

SECURITIES AND EXCHANGE COMMISSION

Submission for OMB Review; Comment Request

Upon Written Request, Copies Available From
Securities and Exchange Commission
Office of FOIA Services
100 F Street, NE
Washington, DC 20549-2736

Extension: Rule 206(4)-2

OMB Control No. 3235-0241, SEC File No. 270-217

Notice is hereby given that pursuant to the Paperwork Reduction Act of 1995 (44 U.S.C. 3501 et seq.), the Securities and Exchange Commission (“Commission”) has submitted to the Office of Management and Budget (“OMB”) a request for extension and revision of the previously approved collection of information discussed below.

The title for the collection of information is “Rule 206(4)-2 under the Investment Advisers Act of 1940 -- Custody of Funds or Securities of Clients by Investment Advisers.” Rule 206(4)-2 (17 CFR 275.206(4)-2) under the Investment Advisers Act of 1940 (15 U.S.C. 80b-1 et seq.) governs the custody of funds or securities of clients by Commission-registered investment advisers. Rule 206(4)-2 requires each registered investment adviser that has custody of client funds or securities to maintain those client funds or securities with a broker-dealer, bank or other “qualified custodian.”¹ The rule requires the adviser to promptly notify clients as to the place and manner of custody, after opening an account for the client and following any changes.² If an adviser sends account statements to its clients, it must insert a legend in the

¹ Rule 206(4)-2(a)(1).

² Rule 206(4)-2(a)(2).

notice and in subsequent account statements sent to those clients urging them to compare the account statements from the custodian with those from the adviser.³ The adviser also must have a reasonable basis, after due inquiry, for believing that the qualified custodian maintaining client funds and securities sends account statements directly to the advisory clients, and undergo an annual surprise examination by an independent public accountant to verify client assets pursuant to a written agreement with the accountant that specifies certain duties.⁴ Unless client assets are maintained by an independent custodian (*i.e.*, a custodian that is not the adviser itself or a related person), the adviser also is required to obtain or receive a report of the internal controls relating to the custody of those assets from an independent public accountant that is registered with and subject to regular inspection by the Public Company Accounting Oversight Board (“PCAOB”).⁵

The rule exempts advisers from the rule with respect to clients that are registered investment companies. Advisers to limited partnerships, limited liability companies and other pooled investment vehicles are excepted from the account statement delivery and deemed to comply with the annual surprise examination requirement if the limited partnerships, limited liability companies or pooled investment vehicles are subject to annual audit by an independent public accountant registered with, and subject to regular inspection by the PCAOB, and the audited financial statements are distributed to investors in the pools.⁶ The rule also provides an exception to the surprise examination requirement for advisers that have custody because they have authority to deduct advisory fees from client accounts and advisers that have custody solely

³ Rule 206(4)-2(a)(2).

⁴ Rule 206(4)-2(a)(3), (4).

⁵ Rule 206(4)-2(a)(6).

⁶ Rule 206(4)-2(b)(4).

because a related person holds the adviser's client assets and the related person is operationally independent of the adviser.⁷

Advisory clients use this information to confirm proper handling of their accounts. The Commission's staff uses the information obtained through these collections in its enforcement, regulatory and examination programs. Without the information collected under the rule, the Commission would be less efficient and effective in its programs and clients would not have information valuable for monitoring an adviser's handling of their accounts.

The respondents to this information collection are investment advisers registered with the Commission and have custody of clients' funds or securities. We estimate that 7,216 advisers would be subject to the information collection burden under the rule 206(4)-2. The number of responses under rule 206(4)-2 will vary considerably depending on the number of clients for which an adviser has custody of funds or securities, and the number of investors in pooled investment vehicles that the adviser manages. It is estimated that the average number of responses annually for each respondent would be 6,830, and an average time of 0.00500 hour per response. The annual aggregate burden for all respondents to the requirements of rule 206(4)-2 is estimated to be 246,532 hours.

This collection of information is found at 17 CFR 275.206(4)-2 and is mandatory. Responses to the collection of information are not kept confidential. Commission-registered investment advisers are required to maintain and preserve certain information required under rule 206(4)-2 for five years. The long-term retention of these records is necessary for the Commission's examination program to ascertain compliance with the Investment Advisers Act.

⁷ Rule 206(4)-2(b)(3), (b)(6).

The estimated average burden hours are made solely for the purposes of Paperwork Reduction Act and are not derived from a comprehensive or even representative survey or study of the cost of Commission rules and forms. 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 control number.

The public may view the background documentation for this information collection at the following website, www.reginfo.gov. Comments should be directed to: (i) Desk Officer for the Securities and Exchange Commission, Office of Information and Regulatory Affairs, Office of Management and Budget, Room 10102, New Executive Office Building, Washington, DC 20503, or by sending an e-mail to: [Shagufta Ahmed@omb.eop.gov](mailto:Shagufta_Ahmed@omb.eop.gov); and (ii) Charles Riddle, Acting Chief Information Officer, Securities and Exchange Commission, c/o Candace Kenner, 100 F Street, NE, Washington, DC 20549 or send an email to: PRA_Mailbox@sec.gov. Comments must be submitted to OMB within 30 days of this notice.

Eduardo A. Aleman
Deputy Secretary

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