

SUPPORTING STATEMENT

For the Paperwork Reduction Act Information Collection Submission for Amendments to Rule 206(4)-7 under the Investment Advisers Act of 1940

A. JUSTIFICATION

1. Necessity for 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.

On February 9, 2022, the Commission proposed an amendment to rule 206(4)-7 to require all advisers (not only advisers to private funds) that are registered or required to be registered with the Commission to document the annual review of their compliance policies and procedures in writing.² This requirement would focus renewed attention on the importance of the annual compliance review process and would help ensure that advisers maintain records regarding their annual compliance review that will allow the Commission’s staff to determine whether advisers have complied with the rule 206(4)-7.

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

¹ 44 U.S.C. 3501, *et seq.*

² 15 U.S.C. 80b-1 *et seq.*; Private Fund Advisers; Documentation of Registered Investment Adviser Compliance Reviews Release No. IA-5955 (Feb. 9, 2022) available at <https://www.sec.gov/rules/proposed/2022/ia-5955.pdf> (“Private Fund Advisers; Documentation of Registered Investment Adviser Compliance Reviews”).

requirement to document their annual compliance reviews would also assist the Commission's examination and oversight program.

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. The proposed amendment to rule 206(4)-7 would require advisers to document the annual review of their compliance policies and procedures in writing. These annual reviews are integral to detecting and correcting any gaps in an adviser's compliance 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, including the proposed amendment, before it submitted this request for extension to the Office of Management and Budget.

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.³

11. Sensitive Questions

No PII collected / Not applicable.

12. Estimate of Hour and Cost 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 14,376 per year. The current approved aggregate time burden is 1,293,840 hours, per year. The current approved aggregate monetized time burden is \$322,036,776 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. We are revising our analysis to account for the new requirement under Rule 206(4)-7 for investment advisers to document the annual review of their compliance policies and procedures in writing. Based on this analysis, taking into account the new requirement, we believe the annual time burden hours should increase from 90 hours to 93 hours per adviser.

Updated Data. Based on Form ADV filings as of November 30, 2021, there were 14,832 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 14,832 responses, we believe the annual aggregate time burden should increase to 1,379,936 hours.⁴

³ See section 210(b) of the Advisers Act (15 U.S.C. 80b-10(b)).

⁴ 14,832 responses x 93 hours per response = 1,379,376 hours.

We estimate that on average, each respondent would have compliance managers perform 65.25 of its 90 burden hours under the current rule and compliance clerks perform the remaining 24.75 hours of work. Our updated data indicate the hourly wage rate for a compliance manager is \$339, while the hourly wage rate for a compliance clerk is \$77 an hour.⁵ This translates into a blended internal rate of \$266.95.⁶

For its additional 3 burden hours under the proposed amendment to the current rule, we estimate that 50% of advisers will use outside legal services for this collection of information, which takes into account that advisers may elect to use outside legal services (along with in-house counsel), based on factors such as the adviser’s budget and the adviser’s standard practices for using outside legal services, as well as personnel availability and expertise.⁷ This translates into a blended external rate of \$431.50.⁸ 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 \$371,885,331.60.⁹

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	14,832	14,376	456
Number of Responses per Respondent	1	1	0
Average Time Burden per Response (Hours)	93	90	3

⁵ The \$339 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 \$77 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.

⁶ (65.25 hours/90 hours x \$339 per hour figure for a compliance manager) + (24.75 hours/90 hours x \$77 per hour figure for a compliance clerk) = \$266.95

⁷ 14,832 responses x 50% = 7,416 responses.

⁸ (0.5 hours x \$531 for an attorney) + (0.5 hours x \$332 for an accountant) = \$431.50.

⁹ (14,832 responses x 90 x \$266.95) + (7,416 responses x 3 x \$266.95) + (7,416 responses x 3 x \$431.50) = \$371,885,331.60

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

Description	Requested	Previously Approved	Change
Responses	14,832	14,376	456
Time Burden (Hours)	1,379,376	1,293,840	85,536
Monetized Time Burden (Dollars)	\$371,885,331.60	\$322,036,776	\$49,848,555.60

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 directly attributable to rule 206(4)-7.

15. Change in Burden

We estimate that the annual aggregate time burden associated with rule 206(4)-7 will increase from 1,293,840 hours to 1,379,376 hours, resulting in an increase of 85,536 hours. We estimate that the annual aggregate monetized cost burden will increase from \$322,036,776 to \$371,885,331.60 resulting in an increase in \$49,848,555.60. 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 requirements that advisers would document in writing the annual review of their compliance policies and procedures. 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. Further, we estimate that the external cost burden associated with rule 206(4)-7 has increased to \$9,600,012 based on an adviser’s decision to use external parties to document in writing the annual review.¹⁰

16. Information Collection Planned for Statistical Purposes

Not Applicable.

¹⁰ 7,416 responses x 3 hours x \$431.50 blended external rate = \$9,600,012.

17. Approval to Omit OMB Expiration Date

Not Applicable.

18. Exceptions to Certification Statement for Paperwork Reduction Act Submission

Not Applicable.

B. COLLECTIONS OF INFORMATION EMPLOYING STATISTICAL METHODS

The collection of information will not employ statistical methods.