

**SUPPORTING STATEMENT**  
**For the Paperwork Reduction Act Information Collection Submission**  
**for FORM ADV**

**A. JUSTIFICATION**

**1. Necessity for the Information Collection**

Form ADV is a three-part investment adviser registration form. Part 1 of Form ADV contains information used primarily by the Securities and Exchange Commission (the “Commission”) staff and Part 2 is the client brochure. Part 3 requires registered investment advisers that offer services to retail investors to prepare and file with the Commission a relationship summary.

The Commission uses the information in Form ADV to determine eligibility for registration with us and to manage our regulatory and examination programs. Clients use the information required in Form ADV to determine whether to hire or retain an investment adviser, as well as what types of accounts and services are appropriate for their needs. Rule 203-1<sup>1</sup> under the Investment Advisers Act (the “Advisers Act”) requires every person applying for investment adviser registration with the Commission to file Form ADV. Rule 204-4<sup>2</sup> 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

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<sup>1</sup> 17 CFR 275.203-1.

<sup>2</sup> 17 CFR 275.204-4.

ADV. Rule 204-1<sup>3</sup> 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, 204-1, and 204-4 are included in the approved annual burden associated with Form ADV and thus 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.<sup>4</sup> The collections are necessary to protect investors by providing clients and potential clients, as well as the Commission, with information about the adviser, its business, conflicts of interest, and personnel.

Responses are not kept confidential.

The title of this collection of information is: “Form ADV under the Investment Advisers Act of 1940” and the Commission previously submitted this collection to the Office of Management and Budget (“OMB”) for review in accordance with 44 U.S.C. 3507(d) and 5 CFR 1320.11. OMB approved, and subsequently extended, this collection under control number 3235-0049 (expiring on August 31, 2020). An agency may not 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-

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<sup>3</sup> 17 CFR 275.204-1.

<sup>4</sup> 44 U.S.C. 3501 to 3520.

4 and is mandatory. The respondents are investment advisers registered with the Commission or applying for registration with the Commission and exempt reporting advisers.

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

The purpose of this collection of information is to provide advisory clients, prospective clients, and the Commission with information about an adviser, and its business, conflicts of interest and personnel. We use the information to determine eligibility for registration with us and to manage our regulatory, examination, and enforcement programs. Clients use certain of the information to determine whether to hire an adviser and, if hired, how to manage that relationship.

This collection of information is found at 17 CFR 275.203-1, 275.204-1, 275.204-4, and 275.279.1, and it is mandatory. Responses are not kept confidential. The majority of the respondents to the Form ADV collection of information are investment advisers registered with the Commission or applying for registration with the Commission while the additional respondents to the Form ADV collection of information are exempt reporting advisers. The information collected takes the form of disclosures to respondents' clients, potential clients, and the Commission.

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

The information collected pursuant to Form ADV takes the form of disclosures made by investment advisers to their clients and potential clients and reporting to the Commission. Investment advisers currently file their Form ADV electronically on the IARD system. This method of collecting information reduces the regulatory burden upon

investment advisers by permitting them to file applications for registration, and amendments thereto, at one central location, rather than filing Form ADV separately with the Commission and the states for notice filing purposes.

Exempt reporting advisers are subject to reporting, but not registration requirements and must submit their reports through the IARD system 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 Advisers 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, Form ADV 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 are the same for all investment advisers registered with the Commission, and they are the same for all exempt reporting advisers, including (in both cases) those advisers that are small entities. Investment advisers with less than \$100 million in assets under management generally are not permitted to register with the Commission and must register with state securities authorities. The Commission reviews all rules periodically, as required by the Regulatory Flexibility Act, to identify methods to minimize recordkeeping or reporting requirements affecting small businesses.

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

The collection of information required by the form is necessary to protect investors by providing clients and potential clients, as well as the Commission, with information about the adviser, and its business, conflicts of interest and personnel. The consequences of not collecting this information would be that clients and prospective clients may not have the information they need in order to evaluate the adviser's business practices and to determine whether to hire an adviser and, if hired, how to manage that relationship. In addition, if the information is either not collected or is collected less frequently, the Commission's ability to protect investors would be reduced.

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

Not applicable.

**8. Consultation With Persons Outside the Agency**

The Commission and staff of the Division of Investment Management 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 staff with a means of ascertaining and acting upon paperwork burdens confronting the industry. The Commission requested public comment on the collection of information requirements in Form ADV 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.

**9. Payment or Gift**

None.

**10. Confidentiality**

The information collected pursuant to Form ADV is through filings with the Commission. These disclosures are not kept confidential.

**11. Sensitive Questions**

a. No information of a sensitive nature will be required under this collection of information. The IARD system contains an embedded check which prevents individuals' social security numbers from being subject to public view.

b. The information collection collects basic Personally Identifiable Information (PII) that may include names, dates of birth and social security numbers (the

social security numbers are screened from public view). The agency has determined that the information collection constitutes a system of record for purposes of the Privacy Act and is covered under System of Records Notice (SORN) SEC-50 "Investment Adviser Records". The Investment Adviser Records SORN is provided as a supplemental document and is also available at <https://www.sec.gov/privacy>. A Privacy Act Statement is applicable for the information collection and is available on the paper form and web platform.

c. In accordance with Section 208 of the E-Government Act of 2002, the agency has conducted a Privacy Impact Assessment (PIA) of the IARD system, in connection with this collection of information. The IARD PIA, published on July 8, 2014, is provided as a supplemental document and is also available at <https://www.sec.gov/privacy>.

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.<sup>5</sup> 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 annual burden estimate for all advisers completing, amending, and filing Form ADV (Part 1, Part 2, and Part 3) with the Commission is 514,797 hours,<sup>6</sup> or a blended average per adviser burden of 29.28 hours,<sup>7</sup> with a monetized total of \$140,539,582, or \$7,995 per adviser.<sup>8</sup> This burden is based on the average total hour burden of 37.47 hours per SEC registered adviser (with 29.22 hours attributable to Form ADV Parts 1 and 2, and 8.25 hours attributable to Form ADV Part 3), 3.60 hours per exempt reporting adviser, and 1 hour per private fund adviser (regardless if they are registered advisers or exempt reporting advisers) for the first year that an adviser completes Form ADV.<sup>9</sup>

### **Form ADV Parts 1 and 2**

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<sup>5</sup> See 15 U.S.C. §§ 80b-3 and 80b-4.

<sup>6</sup> See Form CRS Relationship Summary; Amendments to Form ADV, Release Nos. IA-5247; 34-86032 (Jun. 5, 2019) [81 FR 33492 (Jul. 12, 2019)].

<sup>7</sup>  $514,797 / (13,299 \text{ registered investment advisers} + 4,280 \text{ exempt reporting advisers}) = 29.28 \text{ hours per adviser.}$

<sup>8</sup>  $\$140,539,582 / (13,299 \text{ registered investment advisers} + 4,280 \text{ exempt reporting advisers}) = \$7,995 \text{ per adviser.}$

<sup>9</sup> See Form CRS Relationship Summary Paperwork Reduction Analysis, *supra* note 6.

*Existing Registered Investment Advisers.* Based on IARD system data, as of March 31, 2020, approximately 13,500 advisers are registered with the Commission. Not including private fund reporting, the estimated aggregate annual burden applicable to existing registered advisers to prepare and file Form ADV Parts 1 and 2 is 394,470 hours.<sup>10</sup> We believe that most of the paperwork burden would be incurred in the registered adviser's initial submission of Form ADV Parts 1 and 2. Thus, we have amortized the paperwork burdens of the revised form over a three-year period. Amortizing the burden imposed by Form ADV Parts 1 and 2 over a three-year period to reflect the anticipated period of time that advisers would use the form would result in an average annual burden of an estimated 131,490 hours per year,<sup>11</sup> or 9.74 hours per year for each adviser currently registered with the Commission to prepare and file Form ADV Parts 1 and 2.<sup>12</sup>

*Applicants for Investment Adviser Registration.* Based on IARD system data, we estimate that there are approximately 500 applicants for investment adviser registration preparing and filing Form ADV Parts 1 and 2 annually. Based on the estimate average collection of information burden of 29.22 hours, we estimate the total annual burden applicable to these applicants for the first year they complete Form ADV but excluding

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<sup>10</sup> 13,500 x 29.22 hours = 394,470 hours.

<sup>11</sup> 394,470 hours/3 = 131,490 hours.

<sup>12</sup> 131,490 hours/13,500 SEC registered advisers = 9.74 hours.

private fund requirements is 14,610 hours.<sup>13</sup> Amortizing the burden imposed by Form ADV Parts 1 and 2 for these applicants over a three-year period to reflect the anticipated period of time that they would use the form would result in an average annual burden of an estimated 4,870 hours per year.<sup>14</sup>

*Total Initial Burdens for Existing Advisers and Applicants for Investment Adviser Registration.* We therefore estimate the total hour burden for existing investment advisers and applicants for investment adviser registration to complete and file Form ADV Parts 1 and 2 to be 136,360 hours per year.<sup>15</sup>

*Exempt Reporting Advisers.* Not including private fund reporting, the current annual collection of information burden approved by OMB for all exempt reporting advisers completing, amending, and filing Form ADV (Part 1) is 16,996 hours, or 3.60 hours per exempt reporting adviser. Based on IARD system data, as of March 31, 2020, approximately 4,300 existing exempt reporting advisers file Form ADV and there will be 300 new exempt reporting advisers filing Form ADV annually. Therefore, we estimate the total annual burden applicable to these exempt reporting advisers excluding private fund reporting requirements is 16,560 hours per year.<sup>16</sup> Amortizing this total burden over

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<sup>13</sup> 29.22 hours x 500 SEC registered advisers = 14,610 hours.

<sup>14</sup> 14,610 hours/3 = 4,870 hours.

<sup>15</sup> 131,490 hours for existing registered advisers + 4,870 hours for applicants for investment adviser registration = 136,360 hours.

<sup>16</sup> 3.6 hours x (4,300 existing exempt reporting advisers + 300 new exempt adviser reporting) = 16,560 hours.

three years as we did for registered advisers results in an average annual burden of an estimated 5,520 hours per year.<sup>17</sup>

### **Private Fund Advisers**

#### *Registered Investment Advisers and Applicants for Investment Adviser*

*Registration.* Based on IARD system data, we estimate that, approximately 4,863 existing SEC registered advisers advise a total of 37,159 private funds, and, on average, 150 applicants for investment adviser registration making their initial filing will report approximately 550 private funds resulting in a total annual burden of 37,709 hours.<sup>18</sup> Amortizing this burden over three year results in an average estimated burden of 12,570 hours per year.<sup>19</sup>

*Existing Exempt Reporting Advisers and New Exempt Reporting Advisers.* Based on IARD system data, we also estimate that, on average, 4,300 existing exempt reporting advisers making their initial filing will report approximately 17,800 private funds, and, on average 300 new exempt reporting advisers will report approximately 1,200 private funds resulting in a total of 19,000 hours. Amortizing this burden over three year results in an average estimated burden of 6,333 hours per year.<sup>20</sup>

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<sup>17</sup> 16,560 hours / 3 = 5,520 hours.

<sup>18</sup> 1 hour x 37,159 private funds = 37,159 hours. 1 hour x 550 private funds = 550 hours. 37,159 + 550 = 37,709.

<sup>19</sup> 37,719 hours / 3 = 12,570 hours.

<sup>20</sup> 19,000 hours / 3 = 6,333 hours.

*Total Initial Burdens for Private Fund Reporting.* As a result, we estimate that the annual private fund reporting requirement applicable to advisers (both registered investment advisers and exempt reporting advisers) for the first year of filing will be 18,903 hours.<sup>21</sup>

### **Form ADV Part 3**

*Existing Registered Investment Advisers.* Based on IARD system data, as of March 31, 2020, approximately 8,500 existing registered investment advisers provide advice to retail investors. Therefore, the average annual hour burden for existing registered investment advisers preparing and filing the relationship summary on Form ADV Part 3 will therefore be 70,125 hours.<sup>22</sup> Amortizing the burden imposed by Form ADV Part 3 for existing registered investment advisers over a three-year period to reflect the anticipated period of time that advisers would use this part of the form would result in an average annual burden of an estimated 23,375 hours per year.<sup>23</sup>

*Applicants for Investment Adviser Registration.* Based on IARD system data, the Commission anticipates that 315 applicants for investment adviser registration will provide advice to retail investors and will be required to file the relationship summary annually. Based on the estimate average collection of information burden of 8.25 hours,

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<sup>21</sup> 12,750 hours attributable to SEC registered investment advisers + 6,333 hours attributable to exempt reporting advisers = 18,903 total hours.

<sup>22</sup> 8.25 hours x 8,500 registered investment advisers required to prepare and file relationship summaries = 70,125 hours.

<sup>23</sup> 70,125 hours/3 = 23,375 hours.

we estimate the total annual burden applicable to these applicants to prepare and file the relationship summary on complete Form ADV Part 3 is 2,599 hours.<sup>24</sup> Amortizing the burden imposed by Form ADV Part 3 applicants over a three-year period to reflect the anticipated period of time that advisers would use the Form would result in an average annual burden of an estimated 866 hours per year.<sup>25</sup>

*Total Initial Burdens for Part 3.* We therefore estimate the total hour burden for existing investment advisers and applicants for investment adviser registration to complete and file Form ADV Part 3 to be 24, 241 hours per year.<sup>26</sup>

### **Form ADV Amendments**

*Existing Registered Investment Advisers.* Based on IARD system data, we continue to estimate that each existing registered investment adviser filing Form ADV Part 1 through the IARD system will amend its form 2 times per year. This consists of one interim updating amendment (at an estimated 0.5 hours per amendment),<sup>27</sup> and one annual updating amendment, (at an estimated 8 hours per amendment),<sup>28</sup> each year.

Therefore we estimate the total annual burden for existing registered advisers attributable

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<sup>24</sup> 8.25 hours x 315 applicants for investment adviser registration = 2,599 hours.

<sup>25</sup> 2,599 hours/3 = 866 hours.

<sup>26</sup> 23,375 hours for exiting registrants + 866 hours for applicants for investment adviser registration = 24,241 hours.

<sup>27</sup> 13,500 SEC registered investment advisers x 0.5 hours = 6,750 hours.

<sup>28</sup> 13,500 SEC registered investment advisers x 8 hours = 108,000 hours.

to Form ADV Part 1 amendments is 114,750 hours.<sup>29</sup> In addition, we continue to estimate that each existing registered investment adviser will, on average, spend 1 hour per year making interim amendments to brochure supplements,<sup>30</sup> and an additional 1 hour per year to prepare brochure supplements as required by Form ADV Part 2.<sup>31</sup> We also continue to expect advisers required to prepare and file the relationship summary on Form ADV Part 3 will spend an average 1 hour per year making amendments to those relationship summaries and will likely amend the disclosure an average of 1.71 times per year.<sup>32</sup> We also continue to expect advisers to spend an average of 1.3 hours per year to meet obligations to deliver codes of ethics to clients.<sup>33</sup> Therefore we estimate the total annual burden for SEC registered advisers attributable to Form ADV Part 1 amendments, Form ADV Part 2 brochure supplements amendments, Form ADV Part 3 relationship summaries amendments, and obligations to deliver codes of ethics to be 173,835 hours.<sup>34</sup>

*Exempt Reporting Advisers.* Based on IARD system data, we continue to estimate that each exempt reporting adviser filing Form ADV through the IARD system will amend its form 2 times per year. On average, these consist of one interim updating

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<sup>29</sup> 6,750 hours + 108,000 hours = 114,750 hours.

<sup>30</sup> 13,500 SEC registered investment advisers x 1 hour = 13,500 hours.

<sup>31</sup> 13,500 SEC registered investment advisers x 1 hour = 13,500 hours.

<sup>32</sup> 8,500 SEC registered investment advisers amending relationship summaries x 1.71 amendments per year x 1 hour = 14,535 hours.

<sup>33</sup> 13,500 SEC registered investment advisers x 1.3 hours = 17,550 hours.

<sup>34</sup> 114,750 hours + 13,500 hours + 13,500 hours + 14,535 hours + 17,550 hours = 173,835 hours.

amendment (at an estimated 0.5 hours per amendment)<sup>35</sup> and one annual updating amendment (at an estimated 1 hour per amendment) each year.<sup>36</sup> In addition, we anticipate 200 final filings by exempt reporting advisers annually (at an estimated 0.1 hours per filing).<sup>37</sup> The total annual burden associated with exempt reporting advisers filing amendments and final filings is 6,470 hours.<sup>38</sup>

*Total Annual Burden for Form ADV Amendments.* We therefore estimate the total hour burden for existing investment advisers and applicants for investment adviser registration and for existing exempt reporting advisers and new exempt reporting advisers to amend Form ADV to be 180,305 hours per year.<sup>39</sup>

### **Revised Total Annual Collection**

The revised total annual collection of information burden for investment advisers registered with the Commission or applying for registration with the Commission and exempt reporting advisers to file and complete the Form ADV (Parts 1, 2, and 3), including private fund reporting, plus the burden associated with amendments to the form, preparing brochure supplements and relationship summaries, and delivering codes

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<sup>35</sup> 4,300 exempt reporting advisers x 0.5 hours = 2,150 hours.

<sup>36</sup> 4,300 exempt reporting advisers x 1 hour = 4,300 hours.

<sup>37</sup> 200 exempt reporting advisers x 0.1 hours = 20 hours.

<sup>38</sup> 2,150 hours + 4,300 hours + 20 hours = 6,470 hours.

<sup>39</sup> 173,835 hours for exiting registrants and applicants for investment adviser registration + 6,470 hours exempt reporting advisers = 180,305 hours.

of ethics to clients is estimated to be approximately 365,329 hours per year,<sup>40</sup> for a monetized total of \$100,409,140.<sup>41</sup> The total annual collection of information burden for exempt reporting advisers to file and complete the required Items of Part 1A of Form ADV is estimated to be 18,323 hours per year,<sup>42</sup> for a monetized total of \$5,047,986.<sup>43</sup>

We estimate that the total annual hour burden for the form would be decreased by 131,145<sup>44</sup> hours to 383,652 hours,<sup>45</sup> and a monetized total of \$105,457,126.<sup>46</sup> This results

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<sup>40</sup> 141,880 hours per year attributable to initial preparation of Form ADV Parts 1 and 2 + 18,903 hours per year attributable to initial private fund reporting requirements + 24,241 hours per year attributable to initial preparation of relationship summaries on Form ADV Part 3 + 180,305 hours per year attributable to amendments, brochure supplements, relationship summaries, and obligations to deliver codes of ethics = 365,329 hours.

<sup>41</sup> We expect that most Commission registered advisers, the performance of this function will most likely be equally allocated between a senior compliance examiner and a compliance manager, or persons performing similar functions. Data from the SIFMA Management and Professional Earnings Report, modified to account for a 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 the costs for these positions are \$239 and \$312 per hour, respectively.  $(182,665 \text{ hours} \times \$239) + (182,665 \text{ hours} \times \$312) = \$100,409,140$ . For a SEC registered investment adviser that does not already have a senior compliance or a compliance manager, we expect that a person performing a similar function would have similar hourly costs.

<sup>42</sup> 5,520 hours attributable to initial preparation of Form ADV + 6,333 hours per year attributable to initial private fund reporting requirements + 6,470 hours per year for amendments and final filings = 18,323 hours.

<sup>43</sup> We expect that most Commission registered advisers, the performance of this function will most likely be equally allocated between a senior compliance examiner and a compliance manager, or persons performing similar functions. Data from the SIFMA Management and Professional Earnings Report, modified to account for a 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 the costs for these positions are \$239 and \$312 per hour, respectively.  $(9,162 \times \$239) + (9,162 \times \$312) = \$5,047,986$ .

<sup>44</sup>  $514,797 \text{ hours} - 383,652 \text{ hours} = 131,145 \text{ hours}$ .

<sup>45</sup>  $365,329 \text{ hours} + 18,323 \text{ hours} = 383,652 \text{ hours}$

<sup>46</sup>  $\$100,409,140 + \$5,047,986 = \$105,457,126$ .

in an annual blended average per adviser burden for Form ADV of 21.55 hours,<sup>47</sup> (for a monetized total of \$5,925 per adviser),<sup>48</sup> which consists of an average annual burden of 27.06 hours<sup>49</sup> for each of the estimated 13,500 SEC registered advisers, and 4.28 hours<sup>50</sup> for each of the estimated 4,300 exempt reporting advisers.

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<sup>47</sup> 383,652 hours / (13,500 registered adviser + 4,300 exempt reporting advisers) = 21.55 hours.

<sup>48</sup> \$105,457,126 / (13,500 registered advisers + 4,300 exempt reporting advisers) = \$5,925.

<sup>49</sup> 365,329 hours / 13,500 registered advisers = 27.06 hours.

<sup>50</sup> 18,223 hours / 4,300 exempt reporting advisers = 4.28 hours.

IC	Amendments 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>
IC1	Description of Parts of IC									
IC1	Form ADV (Parts 1, 2, and 3), including private fund reporting, plus amendments to the form, preparing brochure supplements and relationship summaries, and delivering codes of ethics to clients	17,579	17,800	221	514,797	383,652	131,145	\$21,767,370	\$13,822,389	\$7,944,981
<b>Total for IC</b>		17,579	17,800	221	514,797	383,652	131,145	\$21,767,370	\$13,822,389	\$7,944,981

### 13. Cost to Respondents

Form ADV has a one-time initial cost for outside legal and compliance consulting fees in connection with the initial preparation of Part 2 and Part 3 of the form. In addition to the estimated legal and compliance consulting fees, investment advisers of private funds incur one-time costs with respect to the requirement for investment advisers to report the fair value of private fund assets.

The currently approved annual cost burden for Form ADV is \$21,767,370, \$3,600,000 of which is attributable to external costs incurred by advisers to prepare Form ADV Part 2, \$10,083,500 of which is attributable to obtaining the fair value of certain private fund assets, and \$8,083,87 of which is attributable to preparing and filing Form ADV Part 3.<sup>51</sup> 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, (ii) a one-time initial cost for outside legal and compliance consulting fees for some advisers in connection with the initial preparation of the relationship summary as required by Part 3 of Form ADV, and (iii) the one-time cost for investment advisers to private funds to report the fair value of private fund assets.

*Initial preparation of Part 2 of Form ADV.* We expect that 500 applicants for investment adviser registration advisers will register annually with the Commission. We

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<sup>51</sup> See Form CRS Relationship Summary Paperwork Reduction Analysis, *supra* note 6.

estimate that the initial cost related to preparation of Part 2 of Form ADV would be \$4,890 for legal services,<sup>52</sup> and \$5,832 for compliance consulting services, in each case, for those advisers who engaged legal counsel or consultants.<sup>53</sup> We anticipate that a quarter of these advisers would seek the help of outside legal services and half would seek the help of compliance consulting services. Accordingly, we estimate that 125 of these advisers would use outside legal services, for a total cost burden of \$611,250,<sup>54</sup> and 250 advisers would use outside compliance consulting services, for a total cost burden of \$1,458,000,<sup>55</sup> resulting in a total cost burden among all respondents of \$2,069,250 for outside legal and compliance consulting fees related to drafting narrative brochures.<sup>56</sup>

*Initial preparation of Part 3 of Form ADV.* We estimate that 315 applicants for investment adviser registration will be required to prepare a relationship summary on

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<sup>52</sup> 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 \$489 per hour. \$489 per hour for legal services x 10 hours per adviser = \$4,890. The hourly cost estimate of \$489 is based on an inflation-adjusted figure and our consultation with advisers and law firms who regularly assist them in compliance matters.

<sup>53</sup> 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 a 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 \$729 per hour. \$729 per hour for outside consulting services x 8 hours per adviser = \$5,832.

<sup>54</sup> 25% x 500 existing registered advisers = approximately 125 advisers. \$4,890 for legal services x 125 advisers = \$611,250.

<sup>55</sup> 50% x 500 existing registered advisers = approximately 250 advisers. \$5,832 for compliance consulting services x 250 advisers = \$1,458,000.

<sup>56</sup> \$611,250 + \$1,458,000 = \$2,069,250.

Form ADV Part 3. We estimate that the cost will be \$2,445 for legal services,<sup>57</sup> and \$3,645 for compliance consulting services.<sup>58</sup> We anticipate that a quarter of these advisers would seek the help of outside legal services and half would seek the help of compliance consulting services. Thus, we estimate that these 79 applicants for investment adviser registration will use outside legal help for a total burden of \$192,544,<sup>59</sup> and 168 of these advisers will use outside compliance consulting services for a total burden of \$574,086,<sup>60</sup> resulting in a total cost burden of \$766,630 for outside legal and compliance costs to prepare the relationship summary on Form ADV Part 3.<sup>61</sup>

*Private Fund Valuation.* We estimate that 6% of registered advisers have at least one private fund client that may not be audited. These advisers therefore may incur costs to fair value their private fund assets. Based on current IARD system data, 4,863 registered advisers currently advise private funds. We therefore estimate that

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<sup>57</sup> 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 \$489 per hour. \$489 per hour for legal services x 5 hours per adviser = \$2,445. The hourly cost estimate of \$489 is based on an inflation-adjusted figure and our consultation with advisers and law firms who regularly assist them in compliance matters.

<sup>58</sup> 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 a 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 \$729 per hour. \$729 per hour for outside consulting services x 5 hours per adviser = \$3,645.

<sup>59</sup> 25% x 315 applicants for investment adviser registration x \$2,445 for legal services = \$192,544

<sup>60</sup> 50% x 315 applicants for investment adviser registration x \$3,645 for compliance consulting services = \$574,086.

<sup>61</sup> 192,544 + \$574,086 = \$766,630 in external legal and compliance consulting costs for applicants for investment adviser registration.

approximately 292 registered advisers may incur costs of \$37,625 each on an annual basis,<sup>62</sup> for an aggregate annual total cost of \$10,986,500.<sup>63</sup>

*Annual Aggregate External Cost Burden.* 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 external legal or compliance costs for the initial preparation of Form ADV Part 3. We estimate the annual aggregate external cost burden of the Form ADV information collection will be \$13,822,389 or \$777 per registered adviser.<sup>64</sup> This represents a \$7,944,981 decrease from the current external costs estimate for the information collection.<sup>65</sup>

#### **14. Cost to the Federal Government**

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

#### **15. Change in Burden**

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<sup>62</sup> An adviser without the internal capacity to value specific illiquid assets would obtain pricing or valuation services from an outside administrator or other service provider at a cost ranging from \$250 to \$75,000. \$37,625 is the middle of the range of estimated fair value costs.

<sup>63</sup> 292 advisers x \$37,625 = \$10,986,500.

<sup>64</sup> \$2,069,259 for preparation of Form ADV Part 2 + \$10,986,500 for registered investment advisers to fair value their private fund assets + \$766,630 for preparation of relationship summary on Form ADV Part 3 = \$13,822,389 in total external costs for Form ADV.  $\$13,822,389 / (13,500 \text{ registered advisers} + 4,300 \text{ exempt reporting advisers}) = \$777 \text{ per registered adviser.}$

<sup>65</sup>  $\$13,822,389 - \$21,767,370 = -\$7,944,981.$

We estimate that the revised total aggregate annual hour burden for Form ADV will be approximately 383,652 hours.<sup>66</sup> This is a decrease of 131,145 hours from the currently approved annual aggregate burden estimate,<sup>67</sup> which is attributable primarily to the fact that the current approved burdens reflect the initial hourly burdens to prepare and file the relationship summary on Form ADV Part 3. The resulting blended average per adviser burden for Form ADV is [21.55] hours.<sup>68</sup> The resulting blended average annual burden of 21.55 hours, which consists of an average annual burden of 27.06 hours<sup>69</sup> for each of the estimated 13,500 registered advisers, and 4.28 hours for each of the estimated 4,300 exempt reporting advisers.<sup>70</sup>

Registered investment advisers are also expected to incur an annual external cost burden of \$13,822,389,<sup>71</sup> a decrease of \$7,994,981 from the current approved cost burden estimate of \$21,767,370.<sup>72</sup> The decrease in annual external cost burden is attributable to the already incurred costs to prepare and file the relationship summary on Form ADV Part 3.

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<sup>66</sup> 365,329 hours + 18,323 hours = 383,652 hours.

<sup>67</sup> 383,652 hours - 514,797 hours currently approved = 131,145 hour decrease in aggregate annual hourly burden.

<sup>68</sup> 383,652 / (13,500 registered investment advisers + 4,300 exempt reporting advisers) = 21.55 hours per adviser.

<sup>69</sup> 365,329 hours / 13,500 registered investment advisers = 27.06 hours.

<sup>70</sup> 18,323 hours / 4,300 exempt reporting advisers = 4.28 hours.

<sup>71</sup> \$2,069,259 for preparation of Form ADV Part 2 + \$10,986,500 for registered investment advisers to fair value their private fund assets + \$766,630 to prepare relationship summary = \$13,822,389 in total external costs for Form ADV.

<sup>72</sup> \$13,822,389 - \$21,767,370 = \$7,994,981.

**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.

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

Not applicable.