

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

A. JUSTIFICATION

1. Necessity for the Information Collection

On June 5, 2019, the Securities and Exchange Commission (the “Commission” or “SEC”) adopted amendments to Form ADV¹, and related rules under the Investment Advisers Act of 1940 (the “Advisers Act” or “Act”), adding 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.² Form ADV is now a three-part investment adviser registration form. Part 1 of Form ADV contains information used primarily by Commission staff and Part 2 is the client brochure. New Part 3 will require registered investment advisers that offer services to retail investors to prepare and file with the Commission, post to the adviser’s website (if it has one), and deliver to retail investors a relationship summary. The Commission uses the information on Form ADV

¹ 17 CFR 279.1.

² Form CRS Relationship Summary; Amendments to Form ADV, Release Nos. IA-5247; 34-86032 (June 5, 2019) [84 FR 33492 (Jul. 12, 2019)]. The amendments to Form ADV were proposed in Form CRS Relationship Summary; Amendments to Form ADV; Required Disclosures in Retail Communications and Restrictions on use of Certain Names or Titles, Investment Advisers Act Release No. 4888. Exchange Act Release No. 83063 (Apr. 18, 2018) [83 FR 23848 (May 23, 2018)] (“Proposing Release”).

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 new 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.

The Commission did not propose amendments to Part 1 or 2.³ Rule 203-1⁴ under the Advisers Act requires every person applying for investment adviser registration with the Commission to file Form ADV. Rule 204-4⁵ under the Advisers Act requires certain investment advisers exempt from registration with the Commission (“exempt reporting advisers”) to file reports with the Commission by completing a limited number of items on Form ADV. Rule 204-1⁶ 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

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

⁴ 17 CFR 275.203-1.

⁵ 17 CFR 275.204-4.

⁶ 17 CFR 275.204-1.

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 1995.⁷ New Part 3 of Form ADV contains collections of information. The collections are necessary to provide advisory clients, prospective clients, and the Commission with information about the relationships and services the firm offers to retail investors, fees and costs that the retail investor will pay, specific conflicts of interest and standards of conduct, legal or disciplinary history, and how to obtain additional information about the firm. 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 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.

⁷ 44 U.S.C. 3501 to 3520.

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. While Form ADV Part 3 requires firms to summarize topics also required to be discussed in Form ADV Part 1 or Part 2, the Part 3 has a distinct purpose to help retail investors select or determine whether to remain with a firm or financial professional by providing better transparency and summarizing in one place selected information about a particular investment adviser. 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. Because the protections of the Advisers Act are intended to apply equally to retail investor clients of both large and small firms, it would be inconsistent with the purposes of the Advisers Act to specify differences for small entities under the new requirements. 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 With Persons 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 received several comments on the collection of information requirements that addressed whether the relationship summary is duplicative of other disclosures and necessary for investment advisers, and whether we could further minimize the burden of the proposed collections of information. Other commenters suggested that our burden estimates were too low for the proposed collection of information and that the current approved burdens for Form ADV are too low. We have considered these comments and are increasing our PRA burden estimates from 5 hours to 20 hours for investment advisers to prepare and file the relationship summary. We also modified several substantive requirements to mitigate some of these estimated increased costs relative to the proposal. The Commission and staff of the Division of Investment Management also 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 assurance of 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.⁸ 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

⁸ See 15 U.S.C. §§ 80b-3 and 80b-4.

Commission is 363,082 hours,⁹ or a blended average of 23.77 hours per adviser,¹⁰ with a monetized total of \$92,404,369, or \$6,051 per adviser.¹¹ 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.¹² The new amendments will increase the current burden estimate to 37.47 hours per SEC-registered adviser, and maintain the 3.60 hours per exempt reporting adviser due in part to the 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 adopting 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

⁹ 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”).

¹⁰ $363,082 \text{ hours} / (12,024 \text{ registered advisers} + 3,248 \text{ exempt reporting advisers}) = 23.77 \text{ hours.}$

¹¹ $\$92,404,369 \text{ hours} / (12,024 \text{ registered advisers} + 3,248 \text{ exempt reporting advisers}) = \$6,051.$

¹² See 2016 Form ADV Paperwork Reduction Analysis, *supra* note 9, at 81 FR 60454.

advisers.¹³ As of December 31, 2018, 13,299 investment advisers were registered with the Commission, and 4,280 exempt reporting advisers report information to the Commission.

Only those registered investment advisers offering services to retail investors will be required to prepare and file a relationship summary. Based on IARD system data, the Commission estimates that 8,235 registered investment advisers provide advice to individual high net worth and individual non-high net worth clients.¹⁴ This would leave 5,064 registered investment advisers that do not provide advice to retail investors¹⁵ and 4,280 exempt reporting advisers that will not be subject to Form ADV Part 3

¹³ 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 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.

¹⁴ 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 in Item 5.D.(a)(1) of Form ADV or have regulatory assets attributable to either high net worth individuals or individuals other than high net worth individuals in Item 5.D.(a)(3) of Form ADV. The definition of retail investor will include the legal representatives of natural persons who seek to receive or receive services primarily for personal, family, or household purposes. A legal representative of a natural person will cover only non-professional legal representatives (e.g., a non-professional trustee that represents the assets of a natural person and similar representatives such as executors, conservators, and persons holding a power of attorney for a natural person). 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.

¹⁵ 13,299 registered investment advisers – 8,235 = 5,064 registered investment advisers not providing advice to retail investors.

requirements, but are included in the PRA analysis for purposes of updating the overall Form ADV information collection.¹⁶

The amendments to Form ADV to add Part 3 will increase the information collection burden for registered investment advisers with retail investors. The Commission requires that those investment advisers file their Form ADV Part 3 with the Commission electronically through IARD in the same manner as they currently file Form ADV Parts 1 and 2. The Commission also requires that all relationship summaries be filed in text-searchable format with machine-readable headings. Investment advisers also will 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 will remain the same, at 29.22 hours per registered investment adviser without Form ADV Part 3 obligations. Similarly, because exempt reporting advisers will not have Form ADV Part 3 obligations, the annual hour burden for exempt reporting advisers to meet their Form ADV obligations will remain the same, at 3.60 hours per exempt reporting adviser. However, although we are not adopting changes to Form ADV Part 1 and Part 2, and the per adviser information collection burden will 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 will increase due to an increase in the number

¹⁶ 13,299 registered investment advisers + 4,280 exempt reporting advisers = 17,579 total responses based on IARD system data. We also note that these figures include the burdens for 318 registered broker-dealers that are dually registered as investment advisers as of December 31, 2018.

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 will be 20 hours per registered adviser. We are revising our estimate of the time that it would take each adviser to prepare and file the relationship summary in the first year from 5 hours in the proposal to 20 hours, considering comments that our estimated burden was too low and the changes we are making to the proposed relationship summary. We therefore estimate that the total burden of preparing and filing the relationship summary will be 164,700 hours.¹⁷

As with the Commission's prior Paperwork Reduction Act estimates for Form ADV, we believe that most of the paperwork burden will be incurred in advisers' initial preparation and submission of Form ADV Part 3, and that over time this burden will decrease substantially because the paperwork burden would be limited to updating information.¹⁸ As under the currently approved collection, the estimated initial burden associated with preparing the relationship summary will be amortized over the estimated period that advisers will use the relationship summary, *i.e.*, over a three-year period.¹⁹

¹⁷ 20.0 hours x 8,235 investment advisers = 164,700 total aggregate initial hours.

¹⁸ We discuss the burden for advisers making annual updating amendments to Form ADV below.

¹⁹ See 2016 Form ADV Paperwork Reduction Analysis, *supra* note 9.

The annual hour burden of preparing and filing the relationship summary will therefore be 54,900.²⁰ In addition, based on IARD system data, the Commission assumes that 1,227 new investment advisers will file Form ADV with us annually. Of these, we estimate that 656 will be required to prepare and file the relationship summary.²¹ Therefore, the aggregate initial burden for newly registered advisers to prepare and file the relationship summary will be 13,120²² and, amortized over three years, 4,373 on an annual basis.²³ In sum, the annual hour burden for existing and newly registered investment advisers to prepare and file a relationship summary will be 59,273 hours,²⁴ or approximately 6.67 hours per adviser,²⁵ for an annual monetized cost of \$16,181,529, or \$1,965 per adviser.²⁶

²⁰ 20 hours x 8,235 investment advisers / 3 = 54,900 total annual aggregate hours.

²¹ The number of new investment advisers is calculated by looking at the number of new advisers in 2017 and 2018 and then determining the number each year that serviced retail investors. (644 for 2017 + 668 for 2018) / 2 = 656.

²² 656 new RIAs required to prepare relationship summary x 20.0 hours = 13,120 hours for new RIAs to prepare relationship summary.

²³ 656 x 20.0 hours / 3 = 4,373.

²⁴ (164,700 + 13,120) / 3 years = 59,273 annual hour burden for existing and new advisers to prepare and file relationship summary.

²⁵ 59,273 hours / (8,235 existing advisers + 656 new advisers) = 6.67 hours per year.

²⁶ 59,273 is the total aggregate initial hour burden for preparing and filing a relationship summary. We believe that performance of this function will most likely be equally allocated between a senior compliance examiner and a compliance manager. Data from the Securities Industry Financial Markets Association's Management & Professional Earnings in the Securities Industry 2013 ("SIFMA Management and Professional Earnings Report"), modified by Commission staff to account for an 1,800-hour work-year and inflation, and multiplied by 5.35 (professionals) or 2.93 (office) to account for bonuses, firm size, employee benefits, and overhead, suggest that costs for these positions are \$237 and \$309 per hour, respectively. (59,273 hours x 50% x \$237) + (59,273 hours x 50% x \$309 = \$16,181,529). \$16,181,529 / 8,235 investment advisers = \$1,965 per investment adviser. The SIFMA Management and Professional Earnings Report was updated in 2019 to reflect inflation. The numbers in the report are higher than the

b. Amendments to the Relationship Summary and Filing of

Amendments

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 estimate that the relationship summary will increase the annual burden associated with Form ADV by 0.5 hours²⁷ due to amendments to the relationship summary for those advisers required to prepare and file a relationship summary. The Commission is also requiring that firms delivering updated relationship summaries to existing clients also highlight the most recent changes by, for example, marking the revised text or including a summary of material changes.²⁸ Therefore we are increasing the burden to 1 hour²⁹ instead of our proposed 0.5 hours estimate. We do not expect amendments to be frequent, but based on the historical frequency of amendments made on Form ADV Parts 1 and 2, we estimate that on average, each adviser preparing a

numbers we used in the Proposing Release and, along with the higher hourly burden, result in higher cost estimates in this release, relative to the proposal.

²⁷ We had previously estimated that investment advisers would incur 0.5 hours to prepare an interim (other-than-annual) amendment to Form ADV. See 20416 Form ADV Paperwork Reduction Analysis, *supra* note 9, at 81 FR at 60452.

²⁸ Additionally, we are requiring that the additional disclosure showing the revised text or summarizing the material changes be attached as an exhibit to the unmarked relationship summary.

²⁹ 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* footnote 9, at 81 FR at 60452.

relationship summary will likely amend and file the disclosure an average of 1.71 times per year.³⁰ We therefore estimate that for making and filing amendments to their relationship summaries, advisers will incur an estimated total paperwork burden of 14,082 hours per year,³¹ or approximately 1.58 hours per adviser,³² for an annual monetized cost of \$3,844,386, or \$467 per adviser.³³

For existing and newly-registered advisers with relationship summary obligations, the additional burden attributable to amendments to Form ADV to add Part 3: Form CRS, (including the initial preparation and filing of the relationship summary and amendments thereto) totals 73,355 hours,³⁴ or 8.25 hours per adviser,³⁵ and a monetized cost of \$20,025,915, or \$2,252 per adviser.³⁶

³⁰ Based on IARD data as of December 31, 2018, 8,235 investment advisers with retail clients filed 14,118 other-than-annual amendments to Form ADV. $14,118 \text{ other-than-annual amendments} / 8,235 \text{ investment advisers} = 1.71 \text{ amendments per investment adviser}$.

³¹ $8,235 \text{ investment advisers amending relationship summaries} \times 1.71 \text{ amendments per year} \times 1 \text{ hour} = 14,082 \text{ hours}$.

³² $14,082 \text{ hours} / (8,235 \text{ existing advisers} + 656 \text{ new advisers}) = 1.58 \text{ hours per year}$.

³³ 14,082 is the total aggregate initial hour burden for amending relationship summaries. We believe 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 \$237 and \$309 per hour, respectively. $(14,082 \text{ hours} \times 50\% \times \$237 + 14,082 \text{ hours} \times 50\% \times \$309) = \$3,844,386$. $\$3,844,386 / 8,235 \text{ investment advisers} = \$467 \text{ per investment adviser}$.

³⁴ $59,273 \text{ hours for initial preparation and filing of the relationship summary} + 14,082 \text{ hours for amendments to the relationship summary} = 73,355 \text{ total aggregate annual hour burden attributable to the Form ADV amendments to add Part 3: Form CRS}$.

³⁵ $73,355 \text{ hours} / (8,235 \text{ existing advisers} + 656 \text{ newly registered advisers}) = 8.25 \text{ hours per adviser}$.

³⁶ 73,355 total aggregate annual hour burden for preparing, filing, and amending a relationship summary. We believe that performance of this function will most likely be

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 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 amendments to Form ADV, equals 37.47 hours per adviser, with 8.25 hours attributable to the adopted

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 \$237 and \$309 per hour, respectively. $73,355 \text{ hours} \times 50\% \times \$237 = \$8,692,568$. $73,355 \text{ hours} \times 50\% \times \$309 = \$11,333,348$. $\$8,692,568 + \$11,333,348 = \$20,025,915$. $\$20,025,915 / (8,235 \text{ existing registered advisers} + 656 \text{ newly registered advisers}) = \$2,252 \text{ per adviser}$.

amendments.³⁷ On an aggregate basis, this totals 333,146 hours for existing and newly registered advisers, with a monetized value of \$90,978,858.³⁸

As noted above, we estimate 5,064 of existing registered advisers will not have retail investors; therefore, they will not be obligated to prepare and file relationship summaries, so their annual per adviser hour burden will remain unchanged.³⁹ 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 investment advisers not required to prepare a relationship summary will be 164,655,⁴⁰ with a monetized value of \$44,950,816.⁴¹ The revised total annual collection of information burden for exempt

³⁷ 29.22 hours + 8.25 hours for increase in burden attributable to initial preparation and filing of, and amendments to, relationship summary = 37.47 hours total.

³⁸ 37.47 hours x (8,235 existing RIAs required to prepare a relationship summary + 656 newly registered RIAs required to prepare a relationship summary) = 333,146 total aggregate annual hour burden for preparing, filing and amending a relationship summary. We believe 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 \$237 and \$309 per hour, respectively. 333,146 hours x 0.5 x \$237 = \$39,477,801. 333,146 hours x 0.5 x \$309 = \$51,471,057. \$39,477,801 + \$51,471,057 = \$90,948,858.

³⁹ 13,299 registered investment advisers – 8,235 registered investment advisers with retail investors = 5,064 registered investment advisers without retail investors.

⁴⁰ 29.22 hours x (5,064 existing and 571 newly-registered investment advisers without retail investors) = approximately 164,655 total annual hour burden for RIAs not preparing a relationship summary.

⁴¹ We believe 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 SIFMA Management and Professional Earnings Report suggest that costs for these positions are \$237 and \$309 per hour, respectively. 164,655 hours x 50% x \$237 = \$19,511,618. 164,655 hours x 50% x \$309 = \$25,439,198. \$19,511,618 + \$25,439,198 = \$44,950,816.

reporting advisers, using the currently approved estimate of 3.60 hours per exempt reporting adviser, will be 16,996 hours,⁴² for a monetized cost of \$4,639,908, or \$983 per exempt reporting adviser.⁴³

In summary, factoring in the amendments to Form ADV to add Part 3, the revised annual aggregate burden for Form ADV for all registered advisers and exempt reporting advisers will be 514,797,⁴⁴ for a monetized cost of \$140,569,582.⁴⁵ This results in an annual blended average per adviser burden for Form ADV of 29.28 hours⁴⁶ and \$7,996 per adviser.⁴⁷ This is an increase of 151,715 hours,⁴⁸ or \$48,165,213⁴⁹ in the monetized value of the hour burden, from the currently approved annual aggregate burden estimates,

⁴² 3.60 hours x 4,280 exempt reporting advisers currently + 441 new exempt reporting advisers = 16,996 hours.

⁴³ As with preparation of the Form ADV for registered advisers, we believe 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 SIFMA Management and Professional Earnings Report suggest that costs for these positions are \$237 and \$309 per hour, respectively. 16,996 hours x 0.5 x \$237 = \$2,014,026. 16,996 hours x 0.5 x \$309 = \$2,625,882. \$2,014,026 + \$2,625,882 = \$4,639,908. \$4,639,908 / (4,280 exempt reporting advisers currently + 441 new exempt reporting advisers) = \$983 per exempt reporting adviser.

⁴⁴ 333,146 annual hour burden for RIAs preparing relationship summary + 164,655 annual hour burden for RIAs not preparing relationship summary + 16,996 annual hour burden for exempt reporting advisers = 514,797 total updated Form ADV annual hour burden.

⁴⁵ \$90,948,858 for RIAs preparing relationship summary + \$44,950,816 for RIAs not preparing relationship summary + \$4,639,908 for exempt reporting advisers = \$140,539,582 total updated Form ADV annual monetized hourly burden.

⁴⁶ 514,797 / (13,299 registered investment advisers + 4,280 exempt reporting advisers) = 29.28 hours per adviser.

⁴⁷ \$140,569,582 / (13,299 registered investment advisers + 4,280 exempt reporting advisers) = \$7,995 per adviser.

⁴⁸ 514,797 hours estimated – 363,082 hours currently approved = 151,715 hour increase in aggregate annual hourly burden.

⁴⁹ \$140,569,582 monetized hourly burden – \$92,404,369 = \$48,165,213 increase in aggregate annual monetized hourly burden.

increases which are attributable primarily 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 to add Part 3.

Table 1: BURDEN ESTIMATES FOR FORM ADV

IC	Amndments to Form ADV under the Investment Advisers Act of 1940	Annual No. of Responses			Annual Time Burden (Hrs.)			Monetized Time Burden (\$)		
		<i>Previously approved</i>	<i>Requested Change Due to Agency Discretion</i>	<i>Total</i>	<i>Previously approved</i>	<i>Requested Change Due to Agency Discretion</i>	<i>Total</i>	<i>Previously approved</i>	<i>Requested Change Due to Agency Discretion</i>	<i>Total</i>
	Description of Parts of IC									
IC1	Initial Preparation and Filing of the Relationship Summary and Amendments to the Relationship Summary and Filing of Amendments	15,272	17,579	2,307	363,082	514,797	151,715	90,978,858	140,569,582	48,165,213
Total for IC		15,272	17,579	2,307	363,082	514,797	151,715	90,978,858	140,569,582	48,165,213

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.⁵⁰ 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.⁵¹ We do not anticipate that the amendments to add a new Part 3 will 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

⁵⁰ See 2016 Form ADV Paperwork Reduction Analysis, *supra* note 9, 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.

⁵¹ See 2016 Form ADV Paperwork Reduction Analysis, *supra* note 9, 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.

ongoing external costs for the relationship summary. We estimate that an external service provider will spend 5 hours helping an adviser prepare an initial relationship summary. 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, particularly given our experience with the burdens for Form ADV.⁵²

Although advisers that will be subject to the relationship summary requirement may vary widely in terms of the size, complexity, and nature of their advisory business, we believe that the strict page limits will make it unlikely that the amount of time, and thus cost, required for outside legal and compliance review will vary substantially among those advisers who elect to obtain outside assistance.

Most of the information proposed to be required in the relationship summary is readily available to investment advisers from Form ADV Part 2A, and the narrative descriptions are concise, brief, and at a summary level. 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

⁵² 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. *See* Brochure Adopting Release at 75 FR at 49257. In comparison, as discussed above, the relationship summary is limited to two pages in length for standalone investment advisers and four pages in length for dual registrants.

services related to the preparation of the relationship summary will be \$2,485.⁵³ We estimate that the initial per existing adviser cost for compliance consulting services related to the preparation of the relationship summary will be \$3,705.⁵⁴ Thus, the incremental external cost burden for existing investment advisers is estimated to be \$20,371,331, or \$6,790,444 annually when amortized over a three-year period.⁵⁵ In addition, we estimate that 1,227 new advisers will register with us annually, 656 of which will be required to prepare a relationship summary. For these 656 new advisers, we estimate that they will require \$1,622,780 in external costs to prepare the relationship summary, or \$540,927 amortized over three years.⁵⁶ In summary, the annual external legal and compliance consulting cost for existing and new advisers relating to obligations

⁵³ External legal fees are in addition to the projected hour per adviser burden discussed above. Data from the SIFMA Management and Professional Earnings Report suggest that outside legal services cost approximately \$497 per hour. \$497 per hour for legal services x 5 hours per adviser = \$2,485. The hourly cost estimate of \$497 is based on an inflation-adjusted figure and our consultation with advisers and law firms who regularly assist them in compliance matters.

⁵⁴ 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, suggest that outside management consulting services cost approximately \$741 per hour. \$741 per hour for outside consulting services x 5 hours per adviser = \$3,705.

⁵⁵ 25% x 8,235 existing advisers x \$2,485 for legal services = \$5,115,994 for legal services. 50% x 8,235 existing advisers x \$3,705 for compliance consulting services = \$15,255,338. \$5,115,994 + \$15,255,338 = \$20,371,331 in external legal and compliance consulting costs for existing advisers. \$20,371,333 / 3 = \$6,790,444 annually.

⁵⁶ 25% x 656 new advisers x \$2,485 for legal services = \$407,540. 50% x 656 new advisers x \$3,705 for compliance consulting services = \$1,215,240. \$407,540 + \$1,215,240 = \$1,622,780 in external legal and compliance consulting costs for new advisers. \$1,622,780 / 3 = \$540,927.annually in external legal and compliance consulting costs for newly registered advisers.

to prepare the relationship summary is estimated to total \$7,331,370, or \$825 per adviser.⁵⁷

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 aggregate cost of obtaining the fair value of private fund assets is likely to 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, 2018, 4,806 registered advisers advise private funds. We therefore estimate that approximately 288 registered advisers may incur costs of \$37,625 each on an annual basis, for an aggregate annual total cost of \$10,836,000.⁵⁸

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 relationship summary, we estimate the annual aggregate external cost burden of the Form ADV information collection will be \$21,767,370, or \$1,637 per

⁵⁷ \$6,790,444 in annual external legal and compliance consulting costs for existing advisers + \$540,927 annually for new advisers = \$7,331,370 annually for existing and new advisers. $\$7,331,370 / (8,235 \text{ existing advisers} + 656 \text{ new advisers}) = \825 per adviser.

⁵⁸ $6\% \times 4,806 = 288 \text{ advisers needing to obtain the fair value of certain private fund assets.}$
 $288 \text{ advisers} \times \$37,625 = \$10,836,000.$

registered adviser.⁵⁹ This represents an \$8,083,870 increase from the current external costs estimate for the information collection.⁶⁰

14. Cost to the Federal Government

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

15. Change in Burden

We estimate that amendments to Form ADV, the revised total aggregate annual hour burden for the form will be approximately 514,797 hours.⁶¹ This is an increase of 151,715 hours from the currently approved annual aggregate burden estimate,⁶² which is attributable primarily to the amendments to Form ADV to add 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 29.28 hours.⁶³

⁵⁹ \$3,600,000 for preparation of Form ADV Part 2 + \$10,836,000 for registered investment advisers to fair value their private fund assets + \$7,331,370 (*see supra* note 57) to prepare relationship summary = \$21,767,370 in total external costs for Form ADV. \$21,767,370 / 13,299 total registered advisers as of December 31, 2018 = \$1,637 per registered adviser.

⁶⁰ \$21,767,370 - \$13,683,500 = \$8,083,870.

⁶¹ 333,146 annual hour burden for RIAs preparing relationship summary + 164,655 annual hour burden for RIAs not preparing relationship summary + 16,996 annual hour burden for exempt reporting advisers = 514,797 total updated Form ADV annual hour burden.

⁶² 514,797 hours estimated – 363,082 hours currently approved = 151,715 hour increase in aggregate annual hourly burden.

⁶³ 514,797 / (13,299 registered investment advisers + 4,280 exempt reporting advisers) = 29.28 hours per adviser.

Registered investment advisers are also expected to incur an annual external cost burden of \$21,767,370,⁶⁴ an increase of \$8,083,870 from the current approved cost burden estimate of \$13,683,500.⁶⁵ The increase in annual external cost burden is attributable to adopted 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.

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.

⁶⁴ \$3,600,000 for preparation of Form ADV Part 2 + \$10,836,000 for registered investment advisers to fair value their private fund assets + \$7,331,370 (*see supra* note 57) to prepare relationship summary = \$21,767,370 in total external costs for Form ADV.

⁶⁵ \$21,767,370 - \$13,683,500 = \$8,083,870.

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

Not applicable.