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United States Government Accountability Office
Washington, DC 20548

B-320411

August 25, 2010

The Honorable Christopher J. Dodd
Chairman
The Honorable Richard C. Shelby
Ranking Member
Committee on Banking, Housing, and Urban Affairs
United States Senate

The Honorable Barney Frank
Chairman
The Honorable Spencer Bachus
Ranking Member
Committee on Financial Services
House of Representatives

Subject: *Securities and Exchange Commission: Amendments to Form ADV*

Pursuant to section 801(a)(2)(A) of title 5, United States Code, this is our report on a major rule promulgated by the Securities and Exchange Commission (Commission), entitled: "Amendments to Form ADV" (RIN: 3235-AI17). We received the rule on July 29, 2010. It was published in the *Federal Register* as a final rule on August 12, 2010. 75 Fed. Reg. 49,234.

The final rule amends Part 2 of Form ADV and related rules under the Investment Advisers Act, 15 U.S.C. § 80b, to require investment advisers to provide new and prospective clients with a brochure and brochure supplements written in plain English. The revised Part 2 requirements include two subparts, Part 2A and Part 2B. Part 2A contains 18 disclosure items about the advisory firm that must be included in an adviser's brochure. Part 2B relates to the brochure supplement, which must include information about certain advisory personnel on whom clients rely for investment advice. As stated in the final rule, the amendments are designed to provide new and prospective advisory clients with clearly written, meaningful, current disclosure of the business practices, conflicts of interest and background of the investment adviser and its advisory personnel. Advisers must file their brochures with the Commission, and the Commission will make them available to the public through its Web site. The final rule is effective on October 12, 2010.

Enclosed is our assessment of the Commission's compliance with the procedural steps required by section 801(a)(1)(B)(i) through (iv) of title 5 with respect to the rule. Our review of the procedural steps taken indicates that the Commission complied with the applicable requirements.

If you have any questions about this report or wish to contact GAO officials responsible for the evaluation work relating to the subject matter of the rule, please contact Shirley A. Jones, Assistant General Counsel, at (202) 512-8156.

signed

Robert J. Cramer
Managing Associate General Counsel

Enclosure

cc: Elizabeth M. Murphy
Secretary
Securities and Exchange Commission

REPORT UNDER 5 U.S.C. § 801(a)(2)(A) ON A MAJOR RULE
ISSUED BY THE
SECURITIES AND EXCHANGE COMMISSION
ENTITLED
"AMENDMENTS TO FORM ADV"
(RIN: 3235-A117)

(i) Cost-benefit analysis

The Commission conducted a cost-benefit analysis of this final rule. With respect to benefits, the Commission stated, in part, that the new narrative brochures and electronic filing provide substantial benefits to advisory clients and prospective clients. The brochures present clients with critically important information they need to determine whether to hire or continue the services of a particular adviser. This information will be presented in a uniform format easy for most investors to understand. In addition, investors searching for an adviser will be able to access the firm's brochures through the Commission's public disclosure Web site.

With respect to costs, the Commission estimates that advisers would incur costs of approximately \$33,639,960 in drafting the new brochures and supplements in the first year. Advisers may also incur costs of approximately \$22,775,400 in connection with their use of outside legal services and compliance consulting services to assist in preparation of their Form ADV. The Commission also estimates that advisers would incur annual costs of \$1,620,462. The Commission estimates annual delivery costs of \$18,918,802.

(ii) Agency actions relevant to the Regulatory Flexibility Act, 5 U.S.C. §§ 603-605, 607, and 609

The Commission prepared a regulatory flexibility analysis for this final rule and considered alternatives to minimize the rule's effect on small advisers.

(iii) Agency actions relevant to sections 202-205 of the Unfunded Mandates Reform Act of 1995, 2 U.S.C. §§ 1532-1535

As an independent regulatory agency, the Commission is not subject to the Act.

(iv) Other relevant information or requirements under acts and executive orders

Administrative Procedure Act, 5 U.S.C. §§ 551 et seq.

The Commission issued a proposed rule on March 3, 2008. 73 Fed. Reg. 13,958. The Commission received 81 letters commenting on the proposal which are discussed in the final rule.

Paperwork Reduction Act, 44 U.S.C. §§ 3501-3520

This final rule imposes new information and collection recordkeeping requirements. The Commission submitted the collection of information requirements to the Office of Management and Budget (OMB) for approval as required by the Act, and OMB approved them.

Statutory authorization for the rule

The Commission states that it is promulgating this final rule under 15 U.S.C. §§ 77s(a), 77sss(a), 78w(a), 78a-37(a), 78bb(e)(2), 80b-3(c)(1), 80b-4, 80b-6(4), 80b-11(a).

Executive Order No. 12,866 (Regulatory Planning and Review)

As an independent regulatory agency, the Commission is not subject to Executive Order 12,866.

Executive Order No. 13,132 (Federalism)

As an independent regulatory agency, the Commission is not subject to Executive Order 13,132.

Securities Exchange Act of 1934, 15 U.S.C. §§ 78c(f), 78w(a)

The Commission determined that this final rule will contribute to efficiency, competition, and capital formation.