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July 25, 2019

The Honorable Mike Crapo
Chairman
The Honorable Sherrod Brown
Ranking Member
Committee on Banking, Housing, and Urban Affairs
United States Senate

The Honorable Maxine Waters
Chairwoman
The Honorable Patrick McHenry
Ranking Member
Committee on Financial Services
House of Representatives

Subject: *Securities and Exchange Commission: Form CRS Relationship Summary; 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 (the Commission) entitled “Form CRS Relationship Summary; Amendments to Form ADV” (RIN: 3235-AL27). We received the rule on June 6, 2019. It was published in the *Federal Register* as a final rule on July 12, 2019. 84 Fed. Reg. 33492. The effective date of the rule is September 10, 2019.

The final rule requires registered investment advisers and registered broker-dealers (together, “firms”) to provide a brief relationship summary to retail investors. The Commission intends this relationship summary to inform retail investors about: (1) the types of client and customer relationships and services the firm offers; (2) the fees, costs, conflicts of interest, and required standard of conduct associated with those relationships and services; (3) whether the firm and its financial professionals currently have reportable legal or disciplinary history; and (4) how to obtain additional information about the firm. The rule also requires the relationship summary to reference a page on the Commission's investor education website offering educational information to investors about investment advisers, broker-dealers, and individual financial professionals and other materials. Under this rule, retail investors will receive a relationship summary at the beginning of a relationship with a firm, communications of updated information following a material change to the relationship summary, and an updated relationship summary upon certain events.

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. 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 Janet Temko-Blinder, Assistant General Counsel, at (202) 512-7104.

signed

Shirley A. Jones
Managing Associate General Counsel

Enclosure

cc: Vanessa Countryman
Acting 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
“FORM CRS RELATIONSHIP SUMMARY;
AMENDMENTS TO FORM ADV”
(RIN: 3235-AL27)

(i) Cost-benefit analysis

The Securities and Exchange Commission (the Commission) conducted an economic analysis of this final rule. This analysis included the establishment of a baseline against which the changes imposed by this final rule could be measured for (1) providers of financial services, (2) investor perceptions about the marketplace for financial services and disclosures, and (3) investor responses to disclosures about financial professional and firms. The economic analysis also discussed broad economic considerations the Commission considered relevant to this final rule. The Commission discussed the economic effects it expects the required relationship summary to have on retail investors, broker-dealers, and investment advisors. The Commission evaluated the impact of the rule on efficiency, competition, and capital formation. The Commission also discussed alternatives it considered to the requirements for the relationship summary.

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

The Commission prepared a Final Regulatory Flexibility Analysis of this final rule. The analysis included (1) a statement of the need for and objectives of the rule; (2) a description of significant issues raised by public comments; (3) a description of the small entities subject to the rule; (4) projected reporting, recordkeeping, and other compliance requirements; and (5) a description of agency actions to minimize effects on small entities.

(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.*

On May 23, 2018, the Commission published a proposed rule. 83 Fed. Reg. 23848. The Commission received comments on the proposed rule from individual investors, consumer advocacy groups, financial services firms, investment professionals, industry and trade associations, state securities regulators, bar associations, and others. The Commission also solicited comments from individual investors through a number of forums. Specifically, the Commission used a “feedback form” designed specifically to solicit input from retail investors with a set of questions requesting both structured and narrative responses, and received more than 90 responses from individuals who reviewed and commented on the sample proposed

relationship summaries published in the proposal. The Commission held seven investor roundtables in different locations across the country to solicit further comment from individual investors on the proposed relationship summary, and the Commission received in-person feedback from almost 200 attendees in total. The final rule discusses comments on the proposed rule.

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

The Commission determined that this final rule contains information collection requirements under the Act, including revisions to existing information collection requirements and new information collection requirements. The Commission submitted these information collection requirements to the Office of Management and Budget (OMB) for review. The titles for the revised collections of information are: (1) "Form ADV" (OMB Control Number 3235-0049); (2) "Rule 204-2 under the Investment Advisers Act of 1940" (OMB Control Number 3235-0278); (3) "Rule 17a-3; Records to be Made by Certain Exchange Members, Brokers and Dealers" (OMB Control Number 3235-0033); and (4) "Rule 17a-4; Records to be Preserved by Certain Exchange Members, Brokers and Dealers" (OMB Control Number 3235-0279). The titles for the new information collection requirements are: (1) "Rule 204-5 under the Investment Advisers Act of 1940" (OMB Control Number 3235-0767) and (2) "Form CRS and rule 17a-14 under the Exchange Act" (OMB Control Number 3235-0766). The Commission described its burden estimates for each of the information collection requirements in the final rule. For instance, the Commission estimates the annual aggregate external cost burden of the new Form ADV will be \$21,767,370, or \$1,637 per registered advisor, which represents an \$8,083,870 increase from the prior version of Form ADV.

Statutory authorization for the rule

The Commission promulgated this final rule pursuant to sections 7sss(a), 77s(a), 78c, 78j, 78o, 78q, 78w, 78bb(e)(2), 78mm, 80a-37(a), 80b-3(c)(1), 80b-4, 80b-6a, 80b-6(4), and 80b-11 of title 15, United States Code.

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

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

Executive Order No. 13,132 (Federalism)

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