

MEMO# 10179

August 5, 1998

INSTITUTE SUBMITS PROPOSAL TO THE SEC RECOMMENDING REVISIONS TO PART II OF FORM ADV

[10179] August 5, 1998 TO: INVESTMENT ADVISERS COMMITTEE No. 28-98 RE: INSTITUTE SUBMITS PROPOSAL TO THE SEC RECOMMENDING REVISIONS TO PART II OF FORM ADV

The Institute has submitted the attached letter to the SEC recommending that Part II of Form ADV be substantially revised to improve the quality of the disclosure provided to clients. In general, the Institute's letter recommends that the Commission restructure the format of advisory brochures to permit the use of a two-part disclosure document, similar to the prospectus/Statement of Additional Information disclosure documents used by mutual funds. Under this approach, an adviser would include in its brochure specified material information that would be relevant to most clients (e.g., advisory services offered, fees, conditions for managing accounts), and disclose additional information about the adviser in a supplemental disclosure document. While all clients would receive the brochure, the supplemental disclosure documents would only be provided to those clients who request them. The Institute also recommends that the brochure disclosure be required to be in a narrative format. The letter additionally recommends that the Commission expressly clarify that advisers may use multiple brochures targeted to types of clients or types of services. Moreover, to improve the readability of the adviser's disclosure, the Institute recommends that the Commission apply the same disclosure principles as the Commission already has applied to mutual fund prospectuses (e.g., the use of plain English disclosure) and revise the content requirements of Part II of Form ADV to update them and make them more relevant to clients. For example, the Institute recommends that the current disclosure requirements of Item 6, relating to advisory personnel, be revised to be limited to those persons that may be involved in determining the advice provided to the client and that the required disclosure consist of the person's name, title, length of service, and business experience for the past five years, though an adviser could add additional information if it so chose. Tamara Cain Reed Associate Counsel Attachment