

SEC Publishes Guidance About Form ADV Part 2A and 2B

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Last Friday, March 18, 2011, the SEC published long-anticipated guidance about Form ADV Part 2A and 2B. Among the FAQs, the staff addressed several important questions about the content of the firm brochure (Part 2A) and the supplemental brochure (Part 2B). The SEC's release can be found by clicking [here](#). This belated guidance will still be helpful to everyone preparing their firm brochures, which is nearly everyone! Remember, all SEC- and state-registered investment advisers must have uploaded their new firm brochures to the WebCRD/IARD System on or before March 31, 2011.

Among other topics, the SEC's release elaborates upon the disclosures required in Part 2A, Item 8.B. In this item a firm must explain each of its significant investment strategies and methods of analysis. Firms using multiple strategies or methods of analysis must summarize each of them, together with their related material risks. While the firm brochure cannot just incorporate other documents by reference, the release says a firm may still refer to a separate disclosure document setting out a more detailed explanation. For example, supplemental disclosures could be included in client-specific investment policy statements. Similarly, the SEC says a firm using pooled investment vehicles as a significant investment strategy may provide a "brief explanation" of the material risks and refer clients to the prospectus, offering memoranda, or other documents that pool investors will receive containing a more detailed discussion of those risks.

As the first round of firm brochures get filed in the coming weeks, many interpretive questions remain. Notably, what balance will SEC examiners strike between the directive to be reader-friendly while still covering all the material risk disclosures? If you need help in making these judgment calls, please do not hesitate to contact Shane Hansen (shansen@wnj.com or 616.752.2145), Linda Paullin-Hebden (lpaulinhebden@wnj.com or 248.784.5159) or other members of the Broker-Dealer and Investment Adviser Law and Regulation Group.