

## FORM ADV PART 2 –

Part 2 is a disclosure document that, under state and federal securities laws, is required to be given to clients. On July 28, 2010, the Securities and Exchange Commission adopted amendments to Part 2 of Form ADV and the new form became effective on October 12, 2010.

The new Part 2 consists of three parts:

- Part 2A : Firm Brochure
- Part 2A Appendix 1: Wrap Fee Program Brochure
- Part 2B: Brochure Supplement.

Every investment adviser is required to submit a brochure or brochures containing the information elicited by **Part 2A** and **Part 2B**. Only those investment advisers that sponsor, or act as portfolio managers for, wrap fee programs will be required to submit the **Part 2A Appendix 1: Wrap Fee Program Brochure**.

**Part 2A** - Part 2A contains 18 separate items, each covering a different disclosure topic about the advisory firm that must be included in an adviser's brochure and requires advisers to create narrative *brochures* containing information about the advisory firm. These items include –

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|---------|--|
| Item 1  | Cover Page   |
| Item 2  | Material Changes   |
| Item 3  | Table of Contents  |
| Item 4  | Advisory Business  |
| Item 5  | Fees and Compensation  |
| Item 6  | Performance-Based Fees and Side-by-Side Management                                     |
| Item 7  | Types of Clients   |
| Item 8  | Methods of Analysis, Investment Strategies and Risk of Loss                            |
| Item 9  | Disciplinary Information   |
| Item 10 | Other Financial Industry Activities and Affiliations                                   |
| Item 11 | Code of Ethics, Participation or Interest in Client Transactions and Personal Training |
| Item 12 | Brokerage Practices  |
| Item 13 | Review of Accounts   |
| Item 14 | Client Referrals and Other Compensation  |
| Item 15 | Custody  |
| Item 16 | Investment Discretion  |
| Item 17 | Voting Client Securities   |
| Item 18 | Financial Information  |
| Item 19 | Requirements for State-Registered Advisers   |

## Part 2A Appendix 1 –

- Item 1 Cover Page
- Item 2 Material Changes
- Item 3 Table of Contents
- Item 4 Services, Fees & Compensation
- Item 5 Account Requirements and Types of Clients
- Item 6 Portfolio Manager Selection and Evaluation
- Item 7 Client Information Provided to Portfolio Managers
- Item 8 Client Contact with Portfolio Managers
- Item 9 Additional Information
- Item 10 Requirements for State-Registered Advisers

**Part 2B** – Part 2B requires advisers to create *brochure supplements* containing information about certain *supervised persons*.

- Item 1 Cover Page
- Item 2 Educational Background and Business Experience
- Item 3 Disciplinary Information
- Item 4 Other Business Activities
- Item 5 Additional Compensation
- Item 6 Supervision
- Item 7 Requirements for State-Registered Advisers

**NOTE:** Advisers may include supplement information within the firm’s brochure (Part 2A); however, if supplement information is included in the firm’s brochure, the information must be provided at the end of the firm’s brochure and must follow the same order as supplement items listed in Part 2B and contain the same headings.

Part 2 (in all forms) is capable of being filed electronically through the IARD system; however, unlike Part 1, it must be completed offline and uploaded to the IARD system. The form *must* be submitted in a text searchable PDF format in order to be accepted by the IARD system.

An advisor must respond to each item in Part 2 and must present the information in the order of the items in each form. If an item is inapplicable to the adviser, the adviser must include the heading and an explanation of the item and why the information is inapplicable. If information provided in one response is responsive to another item, the adviser may cross-reference the information in the other item; however, to the extent possible, advisers should make every effort to provide the required information under the appropriate headings and keep duplication of information and cross references within the document to a minimum. Advisers should discuss conflicts that the adviser has or is reasonably likely to have, and practices in which it engage in or is reasonably likely to engage.

Detailed directions for completing Part 2 are available at the following link – Click on instructions under Part 2 (effective October 12, 2010) -

[http://www.nasaa.org/industry\\_regulatory\\_resources/investment\\_advisers/758.cfm](http://www.nasaa.org/industry_regulatory_resources/investment_advisers/758.cfm)

The directions for the specific content for each required in item Part 2A begins on page 6 and instructions for Part 2B begin on page 21.

### **MUST BROCHURE SUPPLEMENTS BE SEPARATE DOCUMENTS?**

Guidance in the instructions for Part 2B poses the question, Must brochure supplements be separate documents? The response provided, is no. If the firm's brochure (Part 2A) includes all of the information required in a brochure supplement, you do not need a separate supplement. Small firms with just a few supervised persons may find it easier to include all supplement information in their firm brochure, while larger firms may prefer to use a firm brochure and separate supplements.

Note – Part 2A discusses the firm and its management while Part 2B discusses individual supervised persons so it is important that if the adviser combines it into one brochure, it is important to compare Part 2A and Part 2B to ensure that all required disclosure is made.

If supplement information is included in the firm brochure, however, the supplements must be included at the end of the brochure and each supplement must follow the same order as the supplement items listed in Part 2B and contain the same headings.