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FOR THE RECORD

Regulatory Cost, in Plain English

Regarding Sam Batkins’ article, “What Does an Hour of Regulatory Compliance Cost?” (Summer 2012), I should like to add a few comments from my own experiences, as a Registered Investment Advisor (RIA), with the Securities and Exchange Commission.

After multiple failures to meet their own self-imposed deadlines (another story), the SEC finally issued instructions for a new disclosure document for RIAs. In its initial release, the SEC estimated the average burden for small advisors to complete the new form to be five hours. In its subsequent release, after hearing from small advisors, it raised the limit to 15 hours.

How can one have any confidence in these regulatory agency estimates when they can increase by 200 percent? (One might note that the 15 hours is still at the low end of the 15–60 hour range provided by the RIAs themselves.)

In its release, the SEC took 20 pages, with multiple footnotes, just to discuss its time estimate for RIAs to complete its new form. You’ve got to love bureaucrats. The

instructions for how to complete this allegedly “plain English” form were a dense and footnote-filled 174 pages. One could add to that total a separate document, of almost 100 pages, educating advisors on how to write in “plain English.” This document includes advice to “use short sentences,” advice the SEC itself definitely does not follow in its instructions. The SEC admonishes RIAs not to use abstract words or the passive tense.

This might be deemed vaguely amusing, but there is a serious point. For a small advisory firm, one that cannot afford its own in-house compliance department, such meaningless regulations require the time of the business owner—usually the advisor—whose time would surely be better devoted to looking after the interests of clients rather than completing meaningless forms that the vast majority of clients do not read. But woe betide the RIA who makes an inadvertent error in answering a question.

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