

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 (“Commission”) to (1) adopt and implement written policies and procedures reasonably designed to prevent violations of the Advisers Act and its rules, (2) review those compliance policies and procedures annually, and (3) designate a chief compliance officer who is responsible for administering the compliance policies and procedures. The rule is designed to protect investors by fostering better compliance with the securities laws.

Rule 206(4)-7 contains “collection of information” requirements within the meaning of the Paperwork Reduction Act of 1995.¹ The title of the collection of information is “Investment Advisers Act rule 206(4)-7, 17 C.F.R. Sec. 275.206(4)-7, Compliance procedures and practices.” This collection of information has been previously approved and then extended by the Office of Management and Budget under control number 3235-0585. This collection of information is found at 17 CFR 275.206(4)-7, and is mandatory.

The collection of information under rule 206(4)-7 is necessary to help ensure that investment advisers maintain comprehensive internal programs that promote the advisers’ compliance with the Advisers Act and its rules. 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.

¹ 44 U.S.C. 3501, *et seq.*

2. Purpose and Use of the Information Collection

The purpose of the information collection requirements in rule 206(4)-7 is to help ensure that investment advisers maintain comprehensive internal programs that promote the advisers' compliance with the Advisers Act and its rules. The information collection 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 advisers or any others to report or file any information with the Commission.

4. Duplication

Rule 206(4)-7 imposes a broad requirement that advisers have in place written compliance policies and procedures. Other federal securities laws require advisers to maintain written policies and procedures, including more targeted 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

Registered advisers, regardless of their size, are subject to the requirements in rule 206(4)-7. Comprehensive internal compliance programs are essential for advisers 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. Therefore, rule 206(4)-7 should not inappropriately burden small advisers. The staff does not believe it can

adjust the rule to lessen the burden on small entities, without jeopardizing the interests of small advisers' clients.

6. Consequences of Not Conducting Collection

If registered investment advisers are not required to comply with rule 206(4)-7, it is harder to ensure they maintain comprehensive internal programs that promote the advisers' compliance with the Advisers Act and its rules. Rule 206(4)-7 requires advisers to review their compliance policies and procedures annually. These annual reviews are integral to detecting and correcting any gaps in the program before irrevocable or widespread harm is inflicted upon investors. 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)

Not applicable.

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

Responses provided to the Commission pursuant to the rule in the context of the Commission's examination and oversight program are generally kept confidential.²

11. Sensitive Questions

No PII collected / Not applicable.

12. Burden of Information Collection

Rule 206(4)-7 requires investment advisers to (1) adopt and implement written policies and procedures reasonably designed to prevent violations of the Advisers Act and its rules, (2) review those compliance policies and procedures annually, and (3) designate a chief compliance officer who is responsible for administering the compliance policies and procedures. The current approved number of responses is 13,249, per year. The current approved aggregate time burden is 1,152,663 hours, per year. The current approved aggregate monetized time burden is \$276,972,286, per year. We are updating and revising the burdens based on revised analysis and updated data.

Revised analysis. Rule 206(4)-7 requires, among other things, registered investment advisers to adopt and implement written policies and procedures reasonably designed to prevent violations of the Advisers Act and its rules. Therefore, as the Advisers Act and its rules evolve, the burden analysis changes to account for new or rescinded requirements that advisers would need to address in their compliance policies and procedures to prevent violations. The current approved annual burden for rule 206(4)-7 is based on an average annual burden of 80 hours per adviser for rule 206(4)-7 as well as 8 – 250 additional burden hours per adviser (depending on the size of the adviser) to account for advisers implementing policies and procedures to comply

² See section 210(b) of the Advisers Act (15 U.S.C. 80b-10(b)).

with certain newer Advisers Act rules, for an average of 87 hours per adviser, annually. The additional 8 – 250 additional hours were designed to account for advisers implementing compliance policies and procedures to prevent violations of rule 206(4)-5 under the Advisers Act (concerning political contributions by certain investment advisers) as well as related amendments to Advisers Act rules 204-2 (concerning books and records to be maintained by investment advisers) and 206(4)-3 (concerning cash payments for client solicitations). We are revising our analysis to account for new and rescinded requirements that advisers would address in their compliance policies and procedures to prevent violations. We are no longer including any burden hours related to policies and procedures designed to prevent violations of rule 206(4)-3 because the Commission rescinded it.³ We are including burden hours related to policies and procedures designed to prevent violations of the Advisers Act and its related rules, including new and amended rules the Commission adopted since our last evaluation: (1) new and amended rules requiring advisers to provide a relationship summary to retail investors⁴ and (2) amended rules concerning marketing requirements.⁵ Based on this analysis, taking into account new and rescinded requirements, we believe the annual time burden hours should increase from 87 hours to 90 hours per adviser.

Updated Data. Based on Form ADV filings as of August 2021, there were 14,376 advisers registered with the SEC, which represents the total number of respondents. Each respondent would produce one response, per year. Therefore, with the updated data showing

³ See Investment Adviser Marketing, Advisers Act Release No. 5653 (Dec. 22, 2020), 86 FR 13024 (Mar. 5, 2021).

⁴ See Form CRS Relationship Summary; Amendments to Form ADV, Advisers Act Release No. 5247 (June 5, 2019), 84 FR 33492 (July 12, 2019).

⁵ See *supra* footnote 3.

14,376 responses, we believe the annual aggregate time burden should increase to 1,293,840 hours.⁶

We estimate that on average, each respondent would have compliance managers perform 65.25 of its 90 burden hours and compliance clerks perform the remaining 24.75 hours of work. Our updated data indicate the hourly wage rate for a compliance manager is \$316, while the hourly wage rate for a compliance clerk is \$72 an hour.⁷ Using the updated hourly wage rates and updated number of respondents, we estimate that rule 206(4)-7 results in a monetized time burden of \$322,036,776.⁸

Table 1: Summary of the Annual Number of Respondents, Number of Responses per Respondent, and Average Time Burden per Response

Description	Requested	Previously Approved	Change
Respondents	14,376	13,249	1,127
Number of Responses per Respondent	1	1	0
Average Time Burden per Response (Hours)	90	87	3

⁶ 14,376 responses x 90 hours per response = 1,293,840 hours.

⁷ The \$316 per hour figure for a compliance manager is from SIFMA's *Management & Professional Earnings in the Securities Industry 2013*, modified by Commission staff to account for an 1800-hour work-year and inflation, and multiplied by 5.35 to account for bonuses, firm size, employee benefits and overhead. The \$72 per hour figure for a compliance clerk is from SIFMA's *Office Salaries in the Securities Industry 2013*, modified by Commission staff to account for an 1800-hour work-year and inflation, and multiplied by 2.93 to account for bonuses, firm size, employee benefits and overhead.

⁸ (14,376 registered investment advisers x 65.25 hours by compliance managers x \$316 per hour) + (14,376 registered investment advisers x 24.75 hours by compliance clerical staff x \$72 per hour) = \$322,036,776.

Table 2: Summary of the Annual Number of Responses, Aggregate Time Burden, and Aggregate Monetized Time Burden

Description	Requested	Previously Approved	Change
Responses	14,376	13,249	1,127
Time Burden (Hours)	1,293,840	1,152,663	141,177
Monetized Time Burden (Dollars)	\$322,036,776	\$276,972,286	\$45,064,490

13. Cost to Respondents

There is no cost burden other than the cost of the hour burden described above.

14. Cost to the Federal Government

There are no additional costs to the federal government.

15. Changes in Burden

We estimate that the annual aggregate time burden associated with rule 206(4)-7 will increase from 1,152,663 hours to 1,293,840 hours, resulting in an increase of 141,177 hours. We estimate that the annual aggregate monetized cost burden will increase from \$276,972,286 to \$322,036,776, resulting in an increase in \$45,064,490. These increases are attributable to revised analysis and updated data. Rule 206(4)-7 requires, among other things, registered investment advisers to adopt and implement written policies and procedures reasonably designed to prevent violations of the Advisers Act and its rules. We are revising our analysis to account for new and rescinded requirements that advisers would include in their compliance policies and procedures to prevent violations. Also, according to updated data, more advisers are registered with the Commission, therefore more respondents must comply with rule 206(4)-7, resulting in

an increase in the number of responses. Additionally, we increased our hourly wage estimates to account for inflation.

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.