

Corporate & Financial Weekly Digest

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SEC Adopts Changes to Form ADV to Provide More Effective Disclosure

On July 21, the Securities and Exchange Commission voted unanimously to adopt changes to Form ADV, Part 2. Commonly referred to as the “brochure,” Form ADV, Part 2 is the principal disclosure document that SEC registered investment advisers must provide to their clients and prospective clients. Currently, Form ADV, Part 2 consists primarily of a “check-the-box” format, in which investment advisers respond to a series of multiple-choice and fill-in-the-blank questions that are designed to inform investors of advisers’ qualifications, investment strategies, and business practices. Unfortunately, the current format frequently does not correspond well to an adviser’s business.

Under the amended rules, SEC-registered investment advisers are required to prepare a narrative, plain English, brochure, presented in a consistent, uniform manner that will make it easier for clients to compare different advisers’ disclosures. The new brochure will contain enhanced disclosures on those topics the SEC believes are most relevant to clients, including, a description of: the adviser’s business, fees and compensation, performance-based fees and side-by-side management (with an explanation of any conflicts of interest that arise from the simultaneous management of accounts that are charged a performance fee and accounts that are not and how the adviser addresses those conflicts), methods of analysis and investment strategies and the attendant risks of loss, disciplinary information material to a client’s evaluation of the adviser’s business and the integrity of its management, the adviser’s code of ethics and the nature of its participation or interest in client transactions and personal trading and factors it considers in selecting broker-dealers.

Advisers must deliver the brochure to a client before or at the time the adviser enters into an advisory contract with such client. In addition, advisers must provide each client with an annual summary of material changes to the brochure and either deliver a complete updated brochure or offer to provide the updated brochure. Brochures must be filed electronically and posted on the SEC’s website so that they are easily accessible to clients.

The SEC will also require advisers to prepare and deliver brochure supplements to new and prospective clients disclosing résumé-like information on the specific individuals who will provide services to the clients.

The SEC has not yet published the revised Form ADV, Part 2 and is currently working with the states to accommodate state-specific changes to the items and instructions of the Form. The

amended rules and uniform SEC-state Form ADV, Part 2 will be effective 60 days after publication in the Federal Register.

To read the SEC's press release click [here](#).

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