

**SUPPORTING STATEMENT**  
**For the Paperwork Reduction Act Information Collection Submission for**  
**Rule 206(4)-7**

**A. JUSTIFICATION**

**1. Necessity of the Information Collection**

Rule 206(4)-7 under the Investment Advisers Act of 1940 (“Advisers Act”) requires each investment adviser registered with the Securities and Exchange Commission (the “Commission”) to (i) adopt and implement internal compliance policies and procedures, (ii) review those policies and procedures annually, (iii) designate a chief compliance officer, and (iv) maintain certain compliance records. The rule is designed to protect investors by fostering better compliance with the securities laws. This collection of information is found at 17 CFR 275.206(4)-7, Office of Management and Budget control number 3235-0585, and is mandatory.

The collection of information under rule 206(4)-7 is necessary to assure that investment advisers maintain comprehensive internal programs that promote the advisers’ compliance with the Advisers Act. The respondents are investment advisers registered with the Commission. The Commission’s examination and oversight staff may review the information collected to assess investment advisers’ compliance programs.

**2. Purpose and Use of the Information Collection**

The purpose of the information collection requirements in rule 206(4)-7 is to ensure that advisers maintain comprehensive, written internal compliance programs that promote compliance with the federal securities laws. The information collection in the rule also assists the Commission’s examination staff in assessing the adequacy of advisers’ compliance programs.

### **3. Consideration Given to Information Technology**

Rule 206(4)-7 does not require the reporting of any information or the filing of any documents with the Commission. The rule requires advisers to maintain written policies and procedures. Each adviser is required to maintain for at least five years copies of any records documenting the adviser's annual review of its compliance policies and procedures. The Commission permits advisers to maintain the records required under rule 204-2 through electronic media.

### **4. Duplication**

Rule 206(4)-7 imposes a broad requirement that advisers have in place written compliance policies and procedures. Advisers currently are subject to certain requirements elsewhere in the federal securities laws that require them to maintain written policies and procedures. Rule 206(4)-7, however, does not require advisers to maintain duplicate copies of records covered by these more targeted requirements. The staff believes, therefore, that any duplication of regulatory requirements is limited and does not impose significant additional costs on advisers.

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

Advisers, regardless of their size, are subject to the requirements in rule 206(4)-7. Effective internal compliance programs are essential for firms of all sizes. Rule 206(4)-7 affords advisers the flexibility to tailor their compliance program to the nature of their business. Small advisers, which generally have less complex and more limited operations, would likely need less extensive compliance programs than their larger counterparts. Thus, rule 206(4)-7 should not inappropriately burden small advisers. The Commission believes that it could not adjust the rule

to lessen the burden on small entities of complying with the rule without jeopardizing the interests of clients of small advisers.

#### **6. Consequences of Not Conducting Collection**

Rule 206(4)-7 requires advisers to review their policies and procedures annually. The annual reviews required under the rule are integral to detecting and correcting any gaps in the program before irrevocable or widespread harm is inflicted upon investors, and extending the time between reviews increases the likelihood that such harm could go unchecked.

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

Rule 206(4)-7 requires advisers to maintain their internal compliance policies and procedures and documents related to the annual review of those policies and procedures for at least five years. Although this period exceeds the three-year guideline for most kinds of records under 5 CFR 1320.5(d)(2)(iv), the staff believes that this is warranted because the rule contributes to the effectiveness of the Commission's examination and inspection program.

#### **8. Consultation Outside the Agency**

The Commission requested public comment on the collection of information requirements in rule 206(4)-7 before it submitted this request for extension 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 participate in an ongoing dialogue with representatives of the investment adviser profession 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 facing the industry.

#### **9. Payment or Gift**

Not applicable.

## **10. Confidentiality**

The information documented pursuant to rule 206(4)-7 is reviewed by the Commission's examination staff; it will be accorded the same level of confidentiality accorded to other responses provided to the Commission in the context of its examination and oversight program.<sup>1</sup>

## **11. Sensitive Questions**

No PII collected / Not applicable.

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

Rule 206(4)-7 requires investment advisers to (i) adopt and implement internal compliance policies and procedures, (ii) review those policies and procedures annually, (iii) designate a chief compliance officer, and (iv) maintain certain compliance records. The current approved total collection of information for rule 206(4)-7 is 1,046,262 hours per year.<sup>2</sup>

We are updating and revising the total collection of information burden based upon new data.<sup>3</sup> Our new data indicates that there are 13,249 advisers registered with the SEC. Using this new number of total respondents for our calculation, the revised total estimated collection of information burden imposed by rule 206(4)-7 is now increased to 1,152,663 hours.<sup>4</sup>

We estimate that on average each respondent would have compliance managers perform 65.25 of its 87 burden hours and the remaining 21.75 hours of work would be performed by

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<sup>1</sup> Section 210(b) of the Advisers Act (15 U.S.C. 80b-10(b)).

<sup>2</sup> This figure is based on an average annual burden of 80 hours per adviser for rule 206(4)-7 and an average annual burden of between 8 – 250 hours per adviser (depending on the size of the adviser) subject to rule 206(4)-5 under the Advisers Act for implementing policies and procedures to comply with rule 206(4)-5 and related amendments to rules 204-2 and 206(4)-3, for an average of 87 hours per adviser annually.

<sup>3</sup> The data is collected from the Form ADVs filed through the IARD system as of October 31, 2018.

<sup>4</sup> 13,249 respondents x 87 hours per respondent = 1,152,663 hours.

compliance clerical staff. Our new data indicate the hourly wage rate for a compliance manager is \$298, while the hourly wage rate for a compliance clerk is \$67 an hour.<sup>5</sup> Using the new hourly wage rates and new number of respondents, rule 206(4)-7 now results in a total cost of \$276,972,285.75.<sup>6</sup>

IC Title	Annual No. of Responses			Annual Time Burden (Hrs.)			Burden Cost Burden (\$)		
	Previously approved	Requested	Change	Previously approved	Requested	Change	Previously approved	Requested	Change
Rule 206(4)-7									
Annual reporting	12,026	13,249	1223	1,046,262	1,152,663	106,401	\$238,809,901.50	\$276,972,285.75	\$38,162,384.25

**Estimated Number of Annual Responses:** 13,249

**Estimated Total Annual ICR Burden Hours:** 1,152,663

### 13. Cost to Respondents

The staff estimates that the rule 206(4)-7 will not impose a material cost burden on advisers, apart from the cost of the burden hours. Although the rule requires advisers to maintain certain records for five years, these records may be maintained electronically and, even if maintained in hard copy, are unlikely to be voluminous.

### 14. Cost to the Federal Government

<sup>5</sup> Our hourly wage rate estimates for a compliance professional and a compliance clerk are based on data from the Securities Industry and Financial Markets Association's *Management & Professional Earnings in the Securities Industry 2018* and *Office Salaries in the Securities Industry 2018*, modified by Commission staff to account for an 1800-hour work-year and multiplied by 5.35 (in the case of compliance managers) or 2.93 (in the case of compliance clerks) to account for bonuses, firm size, employee benefits and overhead.

<sup>6</sup> (13,249 registered investment advisers x 65.25 hours by compliance managers x \$298 per hour) + (13,249 registered investment advisers x 21.75 hours by compliance clerical staff x \$67 per hour) = \$276,927,285.75

Rule 206(4)-7 does not impose any costs on the Federal government, since there is no separate filing required with the Commission. However, Commission staff may review records produced pursuant to the rule in order to assist the Commission in carrying out its examination and oversight program.

**15. Changes in Burden**

As noted above, the increase in the hour burden is attributable to an increase in the number of SEC-registered advisers. We have revised the estimated burden based on new information on the number of SEC-registered investment advisers that was obtained from Form ADVs filed through the IARD as of October 31, 2018. As a result, more advisers are subject to the requirements in Rule 206(4)-7, resulting in the estimated annual burden hours increasing from 1,046,262 to 1,152,663, and the number of responses increasing from 12,026 to 13,249.

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

Not applicable.

**17. Approval to Omit OMB Expiration Date**

Not applicable.

**18. Exceptions to Certification Requirement for Paperwork Reduction Act**

**Submissions**

Not applicable.

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

Not applicable.