



U.S. Securities and Exchange Commission

PAPERWORK REDUCTION ACT SUPPORTING STATEMENT

for the Revision of a Current Approved Collection of Information:

Rule 206(4)-2 Redesignated as Rule 223-1

OMB Control Number 3235-0241

The U.S. Securities and Exchange Commission ("Commission" or SEC) submits this information collection request (ICR) pursuant to the Paperwork Reduction Act of 1995 (PRA), 44 U.S.C. Section 3501 et seq., with the following justification.

1. Necessity of Information Collection

Section 206(4) of the Investment Advisers Act of 1940 ("Advisers Act") [15 U.S.C. 80b-6(4)] prohibits any investment adviser from engaging in any act, practice or course of business which is fraudulent, deceptive or manipulative and gives the Commission the power, by rules and regulations, to define and prescribe means reasonably designed to prevent such acts, practices and courses of business. 17 CFR 275.206(4)-2 ("rule 206(4)-2," "custody rule," or the "current rule") under the Advisers Act currently regulates the custodial practices of investment advisers.

Section 223 of the Advisers Act [15 U.S.C. 80b-23] grants the Commission authority to adopt rules requiring registered investment advisers to take steps to safeguard client assets over which they have custody, including, without limitation, verification of such assets by an independent public accountant. On October 1, 2026, the Commission proposed, among other things, to redesignate the custody rule as 17 CFR 275.223-1 under the Advisers Act ("rule 223-1," or the "proposed rule") and proposed a number of amendments to the custody rule (the "proposal").¹ The proposed rule contains several "collection of information" requirements within the meaning of the Paperwork Reduction Act of 1995 [44 U.S.C. 3510 to 3520].

The current title for the collection of information is "Rule 206(4)-2 under the Investment Advisers Act of 1940 – Custody of Funds or Securities of Clients by Investment Advisers." The proposed revised title for the collection of information is "Rule 223-1 under the Investment Advisers Act of 1940 – Custody of Funds or Securities of Clients by Investment Advisers." The collection of information is currently approved under Office of Management and Budget ("OMB") control number 3235-0241 (expiring September 30, 2028). 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 number.

Proposed rule 223-1 under the Advisers Act, which will effectively replace current rule 206(4)-2 by a redesignation, states that an adviser registered or required to be registered under section 203 of the Advisers Act, must take certain steps to safeguard client funds and securities of which the adviser has

¹ See Adviser and Regulated Fund Custody Rules; Crypto Custody Rules, Release Nos. IA-7023; IC-36353; ("Proposing Release"). The Commission also proposed to renumber portions of the custody rule that are not being amended ("Proposing Release").

custody, provided that, where rule 223-1 applies to the account of a registered investment company² or a business development company³ (together, “regulated funds”), references to funds and securities shall be understood to refer to the securities and similar investments held for such account.⁴ Like the current rule, the proposed rule would apply to any investment adviser registered or required to be registered with the Commission under section 203 of the Act that has “custody” of a client’s funds or securities.⁵ Consistent with the current rule, the proposed rule would also apply to any adviser whose “related persons” have custody in connection with advisory services the adviser provides to the client.⁶

The proposed rule would retain, among other things, the current rule’s requirement that each registered investment adviser that has custody of client funds or securities maintain those client funds or securities with a broker-dealer, bank or other “qualified custodian” (the “qualified custodian requirement”).⁷ Unless client funds or securities are maintained by an independent custodian (*i.e.*, a custodian that is not the adviser itself or a related person), the proposed rule, like the current rule, would require an adviser to obtain or receive a written report of the internal controls relating to the custody of those client funds and securities from an independent public accountant (an “internal control report”).⁸

The proposal would add a new exception from the qualified custodian requirement for advisers that self-custody client crypto assets, provided that they comply with the required safeguarding conditions.⁹ The proposed adviser self-custody rule would also except the adviser from the current rule’s requirement to notify the client in writing of certain information if the adviser opens an account with a qualified custodian on the client’s behalf (“client notice requirement”) ¹⁰ and to have a reasonable basis, after due inquiry, for believing that the qualified custodian sends quarterly account statements to clients

² See proposed 17 CFR 275.223-1(d)(14) (defining “registered investment company” as an investment company registered under the Investment Company Act of 1940 (15 U.S.C. 80a-1 to 80a-64)).

³ See proposed 17 CFR 275.223-1(d)(1) (defining “business development company” as an entity that has elected to be regulated or is regulated as a business development company pursuant to section 54 of the Investment Company Act of 1940 (15 U.S.C. 80a-53) and has not withdrawn the election).

⁴ See proposed 17 CFR 275.223-1(a). Accounts of registered investment companies are excepted from the current rule. See 17 CFR 275.206(4)-2(b)(5). Under the proposal, accounts of registered investment companies would continue to be excepted, except with respect to crypto assets of which the adviser has self-custody for such accounts. The proposed rule would extend this exception to the accounts of business development companies. See proposed 17 CFR 275.223-1(b)(5). If an adviser has self-custody of crypto assets that are securities or similar investments for the account of a regulated fund, under the proposed rule, the adviser would only be required to satisfy the requirements of 17 CFR 275.223-1(b)(7) (“rule 223-1(b)(7)” or the “proposed adviser self-custody rule”) with respect to such crypto assets. See proposed 17 CFR 275.223-1(b)(5); proposed 17 CFR 275.223-1(d)(16) (defining “self-custody”); proposed 17 CFR 275.223-1(d)(3) (defining “crypto asset”).

⁵ See proposed 17 CFR 275.223-1(a).

⁶ Consistent with the current rule, under the proposed rule, the term “related person” would mean “any person, directly or indirectly, controlling or controlled by [the investment adviser], and any person that is under common control with [the investment adviser].” See 17 CFR 275.206(4)-2(d)(7), which would be redesignated as 17 CFR 275.223-1(d)(15) under the proposal.

⁷ See 17 CFR 275.206(4)-2(a)(1), which would be amended and redesignated as 17 CFR 275.223-1(a)(1) under the proposal.

⁸ See 17 CFR 275.206(4)-2(a)(6), which would be amended and redesignated as 17 CFR 275.223-1(a)(6) under the proposal.

⁹ See proposed rule 223-1(b)(7).

¹⁰ See 17 CFR 275.206(4)-2(a)(2), which would be redesignated as 17 CFR 275.223-1(a)(2) (“proposed notice requirement”) under the proposal. The proposal would amend the notice requirement to require that a client’s account number be included in the notice sent by an adviser upon opening an account with a qualified custodian on behalf of such client.

(“account statement delivery requirement”).¹¹ As discussed more fully in the Proposing Release, the safeguarding conditions under the proposed adviser self-custody rule would require an adviser that holds client crypto assets in self-custody to, among other things and in relevant part:

- Determine in writing, as an initial matter and on a quarterly basis, that the adviser has a reasonable basis, after due inquiry, for believing that no qualified custodian will maintain the crypto asset (a “qualified custodian determination”);¹²
- Document in writing the basis for the adviser’s determination that it has expertise regarding the safeguarding of each crypto asset;¹³
- Adopt, implement, and maintain the systems necessary to safeguard each crypto asset against loss, theft, misuse and misappropriation (“safeguarding systems”);¹⁴
- Make periodic but no less than annual written assessments of cybersecurity risks to crypto assets in the adviser’s self-custody and cybersecurity risks associated with the adviser’s safeguarding systems;¹⁵
- Obtain within six months of taking self-custody of a client crypto asset and thereafter no less frequently than once each calendar year a written internal control report prepared by an independent public accountant;¹⁶
- Within a year of taking self-custody of each crypto asset and no less frequently than annually thereafter, conduct documented reviews of the adviser’s safeguarding systems and cybersecurity controls;¹⁷
- Have quarterly account statements or, alternatively, transmissions, sent to each of the adviser’s clients whose crypto assets the adviser self-custodies regarding certain required information about those assets;¹⁸ and
- Agree with the client, in writing, to treat each crypto asset in the adviser’s self-custody as a financial asset, and that the adviser holding such crypto asset is a securities intermediary, pursuant to applicable State law that governs the written agreement between the adviser and the client.¹⁹

As discussed more fully in the Proposing Release, the proposal would add State trust companies to the list of qualified custodians permitted to maintain client crypto assets, subject to certain proposed

¹¹ See 17 CFR 275.206(4)-2(a)(3), which would be redesignated as 17 CFR 275.223-1(a)(3) under the proposal.

¹² See proposed 17 CFR 275.223-1(b)(7)(i). For purposes of any qualified custodian determination made under the proposed adviser self-custody rule with respect to the account of a regulated fund, “qualified custodian” shall be understood to refer to a bank or other person authorized to hold assets for the regulated fund under section 17(f) of the Investment Company Act (15 U.S.C. 80a-17(f)) or the rules thereunder. See *id.*

¹³ See proposed 17 CFR 275.223-1(b)(7)(ii).

¹⁴ See proposed 17 CFR 275.223-1(b)(7)(ii).

¹⁵ See proposed 17 CFR 275.223-1(b)(7)(iii).

¹⁶ See proposed 17 CFR 275.223-1(b)(7)(iv).

¹⁷ See proposed 17 CFR 275.223-1(b)(7)(v).

¹⁸ See proposed 17 CFR 275.223-1(b)(7)(vi).

¹⁹ See proposed 17 CFR 275.223-1(b)(7)(viii).

conditions.²⁰ Those conditions include, in relevant part, the adviser, as an initial matter and annually thereafter, making certain written determinations about the State trust company regarding its policies and procedures and whether it is authorized by the relevant State banking authority to provide crypto asset custody;²¹ and the adviser receiving and reviewing the State trust company's most recent annual audited financial statements and internal control report.²²

The proposal would make a number of modernizing amendments to the custody rule. These include amendments to 17 CFR 275.206(4)-2(b)(4) (the "current audit provision"), which would be redesignated as 17 CFR 275.223-1(b)(4) under the proposal (the "proposed audit provision").²³ Among other things, the proposed audit provision would provide that for pooled investment vehicles that are formed within the last 90 days of their fiscal year, the requirement to deliver audited financial statements within 120 days of fiscal year end would be deemed to be satisfied if (i) financial statements (which may be unaudited) covering the last 90 days of the first fiscal year are distributed to investors within 90 days of the end of the first fiscal year, and (ii) audited financial statements are distributed to investors that cover the first fiscal year (*i.e.*, the last 90 days of the first fiscal year, if previously unaudited) and the entire second fiscal year after the end of the second fiscal year.²⁴

The proposal would also add new exceptions from the surprise examination requirement and the custody rule.²⁵ This includes an exception from the surprise examination requirement for client funds and securities if the adviser has custody of those funds and securities solely because of an arrangement between the adviser, the client, and the client's qualified custodian in which the adviser is authorized, in writing, to direct the qualified custodian to transfer funds and securities to a third-party recipient on a specified schedule or from time to time (a "SLOA"), subject to certain conditions.²⁶

The proposal would also add an exception from the custody rule with respect to funds and securities over which an adviser has custody arising solely from custodial arrangements that the adviser has no knowledge or reason to know confers custody upon it, provided that the adviser did not

²⁰ See proposed 17 CFR 275.223-(d)(13)(v) (the "proposed State trust company rule").

²¹ See proposed 17 CFR 275.223-1(d)(13)(v)(A)(1) and 17 CFR 275.223-1(d)(13)(v)(A)(2).

²² See proposed 17 CFR 275.223-1(d)(13)(v)(B) and 17 CFR 275.223-1(d)(13)(v)(C).

²³ The current audit provision provides that an adviser to a limited partnership, limited liability company, or other pooled investment vehicle is excepted from the client notice requirement and the account statement delivery requirement and is deemed to have complied with the rule's annual surprise examination requirement under 17 CFR 275.206(4)-2(a)(4) (the "surprise examination requirement"), provided that, among other things, audited financial statements are distributed to the investors in the pooled investment vehicle on an annual basis within 120 days of the end of the pooled investment vehicle's fiscal year. See 17 CFR 275.206(4)-2(b)(4)(i).

²⁴ See proposed 17 CFR 275.223-1(b)(4)(ii). The proposed audit provision also incorporates a longstanding view of the Commission that, except in limited circumstances, audited financial statements would need to be prepared in accordance with U.S. GAAP, and a similar view of the Commission allowing advisers to foreign pooled investment vehicles to rely on audited financial statements prepared in accordance with accounting principles other than U.S. GAAP in certain circumstances. See proposed 17 CFR 275.223-1(b)(4)(i)(B). Moreover, Commission staff has taken a similar view as the proposed amendments to the audit provision extending the delivery deadlines for annual audited financial statements of funds of funds and funds of funds of funds. See proposed 17 CFR 275.223-1(b)(4)(i)(C).

²⁵ Under the surprise examination requirement, the client funds and securities of which an adviser has custody must be verified by a actual examination at least once during each calendar year by an independent public accountant, unless an adviser is subject to an exception (for instance, the audit provision). See 17 CFR 275.206(4)-2(a)(4), which would be redesignated as 17 CFR 275.223-1(a)(4) under the proposal.

²⁶ See proposed 17 CFR 275.223-1(b)(8) (the "proposed SLOA exception"); proposed 17 CFR 275.223-1(d)(17) (defining "standing letter of authorization").

recommend the qualified custodian.²⁷ The proposed inadvertent custody exception would require an adviser who gains knowledge of such custody to promptly notify the client and qualified custodian in writing of such unwanted authority, to repudiate such authority to the client and qualified custodian, and to request that such authority be removed from the custodial agreement or be superseded by a new agreement.²⁸

Each requirement to disclose or obtain information, deliver communications, or cause reporting by an independent public accountant constitutes a “collection of information” requirement under the PRA and is mandatory.

2. Purpose and Use of Information Collection

The Commission currently uses the information required by rule 206(4)-2 and would continue to use the information required by redesignated and amended rule 223-1 in connection with its investment adviser enforcement, regulatory, and examination programs. Advisory clients use and would continue to use the information required by rule 223-1 to confirm proper handling of their advisory accounts. Without the information collected under the rule, the Commission would be less efficient and effective in its programs and advisory clients would not have information they need to monitor the adviser’s handling of their accounts.

3. Use and Consideration of Information Technology

The Commission currently permits advisers to provide to clients the information required by rule 206(4)-2 electronically.²⁹ Proposed rule 223-1 makes no change to this standard. Accountants also electronically file with the Commission their reports with their surprise examination findings. Finally, the Commission does not prescribe a particular format or delivery method for internal control reports, and similarly it does not prohibit the use of information technology for these purposes.

4. Identifying and Minimizing Duplication

The requirements of proposed rule 223-1 are not duplicated elsewhere for those investment advisers that must comply with the rule.

5. Effect on Small Entities

The requirements of proposed rule 223-1 apply equally to all investment advisers that are registered with the Commission and have custody of funds or securities of their clients, including those advisers that are small entities. It would defeat the purpose of the rule to exempt small entities from these requirements.

6. Consequences of Not Conducting Collection and Obstacles to Reducing Burden

If the information required by rule 223-1 is either not collected or is collected less frequently, both the Commission’s ability to protect investors and the ability of clients to monitor the handling of their accounts would be reduced.

²⁷ See proposed 17 CFR 275.223-1(b)(10) (the “proposed inadvertent custody exception”).

²⁸ *Id.*

²⁹ See Use of Electronic Media by Broker-Dealers, Transfer Agents, and Investment Advisers for Delivery of Information; Additional Examples Under the Securities Act of 1933, Securities Exchange Act of 1934, and Investment Company Act of 1940, Investment Advisers Act Release 1562 (May 9, 1996).

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

Investment advisers registered with the Commission may be required to maintain and preserve certain information required under rule 223-1 for more than three years. The long-term retention of these records is necessary for the Commission’s inspection program to ascertain compliance with the Investment Advisers Act and its rules.

8. Public Comment and Consultations Outside the Agency

The Commission has requested public comment on the proposed amendments and redesignation of the custody rule, including the collection of information requirements resulting from the proposed amendments. Before adopting these amendments, the Commission will receive and evaluate public comments on the proposed amendments and their associated collection of information requirements.

9. Payment or Gift to Respondents

Not applicable.

10. Assurance of Confidentiality and Privacy

Not applicable.

11. Collection Questions of a Sensitive Nature

Not applicable.

12. Estimated Time Burden and its Cost Equivalent

The respondents to this collection of information under the proposed rule are investment advisers registered or required to be registered with the Commission that have custody of client funds and securities as well as any adviser whose “related persons” have custody in connection with advisory services the adviser provides to the client. All such advisers would be subject to the proposed rule.

As of December 2025,³⁰ there were 16,442 investment advisers registered with the Commission and 9,926 registered investment advisers reported to have custody of client funds and securities in Item 9 of Form ADV.³¹ The application of the provisions of the proposed rule—and thus, the extent to which there are collections of information and their related burdens—would be contingent on a number of factors, such as the types of services the adviser provides, the number of clients to whom it provides those services, and the nature of the relevant client funds and securities in the adviser’s custody.

The currently approved burden for rule 206(4)-2 is 33,514,391 responses resulting in 315,925 burden hours at a cost of \$28,525,065 as well as a \$176,577,000 total estimated accounting fee.³² Because of the wide diversity of services and relationships offered by investment advisers, we expect that the obligations imposed by the rule will, accordingly, vary substantially among advisers. However, we have made certain estimates of this data solely for the purpose of this PRA analysis.

The table below summarizes the various proposed components of the total annual burden for investment advisers with custody of client funds and securities. The estimated average burden hours are

³⁰ Incorporating Form ADV filings received through March 31, 2026.

³¹ The estimated number of advisers with custody of client funds and securities is derived from the responses to Form ADV Item 9.A.(1) or Item 9.B.(1).

³² See Supporting Statement for the Paperwork Reduction Act Information Collection Submission for Rule 206(4)-2, OMB Report, OMB Control Number 3235-0241 (April 2025) (“2025 Rule 206(4)-2 PRA”).

made solely for purposes of the Paperwork Reduction Act and are not derived from a comprehensive or even representative survey or study of the cost of Commission rules and forms.

	Internal Initial Burden Hours	Internal Annual Burden Hours	Wage Rate ¹	Internal Time Costs	Annual External Cost Burden
Proposed Adviser Self-Custody Rule	300 hours ²	200 hours ³	\$578.33 per hour (blended current rate for lawyers (\$774), accountants and auditors (\$330), computer and information systems managers (\$631))	\$115,666 (Internal Annual Burden 200 hours x Wage rate of \$578.33)	\$376,000 ⁴
Total number of affected advisers	823 advisers ⁵	x 823 advisers		x 823 advisers	x 823 advisers
Sub-total burden		164,600 hours		\$95,193,118	\$309,448,000
Proposed State Trust Company Rule	60 hours	40 hours ⁶	\$507.67 per hour (blended current rate for lawyers (\$774), accountants and auditors (\$330), information security analysts (\$419))	\$20,307 (Internal Annual Hour Burden 40 hours x Wage rate of \$507.67)	\$0
Total number of affected advisers	1,645 advisers ⁷	x 1,645 advisers		x 1,645 advisers	\$0
Sub-total burden		65,800 hours		\$33,405,015	\$0
Proposed Audit Provision	N/A	0.1784 hours ⁸	\$423.67 per hour (blended current rate for lawyers (\$774), accountants and auditors (\$330), bookkeeping, accounting and auditing clerks (\$167))	\$76 (Internal Annual Hour Burden 0.1784 hours x Wage rate of \$423.67)	\$0
Total number of affected advisers	4,847 advisers ⁹	x 4,847 advisers		x 4,847 advisers	
Sub-total burden		865 hours		\$368,372	
Proposed SLOA Exception	1 hour ¹⁰	1.3 hour ¹¹	\$470.5 per hour (blended current rate for lawyers (\$774), bookkeeping, accounting and auditing clerks (\$167))	\$611.65 (Internal Annual Hour Burden 1.3 hours x Wage rate of \$470.5)	\$0
Total number of affected advisers	2,131 advisers ¹²	x 2,131 advisers		x 2,131 advisers	
Sub-total burden		2,770.3 hours		\$1,303,426	\$0
Proposed Notice Requirement	N/A	1 hour ¹³	\$301.5 per hour (blended current rate for computer programmer (\$436), bookkeeping, accounting and auditing clerks (\$167))	\$301.5 (Internal Annual Hour Burden of 1 hour x Wage rate of \$301.5)	\$0
Total number of affected advisers	7,140 advisers ¹⁴	x 7,140 advisers		x 7,140 advisers	
Sub-total burden		7,140 hours		\$2,152,710	
Proposed Inadvertent	N/A	1 hour	\$470.5 per hour	\$470.5	\$0

	Internal Initial Burden Hours	Internal Annual Burden Hours	Wage Rate ¹	Internal Time Costs	Annual External Cost Burden
Custody Exception			(blended current rate for lawyers (\$774), bookkeeping, accounting and auditing clerks (\$167))	(Internal Annual Hour Burden of 1 hour x Wage rate of \$470.5)	
Total number of affected advisers	16,442 advisers ¹⁵	x 16,442 advisers		x 16,442 advisers	
Sub-total burden		16,442 hours		\$ 7,735,961	
Total annual aggregate burden of Proposed Rule 223-1	N/A	257,617 hours		\$ 140,158,602	\$ 309,448,000
Current annual estimated aggregate burden of Rule 206(4)-2		315,925 hours		\$ 28,525,065	\$ 176,577,000
Total annual aggregate burden of Proposed Rule 223-1	N/A	573,542 hours		\$ 168,683,667	\$ 486,025,000

Notes

- To calculate the occupational hourly rates used in this release, the Commission uses the May 2025 occupational mean hourly wage data from the Occupational Employment and Wage Statistics (OEWS) program of the Bureau of Labor Statistics (BLS) for "Securities, Commodity Contracts, and Other Financial Investments and Related Activities" (NAICS 523), except for computer programmers for which May 2023 OEWS data are the most recent available. See Occupational Employment and Wage Statistics, U.S. BUREAU OF LABOR STATISTICS, <https://www.bls.gov/oes/>; see also Standard Occupational Classification, U.S. BUREAU OF LABOR STATISTICS, <https://www.bls.gov/soc/> (describing occupational classification system used by BLS); EXEC. OFF. OF THE PRESIDENT, OFF. OF MGMT. & BUDGET, NORTH AMERICAN INDUSTRY CLASSIFICATION SYSTEM (2022), available at https://www.census.gov/naics/reference_files_tools/2022_NAICS_Manual.pdf (describing the industry classification system used by BLS and other agencies). The mean hourly wage for each occupation (except computer programmers) is multiplied by an employment cost index (ECI) factor of 1.0227, calculated as one plus the percentage change in the seasonally adjusted ECI for wages and salaries of private industry workers from the second quarter of 2025 (ECI=173.563), which contains the May 2025 OEWS reference period, to the first quarter of 2026 (ECI=177.498), which is the date of the most recently available ECI observations when the occupational hourly rates used in this release were calculated. See Employment Cost Index, U.S. BUREAU OF LABOR STATISTICS, Seasonal Data 2001-Present, available at <https://www.bls.gov/eci/tables.htm>. The ECI factor for computer programmers (1.10179) is calculated similarly, using the seasonally adjusted ECI for wages and salaries of private industry workers in the second quarter of 2023 (161.1) as the starting point. For all occupations, the ECI-adjusted mean hourly wage is then multiplied by a nonwage cost adjustment factor of 5.734, which accounts for nonwage costs borne by employers, such as bonuses, benefits, and overhead. This factor is calculated as the average, over 2016–2025, of the ratio of the Bureau of Economic Analysis's gross output for NAICS 523 to total annual wages across all occupations for NAICS 523 in the OEWS data. See Gross Output by Industry, U.S. BUREAU OF ECONOMIC ANALYSIS, <https://www.bea.gov/data/industries/gross-output-by-industry>; Occupational Employment and Wage Statistics, U.S. BUREAU OF LABOR STATISTICS, <https://www.bls.gov/oes/>. For example, the \$774 occupational hourly rate for lawyers is calculated as $\$131.91 \times 1.0227 \times 5.734$, or approximately \$774 (where \$131.91 is the May 2025 mean hourly wage for lawyers in NAICS 523). The final product is the occupational hourly rate. See generally UPDATED METHODOLOGY FOR CALCULATING OCCUPATIONAL HOURLY RATES (Dec. 19, 2025), available at <https://www.sec.gov/files/method-occupational-hourly-rates.pdf>.
- We anticipate that due to the novel nature of the proposed adviser self-custody rule, it would take significant initial burden hours to come into compliance with the proposed adviser self-custody rule's requirements that constitute "collection of information" for purposes of PRA. See proposed 17 CFR 275.223-1(b)(7) and Proposing Release at section II.A for a detailed discussion of the proposed adviser self-custody rule's requirements.
- Includes initial burden estimates annualized over a three-year period (300 hours / 3 years = 100 initial burden hours), plus 100 ongoing annual burden hours to comply with ongoing requirements under the proposed adviser self-custody rule. The estimate of 200 hours is based on the following calculation: [300 initial hours / 3 years] + 100 additional ongoing burden hours = 100 initial burden hours + 100 annual burden hours = 200 internal annual burden hours.
- Estimated cost to prepare an internal control report required under the proposed adviser self-custody rule. See proposed 17 CFR 275.223-1(b)(7)(iv). We understand that the cost to prepare an internal control report relating to safeguarding of crypto assets will vary based on the size and services offered by the adviser relating to self-custody. The estimated cost in this calculation has been adjusted for inflation from prior estimates, rounded to the nearest \$1,000. See 2025 Rule 206(4)-2 PRA.
- Of the 16,442 registered investment advisers, we estimate for purposes of this burden calculation that approximately 5%, or approximately 823 advisers, will have self-custody of client crypto assets. $5\% \times 16,442$ of all registered advisers = approximately 823 advisers. See Proposing Release at section V.B. for a discussion of the 5% estimate.
- Includes initial burden estimates annualized over a three-year period (60 hours / 3 years = 20 initial burden hours), plus 20 ongoing annual burden hours. The estimate of 40 hours is based on the following calculation: [60 initial hours / 3 years] + 20 additional ongoing burden hours = 20 initial burden hours + 20 annual burden hours = 40 internal annual burden hours.
- Of the 16,442 advisers registered with the Commission, we estimate for purposes of this burden calculation that approximately 10%, or approximately 1,645 advisers, will maintain client crypto assets at a State trust company pursuant to the proposed State trust company

rule under the Advisers Act. $10\% \times 16,442$ all registered advisers = approximately 1,645 advisers. See Proposing Release at section V.B. for a discussion of the 10% estimate.

8. The internal annual burden estimate is attributable to distributing the unaudited financial statements to investors in a pooled investment vehicle newly formed in the last 90 days of its first fiscal year as required under the proposed amendment to the audit provision. See proposed 17 CFR 275.223-1(b)(4)(ii). We assume for purposes of this burden analysis that advisers would need to distribute the unaudited financial statements to approximately 5% of their investors, and that it takes 1 minute per investor to deliver the unaudited financial statements. We estimate that the 4,487 advisers that have their pooled investment vehicles audited and distribute audited financial statements to investors in the pool (see note 9 below) provide advice to 58,164 private funds that have a total of 1,017,870 investors. $[1/60 \text{ hour}] \times [(5\% \times 1,017,870 \text{ investors})] = [0.017 \text{ hours} \times 50,894 \text{ investors}] = 865 \text{ total annual burden hours}$. $865 \text{ total annual burden hours} / 4,847 \text{ advisers} = \text{approximately } 0.1784 \text{ internal annual burden hour per adviser}$. We do not anticipate that the requirement to distribute the first audited financial statements covering the first fiscal year and the following fiscal year under proposed 17 CFR 275.223-1(b)(4)(ii) would impact our burden analysis for this amendment, as advisers relying on the audit provision are already required to audit and deliver their financial statements every year, and we understand that adding a single quarter to the audit period does not add significantly more to the cost of distributing the audited financial statements.
9. Based on IARD data, we estimate that 5,401 advisers have custody of client assets and provide advisory services to pooled investment vehicles other than regulated funds (responses to Items 5.D.(1)(f), 9.A and 9.B of Form ADV, Part 1A). Of these advisers, we estimate that 4,847 advisers will have their pooled investment vehicles audited and distribute audited financial statements to investors in the pool $[5,401 \text{ advisers to pooled investment vehicles} - 554 \text{ advisers that undergo a surprise examination} = 4,847 \text{ advisers that undergo an audit}]$. We assume for purposes of this burden calculation that all 4,847 advisers would distribute unaudited financial statements to investors in pooled investment vehicles newly formed in the last 90 days of their first fiscal year in reliance on the proposed audit provision.
10. We assume that many advisers already have copies of client SLOAs that have the required provisions, and in our view, this particular collection of information requirement would have a negligible impact on advisers. See proposed 17 CFR 275.223-1(b)(8).
11. Includes initial burden estimates annualized over a three-year period $(1 \text{ hours} / 3 \text{ years} = 0.3 \text{ initial burden hours})$, plus 1 ongoing annual burden hours. $[1 \text{ initial hour} / 3 \text{ years}] + 1 \text{ additional ongoing burden hours} = 0.3 \text{ initial burden hours} + 1 \text{ annual burden hours} = 1.3 \text{ internal annual burden hours}$.
12. Based on Form ADV data as of December 2025, there were 16,442 investment advisers registered with the Commission and 9,926 registered advisers that reported to have custody of client funds or securities in Item 9 of Form ADV. Of the 9,926 registered advisers that reported to have custody of client funds and securities in Item 9 of Form ADV, we estimate that approximately 21%, or approximately 2,131 advisers, will have clients that issue SLOAs.
13. Attributed to adding the custodial account number to client notices as required under the proposed notice requirement. See proposed 17 CFR 275.223-1(a)(2). We do not believe including a custodial account number to the notice would significantly impact the costs incurred by advisers as they are already required to provide a nearly identical notice under the current rule.
14. Based on IARD data, the number of registered investment advisers that are advisers exclusively to pooled investment vehicles and obtain an annual audit is 2,872 advisers (this is the number of registered investment advisers that reported to have custody in response to Item 9.A. or Item 9.B., exclusively advise pooled investment vehicles (other than regulated funds) in response to Item 5.D., and checked the box for Item 9.C.(2) in Form ADV, Part 1A). Since we estimate that 97% of advisers to pooled investment vehicles obtain an annual audit, the notice requirement does not apply to approximately 2,786 advisers, leaving approximately 7,140 advisers that may be subject to this information collection. $[9,926 \text{ advisers with custody} - (2,872 \text{ advisers to pooled investment vehicles} \times 0.97) = 9,926 - 2,786 = 7,140 \text{ advisers}]$.
15. Based on IARD data, number of all registered investment advisers as of December 2025. Although the number of investment advisers that repudiate inadvertent custody in order to rely on the proposed inadvertent custody exception may, in practice, be lower, we have assumed for purposes of this burden analysis that all registered investment advisers are subject to this information collection requirement.

13. Estimated Additional Cost Burden

Cost burden is the cost of goods and services purchased to meet the requirements of proposed rule 223-1, such as for the services of outside counsel and independent auditors. The cost burden does not include the hour burden discussed in Item 12 above. Estimates are based on the Commission's experience.

As summarized in the table above, we estimate the annual external cost associated with the proposed amendments and redesignation to be \$309,448,000. This would yield a total annual estimated external cost burden of \$486,025,000.

14. Annual Cost to the Federal Government

There are no additional costs to the federal government.

15. Reasons for Changes in Burden Estimates

As noted above, the approved annual aggregate burden for rule 206(4)-2 is currently 315,925 burden hours, with total internal monetized costs of \$28,525,065. We are revising our total burden estimates to reflect the proposed amendments and updated data including the increase in our estimate of the number of respondents subject to the rule. We estimate that the increase in our estimate will result in an aggregate increase in the collection of information burden estimate by 257,617 hours. This would yield an annual estimated aggregate burden of 573,542 hours under proposed rule 223-1 for all registered advisers, with total monetized costs of \$168,683,667.

16. Plans for Publishing Results

Not applicable.

17. Approval to Omit Display of OMB Expiration Date

Not applicable.

18. Exceptions to the Certification for Paperwork Reduction Act Submissions

Not applicable.