

SUPPORTING STATEMENT
For the Paperwork Reduction Act Information Collection Submission for
Rule 206(4)-2

A. JUSTIFICATION

1. Necessity for the Information Collection

Section 206(4) of the Investment Advisers Act of 1940 (“Advisers Act”) [15 U.S.C. 80b-6(4)] prohibits any investment adviser from engaging in any act, practice or course of business which is fraudulent, deceptive or manipulative and gives the Commission the power, by rules and regulations, to define and prescribe means reasonably designed to prevent such acts, practices and courses of business.

Rule 206(4)-2 under the Advisers Act requires advisers to protect the assets that their clients have entrusted to their custody.¹ The rule contains several “collection of information” requirements within the meaning of the Paperwork Reduction Act of 1995 [44 U.S.C. 3510 to 3520]. 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.” The collection of information is currently approved under OMB control number 3235-0241. The Commission is submitting this Paperwork Reduction Act submission for an extension and a revision to the currently approved collection of information requirements.

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.”² This requirement is necessary to safeguard the client assets over which the adviser has control or access. The rule requires the adviser to promptly notify clients as to the

¹ 17 CFR 275.206(4)-2.

place and manner of custody after opening an account for the client and following any changes.³ If an adviser sends account statements to its clients, it must insert a legend in the 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.⁴ 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.⁵ 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”).⁶

Advisers to limited partnerships, limited liability companies and other pooled investment vehicles are excepted from the account statement delivery requirement and are 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

² Rule 206(4)-2(a)(1).

³ Rule 206(4)-2(a)(2).

⁴ Rule 206(4)-2(a)(2).

⁵ Rule 206(4)-2(a)(3), (4).

⁶ Rule 206(4)-2(a)(6).

financial statements are distributed to investors in the pools.⁷ The rule also provides an exception to the surprise examination requirement for advisers that have custody solely because they have authority to deduct advisory fees from client accounts and advisers that have custody solely because a related person holds the adviser's client assets and the related person is operationally independent of the adviser.⁸

These collection of information requirements are found at 17 CFR 275.206(4)-2 and are mandatory. As discussed, advisory clients use this information to confirm proper handling of their accounts. The Commission's staff uses the information obtained through the collection in its enforcement, regulatory and examination programs. The respondents to this information collection are those investment advisers that are registered with the Commission and have custody of client funds or securities.

2. Purpose and Use of the Information Collection

As discussed above, the Commission uses the information required by rule 206(4)-2 in connection with its investment adviser enforcement, regulatory, and examination programs. Advisory clients use the information required by rule 206(4)-2 to monitor their advisers' handling of their accounts. Without the information collected under the rule, the Commission would be less efficient and effective in its programs and advisory clients would not have information they need to monitor the adviser's handling of their accounts.

3. Consideration Given to Information Technology

⁷ Rule 206(4)-2(b)(4).

The collection of information requirements under rule 206(4)-2 take the form of (1) annual surprise examinations conducted by independent public accountants, (2) mailing of audited financial statements to investors in a fund, (3) mailing of notices to clients about new custodial accounts, and (4) internal control reports by independent public accountants registered with, and subject to regular inspection by, the PCAOB. Accordingly, the Commission's use of computer technology may have little effect. The Commission currently permits advisers to provide to clients the information required by rule 206(4)-2 electronically.⁹

4. Duplication

The requirements of rule 206(4)-2 are not duplicated elsewhere for those investment advisers that must comply with the rule.

5. Effect on Small Entities

The requirements of rule 206(4)-2 apply equally to all investment advisers that are registered with the Commission and have custody of funds or securities of their clients, including those advisers that are small entities. It would defeat the purpose of the rule to exempt small entities from these requirements.

6. Consequences of Not Conducting Collection

If the information required by rule 206(4)-2 is either not collected or is collected less frequently, both the Commission's ability to protect investors and the ability of clients to monitor the handling of their accounts would be reduced.

⁸ Rule 206(4)-2(b)(3), (b)(6).

⁹ *See Use of Electronic Media by Broker-Dealers, Transfer Agents, and Investment Advisers for Delivery of Information; Additional Examples Under the Securities Act of 1933, Securities Exchange Act of 1934, and Investment Company Act of 1940, Investment Advisers Act Release 1562, (May 9, 1996).*

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

Investment advisers registered with the Commission may be required to maintain and preserve certain information required under rule 206(4)-2 for more than three years. The long-term retention of these records is necessary for the Commission's inspection program to ascertain compliance with the Investment Advisers Act.

8. Consultation Outside the Agency

The Commission requested public comment on the collection of information requirements in rule 206(4)-2 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.

The Commission and the staff of the Division of Investment Management also 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

Not applicable.

10. Confidentiality

Not applicable.

11. Sensitive Questions

Not applicable.

12. Burden of Information Collection

Currently approved burdens. The current annual collection of information burden approved by OMB for rule 206(4)-2 is 816,285 hours. This burden includes 74,646 hours relating to the requirement to obtain a surprise examination, 379 hours to enter into a written agreement with

an independent public accountant engaged to conduct the surprise examination, 653,536 hours to distribute audited financial statements to investors in pools managed by the adviser, and 55,047 hours to add a legend in notifications and account statements.

We now estimate the total information collection hours to be 246,532 hours.¹⁰ The primary cause of the change is the result of removing an outlier from the Form ADV data set that significantly skewed the average number of investors per pooled investment vehicle.¹¹

Annual surprise examination. Rule 206(4)-2 requires each registered investment adviser that has custody of client funds or securities to 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.¹² The current approved annual burden for rule 206(4)-2 includes 74,646 hours that relate to the requirement to obtain a surprise examination. We estimated that 1,514 advisers registered with the Commission would be subject to the surprise examination. We now estimate that 1,713 advisers are subject to the surprise examination requirement under rule 206(4)-2.¹³

¹⁰ See *infra* note 37.

¹¹ See *supra* note 31.

¹² Rule 206(4)-2(a)(4).

¹³ Based on data from the Investment Adviser Registration Depository (“IARD”) as of September 30, 2018 (unless indicated otherwise, all data we use in this Supporting Statement were as of September 30, 2018, 7,216 advisers answered “yes” to Form ADV, Part 1A Items 9.A. or 9.B. (indicating that they or a related person has custody of client assets, excluding advisers that have custody solely because they have authority to deduct fees from clients’ accounts) or answered “yes” to another question in Part 1A Item 9.C. Of these advisers, 1,713 advisers indicated in response to Item 9.C.(3) that an independent public accountant conducts an annual surprise examination of client funds and securities.

For purposes of estimating the collection of information burden, we have divided the estimated 1,713 advisers into three subgroups. First, we estimate that 444 advisers have custody because they serve as qualified custodians for their clients, or they have a related person that serves as qualified custodian for clients in connection with advisory services the adviser provides to the clients.¹⁴ We estimate that these advisers are subject to an annual surprise examination with respect to 100 percent of their clients (or 7,541 clients per adviser) based on the assumption that all of their clients maintain custodial accounts with the adviser or related person.¹⁵ We estimate that each adviser will spend an average of 0.02 hours for each client to create a client contact list for the independent public accountant. The estimated total annual aggregate burden with respect to the surprise examination requirement for this group of advisers is 66,964 hours.¹⁶

The second group of advisers, estimated at 1,132, are those that have custody because they have broad authority to access client assets held at an independent qualified custodian, such as through a power of attorney or acting as a trustee for a client's trust.¹⁷ Based on our staff's

¹⁴ Based on IARD data, 432 advisers indicated that an independent public accountant prepares an internal control report because the adviser or its affiliate acts as a qualified custodian (in response to Item 9.C.(4)). Similarly, 88 advisers indicated that they act as a qualified custodian (in response to Item 9.D.(1)), and 367 advisers that indicated that their related person(s) act as qualified custodian(s) (in response to Item 9.D.(2)). $88 + 367 = 455$.

¹⁵ We base our estimate on IARD data of the average number of clients of all the advisers that will be subject to the surprise examination under the rule. To derive our estimate, we utilized the winsorization method, by setting all values for advisers within the 99th percentile of number of clients at the number of clients at the 99th percentile. The method lessens the effect of outliers on client estimates.

¹⁶ $444 \text{ advisers} \times 7,541 \text{ (average number of clients subject to the surprise examination requirement)} \times 0.02 \text{ hour} = 66,964 \text{ hours}$.

¹⁷ This estimate is based on the total number of advisers subject to surprise examinations less those described above in the first group (custody as a result of serving as, or having a related person serving as qualified custodian) less those described below in the third group (custody as a result of solely managing private funds). $1,713 - 444 - 137 = 1,132$.

experience, advisers that have access to client assets through a power of attorney, acting as trustee, or similar legal authority typically do not have access to all of their client accounts, but rather only to a small percentage of their client accounts pursuant to these special arrangements. We estimate that these advisers will be subject to an annual surprise examination with respect to 5 percent of their clients (or 377 clients per adviser) who have these types of arrangements with the adviser.¹⁸ We estimate that each adviser will spend an average of 0.02 hours for each client to create a client contact list for the independent public accountant. The estimated total annual aggregate burden with respect to the surprise examination requirement for this group of advisers is 8,535 hours.¹⁹

A third group of advisers provide advice to pooled investment vehicles that are not undergoing an annual audit and therefore would undergo the surprise examination with respect to those pooled investment vehicle clients. Based on current IARD data, we estimate that 10 advisers provide advice exclusively to pooled investment vehicles and undergo the surprise examination with respect to all of their pooled investment vehicle clients.²⁰ We estimate that 71 advisers that provide advice exclusively to pooled investment vehicles are subject to an annual surprise examination because some of the pooled investment vehicles they advise do not undergo an annual audit.²¹ We

¹⁸ Based on the IARD data, we estimate that the average number of clients of advisers subject to the surprise examination requirement is 7,541. $7,541 \times 0.05 = 377$.

¹⁹ $1,132 \text{ advisers} \times 377 \text{ clients} \times 0.02 \text{ hours} = 8,535 \text{ hours}$.

²⁰ Based on IARD data, we estimate that 578 advisers manage private funds and undergo a surprise examination (responses to Items 7.B. and 9.C.(3)). Of these advisers, 10 solely manage pooled investment vehicles, undergo a surprise examination, and do not undergo an annual audit of the pooled investment vehicles they manage (responses to Item 5.D.(1)(f) and Item 9.C.).

²¹ Based on IARD data, we estimate that 81 advisers that provide services exclusively to pooled investment vehicles undergo an annual audit and obtain an annual surprise examination because some of the pooled investment vehicles they advise do not undergo an annual audit (responses to Items 5.D.(1)(f), 7.B., and 9.C.(3)).

further estimate that 46 advisers that provide advice not exclusively to pooled investment vehicles are subject to an annual surprise examination because some of the pooled investment vehicles they advise do not undergo an annual audit.²² We estimate that each adviser providing advisory services exclusively to pooled investment vehicles will have 21 funds and 752 investors, and each adviser not providing advisory services exclusively to pooled investment vehicles will have 15 funds and 794 investors.²³ We estimate that advisers to these pooled investment vehicles will spend 1 hour for the pool and 0.02 hours for each investor in the pool to create a contact list for the independent public accountant, for an estimated total annual burden with respect to the surprise examination requirement for these advisers of 4,339 hours.²⁴

These estimates bring the total annual aggregate burden with respect to the surprise examination requirement for all three groups of advisers to 79,838.²⁵ This estimate does not include the collection of information discussed below relating to the written agreement required by paragraph (a)(4) of the rule.

Written agreement with accountant. Rule 206(4)-2 requires that an adviser subject to the surprise examination requirement must enter into a written agreement with the independent public

²² We estimate, based on staff experience, that ten percent of the 464 advisers that provide services not exclusively to pooled investment vehicles obtain an annual surprise examination because some of the pooled investment vehicles they advise do not undergo an annual audit (responses to Items 5.D.(1), 7.B. and 9.C.(3)).

²³ The number of funds and investors per adviser is estimated based on the information we collected from Schedule D of Form ADV filed by advisers that indicated that they undergo a surprise examination and provide advisory services to pooled investment vehicles.

²⁴ $[(21 \text{ funds} \times 1 \text{ hour}) + (752 \text{ investors} \times 0.02 \text{ hours})] \times (81 \text{ advisers}) + [(15 \text{ funds} \times 1 \text{ hour}) + (794 \text{ investors} \times 0.02 \text{ hours})] \times 46 \text{ advisers} = [36.04 \text{ hours} \times 81 \text{ advisers}] + [30.88 \text{ hours} \times 46 \text{ advisers}] = 2,919 \text{ hours} + 1,420 \text{ hours} = 4,339 \text{ hours}.$

²⁵ $66,964 \text{ hours} + 8,535 \text{ hours} + 4,339 \text{ hours} = 79,838 \text{ hours}.$

accountant engaged to conduct the surprise examination and specify certain duties to be performed by the independent public accountant.²⁶ We estimate that each adviser will spend 0.25 hour to add the required provisions to the written agreement, with an aggregate of approximately 428 hours for all advisers that undergo surprise examinations.²⁷ Therefore the total annual burden in connection with the surprise examination is estimated at 80,266 hours under the rule.²⁸

Audited pooled investment vehicles. The rule excepts advisers to pooled investment vehicles from having a qualified custodian send quarterly account statements to the investors in a pool if it is audited annually by an independent public accountant and the audited financial statements are distributed to the investors in the pool.²⁹ The rule also requires that an adviser to a pooled investment vehicle that is relying on the annual audit provision must have the pool audited and distribute the audited financial statements to the investors in the pool promptly after completion of the audit if the fund liquidates at a time other than its fiscal year-end.³⁰

The currently approved annual burden in connection with the required distribution of audited financial statements in connection with the annual audit and liquidation audit requirements is 653,536 hours. We estimate that the average burden for advisers to mail audited financial statements to investors in the pool is 1 minute per investor. Under our revised estimate of the number of advisers to audited pooled investment vehicles, the number of pooled investment vehicles and the number of investors, we estimate that the aggregate annual hour burden in connection with the distribution of

²⁶ Rule 206(4)-2(a)(4).

²⁷ 1,713 advisers required to obtain a surprise examination x 0.25 = 428.

²⁸ 79,838 exam hours + 428 written agreement hours = 80,266 hours.

²⁹ Rule 206(4)-2(b)(4).

³⁰ *Id.*

annual audited financial statements is 28,132 hours.³¹ We estimate that 5 percent of pooled investment vehicles are liquidated annually at a time other than their fiscal year-end, which results in an additional burden of 1,407 hours per year.³² As a result, the total annual hour burden to distribute audited financial statements in connection with the annual audit and liquidation audit requirements under the rule is estimated to be 29,539 hours.³³

Notice to clients. The rule also requires each adviser, if the adviser sends account statements in addition to those sent by the custodian, to add a legend in its notification to clients upon opening a custodial account on their behalf, and in any subsequent account statements it sends to those clients, urging them to compare the account statements from the qualified custodian to

³¹ Based on IARD data, we estimate that 4,380 advisers have custody of client assets and provide advisory services to pooled investment vehicles. Of these advisers, we estimate that 4,254 advisers will have their pooled investment vehicles audited and distribute audited financial statements to investors in the pool. [4,380 advisers to pooled investment vehicles – 137 advisers that undergo a surprise examination = 4,243 advisers that undergo an audit] We estimate that the 4,243 advisers provide advice to 34,032 pooled investment vehicles that have a total of 1,654,806 investors. 1,654,806 investors x 0.017 hour = 28,132 total burden hours to distribute annual audited financials.

The significant decrease in the total burden hours from the currently approved annual burden in connection with the required distribution of audited financial statements in connection with the annual audit and liquidation audit requirements is the result of removing an outlier from the Form ADV data set that significantly skewed the average number of investors per pooled investment vehicle.

³² 28,132 (total burden hours relating to distribution of annual audited financials) x 0.05 = 1,407 hours.

³³ 28,132 (total burden hours relating to distribution of annual audited financials) + 1,407 (total burden hours relating to distribution of liquidation audited financials) = 29,539 hours.

The decrease in total burden hours is a result of removing an outlier from the Form ADV data set that significantly skewed the average number of investors per pooled investment vehicle. *See supra* note 31.

those from the adviser.³⁴ The legend is placed in a notification that is otherwise required to be sent to clients at specified times, so the collection of information burden is negligible. We estimate that 4,062 advisers will be subject to this collection of information,³⁵ and that each adviser will on average open a new custodial account for 5% of its clients per year, either because the adviser has new clients that request that the adviser open an account on their behalf, or because the adviser selects a new custodian and moves its existing clients' accounts to that custodian. We further estimate that the adviser will spend 10 minutes per client drafting and sending the notice. The total hour burden relating to this requirement is estimated at 136,727 hours per year.³⁶

Based on the above estimates, we anticipate that the estimated total information collection burden under rule 206(4)-2 would be 246,532 hours.³⁷ This represents an decrease from the currently approved burden, primarily due to a decrease in the burden related to the distribution of

³⁴ Rule 206(4)-2(a)(2).

³⁵ Based on IARD data, 7,020 advisers reported that they have custody (this excludes advisers having custody solely because of deducting fees, which we understand do not typically open custodial accounts on behalf of their clients). Of those advisers, 2,002 are advisers exclusively to audited pooled investment vehicles. Since we estimate that 97% of advisers to audited pooled investment vehicles obtain an annual audit (see *supra* note 31), the notice requirement does not apply to 1,942 advisers, leaving 5,078 advisers that may be subject to this information collection. $[7,020 \text{ advisers with custody} - (2,002 \text{ advisers to pooled investment vehicles} \times 0.97) = 7,020 - 1,942 = 5,078 \text{ advisers}]$ Based on our staff's observation, we estimate that clients of 80% of these advisers will receive account statements from their advisers in addition to the account statements from the qualified custodian. $0.8 \times 5,078 = 4,062$.

³⁶ $[4,062 \times 3,960 \text{ (average number of clients for the advisers with custody of client assets)} \times 0.05] \times 0.17 \text{ hours} = 136,727 \text{ hours}$.

³⁷ $80,266 \text{ (surprise examination)} + 29,539 \text{ (distribution of audited financial statements)} + 136,727 \text{ (notice to clients)} = 246,532$.

audited financial statements, as discussed above. The total costs due to this information collection hour burden is estimated at \$16,616,512.³⁸

The estimate of average burden hours is made solely for the purposes of the Paperwork Reduction Act. The estimate is not derived from a comprehensive or even representative survey or study of Commission rules.

³⁸ [428 (hours spent on written agreement) x \$298 (average hour rate for compliance managers)] + [246,104 (hours spent on complying with other provisions of the rule) x \$67 (average rate for compliance clerks)] = \$127,544 + \$16,488,968 = \$16,616,512. Data from the *Securities Industry and Financial Markets Association's Office Salaries in the Securities Industry 2013*, modified by Commission staff to account for an 1800-hour work-year and inflation and multiplied by 2.93 to account for bonuses, firm size, employee benefits and overhead, suggest that cost for a compliance clerk is \$67 per hour, and data from the *Securities Industry and Financial Markets Association's Management & Professional Earnings in the Securities Industry 2013*, modified by Commission staff to account for an 1800-hour work-year and inflation and multiplied by 5.35 to account for bonuses, firm size, employee benefits and overhead ("SIFMA Management & Professional Earnings"), suggest that the cost for a compliance manager position is \$298 per hour.

Table 1: Summary of Revised Annual Responses, Burden Hours, and Burden Hour Costs Estimates for Each Rule 206(4)-2 Information Collection (“IC”) Hour Costs

IC	Rule 206(4)-2 IC Description	Burden Hours	Burden Hour Costs	Responses
IC1	Annual Surprise Examination			3,872,312
IC1	Investment Adviser or Related Person Serves as Qualified Custodian			3,348,204
IC1	Investment Adviser has Broad Authority to Access Client Assets Held at an Independent Custodian			426,764
IC1	Investment Adviser Provides Advice Exclusively to Pooled Investment Vehicles and Undergo Surprise Examination With Respect to All Pooled Investment Vehicle Clients			7,520
IC1	Investment Adviser that Provides Advice Exclusively to Pooled Investment Vehicles and Subject to Surprise Examination Because Some of the Pooled Investment Vehicles do not Undergo an Annual Audit			53,392
IC1	Investment Advisers that Provide Advice Not Exclusively to Pooled Investment Vehicles and Subject to Surprise Examination Because Some of the Pooled Investment Vehicles do not Undergo an Annual Audit			36,432
IC1	Totals for IC1	79,838	\$5,349,146	7,744,624
IC2	Written Agreement with Independent Public Accountant	428	\$127,544	1,713
IC3	Distribution of Audited Financial Statements	29,539	\$1,979,113	1,654,806
IC4	Notice to Clients	136,727	\$9,160,709	16,085,520
	Totals for all ICs	246,532	\$16,616,512	21,614,351

13. Cost to Respondents

The currently approved collection of information for the custody rule includes an aggregate accounting fee estimate of \$147,440,000. We now estimate a total annual aggregate accounting fee of \$163,610,000.³⁹ The increase in estimated aggregated cost is attributable to an increase in the number of small sized advisers that will be subject to the surprise examination requirement with respect to 5% of their clients as well as inflation adjustments. .

We estimate that of the 1,713 advisers subject to the surprise examination requirement, approximately 310 advisers will be subject to the surprise examination with respect to 100 percent of their clients and will each spend an average of approximately \$146,000 annually,⁴⁰ 71 medium-sized advisers will be subject to the surprise examination requirement with respect to 5% of their clients and will each spend an average of approximately \$23,000 annually, and 1,332 small sized advisers will be subject to the surprise examination requirement with respect to 5% of their clients

³⁹ See *infra* note 45 and accompanying text.

⁴⁰ We estimate, based on IARD data, there are 310 advisers that do not currently use an independent qualified custodian and will be subject to the surprise examination with respect to 100% of their clients (they indicated on Form ADV, Part 1A, Items 9.C.(3) and 9.C.(4) that they are subject to examination and have internal control reports because the adviser or its related person is a qualified custodian).

We note that the costs of reporting to the Commission (i) regarding “material discrepancy” pursuant to rule 206(4)-2(a)(4)(ii) and (ii) upon termination of engagement pursuant to rule 206(4)-2(a)(4)(iii) are included in the estimated accounting fees.

and will each spend an average of approximately \$12,000 annually,⁴¹ with an aggregate annual accounting fee of \$62,877,000 for all advisers subject to the surprise examination.⁴²

We understand that the cost to prepare an internal control report relating to custody will vary based on the size and services offered by the qualified custodian. We estimate that, on average, an internal control report would cost approximately \$292,000 per year for each adviser subject to the requirement. We estimate that under rule 206(4)-2, 345 advisers will be subject to the requirement of obtaining or receiving an internal control report.⁴³ Therefore the total cost

⁴¹ Based on responses to Item 5.C. of Form ADV, we estimate that the average number of clients for the 1,403 advisers that indicated they do not have internal control reports is 2,884. We determined, for purposes of this analysis, that an adviser with clients more than this average number is a medium size adviser (71) and an adviser with clients less than this average number is a small adviser (1,332).

⁴² $(310 \times \$146,000) + (71 \text{ (medium advisers)} \times \$23,000) + (1,332 \text{ (small advisers)} \times \$12,000) = \$45,260,000 + \$1,633,000 + \$15,984,000 = \$62,877,000.$

We note that the estimated costs in this calculation have been adjusted for inflation from prior estimates, rounded to the nearest \$1,000.

⁴³ We estimate that 444 advisers obtain an internal control report (*see supra* note 14 for this estimate). Of the 310 advisers that will be subject to both the surprise examination and internal control report requirement (*see supra* note 40 for this estimate), we further estimate, based on consultation with several accounting firms, that 10% of these advisers already obtain an internal control report for purposes other than the custody rule. In addition, we believe that some related persons may serve as the qualified custodian for more than one affiliated adviser. We estimate that this will reduce the number of required internal control reports by an additional 15%. $444 - (310 \times 10\%) - (455 \times 15\%) = 444 - 31 - 68 = 345.$

attributable to this requirement will be \$100,740,000.⁴⁴ The total estimated accounting fee under the rule 206(4)-2 is therefore estimated at \$163,617,000.⁴⁵

14. Cost to the Federal Government

There are no additional costs to the federal government.

15. Changes in Burden

The current annual burden approved by OMB for rule 206(4)-2 is 816,285 hours. We now estimate that the total information collection hours is 246,532 hours. The primary cause of the decrease is the result of removing an outlier from the Form ADV data set that significantly skewed the average number of investors per pooled investment vehicle.⁴⁶ The currently approved annual burden under rule 206(4)-2 includes an aggregate cost estimate of \$147,440,000. We now estimate that the annual cost burden under the rule would increase to \$163,617,000, which is caused by an increase in the number of small sized advisers that will be subject to the surprise examination requirement with respect to 5% of their clients as well as inflation adjustments.

16. Information Collection Planned for Statistical Purposes

Not applicable.

⁴⁴ $\$292,000 \times 345 = \$100,740,000$

We note that the estimated costs in this calculation have been adjusted for inflation from prior estimates, rounded to the nearest \$1,000.

⁴⁵ $\$62,877,000$ (accounting fee for surprise examination) + $\$100,740,000$ (accounting fee for internal control report) = $\$163,617,000$.

⁴⁶ *See supra* note 31.

17. Approval to Omit OMB Expiration Date

Not applicable.

18. Exception to Certification Statement for Paperwork Reduction Act

Submission

Not applicable.

B. COLLECTION OF INFORMATION EMPLOYING STATISTICAL METHODS

Not applicable.