

MEMORANDUM

To: File Nos. S7-07-18, S7-08-18, S7-09-18

From: Division of Investment Management, Division of Trading and Markets

Re: Roundtable on June 4, 2018 Regarding Standards of Conduct for Investment Professionals

Date: July 31, 2018

On June 4, 2018, SEC staff and Chairman Clayton held a roundtable at the Houston branch of the Federal Reserve Bank of Dallas. Approximately 22 individuals attended. The roundtable was intended to gather information from retail investors who will be directly impacted by the Commission's rulemaking regarding standards of conduct for investment professionals.

Attached is the entire transcript of the Houston roundtable discussions. The discussions at the roundtable were intended to be conversational, and the Chairman and SEC staff provided summary descriptions of the Commission rulemakings. To the extent that any descriptions contained in the transcript deviate from the Commission's proposed rule text and rulemaking releases, such descriptions do not supersede the proposed rule text and releases. In this regard, see proposed [Form CRS Relationship Summary](#), [Regulation Best Interest](#), and [Interpretation](#).

THE UNITED STATES SECURITIES AND EXCHANGE COMMISSION

INVESTMENT ADVISER/BROKER-DEALER ROUNDTABLE

Monday, June 4, 2018

3:30 p.m.

Federal Reserve Bank - Houston
1801 Allen Parkway, San Jacinto Room
Houston, TX 77019

1 PARTICIPANTS:
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 3 On behalf of the Securities and Exchange Commission:
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 5 Jay Clayton, Commission Chair
 6 Dalia Blass
 7 Lori Schock
 8 Eric Werner
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1 PARTICIPANTS(CONT.):
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 3 GENERAL ATTENDEES:
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 5 Investor 1
 6 Investor 2
 7 Investor 3
 8 Investor 4
 9 Investor 5
 10 Investor 6
 11 Investor 7
 12 Investor 8
 13 Investor 9
 14 Investor 10
 15 Investor 11
 16 Investor 12
 17 Investor 13
 18 Investor 14
 19 Investor 15
 20 Investor 16
 21 Investor 17
 22 Investor 18
 23 Investor 19
 24 Investor 20
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1 PARTICIPANTS(CONT.)
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 3 On behalf of the Federal Reserve Bank:
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 5 Daron Peschel
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1 PARTICIPANTS(CONT.):
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 3 GENERAL ATTENDEES (Continued):
 4 Investor 21
 5 Investor 22
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Wow, welcome. Thank you all for taking time out of your day to be with us.

MR. WERNER: Sorry, there's a lot of moving parts here. I apologize.

So my name is Eric Werner. I am the Associate Director of Enforcement in the Ft. Worth Regional Office of the SEC and I would like to welcome you all here for the first of four Investment Adviser/Broker-Dealer roundtables here in Houston, Texas, on June 4, 2018.

Sitting on the ends of Chairman Clayton, we have representatives from our Division of Investment Management and Division of Trading and Markets, who are here prepared to talk with you, to hear from you, answer your questions, and try to help you better understand some of the rulemakings that we are involved in.

Before I jump in and introduce the Chairman, I will have a little bit of housekeeping. First, on the table in front of you, there are some documents. One is a Broker-Dealer Investment Adviser Relationship Summary that sort of goes through the substance of what we would like to talk about today and compares one side -- I believe the left is broker-dealer, on the right is investment adviser. If I have that wrong, I apologize.

Also with you is a feedback form. We would like to or suggest or encourage that you fill this out.

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PROCEEDINGS

MR. PESCHEL: Good afternoon, everyone. My name is Daron Peschel. I am the Senior Vice President for the Federal Reserve Bank. And on behalf of our nation's Central Bank, I just wanted to stop by this afternoon and send a warm welcome to all of you.

We're delighted to have the SEC here, especially Chairman Jay Clayton. So welcome to Houston, Jay.

CHAIRMAN CLAYTON: Thank you, Daron.

MR. PESCHEL: Great to have you here.

You -- the Fed and the SEC have distinctly different missions. But if you get at the root of it, we are both working toward financial stability and economic strength. So for the Fed, that means monetary policy and a safe and sound banking system. With the SEC, that means protecting the investor and making sure we have fair, orderly and efficient markets.

So together, we consider them one of our great sister organizations and we're delighted to be able to provide the space for you today. And I hope you all have a great meeting. And I'll leave, so you can have your meeting.

CHAIRMAN CLAYTON: Daron, thank you. Thank you very much. Terrific to be here.

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You may do this anonymously. So if you do not feel like putting your name or any information leading us back to you, that's totally fine. I will probably wrap this up and ask you again -- encourage you to fill out the form. It gives us an idea of what we're doing right, what we're doing wrong and what we can do better, especially with the three additional roundtables that we have planned.

In terms of participation, we would love for this to be a dialogue between the SEC and you. And, really, us and investors. We are trying to figure out what is important to you, what we can do to help you and what we need to do better.

So even though you have name placards sitting in front of you, please do not be discouraged that there will be attribution to you. We do not plan on, even though there is a court reporter here taking down the discussion, we are most interested in the substance of your conversation, not who it's from. So don't feel like there will be any attribution to you at all. That is not our goal here.

Let's see, I think that's it. So again, please -- oh, yes, that's important. To help our court reporter out, there microphones between every other seat. If you could, press the red button before you

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1 speak, so it goes directly to his court reporting
 2 equipment. That would help us out and make for a much
 3 cleaner record.

4 So today, I have the privilege of introducing
 5 the Chairman of the Securities and Exchange Commission,
 6 Mr. Jay Clayton. Although Mr. Clayton's full name is
 7 much longer and formal sounding than Jay Clayton, one of
 8 his first actions upon being sworn in as Chairman was to
 9 come and address the Staff and I don't know if encourage
 10 or demand that we call him Jay. Really sort of put us
 11 on our heels. And for me, someone who still calls his
 12 mother and father sir and ma'am, something I'm not quite
 13 getting used to.

14 But don't be fooled by his informality
 15 because, underneath that, lies incredible aptitude,
 16 intellect and dedication to the Commission's mission.
 17 And I think that one of the things that Chairman Clayton
 18 brings is, with his informality, he's able to bring out
 19 ideas and comments from people that may not otherwise
 20 been able to. So hopefully he will enjoy and get the
 21 same thing.

22 Before joining the Commission, Chairman
 23 Clayton received a bachelor of science in engineering
 24 from the University of Pennsylvania, graduating summa
 25 cum laude, and then later earned his law degree from the

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1 University of Pennsylvania Law School, where he was a
 2 member of the Order of the Coif and graduated cum laude.

3 In between his years at Penn, he studied in
 4 the U.K., receiving a bachelor of arts and master of
 5 arts in economics from the University of Cambridge.

6 After law school, Chairman Clayton spent two
 7 years clerking for the Honorable Marvin Katz, District
 8 Judge for the Eastern District of Pennsylvania. In
 9 1995, he joined the law firm of Sullivan and Cromwell,
 10 where he became partner in 2001 and was a member of the
 11 firm's management committee and co-head of the firm's
 12 corporate practice. Chairman Clayton has also served as
 13 a lecturer and adjunct professor at the University of
 14 Pennsylvania Law School.

15 Since joining the Commission, Chairman Clayton
 16 has set an agenda to support the three pillars of the
 17 SEC's mission, investor protection, maintaining fair,
 18 orderly and efficient markets, and facilitation of
 19 capital formation, specifically noting that all three
 20 parts are equally critical and that harm could result if
 21 the SEC were to emphasize one over any other.

22 In addition to making sure that America's
 23 capital markets are accessible to businesses and
 24 investors alike, and seeking to achieve fairness,
 25 efficiency and resiliency in our fixed income markets,

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1 the Chairman has found time to delve into some cutting-
 2 edge issues surrounding things like distributed ledger
 3 technology, the dark web and initial coin offerings. In
 4 fact, the first time that I met the Chairman, I walked
 5 into a heated discussion he was having with an attorney
 6 in my office about the legitimacy and viability of
 7 cryptocurrencies. I was taken aback, honestly, about
 8 how much thought he had given to this space and the
 9 issues surrounding that. And what I have learned in the
 10 time working with him is that he has given every single
 11 issue that he has confronted that same dedication and
 12 thought process.

13 So it's exciting for me to be able to work
 14 with someone who is so dedicated and helpful to the
 15 mission. And it is my pleasure to introduce Chairman
 16 Jay Clayton.

17 CHAIRMAN CLAYTON: Wow, I don't know what to
 18 say. Thank you.

19 (Applause.)

20 CHAIRMAN CLAYTON: Let me -- I do want to get
 21 quickly to -- but I just want to say, Eric represents
 22 our Ft. Worth office and we have regional offices. That
 23 office is dedicated to our mission here in Texas and
 24 some surrounding states. And it's terrific to have
 25 these regional offices because many of the issues that

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1 retail investors face here are different from those that
 2 they would face in Chicago or San Francisco or New York.
 3 And Eric and his colleagues do a great job tailoring
 4 their work, you know, to the region they cover. So I
 5 want to thank them.

6 What I really want to do though is get into
 7 what we're doing. I will briefly ask both Lori Schock
 8 and Dalia Blass to introduce themselves so you know who
 9 you are dealing with. But then let's get our
 10 conversation started.

11 So, Lori, you want to go ahead?

12 MS. SCHOCK: Great. I'm Lori Schock. I'm the
 13 Director of the Office of Investor Education and
 14 Advocacy, so the kinder, gentler side of the SEC. and I
 15 just want to thank all of you for being here. Your
 16 input into our rulemaking process is fabulous and I
 17 appreciate you taking time out of your day to come and
 18 share it with us. Thank you.

19 CHAIRMAN CLAYTON: Lori, 24/7, thinks about
 20 investors. That's her job.

21 MS. BLASS: And I'm Dalia Blass. I'm the
 22 Director of the Division of Investment Management. And
 23 in short, what we do in the Division is that we regulate
 24 mutual funds, exchange-traded funds, closed-end funds,
 25 so the investment products that, you know, put a lot of

1 your money into, my division is tasked with the
2 regulation of these products and their advisers, people
3 who run them.

4 CHAIRMAN CLAYTON: And we have a few
5 colleagues in the audience. I just wanted to ask them
6 to raise their hands so you know who is here from the
7 SEC. Terrific. Thank you.

8 And with that, I'm going to very briefly talk
9 about what we've done in proposing new rules in the
10 areas of investment advisers and broker-dealers.

11 There are two channels through which retail
12 investors access investment advice in the U.S., a
13 broker-dealer or an investment adviser. The investment
14 adviser relationship is a portfolio relationship. It's
15 a relationship that goes over time and deals with your
16 investment decisions as a whole. A broker-dealer
17 relationship is a transactional-based relationship which
18 deals with individual recommendations at a moment in
19 time.

20 These two relationship models have developed
21 in our economy. There has been a shift in recent years
22 more toward an investment adviser portfolio type
23 relationship but the broker-dealer community is still
24 very significant and serves a number of our investors.

25 There has been a great deal of confusion in

1 money and what incentives they have. So that's our
2 proposal.

3 And I would love to start with a question of
4 who has had a good experience with their investment
5 adviser and why, and who has had a bad experience with
6 their investment professional and why? And then we'll
7 go to wherever you guys want to take this.

8 But if somebody is willing to start with a
9 personal experience that should inform our views, I
10 would love to hear it. And so this, when I think about
11 what to do, it's people's personal experiences that are
12 in my mind, and I know they are in everyone else's
13 minds.

14 So I'd love to kick it off that way. Anyone?
15 Yes, great.

16 INVESTOR ONE: I'm [--- Investor One ---] and I am an
17 independent financial resource consultant, so I don't
18 manage people's money but I provide education and
19 information for my clients. So I have clients who have
20 had all kinds of experiences. And before this meeting,
21 I called several of them who had bad experiences and
22 talked with them on the phone to get feedback so that I
23 could present it here today.

24 And I think probably the biggest mistake
25 people make is trusting the person with whom they're

1 the marketplace for investors about whether they are
2 dealing with a broker-dealer or whether they are dealing
3 with an investment adviser, or whether they are dealing
4 with someone who is both. First level of confusion.
5 Second level of confusion is once you figure out who
6 you're dealing with, what does that mean?

7 The rules that we have proposed are an attempt
8 to deal with both of those. Making it clear for people
9 what type of adviser they are dealing with and then,
10 secondly, what that means for them. In doing so, we
11 decided that the broker-dealer relationship, the
12 regulation that was applicable in the broker-dealer
13 relationship, needed to be enhanced. So we have raised
14 or are proposing raising the level of legal obligation
15 of broker-dealers to their clients. In short, they
16 can't put their interests ahead of their clients when
17 they make a recommendation.

18 The other thing we are proposing which is
19 fairly simple is, whatever relationship you have, you
20 have to describe the key terms to your clients in four
21 pages or less, the key financial terms. As I like to
22 put it, you understand who you are dealing with when
23 they explain to you clearly how they are making money
24 and what incentives they have. And we want investors to
25 understand how the person they're dealing with is making

1 dealing at the brokerage. And that was the feedback
2 that I got from most people, that I went in, I saw this
3 person, it was either a friend or a friend of a friend,
4 and I trusted that person. And I was a novice, I didn't
5 know what I was doing, so I lost a lot of money.

6 So I think that's probably the main thing and
7 the main reason that people do lose money, and they're
8 not educated.

9 So I really commend you for the form that
10 you've laid out here. I think it's great. My question
11 after you get the feedback on your question is, how you
12 intend to use these forms?

13 CHAIRMAN CLAYTON: Dalia?

14 MS. BLASS: That's a great question. And I
15 think we should also start by saying that this is not
16 necessarily a form. Right? It's disclosure. And what
17 we put out is an example, but we really want people to
18 help us walk through how the disclosure should look like
19 because, you know, there's a lot of modern technology as
20 far as design and content delivery and, in this day and
21 age, we should be making use of that as opposed to,
22 frankly, just handing over again, you know, pages and
23 pages of disclosure so we would love your input on that
24 as well.

25 What this is supposed to do, before you begin

1 a relationship, so for example your friends who walk
2 into a brokerage house or an investment advisory shop,
3 before you sign on the bottom line and start that
4 relationship, the investment professional is supposed to
5 give you this form, with the idea being that you
6 understand the terms of that investment professional's
7 relationship, what it will be towards you as a client.

8 If you walk for example -- I think the one
9 that's in front of you is the one that has both the
10 brokerage and the advisory model. There are lots of
11 shops that are just one or the other. Again, you will
12 be handed a form disclosure that would tell you, yes, we
13 just give investment advisory services but, by the way,
14 there is this other type of service that you should
15 consider. So at least before you sign into an account,
16 you understand what's out there.

17 They would also be required to give you this
18 form, this disclosure, in the event that you changed the
19 type of account, open a new account. So this is
20 educational. It should give you information so you can
21 make an informed decision as to the type of investment
22 professional that you think would be best suited to
23 handle your investment needs. That's the intent of this
24 disclosure.

25 Now, our question is, where does it stand with

1 true or not but that was the answer that I received.

2 And so, you know, if you are talking to the
3 adviser and you're sort of trying to balance things and
4 make sale options and stuff, if it's in the broker-
5 dealer account, then you may be slammed with a huge
6 sales charge whereas, if it's in the advisory account,
7 you're not. But in reality, investment advisers have a
8 huge base of clients and how they can personalize their
9 service to individuals I don't know it's really
10 practical.

11 CHAIRMAN CLAYTON: Well, [Investor Four], you have
12 raised a lot of issues that drove where we are. Let me
13 start with the first which is you can have a
14 relationship with somebody today where they say, I'm
15 charging you a flat fee, it's \$1,000 or it's 1 percent
16 of your money. And that's all.

17 But then when you read page 27 of your
18 agreement it says, by the way, I could put you into
19 funds where I get paid something extra for putting you
20 into those funds. So it's really not \$1,000 a year and
21 1 percent. It's \$1,000 or 1 percent plus some more.

22 And you shouldn't have to go to page 27 to
23 understand that. And I think if you don't have to go to
24 page 27 to understand that, it's less likely that's
25 going to be the kind of relationship that you have.

1 you? Does it do it? Does it not do it? What would you
2 suggest?

3 INVESTOR FOUR: Let me give you my observation.
4 I was working with an investment adviser and I don't
5 like getting mowed down with papers, and so I got the
6 agreements electronically. And, you know, you just see
7 a notice that something is in your documents, you don't
8 know what it is. And most of the time I ignore it, but
9 I went and read it. And what my observation was is they
10 were very blatantly saying, we'll make investments and
11 we may put you in a fund and it may not be the best
12 fund, the most economically beneficial to you, it may be
13 the most beneficial to us because we have a relationship
14 with them, but you don't really know what that
15 relationship is or what they're earning but, you know,
16 it was very up front in how it was approached. And I
17 think your idea of having, you know, a short four page,
18 where somebody can get a grasp of it, is really helpful.

19 And part two is, you know, some accounts may
20 be adviser accounts and some may be broker-dealer
21 accounts, and you have no idea what the commission
22 structure is on the broker-dealer accounts. And so, you
23 know, the question resolves around in my mind is what
24 benefit is having those assets to the firm? When I ask
25 the question, I'm told none. I don't know if that's

1 On commissions, we recently added a rule that
2 I'm very happy with, the mark-up/mark-down rule, to make
3 it mandatory that when you get a confirmation of your
4 transaction, you call up your broker and you say, please
5 sell this bond for me or please buy me this bond, it's
6 now much clearer -- and I've seen some examples, it's
7 only a week old -- it's now much clearer how much that
8 transaction is costing you.

9 Because I think when you know how much it's
10 costing you to get investment advice and you know how
11 much it's costing you to transact, you're going to make
12 better decisions. But also, those prices are going to
13 come down. You know, if you have to look five different
14 places to see how much something costs in total, you're
15 not going to shop around as much as if you only have to
16 look one place.

17 So that is what we are trying to do with this
18 form. I don't know, Lori, do you want to talk a little
19 bit about your experience in this area?

20 MS. SCHOCK: I think what you raised is
21 absolutely correct, and there is lot of confusion. How
22 many of you work with a broker-dealer? Just a show of
23 hands. How many of you work with an investment adviser?
24 How many of you work with a professional and you're not
25 quite sure how they're -- it's okay. It's confusing,

1 you know.

2 So knowing how your experience is and I think

3 also understanding the fees that are charged, that's --

4 everyone needs to know that information because that's

5 money that's not going to be working for you. But

6 people do this as a profession, you know, they've got to

7 get paid also. But you need to know how they're being

8 paid and what they're being paid and how much that is.

9 Do you know your financial professional is

10 paid? Okay. And that's what we're trying to help with.

11 In the back, talk to me. Talk to me.

12 INVESTOR FIFTEEN: We're probably a weird group

13 here, the three of us. We're the Houston Better

14 Business Bureau so we deal with the problem children.

15 We've only got 401(k)s, we're not even in the league of

16 the people in this room. But we don't know the answers

17 to most of the questions you just mentioned.

18 So I guess, tuck away our stuff for later.

19 Because what we're going to be asking you is what can we

20 do, eyes and ears, to help you? You know, Farol Parco

21 in Ft. Worth is our contact. We send him stuff, he

22 sends stuff back to us.

23 I will tell you, a lot of it's energy related,

24 you know, bad oil and gas stuff, and it's harder to

25 find, because it looks good. They have nice offices,

1 they got -- you know, beautiful everything. And two

2 years down the road, you find out it was a pyramid

3 scheme. So I didn't really answer your question --

4 CHAIRMAN CLAYTON: No, no, no, but you -- I

5 wanted to come back to this disclosure form. Because

6 this disclosure form has a couple of purposes. The

7 first, we just talked about, trying to get all the key

8 terms on the table up front. So the kind of

9 conversation you'd expect to have with somebody who

10 you're putting your trust in and don't want to put

11 misplaced trust in, you know, how are you getting paid

12 and what are you doing for me?

13 But it's more than that. If somebody doesn't

14 give you the form, we can go after them. If somebody is

15 making money that's not disclosed on the form, we can go

16 after them. And that is very important.

17 It's difficult now when there's 27 pages of

18 disclosure and back in the back there are some words

19 that say, oh, by the way, we may get paid some more.

20 Or, oh, by the way, we may do this. If it's not in

21 there, and they're making money doing it, we can get

22 them to stop, and that's part of what we're doing.

23 So are we going to solve every charlatan or

24 not? Probably not. But is this going to make it easier

25 for us to shut them down? Yes. And that's another

1 objective of this simple form.

2 INVESTOR FIFTEEN: Another suggestion is, on the

3 issues that you're bringing up that you want to have

4 them focus on is maybe have them be initialed off on.

5 Where you can electronically just sort of blanketly sign

6 things very easily, if you want to draw somebody's

7 attention, make it an initial point.

8 CHAIRMAN CLAYTON: That's a great point,

9 that's a great point.

10 INVESTOR ONE: Would these be -- the forms be

11 available from your website someplace so that people

12 could look at these before they even go in to an

13 investment company?

14 CHAIRMAN CLAYTON: So it's a great --

15 MS. BLASS: That's a really good question.

16 The form you have in front of you, we call it a mockup.

17 So the different firms will personalize these forms.

18 So, you know, the only thing that's going to

19 be on our website is the final mockup, if you will, when

20 the rule is adopted. But every single firm is going to

21 -- there's language in there they would have to give

22 you. But they would also be able to tweak it to better

23 explain their business model. So it is not going to be

24 an across-the-board -- although, the key terms, if you

25 will, they really should not deviate that much firm to

1 firm.

2 INVESTOR ONE: But for organizations who are

3 involved in financial literacy, I mean, could we tell

4 our people, this is out there, be sure to look at it, in

5 our classes that we're teaching?

6 MS. SCHOCK: Absolutely. And I hope that you

7 go to investor.gov as another resource. It's a place

8 where you can do a background check on your financial

9 professional. And to the point in the back that if

10 they're doing business with you, they need to be

11 registered with us. And if they're not, if they're not

12 in that database, don't turn over any money until you

13 know why.

14 Now, they may be an insurance agent or another

15 -- but generally speaking, in the United States, they

16 should be in our database. And these forms will be

17 available -- you know, you can use the mockup as a good

18 place to have the questions to ask. And get the answers

19 ahead of time, before starting a relationship. The

20 professional owes that to you. Okay? And if you don't

21 get the answers that you want, maybe that's not the

22 person to do business with.

23 MS. BLASS: Just on the point that Lori made

24 about going to investor.gov to check out the investment

25 professional and see, you know, their qualifications,

1 whatnot, I did a similar outreach event a few weeks
2 back. And when we introduced the concept, somebody from
3 the audience actually just there and then, went on the
4 website, put the name of the person, and found out that
5 person had been disbarred. It is a great tool to use
6 when you are -- before you hire an investment
7 professional. It's there, it's free, it's easy.

8 He was just like, wow, like this was just so
9 easy to do. It's right there, on your phone, on your
10 computer, very easy to access. So just a real-life
11 story of it happening as we talked about it.

12 INVESTOR NINE: My name is [Investor 9]
13 and this is very timely for me. I am looking for a new adviser.
14 And a couple of points I'd like to make.

15 First, with any industry, they are very well
16 -- they are very aware of the old adage, if you can't
17 dazzle them with brilliance, baffle them with -- I'll
18 leave that blank, let you fill in the blank.

19 I went to a major advisory firm's website and
20 was looking at their Form ADV. That form was three
21 years old. When I go to the SEC and look at the form,
22 it is a little over two months old.

23 I think it is -- I don't know if it was
24 intentional. I don't know what differences there were.
25 But it is, in my opinion, deceptive to have old

1 when you look at them, initially, it looks like just the
2 same one that came in, that you saw last year or just a
3 few months ago. It is very difficult for you to tell
4 through all these different various forms what has
5 changed, what is the significance of this, and whether
6 or not you accept this change. Not -- just because
7 you've received it does not -- should not indicate
8 acceptance.

9 CHAIRMAN CLAYTON: Understood. Understood.
10 [Investor Eighteen], did you have --

11 INVESTOR EIGHTEEN: Yes. I think that one of the
12 biggest things, even before we talk about forms or
13 anything that each of the ladies on either side of you
14 discuss is, check out your investor first. That should
15 be the top thing on the form. Have you contacted
16 investor.gov or have you done FINRA Brokercheck? Have
17 you done -- these are the things that should be alerted
18 to first, before we talk about forms, if you ask me,
19 before the conversation even begins.

20 CHAIRMAN CLAYTON: I could not agree more. I
21 say to people, if you are not dealing with a registered
22 broker-dealer or investment adviser, your risks have
23 gone up substantially. You'd be better off picking an
24 investment adviser -- a registered investment adviser
25 with a dart(sic) than you are taking virtually anybody who is

1 information posted on your website and know it.

2 The form sounds very great. One problem we
3 have though is, we get multiple versions or updates to
4 those forms and we have no idea what was changed.

5 Any forms that go to the consumer, there needs
6 to be either change bars or some kind of note to
7 indicate what was changed, what was inserted,
8 potentially what was deleted, or that there was a
9 deletion.

10 Thank you.

11 CHAIRMAN CLAYTON: That's a great point. So
12 if, for example, an adviser starts collecting fees from
13 a provider to that adviser -- you hire an investment
14 adviser, the investment adviser charges you a 1 percent
15 fee, but then the investment adviser changes their
16 business model and starts collecting fees from the
17 mutual fund company they use, they should send you --
18 this has a question mark at the end -- they should send
19 you your updated form and highlight that that has been
20 changed? That's what you're saying, that's an example
21 of what you're saying?

22 INVESTOR NINE: Exactly. And as more of us go
23 paperless, this other gentleman alluded to a fact that
24 we just get a notice in our mailbox at the brokerage
25 that a document has been archived or sent to you. And

1 not registered. That's unfortunately our all-too-
2 frequent experience.

3 INVESTOR ONE: If there is a lawsuit against
4 someone, what do you do if they have already registered
5 with you and then they have lawsuits against them?

6 CHAIRMAN CLAYTON: We publicize it.

7 INVESTOR ONE: Okay.

8 CHAIRMAN CLAYTON: So our database --

9 INVESTOR ONE: Because on one of my clients just
10 recently, you know, she had lost all this money and then
11 found out there were lawsuits against the person who
12 sold them.

13 CHAIRMAN CLAYTON: As [Investor Eighteen] pointed out,
14 investor.gov and Brokercheck, it's very quick to find
15 out. And we've actually added a new database for people
16 who are no longer registered but may be out there
17 peddling investment schemes. It's called SALI. Because
18 we want people to know about these unregistered
19 recidivists. So we just added this recently.

20 INVESTOR TWO: Yes, Chairman Clayton, I want to
21 thank you and your team for coming down here. I think
22 this is timely.

23 Though I don't personally have any bad
24 experiences, I am a knowledgeable investor, I know
25 plenty of people who have bad experiences. And to me, I

1 think just the fact that the industry has used the term
2 "fee-based" as opposed to "fee-only," and if you are most
3 consumers, they couldn't tell you the difference.
4 There's a huge difference. Fee-based could be
5 commission, and you don't know which is which.

6 I do applaud and encourage you to -- me, I
7 don't have an issue with people getting paid
8 commissions. I just think it should be plainly
9 disclosed what commission they are receiving and their
10 firm is receiving, even on products that don't fall
11 within the purview of the Securities and Exchange
12 Commission; i.e., certain insurance products. They
13 advertise on the radio all the time. And, you know, let
14 the consumer be informed what they're paying and they
15 can decide whether there's sufficient value.

16 And the other aspect which does fall under the
17 SEC are private placements. A lot of advisers will
18 promote these, and it's vetted somewhere. But I can
19 assure you, most investors have no idea what they're
20 buying and what they're paying. And I think the key is
21 not just disclosure but transparency. So I applaud your
22 efforts. I hope to see some tangible results.

23 I think if people understand what they're
24 paying, I think they're going to make better decisions.

25 CHAIRMAN CLAYTON: We agree with you. And

1 INVESTOR FIFTEEN: I keep going with an extended
2 Houston welcome here, so take this with grace.

3 By the way, the form sounds great, what you're
4 doing with it. But help me out here, because I don't
5 want to politicize this. But the administration is
6 turning regulations back pretty strongly, and here we
7 are talking about one, which is kind of incredible. I
8 just want to make sure there's not like another shoe to
9 drop, like okay you do the form and, by the way, there's
10 forced arbitration or something. In other words, why
11 your agency, why now, in the midst of everything that's
12 going on regulatory -- I use the word reform?

13 CHAIRMAN CLAYTON: I think this is regulatory
14 reform and let me explain why. In this space right now,
15 there are no less than seven regulators, each of which
16 has a different standard. And what we did in the name
17 of -- was said, what do consumers expect in this space?
18 And let's write the regulation they would expect. And
19 let's hope that those other six regulators decide, that
20 makes sense and we're going to have, instead of a lot of
21 confusion, we're going to have a pretty harmonious
22 standard.

23 So, yeah, am I proposing to raise the bar in
24 terms of both disclosure and liability? Yes. But if
25 that's something -- some people may say that's a

1 can I just, for the people in the audience, explain on
2 the private placement side? Someone comes to you and
3 says, stocks and bonds that, you know, you've heard of
4 the companies or they're quoted on the exchange, this is
5 an investment. A private placement is probably
6 something you haven't heard of, it's a new idea. It's
7 not something where the investment is registered with
8 us.

9 And what can often happen, unfortunately, in
10 those investments is the person selling you the
11 investment is making a substantial amount of money just
12 for making the sale. And if you're putting \$100 in and
13 that person is making 10 percent for that sale, well 10
14 percent of your money just went out the window in terms
15 of putting it to work. And if someone told you, well,
16 hey, you know, you're putting in 100 but you're actually
17 only really putting \$90 to work, you'd probably think
18 twice about making the investment. When if you're
19 putting \$100 to work in the market, you're probably
20 putting \$99.25 to work. That's a big difference and
21 it's something -- it's another area that we just want to
22 bring clarity to, in terms of how much money falls out
23 of the system and into the pockets of the people you're
24 dealing with.

25 I'm sorry, go ahead, [Investor Fifteen].

1 regulatory price. I don't think so, because it's what
2 people would expect. But if what I get in return for
3 that is harmony, that's eliminating a lot of red tape.
4 And so I think that's a pretty good deal.

5 INVESTOR ONE: How does what you're doing differ
6 from what Department of Labor was doing? Because that,
7 too, is regulatory. So I'm trying to figure out the
8 difference between you and them.

9 CHAIRMAN CLAYTON: Well, so I think the
10 differences between us are, if you can call them
11 differences, are a couple. First is, the Department of
12 Labor rule going to the harmony question would have only
13 covered a portion of the relationships. So we still had
14 to cover the others. That doesn't make a lot of sense
15 to me.

16 We should have a standard that covers all
17 retail relationships regarding investment advice. Lori
18 mentioned one, which is insurance, where we don't cover.
19 But I'm hopeful that our sister regulators in the
20 insurance area will come toward us.

21 In terms of the actual substantive standard
22 that we're proposing, I don't see much difference at
23 all. Except -- except our proposal does respect the
24 difference between the broker-dealer model, which is a
25 transaction-based model, and the investment adviser

1 model, which is a more portfolio-based model. So we've
2 tried to put the same fiduciary principle -- I, as a
3 professional, can't put my interests ahead of yours --
4 in both places, but not make the relationships exactly
5 the same. Because we believe there is room for a
6 broker-dealer relationship and an investment adviser
7 relationship.

8 Have I been -- there was a lot of jargon in
9 there. I'm trying not to -- was that clear? If it
10 wasn't -- okay.

11 INVESTOR THREE: So I'm glad to hear that you
12 have an investing -- investor education and advocacy
13 team, because the form -- simple forms that provide
14 clarity are good. And in my experience, when I was
15 starting to look for a broker-dealer, I kept running
16 into investment advisers and they either couldn't or
17 would not explain how they made their money. And so I
18 just avoided them. You know, that was my experience.

19 The fact that we need this kind of thing, I
20 think, points out something deeper and more important,
21 which is a shocking amount of people that are successful
22 in whatever chosen profession they have, have
23 absolutely, one, no interest in how to manage their
24 money and no understanding. And it's breathtaking to
25 me, and I saw it a lot with people I worked with,

1 because I worked for a large corporation, and these
2 people were well paid. And when it came time to do
3 something with their money, they, one, didn't want to
4 spend any time worrying about it and usually went to
5 somebody that somebody else had found and was available.
6 And they really had no clue what it was costing them,
7 what they were giving up by putting their money with
8 these people, and frankly showed no interest in figuring
9 it out.

10 So, with that being said, from my viewpoint,
11 there is a huge opportunity or problem or however you
12 want to look at it, with both youth and adults, in
13 getting them to a place where they even know to ask the
14 right questions. And I don't know how -- I thought
15 about this a lot, because I talk to people about these
16 things. And I don't know how to help them help
17 themselves.

18 But to me, that's a big thing. This addresses
19 kind of the high level, you know, here's what it's going
20 to cost you. But how do we get to the bigger issue?

21 MS. SCHOCK: And, [Investor Three], thank you for your
22 comments because we know what happens when people make a
23 bad decision, you know, with their money, the worst
24 being that they end up in the hands of a fraudster.
25 Okay? The second is when they pay excessive fees

1 because, again, that money is not working for them and
2 they just don't know how much they're doing and how much
3 they're paying for that.

4 We put out a brochure called Ask Questions,
5 and it just lays out questions to ask your financial
6 professional. And I applaud your -- you know, the fact
7 that the person that you interviewed with, that they did
8 not disclose how they were being paid, you walked out
9 the door, you voted with your feet. And that's -- we
10 need people to do that and to be actively engaged.

11 And I know, some people are self-directed.
12 They want to get into their investing. They spend a lot
13 of time doing their homework, they do -- they're doing
14 this on their own. A lot of folks, though, just don't
15 want to deal with it. And I'm a teacher during the day
16 and I don't want to go learn something at night, you
17 know. And so that's why this relationship with your
18 financial professional is so important and it's
19 necessary to have a good understanding of, you know, the
20 whole -- the whole picture, if you will, how they're
21 being paid, how they're working for you, what they're
22 doing. And so that's what we're trying to help with,
23 you know, this rulemaking and other rulemakings that the
24 Commission has been involved with.

25 INVESTOR THREE: So again, for me, how do we

1 educate young people so that they start thinking about
2 this early, so that they know? I mean, to me, it's a
3 huge gap. I don't think we're setting our youngsters up
4 for success in one of the wealthiest countries in the
5 world. And, you know, that's disturbing to me.

6 CHAIRMAN CLAYTON: So I could not agree more
7 with you. I do roundtables for AARP to basically answer
8 questions that people have. And what I start those
9 roundtables with is a request that the people on the
10 line educate their children and their grandchildren
11 about what they are going through and how they would be
12 much better off today, not matter how well they've done,
13 if they had understood these things earlier.

14 It's not my lane, I'm not the Secretary of
15 Education. But the fact that we have shifted from an
16 employer- and government-based retirement system to an
17 employee-responsible retirement system but haven't had
18 early education around this is something we should
19 address.

20 INVESTOR THREE: Big gap.

21 CHAIRMAN CLAYTON: You know, so our market has
22 changed a lot. The individual responsibility for
23 retirement is very high. We should be educating people
24 about that fact and what they can do to prepare for it.
25 There's no doubt about it.

1 MS. BLASS: And also add to the fact that,
 2 with the younger generations, they don't interact face
 3 to face with anybody anymore.
 4 (Laughter.)
 5 MS. BLASS: I've got teenagers. They text me
 6 even if I'm in the same room.
 7 And increasingly, if you're going to talk
 8 about anything they buy or sell, including investment
 9 advice, they're going to do it electronically and it's
 10 faceless.
 11 CHAIRMAN CLAYTON: Let me give you a stat
 12 that's an amazing stat that I wish every child in
 13 America knew. We have somewhere between four and four
 14 and a quarter percent of the world's population. We
 15 have in this country somewhere between 40 and 50 percent
 16 of the world's market capitalization. It's actually an
 17 amazing thing.
 18 But we need to keep that investment and
 19 economic engine going if the people coming out of high
 20 school today are going to have the same quality of life
 21 in retirement that people retiring today have. And I
 22 wish they understood that.
 23 INVESTOR THREE: So the last thing along those
 24 lines is, you know, if I understand correctly, about 50
 25 percent of the people in this country haven't even saved

1 enough money to go to somebody to talk about this.
 2 CHAIRMAN CLAYTON: You have it exactly right.
 3 It's another interesting stat. Households'
 4 investment for retirement is approaching 50 percent.
 5 But that still means that there's 50 percent of the
 6 households that are not.
 7 INVESTOR FIVE: So I think there is a lot of
 8 information out there in terms of books for self-
 9 education and self-doers. And putting this
 10 documentation(sic) -- kind of economic references to get
 11 additional information -- education, through your
 12 community schools or universities -- I think it would be
 13 very helpful.
 14 Because I think one of the things is just
 15 being able to be informed, as there is a lot of other
 16 sources for other products, and choices. This is just
 17 one of the most important ones, as was mentioned
 18 earlier.
 19 MS. BLASS: Can I ask a couple questions about
 20 the form? The length. You know, you mentioned getting
 21 electronically, you know, a whole bunch of stuff from
 22 your investment professional and you had to dig through
 23 layers and layers to get to, you know, conflicts. We're
 24 proposing about four pages' worth of information. How
 25 does -- what do you think about that? Readable? Too

1 much? Too little? Just right?
 2 Yes, sir.
 3 INVESTOR NINETEEN: So what's being left out when
 4 you've got four pages? Will you cram this thing down
 5 into four pages? The consent form for Google is way,
 6 way more than four pages. What's being left out?
 7 MS. BLASS: That's a good question.
 8 CHAIRMAN CLAYTON: That, you know, not -- what
 9 I don't want left out, and I want to hear if we are
 10 leaving this out, is what's motivating your financial
 11 professional. What I want in there are the financial
 12 and other terms that motivate your -- you know, when the
 13 person is thinking, what am I trying to sell you? [Investor 19],
 14 what's in it for me when I'm trying to sell? I want
 15 those terms to be there.
 16 What's not in there that's in these long
 17 forms? Disclosure like, there are many options
 18 available to you. There are equities and bonds and we
 19 might -- those types of portfolio allocation questions
 20 are not in the form. It's really about how your
 21 professional gets paid and what other potential
 22 conflicts or motivations they have.
 23 Because I think until you understand those,
 24 the rest of that stuff is -- it's secondary. That was
 25 our approach.

1 I don't know, does that make sense to you?
 2 INVESTOR NINETEEN: Well, I think of the insurance,
 3 bond life insurance policy, where the salesman gets a
 4 big cut right off the top at the beginning and that's
 5 very rarely disclosed.
 6 CHAIRMAN CLAYTON: It's not my space. But if
 7 a salesman in this space is getting a big cut, you're
 8 putting \$1,000 to work and, you know, \$75 is coming off
 9 the top, you should know that. It's hard to take the
 10 other side of that, isn't it?
 11 INVESTOR ONE: I find there is huge confusion
 12 between people who sell investment products and those
 13 through the insurance companies. Is there any way that
 14 you can put some statement on your form that this does
 15 not apply to anyone selling insurance products? There
 16 is huge confusion there, and I see some of the biggest
 17 losses and inappropriate investments sold through
 18 insurance companies. It's huge. It is huge.
 19 CHAIRMAN CLAYTON: So you're not the first
 20 person who has told me that. And --
 21 INVESTOR ONE: Can you put something on here?
 22 CHAIRMAN CLAYTON: We are trying to make clear
 23 who you are dealing with. It is my -- when I talked
 24 about the different regulators, the seven different
 25 regulators, one of the ones I was thinking about was the

1 insurance regulatory industry, which is largely a state
 2 industry.
 3 I am hoping that they will follow our lead in
 4 this area.
 5 INVESTOR ONE: People don't know the difference.
 6 CHAIRMAN CLAYTON: I know, and you can have --
 7 well, people don't know the difference. And you can
 8 have a very similar product that on the one hand is an
 9 insurance product and on the other hand is an investment
 10 product.
 11 INVESTOR ONE: Right. So how can you do your job
 12 without pointing that out?
 13 CHAIRMAN CLAYTON: Well, we're working on it.
 14 That's why we're here.
 15 INVESTOR ONE: If you are there for investor
 16 protection --
 17 MS. BLASS: This gentleman in the back.
 18 INVESTOR TWENTY-ONE: So my name is [Investor 21] and I
 19 probably am one of the youngest persons here. So in terms of the
 20 awareness of those issues here, I will share with you my
 21 experience and people surrounding me.
 22 I joined the industry and I started my career
 23 three years ago. And in our agency, we have an
 24 acknowledgement stating compensation into the individual
 25 responsible retirement. But to be responsible for our

1 retirement, I guess, it's probably a good idea to start
 2 from now or even right after school, when you start to
 3 make money. But from my experience, my coworkers, when
 4 they started out the job, when they try to deal with
 5 those things, which one to choose, should I invest by
 6 myself or should I believe in some investors, my
 7 experience is people around me say, I don't care. But
 8 from my opinion, it's like, it's your money and you are
 9 responsible for your retirement when you are old, you
 10 don't have many other income.
 11 So back to this, what's your comments about
 12 what can do to improve the awareness of those issues,
 13 like how the advisers, mutual fund managers make money,
 14 where they have conflicts with the -- with the clients,
 15 and what questions we should ask. Not like just say we
 16 have forms there, but by proactively promoting the
 17 awareness so that the job -- the young generation can be
 18 more aware and make all right decisions?
 19 CHAIRMAN CLAYTON: Let me note one area where
 20 we've been successful. I don't want to call it
 21 successful. Where we're starting to have success.
 22 Teachers.
 23 We found that teachers were not well informed
 24 about these issues and that they were -- they're people
 25 who think about the long term. So they were actually

1 putting money away on a regular basis for their
 2 retirement, but they were paying way more for it than
 3 they should have.
 4 And we've had a focus in that area and I'm
 5 very happy to say it's gotten traction. And we want to
 6 keep doing that in other areas. And if you have ideas
 7 for affinity groups where we can appeal to them and
 8 educate them on how to get started.
 9 But Lori knows the -- there are a number of
 10 teacher groups where for every, you know -- a good
 11 return, a great return is 10 percent a year. There were
 12 a number of teacher groups where they were losing 2 and
 13 3 percent a year to fees. Every year. Because they
 14 weren't asking the right questions.
 15 You know, so my view is that, like you and
 16 your friends, the more you can get affinity groups
 17 together, the better chance you have to have an
 18 educational impact. So we're doing work with teachers.
 19 I would like to expand that to other places.
 20 MS. BLASS: Just one other thing I want to
 21 add, because it was a theme several of you brought up
 22 is, what do I ask? Making sure you're asking questions,
 23 making sure that you're taking sort of the reins of your
 24 investment health and retirement future.
 25 You know, Lori mentioned, the Ask Questions

1 that we have on investor.gov. That's also part of this
 2 form.
 3 You know, I don't know if we were successful
 4 in the questions that we put in there. But part of this
 5 form is to get the investor used to the concept that
 6 they should -- it's not just about getting a piece of
 7 paper or disclosure and reading it. It's about the fact
 8 that you have to have a conversation, an interactive
 9 discussion with your investment professional. And to
 10 push them on giving you more information.
 11 So, [Investor 19], to your question about
 12 what's missing, that's a question that you can ask. The
 13 form is sort of broad brush, in terms of "the general
 14 fees are." One of the questions is, well, walk me
 15 through it. What does it mean for my money, for my
 16 account. Tell me what it costs to me.
 17 So to your point about the idea that we need,
 18 you know, sort of education, financial literacy, part of
 19 this form, we hope, is that we encourage that.
 20 What did you guys think about the questions
 21 that we included in the form? Does it get to any useful
 22 questions or is it too high level?
 23 INVESTOR TWENTY-ONE: So the questions for me are very,
 24 very good. As Jay said, the success with the teachers
 25 is good. But can we promote something like, when people

1 get employed in their first half year or so, either
 2 employer or the financial adviser the employer hires can
 3 sort of give a sort of a --
 4 CHAIRMAN CLAYTON: So in my sort of, you know,
 5 thinking down the road, let me say this. In government,
 6 you can't let the best be the enemy of the good. So one
 7 of the things we're trying to do here is do something
 8 good, and then we'll do the next thing.
 9 If I tried to do everything that I thought was
 10 a good idea, I wouldn't get any of it done.
 11 But a second good idea is when you start with
 12 your 401(k), to get the same kind of disclosure. So
 13 that you know when you put \$100 a month into your
 14 410(k), how much of that money is actually going to work
 15 in the marketplace.
 16 INVESTOR NINE: I have a question on the
 17 mechanics of the form. How are you going to be able to put fee
 18 information into that form to a degree that it has any
 19 meaning? For example, those of us who have brokerage
 20 agreements with large brokerages, they may have hundreds
 21 of different fund families that each have their own
 22 individual fees. And are all I can see, visualize, is
 23 seeing, "fund families may have additional fees,"
 24 something very general. I don't know how that really
 25 affects me.

1 I can only relate it to your phone bill. How
 2 many of us have ever looked at your phone bill, looked
 3 at all those incidental charges? 911 equalization fee,
 4 rural electrification fee, things like that.
 5 Compare that to whenever you buy a house.
 6 Prior to your closing, you will have a closing statement
 7 that clearly identifies every dollar and where it is
 8 going to.
 9 Why shouldn't brokerages and advisory fees
 10 have the ability to take a transaction, one account, and
 11 outline these are going to be the fees that you will
 12 either incur at the time of closing the transaction,
 13 ongoing, or at sale? Why is it too difficult to do
 14 something like that? And it's not something you can do
 15 on a four-page document.
 16 CHAIRMAN CLAYTON: Well, we are looking at
 17 that issue. And let me give you a hypothetical. You
 18 have an investment adviser who you pay 1 percent a year
 19 to, and then that investment adviser puts money into
 20 mutual funds. If the investment adviser gets fees back
 21 from those mutual funds, that can be pretty clearly
 22 disclosed. They get another 100 bucks. You should know
 23 that you're paying 1,100.
 24 Those mutual funds have expense ratios. Part
 25 of those expense ratios is a management fee paid to

1 someone else. Your investment adviser is probably not
 2 making money there. Hopefully, they're choosing that
 3 adviser based on their performance. Let me tweak that a
 4 little bit. They're actually affiliated with that
 5 mutual fund company. And so their company is making
 6 some money on your money going into those mutual funds.
 7 You should know that.
 8 Now, quantifying that exact amount is not
 9 easy. But getting you a feel for how much more is in it
 10 for them is something that you should know. That's how
 11 I look at it.
 12 MS. BLASS: I think this form gets to sort of
 13 the -- there are two levels, right? So the form you
 14 have in front of you is an educational piece that tells
 15 you the difference in the fee structure and the
 16 conflicts between an adviser and a broker, so you can
 17 make a selection. I want this side of the column and
 18 not that side of the column, right?
 19 Once you make that selection, then it goes to
 20 your questions. Okay, fine, I have X amount to invest.
 21 Now, how is this going to play out in terms of the fees,
 22 expenses, my bottom line?
 23 But as an initial matter, we are finding
 24 people that don't really appreciate that there is a
 25 significant difference in the fee structure and one may

1 suit you better than another, depending on your
 2 investment goals. So this form gets to that level.
 3 But we do ask a lot of questions about how to
 4 get to the second level. So we definitely appreciate
 5 that it's something that's important to all investors,
 6 important to me.
 7 CHAIRMAN CLAYTON: And I want to go back to
 8 what we've done just last week with mark-up/mark-down
 9 disclosure on when you buy bonds. It used to be you
 10 couldn't tell how much money your broker was making when
 11 selling you the bonds. You can now tell. Which is a
 12 big difference.
 13 You're shaking your head.
 14 INVESTOR TWO: That's huge. I've dealt with
 15 people who didn't know and redo your bond portfolio and
 16 got mark-downs and mark-ups, so it was a double trade.
 17 I love the idea of the questionnaires. But
 18 I've also seen a lot of advisers are pretty adept at
 19 answering a question verbally but not putting it in
 20 writing. And to your point earlier, the SEC can enforce
 21 documentation. So maybe some thought in terms of not
 22 just a disclosure but maybe some of these key questions
 23 that they have to provide in writing. Because the
 24 fiduciary rule, the DOL people are starting to ask that
 25 question, and I've heard the stories of how they dance

1 around it and not really addressing the question.
 2 So if there was any way to try to say, hey,
 3 these are things they need to disclose in writing,
 4 great.
 5 CHAIRMAN CLAYTON: And that's what the form
 6 is. If you're getting money back for putting my money
 7 into a particular product, you have to disclose it. And
 8 if you don't, you violated the new rule.
 9 INVESTOR FIVE: In creating this form, you are
 10 getting a lot of feedback from users and consumers.
 11 Have you presented this form or to what extent are you
 12 seeking input from the professionals about the content
 13 of the form? And what kind of feedback are you getting?
 14 Pushback? Can you comment on that, please?
 15 CHAIRMAN CLAYTON: So here is -- we will get
 16 lots of feedback from the professionals. They know how
 17 to give us feedback.
 18 (Laughter.)
 19 CHAIRMAN CLAYTON: They're not shy and they're
 20 good at it.
 21 What I want to make sure is that the regional
 22 investment advisers and broker-dealers don't think that
 23 this is going to put them out of business -- I don't think it's
 24 going to. I don't think it's going to put them out of
 25 business. I think they're going to be just fine with

1 it. I haven't heard a lot of complaints. But that
 2 would be my -- that would be my worry.
 3 Because people need individual investment
 4 advice. They need to talk to somebody who's registered,
 5 they need to talk to somebody who is going to give them
 6 the form.
 7 I'm hoping that we've struck the right balance
 8 here and that -- here's what's really in my mind. Are
 9 we requiring what the good people were doing already?
 10 If you're requiring what the good people were doing
 11 already, it can't be that costly to do it.
 12 INVESTOR FIFTEEN: It's not a panacea for total
 13 success, but at the end of the document, maybe
 14 signatures. Thank you for my rights, I have read them.
 15 And in a partnership relationship, both of them.
 16 Because when people sign their name, okay, I've got to
 17 take this a little more seriously. And maybe even a
 18 cool-off period.
 19 CHAIRMAN CLAYTON: You mentioned the same
 20 thing. How do you acknowledge that you've actually --
 21 that both sides have done what they're supposed to do?
 22 INVESTOR FOUR: I've got another question. I
 23 mean, when somebody gives advice, do they say that they
 24 come from the fiduciary duty of understanding what
 25 they're recommending to the person that they buy? Does

1 that make sense.
 2 CHAIRMAN CLAYTON: Yeah, so putting aside the
 3 form, on the investment adviser side, there is a general
 4 fiduciary duty of care that applies to investment
 5 advisers. It's kind of a common law duty of care.
 6 We have, in our proposal, specified the
 7 process that a broker-dealer needs to go through to get
 8 to the recommendation. What procedures they need to go
 9 through internally to get to a point where it makes
 10 sense to recommend a particular product or not.
 11 INVESTOR FOUR: Because I've noticed that people
 12 will pitch a product, I think merely because the company
 13 tells them to, and they really don't understand what
 14 they're recommending. It just sounds good, and if you
 15 want to talk to the people that are doing it directly,
 16 you know, you can talk to them. But they don't really
 17 -- they don't understand it.
 18 CHAIRMAN CLAYTON: So let's just talk about a
 19 specific product. There are these products called
 20 structured notes. And what a structured note may be is
 21 you give me \$100, I'm going to tell you the minimum I'm
 22 going to give you back is \$95 and the maximum I'm going
 23 to give you back is 50 percent of the increase in the
 24 S&P 500. Now, that's something that an investment
 25 adviser ought to be able to explain if they're

1 recommending.
 2 Let's make that a little bit more elaborate.
 3 Let's say that the deal is the least you're going to get
 4 back is \$30. You might lose 70. But I'm going to give
 5 you three times the increase in the S&P 500. My view
 6 is, that's a difficult product to explain. Because a
 7 good question for you to ask me is how much money am I
 8 making selling you that product? And the answer is, it
 9 could be a lot.
 10 And my point in this is, I'm agreeing with
 11 you. You can't have this kind of relationship where the
 12 person offering you the product doesn't understand how
 13 much money is being made in offering you the product.
 14 Am I being clear?
 15 INVESTOR FOUR: You're being clear from the
 16 compensation standpoint. And I'm coming from the
 17 standpoint of if an investor gets a pitch that this is a
 18 product that's, you know, a vehicle to make an
 19 investment in and the investment adviser is pitching it
 20 but they don't understand the guts of how it operates,
 21 but their brokerage firm or whatever is probably putting
 22 it out so they're hawking it.
 23 CHAIRMAN CLAYTON: I agree that that's a
 24 problem.
 25 INVESTOR FOUR: You know, is there a fiduciary

1 -- you know, they're supposed to have a fiduciary
 2 obligation and risk that they are undertaking by selling
 3 that product that the investor can rely upon.
 4 CHAIRMAN CLAYTON: The short answer is, our
 5 proposal, yes. You're not allowed to sell something you
 6 can't explain.
 7 But I want to go more to this point. I don't
 8 know who can explain that second product I talked about.
 9 There are certain products that, to me, are so
 10 elaborate, it's a lot to expect a retail investor or
 11 their adviser to be able to reach a meeting of the
 12 minds.
 13 But to your specific question, yes, you have
 14 to understand the product to sell it.
 15 INVESTOR ONE: But on your form, you said, under
 16 broker-dealer, we must act in your best interest. How
 17 can they act in their best interest if they don't even
 18 know what they're selling them?
 19 CHAIRMAN CLAYTON: We agree, they can't.
 20 INVESTOR ONE: I mean, and so there are some
 21 little conflicts in your forms here.
 22 CHAIRMAN CLAYTON: No, just to be clear, I
 23 wasn't -- if you can't explain it, you can't sell it.
 24 MS. BLASS: So the form explains the fees, the
 25 services offered, the conflicts.

1 INVESTOR ONE: Okay.
 2 MS. BLASS: But beyond the form, okay, beyond
 3 this form -- this was a 1,000-page proposal, by the way.
 4 It's a huge package, and we don't expect you to read it
 5 but you're welcome to. I would love the feedback.
 6 There are two -- there are three pieces to
 7 this package that the Commission put out. One of it is
 8 the standard of conduct for broker-dealers. And as part
 9 of that, they have to look at the products and make sure
 10 any product first of all, before they sell it to a
 11 retail investor, it has to be reasonable for some. Like
 12 it has to be a product that is suitable for the retail
 13 space.
 14 Once they go through that check, then they
 15 have to look at you, personally look at you as an
 16 investor, look at your investment profile, look at your
 17 investment needs and goals, and make sure that it's in
 18 your best interest. So that's beyond this form.
 19 This form just explains to you their
 20 relationships. But they have to go through that.
 21 On the investment adviser side, there is a
 22 similar idea, where they do have to, as part of their
 23 duty of care, they do have to look at the product and
 24 make sure that they explain it to you and get your
 25 informed consent. Right? Informed consent. So if they

1 can't explain it to you, it's kind of hard for them to
 2 be getting your informed consent.
 3 So this form just explains a certain high
 4 level. But then part of the package is we do explain
 5 how they are supposed to conduct themselves vis-a-vis
 6 you the retail investor.
 7 CHAIRMAN CLAYTON: We're going to go one more
 8 -- well, if we do them quickly, and then we're going to
 9 wrap up.
 10 INVESTOR TWO: This will be quick. The complexity
 11 of some of these structures is hard for about anybody to
 12 explain. But I can assure you these advisers all know
 13 how much they're making. They all know that.
 14 (Laughter.)
 15 CHAIRMAN CLAYTON: Yeah, yeah.
 16 [Investor Three], what did you have?
 17 INVESTOR THREE: So I wanted to share a story
 18 about my friend to reinforce what she had said about
 19 insurance products, and this was about an annuity, okay?
 20 This is a wealthy individual. He and his wife have a
 21 net worth north of \$5 million. They've worked very hard
 22 for their money. He had about 30 or 40 percent of that
 23 money with either a broker-dealer or an investment
 24 adviser, I don't know which. And, you know, I had
 25 talked to him about investments for years.

1 Last year, he woke up for some reason and
 2 realized that he had about 40 percent of that 30 or 40
 3 percent of his money in an annuity that was costing him
 4 4 percent a year, 4 percent.
 5 Now, he had entered that contract -- you know,
 6 he's an intelligent, educated guy. He's an engineer.
 7 But he's not a money guy. His wife is the one that made
 8 all the money because she was buying real estate.
 9 So he had this money. He found out it was
 10 going to cost him a stiff, I don't know, 40 or 50 grand
 11 to get out of this agreement. And, bottom line is, he
 12 thought it was an investment. Probably nobody ever told
 13 him it was an insurance product. It cost him a lot of
 14 money to have it out of the market for eight-plus years
 15 in a bull market, et cetera, et cetera.
 16 So here is an educated individual, not an
 17 ignorant and didn't-make-much-money individual, and he's
 18 trying to figure out how to make that right. And for
 19 him, there's no difference between that annuity and any
 20 investment in a mutual fund or stock or anything else.
 21 So I think there is an issue there that she
 22 just highlighted that is important.
 23 INVESTOR ONE: Huge, huge.
 24 CHAIRMAN CLAYTON: We are -- we have many
 25 objectives. But one of them is to bring this type of

1 approach, what am I buying and how much is it costing
 2 me, across that spectrum. That's, frankly, overdue.
 3 We've got to wrap it up but go ahead.
 4 INVESTOR NINE: You have been using the term
 5 adviser quite extensively. In the 419-page proposed
 6 rule that I believe it was --
 7 MS. BLASS: Quite correct.
 8 INVESTOR NINE: 419 pages -- I did not read it
 9 all. However, I did note that one of the proposals was
 10 a restriction on the use of the term "adviser." I know
 11 it's like using the trademark name Xerox, how many of us
 12 use it, or Kleenex.
 13 There is currently a title, specifically RIA,
 14 Registered Investment Adviser. How is this proposed
 15 rule going to affect titles and use of names in the
 16 investment industry, such that it is totally clear and
 17 unambiguous what the person's role is?
 18 MS. BLASS: So actually in two ways. First
 19 and foremost and most importantly is that it would
 20 require every investment professional to tell you
 21 exactly what they are. So if I was an investment
 22 adviser, I would have to tell you I'm an registered
 23 investment adviser, I work for an investment adviser, so
 24 you would be able to know that. If I am both, I would
 25 tell you I am both. So both the firm and the individual

1 have to tell you what their title actually is, so you
 2 would be able to have that.
 3 CHAIRMAN CLAYTON: So to be clear, if you're a
 4 broker-dealer but not an investment adviser, you can't
 5 say you're an investment adviser.
 6 MS. BLASS: Correct. I could work for a dual
 7 registrant, a firm that's both advisory and broker-
 8 dealer. But I can't say I'm an adviser, I'm an
 9 investment adviser, because I work for a dual-registered
 10 firm if I personally am not a dual-hatted individual.
 11 So I have to tell you what my firm is but also what I am
 12 personally, so you would have insight into that.
 13 At the same time, we did propose to prohibit
 14 the use of "adviser" in any kind of spelling, e-r or
 15 o-r, whatever they come up with, because that title
 16 really is very close to the, you know, investment
 17 adviser, the RIA that you mentioned. So our proposal
 18 is, unless you actually are a registered investment
 19 adviser, you really should not be using the term
 20 "adviser" in your title. So that's part of the
 21 proposal.
 22 But the first part of it, to bring clarity, is
 23 to say exactly what you are
 24 CHAIRMAN CLAYTON: Eric, do you want to wrap
 25 us up?

1 MR. WERNER: Absolutely. So I really
 2 appreciate all of you being here today and engaging with
 3 the panel as much as you did. I think that we all have
 4 done this enough, and we get some days where no one
 5 wants to ask a question and we end up talking amongst
 6 ourselves and don't know if it's relevant to you at all.
 7 So have almost nonstop dialogue and questions
 8 from you, I know if I was at that table, I would
 9 appreciate it. I'm sure they do as well. And I know
 10 there are some incredible issues that you raised that we
 11 will take back, the Staff will take back, and consider
 12 ultimately, you know, what changes do we need to make,
 13 are we headed in the right direction, have we gotten
 14 something wrong? So that's invaluable for us.
 15 From an enforcement perspective, and I know
 16 this has nothing to do with that, there are a lot of
 17 things I could spend hours with you talking about and
 18 things that the Commission has done on the enforcement
 19 side to sue people who have done just the things you are
 20 complaining about.
 21 We don't have enough time or
 22 resources to get everybody, but there are many that you
 23 have highlighted that we are aware of, we don't like,
 24 and we are doing everything we can to stop it and fix
 25 it.

1 You know, it was exciting to hear about, you
 2 know, things from financial literacy to the insurance
 3 versus investment product distinction, all very
 4 important.
 5 What I would like to say, and I apologize in
 6 my initial remarks saying that we had representatives
 7 from Division of Investment Management and Trading and
 8 Markets, what I meant to say, and Lori is going to kick
 9 me for it, Office of Investor Education, they have
 10 investor alerts on our website that talk about a lot of
 11 these issues.
 12 We can't talk to everybody all the time,
 13 but please use the resources that we have, investor.gov,
 14 sec.gov. That will direct you to various places. FINRA
 15 has a lot of investor alerts as well that cover
 16 annuities, that cover insurance products that will give
 17 you at least some insight to know this might not be the
 18 product for me or, if it is, I need to ask a few more
 19 questions. So her office has done an incredible job and
 20 will continue to do it.
 21 And we'd appreciate you, if you go out there
 22 and tell people, hey, just go and check out some of
 23 these websites, that may help you with what you want to
 24 do.
 25 But I want to thank our panelists for coming

1 here, Chairman Clayton, Dalia Blass and Lori Schock.
2 And I want to thank all of you for being here, taking
3 time out of your day to help us with this important
4 initiative.

5 And ultimately, we hope that it will help
6 you, help your children and help your pocketbook. So
7 thank you.

8 (Applause.)

9 CHAIRMAN CLAYTON: Thank you. Lots of great
10 ideas. This is really helpful. And when we're sitting
11 around trying to figure out how to get this right, we
12 will remember this. So thank you. Thank you all.

13 MS. BLASS: And if you have the feedback
14 flier, Staff is around the room. We really, really
15 appreciate it.

16 You don't have to put your name. But if
17 you even filled out just a part of it.

18 By the way, this is available online.
19 Actually, we have postcards. If you have an iPhone, you
20 can just do a QR code and submit it electronically as
21 well if you don't have the paper ready. Theresa is
22 going to be passing them around. So we're happy to take
23 the paper, happy for you to submit it. Really, really
24 would appreciate your direct feedback and input on the
25 form.

1 CHAIRMAN CLAYTON: Thank you. Thank you.

2 (Applause.)

3 (Whereupon, at 4:51 p.m., the roundtable was
4 adjourned.)

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