisers who elect to obtain outside assistance.⁴⁹

Most of the information proposed to be required in the relationship summary is readily available to investment advisers from Form ADV Part 2, and the narrative descriptions are narrowly tailored and brief or prescribed. As a result, we anticipate that a quarter of advisers will seek the help of outside legal services and half will seek the help of compliance consulting services in connection with the initial preparation of the relationship summary. We estimate that the initial per existing adviser cost for legal

⁴⁹ We estimate that an external service provider would spend 3 hours helping an adviser prepare an initial relationship summary. In estimating the external cost for the initial preparation of Form ADV Part 2, we estimated that small, medium, and large advisers would require 8, 11, and 26 hours of outside assistance, respectively, to prepare Form ADV Part 2. In comparison, the relationship summary is limited to four pages in length (or equivalent limit if in electronic format) and is standardized across investment advisers in terms of the mandated selection and sequence of topic areas. While we recognize that different firms may require different amounts of external assistance in preparing the relationship summary, we believe that this is an appropriate average number for estimating an aggregate amount for the industry purposes of the PRA analysis. *See* Amendments to Form ADV, Investment Advisers Act Release No. 3060 (Jul. 28, 2010) at 75 FR at 49257.

services related to the preparation of the relationship summary would be \$1,416.⁵⁰ We estimate that the initial per existing adviser cost for compliance consulting services related to the preparation of the relationship summary would be \$2,109.⁵¹ Thus, the incremental external cost burden for existing investment advisers is estimated to be \$10,739,813, or \$3,579,938 annually when amortized over a three-year period.⁵² In addition, we assume that 1,000 new advisers will register with us annually, 477 of which would be required to prepare a relationship summary. For these 477 new advisers, we estimate that they will require \$671,855 in external costs to prepare the relationship summary.⁵³ In summary, the annual external legal and compliance consulting cost for existing and new advisers relating to relationship summary obligations is estimated to total \$4,251,792, or \$525 per adviser.⁵⁴

⁵⁰ External legal fees are in addition to the projected hour per adviser burden discussed above. \$472 per hour for legal services x 3 hours per adviser = \$1,416. The hourly cost estimate of \$472 is based on an inflation-adjusted figure and our consultation with advisers and law firms who regularly assist them in compliance matters.

⁵¹ External compliance consulting fees are in addition to the projected hour per adviser burden discussed above. Data from the SIFMA Management and Professional 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, and adjusted for inflation (“SIFMA Management and Professional Earnings Report”), suggest that outside management consulting services cost approximately \$703 per hour. \$703 per hour for outside consulting services x 3 hours per adviser = \$2,109.

⁵² 25% x 7,625 existing advisers x \$1,416 for legal services = \$2,699,250 for legal services. 50% x 7,625 existing advisers x \$2,109 for compliance consulting services = \$8,040,563. \$2,699,250 + \$8,040,563 = \$10,739,813 in external legal and compliance consulting costs for existing advisers. \$10,739,813 / 3 = \$3,579,938 annually.

⁵³ 25% x 477 new advisers x \$1,416 for legal services = \$168,858. 50% x 477 new advisers x \$2,109 for compliance consulting services = \$502,997. \$168,858 + \$502,997 = \$671,855 annually in external legal and compliance consulting costs for newly registered advisers.

⁵⁴ \$3,579,938 in external legal and compliance consulting costs for existing advisers + \$671,855 for new advisers = \$4,251,792 annually for existing and new advisers. \$4,251,792 / (\$7,625 existing advisers + 477 new advisers) = \$525 per adviser.

We do not expect any change in the annual external costs relating to new advisers preparing Form ADV Part 2. Due to the slightly higher number of registered advisers with private funds, however, the cost of obtaining the fair value of private fund assets may be higher. We estimate that 6% of registered advisers have at least one private fund client that may not be audited. Based on IARD system data as of December 31, 2017, 4,670 registered advisers advise private funds. We therefore estimate that approximately 281 registered advisers may incur costs of \$37,625 each on an annual basis, for an aggregate annual total cost of \$10,572,625.⁵⁵

In summary, taking into account (i) a one-time initial cost for outside legal and compliance consulting fees in connection with the initial preparation of Part 2 of Form ADV, (ii) the cost for investment advisers to private funds to report the fair value of their private fund assets, and (iii) the incremental external legal or compliance costs for the preparation of the proposed relationship summary, we estimate the annual aggregate external cost burden of the Form ADV information collection would be \$18,424,417, or \$1,448 per registered adviser.⁵⁶ This represents a \$4,740,917 increase from the current external costs estimate for the information collection.⁵⁷

14. Cost to the Federal Government

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

15. Change in Burden

⁵⁵ $6\% \times 4,760 = 281$ advisers needing to obtain the fair value of certain private fund assets.
 $281 \text{ advisers} \times \$37,625 = \$10,572,625$.

⁵⁶ $\$3,600,000$ for preparation of Form ADV Part 2 + $\$10,572,625$ for registered investment advisers to fair value their private fund assets + $\$4,251,792$ to prepare relationship summary = $\$18,424,417$ in total external costs for Form ADV. $\$18,424,417 / 12,721$ total registered advisers as of December 31, 2017 = $\$1,448$ per registered adviser.

⁵⁷ $\$18,424,417 - \$13,683,500 = \$4,740,917$.

We estimate that amendments to Form ADV, the revised total aggregate annual hour burden for the form will be approximately 436,962 hours.⁵⁸ This is an increase of 73,880 hours from the currently approved annual aggregate burden estimate,⁵⁹ which is attributable primarily to proposed Part 3; but also to the larger registered investment adviser and exempt reporting adviser population since the most recent approval, adjustments for inflation, and the amendments to Form ADV. The resulting blended average per adviser burden for Form ADV is 26.37 hours,⁶⁰ which consists of an average annual burden of 31.74 hours⁶¹ for each of the estimated 12,721 SEC registered advisers, and 3.60 hours⁶² for each of the estimated 3,843 exempt reporting advisers.

Registered investment advisers are also expected to incur an annual cost burden of \$18,424,417, an increase of \$4,740,917 from the current approved cost burden estimate of \$13,683,500. The increase in annual cost burden is attributable to proposed Part 3 and also to the larger registered investment adviser and exempt reporting adviser population since the most recent approval.

16. Information Collection Planned for Statistical Purposes

Not applicable.

⁵⁸ 257,122 annual hour burden for RIAs preparing relationship summary + 164,187 annual hour burden for RIAs not preparing relationship summary + 15,653 annual hour burden for exempt reporting advisers = 436,962 total updated Form ADV annual hour burden.

⁵⁹ 436,962 hours - 363,082 hours = 73,880 hours.

⁶⁰ 436,962 / (12,721 registered investment advisers + 3,843 exempt reporting advisers) = 26.37 hours per adviser.

⁶¹ 29.22 hours + 2.52 hours for increase in burden attributable to initial preparation and filing of, and amendments to, relationship summary = 31.74 hours total.

⁶² 3.60 hours is the currently approved average annual burden for exempt reporting adviser. See 2016 Form ADV Paperwork Reduction Analysis, *supra* note 8, at 81 FR 60454.

17. Approval to Omit OMB 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 for Paperwork Reduction Act
Submission**

Not applicable.

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

Not applicable.