

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 13, 2018 Regarding Standards of Conduct for Investment Professionals

Date: July 31, 2018

On June 13, 2018, SEC staff and Chairman Clayton held a roundtable at the Atlanta Regional Office. Approximately 10 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 Atlanta 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](#).

Also on June 13, 2018, the entire five-member Commission held a first-ever town hall event at Georgia State University College of Law. At the town hall, Chairman Clayton gave remarks on important considerations when choosing a financial professional. A webcast of the town hall is available [here](#).

U.S. SECURITIES AND EXCHANGE COMMISSION

ROUNDTABLE ON INVESTING IN AMERICA

THE SEC COMES TO YOU

Wednesday, June 13, 2018

10:32 a.m.

U.S. Securities and Exchange Commission

950 East Paces Ferry Road, Suite 800

Atlanta, Georgia 30326

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1 PARTICIPANTS:
2
3 Donna Esau (Moderator)
4 Dalia Blass
5 Jay Clayton (Chair)
6 Lori Schock
7 Lourdes Gonzalez
8 Investor 1
9 Investor 2
10 Investor 3
11 Investor 4
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1 PROCEEDINGS
2 MS. ESAU: Good morning, everyone. My name is
3 Donna Esau. I am the Associate Regional Director for the
4 Exam Program in the Atlanta Regional Office, and I would
5 like to welcome each of you to this event. We're very
6 happy to have you here to this Investment Adviser and
7 Broker-Dealer Roundtable. I would like to start off by
8 thanking our very distinguished panelists and other SEC
9 staff for participating in this important event. We
10 specifically want to thank Chair Clayton; Dalia Blass;
11 and I learned recently I cannot call her "Director
12 Schock", so I have to say Lori Schock; and Lourdes
13 Gonzalez.
14 I also want to thank everyone who has worked to
15 make this event possible, especially, our business ops
16 group here in Atlanta who have worked very diligently to
17 make this event successful, and we are very excited here
18 in Atlanta to host this event and pleased to see each of
19 you here. Of course, considering the interesting topics
20 and impressive list of panelists presenting today, we
21 expect this to be a very productive meeting.
22 Our Roundtable discussion will focus on a
23 client and customer's relationship with their financial
24 professional and the newly proposed Best Interest Rule.
25 As you know in April, the SEC voted to propose a package

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1 of rule-makings and interpretations designed to enhance
2 the quality and transparency of investor's relationships
3 with investment advisers and broker-dealers. Evidence
4 indicates that retail investors do not fully understand
5 the difference between an adviser and a broker-dealer.
6 We may say, well, what does that mean for me? I point to
7 my mother-in-law who, although exceptionally sharp,
8 doesn't discern that the person who is managing her
9 brokerage account is actually representing her in the
10 capacity as a registered representative rather than an
11 investment adviser and the impact that that capacity has
12 on the management of her assets. Under the proposed
13 regulation Best Interest, it means a BD would be required
14 to act in the best interest of a retail customer when
15 making a recommendation. Basically, a BD could not put
16 its interest ahead of a retail customer. In addition,
17 the Commission is also proposing to reaffirm or clarify
18 its views on the fiduciary duty an IA owes its clients.
19 Again, I want to thank every one of you for
20 participating and hope you will share your views on these
21 critical issues. This is a wonderful opportunity to
22 share information and varying points of view. It is
23 important to the process and it will benefit everyone.
24 Thank you and enjoy the Roundtable and I now turn it over
25 to our distinguished panel.

1 CHAIRMAN CLAYTON: Thank you. And, as Donna
2 said, she runs our inspections program. Part of what we
3 are going to talk about today is inspecting for
4 compliance and what the standard means. And I'm now
5 going immediately away from my remarks, but I want you to
6 understand that when we look at our regulations and look
7 at the standards we put in place, the words only have
8 meaning if you can inspect for them, you can inspect for
9 compliance. And when someone is out of compliance with
10 them, if you can bring an action and get a meaningful
11 remedy.

12 So when we talk about how we're going to do
13 this, those are things in our mind, and they're --
14 and so you have a flavor for how the SEC works,
15 we have roughly 4,500 employees, about 2,300 of them are
16 dedicated to enforcement and inspections. That 2,300 is
17 kind of divided about down the middle and it's that
18 inspections side of what we do that really keeps bad
19 things from happening in the first place. And so I can't
20 emphasize how important it is to have rules that enable
21 us to inspect and identify quickly whether bad behavior
22 is going on or good behavior. So I just wanted you to
23 understand that's how we work. Did I get that right?

24 MS. ESAU: You did. Good job.

25 CHAIRMAN CLAYTON: Thank you. So I want to get

1 to a dialogue. What I will quickly do is ask my
2 colleagues to introduce themselves and say what they do
3 at the SEC and then will get the dialogue started.

4 MS. GONZALEZ: Hi. My name is Lourdes Gonzalez
5 and I work on broker-dealer sales practice issues,
6 basically anything having to do with the interaction
7 between the broker and the investor. I usually have a
8 touch to that interaction in terms of the rules that we
9 approve and the policies we pursue.

10 MS. SCHOCK: I am Lori Schock. I am the
11 Director of the Office of Investor Education and
12 Advocacy, so we put out investor alerts and bulletins,
13 help investors with questions and complaints that they
14 may have, and also do outreach events. So thank you, and
15 thank you for coming here today and spending your time
16 with us.

17 May I just remind everyone we have a court
18 reporter here, and it's going to help if everyone just sort of
19 speaks up a little bit so that we make sure that we get
20 everything on the record. Thank you.

21 MS. BLASS: I'm Dalia Blass. I am the
22 Director of the Division of Investment Management at the
23 Commission. In our division we do all the policy
24 regulation for mutual funds, ETFs, and other
25 investment products and the advisers that run these

1 products. We also regulate the exposure that you get
2 from mutual funds and advisers and provide guidance to
3 practitioners and the public as well.

4 CHAIRMAN CLAYTON: And to say a few words, I
5 think it was a very good summary of what we are
6 attempting to do. We are attempting to bring clarity to
7 the market for investment advice, and we are attempting
8 to raise the bar in really two areas: The obligations
9 that, in fact, professionals owe to their clients, and
10 our ability to enforce those obligations. That's what
11 we're trying to do because that's what's meaningful.
12 Words only mean something if people actually follow
13 them. And they only actually follow them if you can
14 inspect for them and enforce them. So that's what we are
15 trying to do. And by requiring a clear disclosure of how
16 people make their money and what incentives they have, we
17 are hoping to start a conversation where clarity comes to
18 the marketplace.

19 So you have a Client Relationship Summary in
20 front of you. That Client Relationship Summary has a
21 number of functions. One is to inform. Another is to
22 start the conversation we hope people will have with
23 their broker-dealer or investment adviser. And most
24 importantly for us, it sets a standard against which we
25 can inspect and hold people accountable.

1 Let me ask, who in the audience has had a bad
2 experience directly or indirectly with an investment
3 professional?

4 THE AUDIENCE: (Hands raise collectively).

5 CHAIRMAN CLAYTON: Can you talk about it?

6 INVESTOR SEVEN: Several years ago, he worked for
7 -- can I say who he worked for?

8 CHAIRMAN CLAYTON: I don't have a problem with
9 that.

10 INVESTOR SEVEN: Merrill Lynch. And he managed my
11 ex-husband's account and made tons of money for him so
12 finally he took me on. And he's very controlling. You
13 know, all the kids, he used to yell at them and say they
14 are boycotting, and I can't have anybody yelling at me.
15 And so I emailed him a question once about why my fees
16 were what they were, and I think I emailed him over
17 months, twice, and then he ended up selling everything I
18 owned and he didn't make money for me. The week before, it
19 would've been a long-term gain. And I'm a coward and I
20 didn't do anything about it, but that was many years ago.
21 My ex-husband still uses him.

22 CHAIRMAN CLAYTON: But that's, you know, kind
23 of a 15 percent difference on your proceeds.

24 INVESTOR SEVEN: Oh, yeah.

25 CHAIRMAN CLAYTON: Anyone else want to share?

1 INVESTOR FOUR: Sure. I had a bad experience. In
 2 retrospect, I blame myself and, actually I had a
 3 background in financial consulting, actually ran a hedge
 4 fund, and I elected to -- I had a broker that I used for
 5 transactions that I initiated and I elected to give a
 6 shot to an investment adviser who I knew and I thought I
 7 had done my research on him, but this -- and this is
 8 going back a ways. This is going back 15 years. And I
 9 ended up finding out that there was significant problems
 10 that he had not disclosed to the SEC. It was not an SEC
 11 issue, but it was clearly had I googled this person, I
 12 would have I found out more information and I should
 13 have. And it was I probably lost \$30,000 or \$40,000, but
 14 it just taught me the importance of as an investor to do
 15 as much due diligence as you can because you can't rely
 16 on someone disclosing information to me or necessarily
 17 relying on the information that has been received by the
 18 SEC.

19 CHAIRMAN CLAYTON: So one of the things we are
 20 doing is we are looking to do something about due
 21 diligence for you or making them do some of it for you
 22 but also making it easier to do that due diligence. The
 23 new Client Relationship Summary that we are proposing,
 24 you have to put any disciplinary history that you have
 25 right up front. That's one thing.

1 Separate from what we are proposing, we have
 2 created a new database recently that is intended to pick
 3 up bad actions in the investment space that are away from
 4 the SEC and FINRA. Other things that people -- it turns
 5 out that people who aren't registered with the SEC or
 6 with the States are much more likely to be bad actors
 7 than people who are registered. We have databases for
 8 registered people. We don't have -- we didn't have them
 9 until recently for unregistered people. We now have
 10 them. The next steps I want to get going is there's a
 11 number of separate databases for bad actors, we need to
 12 be able to search them as one. So we are working on
 13 that.

14 Does anybody else want to share?

15 INVESTOR FIVE: I have an investment professional
 16 that I worked with and he was pushing a product, and he
 17 was pushing the product because of the fee structure.
 18 And I don't know how many times I told that man "no". He
 19 was very aggressive in pushing that product, so I thought
 20 I would kind of follow along and see where he would take
 21 me in this process. And, you know, at the first time I
 22 told him no, so he waited a couple of months, came back
 23 to tell me, oh, this is going to be great for you. I am
 24 bringing so-in-so who is an expert in this product to
 25 come meet with you for lunch, you know, went that route.

1 I still was not comfortable with that product because I
 2 still did not understand the product and I kept saying
 3 no. Several months later I got a call saying this is
 4 your last chance to get into this product, you know,
 5 blah, blah, blah, blah. So, finally, I had a pretty
 6 much come to Jesus with him and fired him because I felt
 7 like he was not listening to my needs. But that is an
 8 issue with some people -- I mean, with some investors. I
 9 think that you have to be strong enough to say, stop, I
 10 don't want this. But he did a very good job of trying to
 11 sell me that product.

12 CHAIRMAN CLAYTON: Lori?

13 MS. SCHOCK: And that's something we see,
 14 aggressive sales practices being used and scarcity is
 15 always the close whether it's scarcity of time or
 16 scarcity of product. And it's good for you, first and
 17 foremost, you know, for standing your ground and, quite
 18 frankly, in firing him because you weren't comfortable
 19 with it and you took action. Unfortunately, though,
 20 where we get the investor complaints later is where
 21 somebody folded, they succumb to the pressure, and then
 22 they bought a product. And someone is always actively
 23 selling this. This isn't, oh, I woke up and decided I
 24 wanted to buy this. And I'm not sure exactly, but do you
 25 recall what the product was?

1 INVESTOR FIVE: It was a variable annuity.

2 MS. SCHOCK: A variable annuity, okay. So a
 3 mutual fund with an insurance wrapper. And no one wakes
 4 up and says, I should buy a variable annuity. It is
 5 always actively sold. So you are not alone, but I really
 6 have to say kudos for doing this. Did you happen to look
 7 at his background?

8 INVESTOR FIVE: Oh, trust me. I mean, you know,
 9 with the job that I like do, yeah, I did inspect him and
 10 he was clean.

11 MS. SCHOCK: Okay. Because I've had other
 12 situations where a similar situation happened and when the
 13 investor actually did the background check on
 14 the person, they found out they had six other investment
 15 complaints about selling the exact same product he was
 16 trying to sell her.

17 INVESTOR FIVE: So I didn't -- I mean, I looked
 18 on the FINRA brokerage site because that's available to
 19 the public, you know, to go look at that, but I never
 20 thought about complaining to the firm and maybe I should
 21 have done that to find out. Does that make sense?

22 MS. SCHOCK: Uh-huh (affirmative). Sure.

23 INVESTOR FIVE: I just left the firm.

24 CHAIRMAN CLAYTON: Or, to us.

25 INVESTOR FIVE: Oh, yeah. Yes, I should have.

1 CHAIRMAN CLAYTON: We have a tips, complaints,
2 and referral system which is actually where we get a lot
3 of our cases. It's investors who take the time to say,
4 look, this is what happened to me and we now learn that
5 through the database and filter it, so we are open for
6 business.

7 MS. BLASS: It is easier to find if you go to
8 investor.gov which is the webpage.

9 MS. SCHOCK: It's right here in front of you.

10 MS. BLASS: It's a place where you can easily
11 access the database to put in kind of any tips or
12 complaints you have, and it's also a place where you can
13 access the database to check out if the investment
14 professional you're working with is registered and their
15 history with us, you know, if they have any extreme
16 history or something else. So it's the one place where
17 you can go for all of this information.

18 CHAIRMAN CLAYTON: Let me just also state an
19 objective that we are trying to get to with the new
20 disclosure requirements is the fees that you would have
21 been charged for that product can't be buried on page 27,
22 which is what happens. And this is -- I want to be clear
23 about this because some people say, oh, you know, a
24 broker-dealer is better or an investment adviser is
25 better. Under the current law, that can happen in both

1 information on it. We just want to highlight why it's
2 there. And you can also access that online later. You
3 don't have to do it now. You can access it online and
4 submit it online so I just wanted to make sure that you
5 understand why that's in the flyer.

6 CHAIRMAN CLAYTON: I have a number of
7 questions, but let me see if people came to this
8 roundtable with questions for us. So why don't we -- if
9 you came with particular questions -- I have a number of
10 questions that I will ask, but you came here and took
11 time out of your day with questions for us. There is no
12 question that is out of bounds.

13 INVESTOR EIGHT: I do have one.

14 CHAIRMAN CLAYTON: Yeah.

15 INVESTOR EIGHT: Are the changes you are considering
16 within the purview of the SEC or does it require
17 congressional oversight?

18 CHAIRMAN CLAYTON: Great question. So in the
19 broker-dealer space -- I have my good lawyer here -- we
20 have a fair amount of room where we do not need
21 congressional action. That is where we are focusing on
22 our standard of conduct changes. We are not changing the
23 standard of conduct for investment advisers, but we are
24 requiring what I would say is -- you know, I'm just going
25 to say it. I think the disclosure requirements we would

1 and we want to end that. So another way I describe it is
2 I'm putting in \$1,000, how much of that money is going to
3 work for me in the market and how much of it is getting
4 frictioned away in fees. I should know. Look, I get it.
5 Somebody should be able to take a few bucks for having to
6 provide me the service. I'm okay with that. But I'm not
7 okay with them taking \$100 of my \$1,000. That is too
8 much. And I should know so I can say, that's way too
9 much.

10 MS. BLASS: So in front of you, you have the
11 form, the mockup which is just a mockup. You know, our
12 expectation would be that any firm that you work with
13 would personalize this and give you more to-the-point
14 information about their services. But it's a side-by-
15 side comparison and we estimate that about 80 percent of
16 the firms out there have both brokerage and advisory and
17 so we thought a side-by-side comparison would be helpful
18 to investors like you when you're going in and choosing,
19 you know, who you want to work with.

20 I just want to mention that you should also
21 have what we call a little feedback flier, a two-pager. I
22 really would appreciate you going over that, give us your
23 thoughts on the form in front of you. You do not have to
24 put any personal information on it; you can just mark it
25 "anonymous" if you don't want to put your contact

1 be imposing are better and we don't need -- we don't need
2 congressional action.

3 INVESTOR EIGHT: So there is a very real opportunity
4 to see this coming to fruition?

5 MS. BLASS: Oh, yeah. And I think all of us --
6 Lourdes, how many years have you been doing this?

7 MS. GONZALEZ: You reminded me in talking to
8 me, 2005. A long time.

9 CHAIRMAN CLAYTON: So I think people have been
10 looking at this with the hope of bringing some clarity
11 for, you know, too long. So my view is not to miss this
12 opportunity.

13 INVESTOR EIGHT: Do you see the Volcker Rule
14 changing its complicatedness as well?

15 CHAIRMAN CLAYTON: No. That's the trading that
16 a financial institution can or cannot do for its own
17 account. I don't see any direct or indirect effect of
18 Volcker changes on this.

19 INVESTOR EIGHT: Thank you.

20 MS. BLASS: Do you mind if I throw out a
21 question?

22 CHAIRMAN CLAYTON: Yes.

23 MS. BLASS: So let me throw out a question. Do
24 you generally understand the differences between investment
25 adviser and a broker-dealer and having looked at the form

1 in front of you, anything about that surprised you about
2 what you thought about was an investment adviser or a
3 broker-dealer? Changed your mind about your, you know,
4 your prior expectations for the services? The fees? The
5 products? Conflicts? Or is it clear in your mind what
6 an adviser does versus what a broker does, and does this
7 form line up to your expectations? Can you parse that
8 for us?

9 INVESTOR EIGHT: It may be beneficial to clarify
10 that for people who are not knowledgeable in this area when they
11 are handed this information. There's not actually a huge
12 statement on that.

13 MS. BLASS: So you're saying if they were
14 handed this information, it doesn't jump out for you the
15 difference between the two?

16 INVESTOR EIGHT: Well, people who are, perhaps,
17 starting to invest or, again, not experienced in the
18 world of financial investments of any kind may not
19 understand the distinction.

20 CHAIRMAN CLAYTON: And one of the things we're
21 thinking about -- this may surprise you -- one of the things,
22 I guess, I'm thinking about is a video where -- I'll just
23 give it a shot right now. Okay. There are two types of
24 relationships that you could have with a registered
25 professional. You can have a broker-dealer relationship

1 which is a transaction-based relationship where, for
2 example, I come to you as my broker and I say, you know,
3 I would like to invest in some telecom stocks and I'd
4 like to make sure I have some stocks that are
5 international stocks. Can you pick some, recommend them
6 for me and do that? That's a broker-dealer relationship
7 and I'll pay you a commission for doing that. An
8 investment adviser relationship is I come to you and I
9 say, I've got kids, I want to save for college, I have
10 some retirement goals, here's my income, I have a 401(k)
11 right now, can you take a look at my investments. Give
12 me your recommendations, or perhaps, I will even give
13 you discretion in how to invest them. If you do that and
14 I pay you an ongoing whether it's a quarterly or an
15 annual fee, that's an investment adviser relationship.
16 Do you think if I do a video where I explain it like
17 that --

18 INVESTOR FOUR: Very helpful.

19 INVESTOR EIGHT: If people understand the financial
20 incentive behind both of those scenarios, they would get
21 a clearer picture as well as to what those people do for
22 them.

23 CHAIRMAN CLAYTON: I'm really thinking about
24 doing the video as part of this and saying, you know, the
25 financial incentive for you as my broker is to earn a

1 commission. And you may have other fees that you should be
2 targeting. Your financial incentive as an investment
3 adviser is to collect as much money of mine that you
4 manage, because your fee probably goes up. And you know,
5 we have some well-aligned incentives which is the better
6 I do, the better you do. There are some potential
7 conflicts on the investment adviser. Some investment
8 advisers get paid other ways, and that's something they
9 need to disclose. So I am thinking about doing a video.

10 MS. BLASS: I think we have some comments.

11 INVESTOR EIGHT: No, I think that is good and I
12 would just reinforce that thought. I think it would be
13 very helpful maybe even to the standpoint, if you can, of
14 giving some examples of if I invest \$100,000, I'm going
15 to pay this percent a year regardless of the number of
16 trades that are made. And I know you get into problems
17 when you give too many examples because not every example
18 is going to be that, but even to the extent that if I'm
19 with a broker-dealer and I made five trades a year,
20 what's the percentage. Just so someone understands, one,
21 there's a minimum you would be paying on this amount for
22 this type of service. I think we all understand or a lot
23 of people understand it, but I think the more detail the
24 better.

25 CHAIRMAN CLAYTON: Just kind of designing this

1 on the fly, you could have the introduction we just gave
2 and then you could have a click where you say, you know,
3 give us some examples of how they make our money; give us
4 some examples of how they make their money. Because the
5 question I have always asked for 25 years of doing this
6 whether it's a small deal or a huge deal is, you know,
7 what's happening with the money? If you know what is
8 happening with the money, you have a pretty good idea of
9 people's incentives.

10 INVESTOR FIVE: So are you proposing at the
11 beginning of the relationship with a financial
12 professional, they would hand you this document and say,
13 this is a --

14 CHAIRMAN CLAYTON: You can't have a
15 relationship unless you have that document. That is a
16 prerequisite for taking people's money.

17 MS. BLASS: And what about changing accounts?
18 So let's say if you already have a relationship, like
19 let's say you work with a broker and then you're
20 interested in an investment or they are telling you about
21 investor adviser accounts so they wear both hats, again,
22 they would have to give you this.

23 INVESTOR FIVE: Yes. And I agree with the
24 gentleman. I think that at least in my personal
25 experience, as when I first went into finding an

1 investment professional, I didn't know what questions to
2 ask so I didn't know that there were too many different
3 roles, right, and I can tell you they didn't tell me
4 that, either. They didn't tell me that, hey, I am an
5 agent, a broker-dealer person, but I'm also doing this as
6 well.

7 MS. BLASS: What do you think of the questions
8 that we put in the form? And by the way, I am sure you
9 all understand this, but this form is just a proposal.

10 CHAIRMAN CLAYTON: Right.

11 MS. BLASS: So we are looking for comments, so that
12 we can hopefully move to an option. One of the
13 things we've heard repeatedly is that when people go in
14 front of an investment professional, they don't know what
15 to ask. They should ask something but they don't know
16 what to ask. So with that thought in mind, we put
17 together a few questions as conversation starters. Is
18 that helpful?

19 INVESTOR FOUR: Yes.

20 INVESTOR FIVE: Yes.

21 INVESTOR NINE: I think that is helpful. I
22 think one of the other things that you have in your proposal
23 that is helpful, though, is standardizing the forms that
24 are presented to you. Because, you know, most people
25 when they are getting started, they have no clue. They

1 are thinking more from a saver perspective rather than an
2 investment perspective and, as a result, they get in a
3 lot of investment vehicles that are not really conducive
4 for what they are trying to accomplish. And one of the
5 main ones in my point of view is mutual funds
6 because they have so many hidden fees that an investor
7 really doesn't understand what they are paying for in a
8 lot of mutual funds and then they start throwing things
9 out there like, you know, open funds and closed funds and
10 this and that and who in the heck knows what that means.

11 MS. GONZALEZ: That's a great point.

12 CHAIRMAN CLAYTON: I like the way you put that.

13 MS. BLASS: Can we use that, right? We'll use
14 that line. Can we use that line?

15 CHAIRMAN CLAYTON: Don't copyright it, okay?

16 MS. GONZALEZ: Has anyone ever used the mutual
17 fund calculator on this website, by any chance? The fees
18 are actually in the prospectus, but you've got to
19 actually do the math, you know, to get a -- go to the
20 fund prospectus and figure it out.

21 CHAIRMAN CLAYTON: Well, what we're trying to
22 do is FINRA has helped us a bit but were trying to be
23 able -- you know, I'm going to buy into a mutual fund and
24 I'll go back to \$1,000. I'm going to put \$1,000 in. How
25 much of that money actually goes into the market and

1 benefits you and how much gets frictioned away? You
2 should know that. To me, if it is too complicated to
3 explain that to you, then the product is too complicated
4 to sell to you. It's kind of that simple. Does that
5 resonate?

6 INVESTOR NINE: Right. Oh, that resonates.
7 Yeah.

8 MS. BLASS: And part of one of the questions we
9 put in there is do the math for me, right. So if you're
10 asking me to invest in a product, then do the math
11 for me. What's it going to cost me bottom line? They
12 should be able to do that for you. If they can't, red
13 flags should be coming out at that point that, perhaps,
14 someone is not being transparent.

15 INVESTOR FOUR: I apologize, I haven't read the
16 entirety of the rule --

17 MS. BLASS: It's 1,000 pages.

18 CHAIRMAN CLAYTON: It's Washington. It's 1,000
19 pages.

20 INVESTOR FOUR: My question is is there any
21 consideration in there for, for instance, when a broker
22 makes a recommendation that they disclose in simpler
23 terms the upfront fees, the mutual -- all of those fees
24 so that I'm saying to you, this is what I want you to
25 invest in and these are all the fees that I'm going to

1 get, anyone's going to get, so that's a disclosure
2 obligation that goes along with making that investment
3 recommendation. I don't know if that's something that's
4 in there that has been considered.

5 MS. GONZALEZ: So the Commission proposed that
6 brokers provided a fee schedule, but that's not going to
7 get to your exact point of the product fees. But we ask
8 a lot of questions about that; should they, you know, be
9 required to be more specific in the disclosure that they
10 make about the fees that are associated with the
11 recommendations.

12 INVESTOR FOUR: So I was just thinking about the
13 chairman's --

14 CHAIRMAN CLAYTON: If for the "comment" file
15 you would like to say, hey, we think it's a good idea
16 that we have that disclosure or a reasonable estimation
17 of them all, that's a comment I would like to receive.

18 INVESTOR FOUR: I would be happy to do that. And
19 is this just -- is this going to be, this document or
20 whatever becomes the final form or suggested document, is
21 that going to be an upfront or continuing disclosure
22 obligation like you have on some other obligations of the
23 investment advisers on an ongoing basis?

24 MS. BLASS: So there will be, basically, three
25 opportunities, requirements to get this out upfront so

1 you're making an informed decision about which type of
 2 investment professional best fits your financial needs.
 3 In a situation, for example, you open up one account and
 4 the broker or adviser is asking you to open a different
 5 type of account, again, you should be getting that
 6 information. And then if there are material changes to
 7 the firm's document, they would also be required to send
 8 this information to you. So it's not like every month
 9 you would be getting it because then, you know, you won't
 10 know why you're getting it. But if there is a material
 11 change, then, you know, they would be required to give it
 12 to you.

13 One of the comments that we got from an
 14 investor group that we talked to is, well, if you send
 15 it, how am I going to know what's changed? That was, you
 16 know, a great comment that we got because, you know, even
 17 though it's four pages are you going to sit with the old
 18 one and sit there and compare every page? So that was a
 19 great comment that we got from a prior investment group.

20 INVESTOR FOUR: So there is consideration to a
 21 summary of the changes in there like you have in the
 22 front of an ADV?

23 MS. BLASS: The ADV is actually a great
 24 example.

25 CHAIRMAN CLAYTON: Does everybody know what an

1 ADV is?

2 INVESTOR FOUR: I'm sorry. I should have said.

3 CHAIRMAN CLAYTON: No, no, that's fine.
 4 Investment professionals have to file with us a rather
 5 lengthy form that describes their business in some
 6 detail. And one of the great things that came out of
 7 these investor roundtables is that's wonderful if there's
 8 all that information, but I don't know what's changed so
 9 do I have to read it from scratch every time?

10 MS. BLASS: And it's really a hard document.
 11 You know what it is, I mean, if you've seen it.

12 INVESTOR FOUR: I've seen one.

13 MS. BLASS: It's really a really really hard
 14 document to parse your way through and get to the meaty
 15 stuff that we all like to view, you know, as an investor.
 16 But we also want to point out one of the things we're
 17 looking for with this form is how can we make the design
 18 not just the content but the design of it more
 19 interactive, more useful. You know, what we put together
 20 is the paper format. We would love ideas on how to make
 21 the design like if it's coming to you electronically like
 22 a disclosure where you can click through different
 23 content. So any ideas that you have for us about that,
 24 we would definitely appreciate it.

25 INVESTOR EIGHT: Why not an electronic scorecard

1 where you can compare various financial professionals so
 2 you could weigh whatever measures you want but, you know,
 3 obviously, that would be helpful if you're looking at
 4 more than one and most people should look at more than
 5 one investor, obviously.

6 MS. BLASS: So a comparative feature variable
 7 to put in different people?

8 INVESTOR EIGHT: Well, it would kind of mirror -- I
 9 mean, this is a very good form. It is concise and it's
 10 easy to read and clear. But unless you can use it to
 11 kind of compare and contrast, you know, there may be some
 12 other way.

13 CHAIRMAN CLAYTON: So I am hopeful that by
 14 reducing this to no more than four pages and requiring it
 15 to kind of compartmentalize these things, that making
 16 comparisons will become much easier and that either we or
 17 others will design products that does what FINRA's
 18 product does which is kind of scrape the information and
 19 enable you to make a comparison.

20 What's really been fascinating as I watch this
 21 industry -- I love markets. I've watched this industry
 22 for a long time. When you bring transparency to a space,
 23 competition takes over and the investor benefits. If
 24 you're looking for a place where investors get harmed,
 25 it's where there's capacity where you can't make

1 comparisons. And it's been fascinating to watch the
 2 mutual fund industry particularly in the index area and
 3 the way competition has brought these way down so more of
 4 the investor's money goes to work. I am all for
 5 competition because I think if you have fair competition,
 6 the investor benefits in the end from that.

7 INVESTOR FIVE: So to your point about the form
 8 or about the brochure, I know that the advisers have to
 9 provide a brochure to their clients and most clients, I'm
 10 one of them, don't read that brochure because it's so
 11 cumbersome and there's a lot of fluff in there. So what
 12 we want as an investor is just get straight to the point.
 13 And I think that something like this I would think this
 14 format if you could get side-by-side, easy to read,
 15 direct scripts like a comparison, short, then maybe, in
 16 my opinion, it would be more beneficial.

17 MS. BLASS: So one of the things is, you know,
 18 advisers and broker-dealers and other folks in the
 19 financial service industry, they have to provide a lot of
 20 disclosures and there are two purposes to the disclosure.
 21 The primary should be to inform investors so they can
 22 make an informed investment decision, right, that's the
 23 basis of our disclosure. The secondary is we all know
 24 it, litigation, right. Unfortunately, because it's all in
 25 a paper or PDF format, it all merges together and you get

1 this really lengthy thing that's hard to read. So we
2 were mindful of that when we designed this form that is
3 short and concise and comparative. Hopefully, you think
4 it's short. If you don't, please let us know. But,
5 also, we can take technology, varied technology for
6 disclosure and have a layered disclosure and maybe the
7 stuff that you would want and is important can rise to
8 the top and other stuff, which is important for other
9 reasons, can be more down the chain, right.

10 CHAIRMAN CLAYTON: [Investor 7], do you have a
11 question?

12 INVESTOR SEVEN: Yeah. I just realized when you're
13 talking about this. When I got started having to deal
14 with my own money, I don't want to know anything about
15 how to deal with it. I just want someone to take care of
16 it for me. And I want to know that if I have, let's say,
17 \$100,000 in the beginning and I need "X" more to live on,
18 you know, what are they going to get for me in a year? And
19 I don't really want to -- I just really want to know what
20 the "end thing" will be. I don't even necessarily care.
21 I was listening to y'all and I've have many different
22 kinds of relationships over the years. At this point, I
23 am with an investment adviser, but I wasn't earlier. I
24 didn't realize it, but I didn't care. I just wanted
25 someone to take care of it. And I don't know if I am

1 totally unique, but I never -- I still don't want to know
2 what's going on. I just want someone to take care of it.

3 CHAIRMAN CLAYTON: I can tell you you are not
4 unique. And, Lori?

5 MS. SCHOCK: Yes, you are not unique in this.
6 And part of the challenges, though, is the end game is
7 going to be impacted by the fees. That is sort of the
8 number one -- you know, as the Chairman has said, how
9 much money is working for you in the markets. And, you
10 know, in one year, no one is going to project what's
11 going to happen in a year unless you're in a savings
12 account or something like that. And if an investment
13 professional in our area says, I can tell you exactly
14 what you're going to have in one year, let us know
15 because that's just not the way this works. But the fees
16 will impact the end game and so that's part -- I hear
17 what you're saying. It's the look, that's why I'm hiring
18 the professional. I want you to just take it over and do
19 it and make sure I have enough money in retirement. You
20 know, that's what the game is. But all of these
21 different things that we've talked about with this
22 disclosure are going to impact that and so this will also
23 give us the tool to examine against and enforce against
24 if there are sort of bad actors in this area. But I
25 don't know. I can't turn a blind eye to the fees --

1 CHAIRMAN CLAYTON: I'll jump in and be a little
2 more specific. That type of design is much more likely
3 to be served by a good investment adviser than a broker-
4 dealer relationship because the investment adviser is,
5 essentially, portfolios that are used with a holistic
6 view of your circumstance, that's their job, and tries to
7 manage your money for your broad objectives. But what
8 Lori said is absolutely correct. Now, the question
9 becomes selecting the right investment adviser and that
10 is a matter of that person having to tell you how much
11 it's going to cost you to have them do that for you
12 because that cost is going to have a significant effect
13 on the overall outcome. And I think they ought to
14 explain that to you.

15 INVESTOR SEVEN: Okay. Is there an industry way of
16 knowing -- I think he might've told me at the beginning
17 what his percentage was, but I didn't know what that
18 meant. Is there a way to know whether someone tells you
19 it's one percent or 1.5 or whatever it is whether it's a
20 good -- I hate to say a "good deal" -- whether you are
21 being taken advantage of or what? I don't really know
22 any of this.

23 CHAIRMAN CLAYTON: And going back to [Investor 8's]
24 point, what we want to get to is a place where you know
25 what the industry is charging, that you have a sense of

1 where you can pretty easily get a sense of where one
2 percent is high, low, in the middle, et cetera, because
3 that should inform your choice. You know, why are you
4 more? Why are you less? You know, what's happening?

5 INVESTOR SEVEN: I went and calculated it last
6 night before I came because I didn't know, and I think
7 I'm paying like 1.55, maybe. I'm not exactly sure, but I
8 didn't know. As long as he takes care of it and I don't
9 have to worry about it, I'm okay. But I don't know if
10 that's good, bad, or otherwise.

11 MS. GONZALEZ: Can I jump in here with a couple
12 of points. Lori and I have talked about this a lot over
13 the years. So it's important to think about the fees not
14 only with what you are paying today but what the rate on
15 return is over time. So let's assume, you know, you have
16 a 20, 30-year investment, one percent can be a
17 significant drag on your returns over that 20 or 30-year
18 investing history. So Lori Schock put out with our help
19 an investor bulletin on the impact of fees on your
20 returns over time. It's on the SEC website with very
21 nice charts and graphics that our economists prepared for
22 us, so I would encourage you to actually -- and it had
23 questions that you can ask because, you know, one percent
24 today doesn't sound like a lot but over 20 or 30 years,
25 it really eats into your returns so it's important to

1 look at that. That's the first point.
 2 The second point is I'm a huge fan of trust but
 3 verify.
 4 INVESTOR SEVEN: Of what?
 5 MS. GONZALEZ: I'm a fan of trust but verify
 6 which means you want to turn it over to somebody and
 7 he'll just take care of it, but please read your account
 8 statements. You should be getting account statements if
 9 you're working with a broker and take a look at the
 10 account statement and what is there is what's supposed to
 11 be there is there, in fact. So it's important to open up
 12 that envelope or open that email that you receive and
 13 take a look at that account statement.
 14 MS. BLASS: And I would just add one more point
 15 to that. So an investment adviser, you are paying sort
 16 of a fixed percent always off the top of your investment
 17 with the idea being that they are providing you this, I
 18 am giving you my money and they run your portfolio, they
 19 run your trades, they don't bother you, they just tell
 20 you at the end what they make, right. So if that's a
 21 service you value, that is what an investment adviser is
 22 supposed to do for you. And, again, you know, trust but
 23 verify is critical to that. Go to investor.gov and check
 24 that person's disciplinary history or whatnot and make
 25 sure you are with a good financial professional.

1 But also look at your investment. To the point
 2 that Lourdes was making if over that period of time you
 3 are essentially a buy and hold investor like your
 4 investments really are not changing, you should be
 5 looking at whether that account is the right account for
 6 you. So, again, to the point of our case, let's say you
 7 have 15 mutual funds in your account and you like it and
 8 you don't want it changed, is an investment advisory
 9 account the right account for you? This is where you
 10 look at the service but you also look at the type of
 11 investor that you are just to make sure that you are
 12 marrying the two together. But, again, you might choose
 13 to stay with the investment adviser because you just like
 14 not to worry about it. That's important to have that,
 15 you know, out there as long as you understand what you
 16 are paying for.
 17 INVESTOR FOUR: Is there a -- I love your point
 18 there. Has there been any consideration given to maybe
 19 in this disclosure incorporating two things, specifically
 20 requiring investment advisers to provide a link to the
 21 calculator? Let's just say if I want to put in a
 22 hypothetically ten percent return and my investment
 23 adviser is charging one-and-a-half percent over a 20-year
 24 horizon, this is my starting and my ending and you just
 25 know it's there and choose to link to it from the

1 investment adviser part of that.
 2 And, secondly, I love your examples as people
 3 are -- I know there's been the whole huge shift in
 4 investment advisers and for some people that's good
 5 because they have to make their own determination, but I
 6 think some people don't know that they may have switched
 7 to an investment adviser and they may be paying fees for
 8 an account where it's not appropriate, your example being
 9 a great point to maybe give some examples of some cases
 10 where an investment adviser may be an appropriate account
 11 or may not be. But I think you stated it very well.
 12 CHAIRMAN CLAYTON: No, I like that a lot. I
 13 like the idea of having a video with the fee things and a
 14 scenario where -- it would appear an investment adviser
 15 relationship would be better for you in a scenario where
 16 an investment brokerage relationship may be better for you,
 17 just as an example. You know, you are always worried in
 18 government that you're not getting -- you know, that
 19 you're going to be wrong one percent of the time. I
 20 would rather be wrong one percent of the time than have
 21 people in the dark.
 22 INVESTOR FOUR: Very good point.
 23 INVESTOR TEN: I have a follow-up to the
 24 formatting and maybe it's just because I am of a younger
 25 generation and I like words because I'm a lawyer so I do

1 like words, but it seems a bit wordy. So I was wondering
 2 if there was any discussion about maybe creating like a
 3 pictorial or an info-graph, something similar to what you
 4 would see on social media, especially for those that are
 5 younger just because, I mean, I think it's short for what
 6 it is trying to do but maybe for people who are more
 7 visual be given that option especially if you're going to
 8 do any type of sharing on the website. It just reads
 9 better when it is put in an informal format.
 10 CHAIRMAN CLAYTON: We are very happy to -- we
 11 put this out as, hey, this is what we think it would look
 12 like in terms of the traditional forms. As long as the
 13 information is there and readily accessible and short, I
 14 am happy to have it in whatever form people think is
 15 easily readable.
 16 INVESTOR TEN: And my second question, how is
 17 this going to be enforced? Is it going to be one of those
 18 things where you put up like in a doctor's office that
 19 says you have a right to get this notice, or, is it going
 20 to be required to be given and somebody has to sign off
 21 on it? And does it include electronic? What's going to
 22 be the enforcement behind making sure that it has gotten
 23 done?
 24 MS. BLASS: So it's going to be a regulatory
 25 requirement in the same way as advisers, for example,

1 they are required to give you the Form ADV and this would
 2 be the same. If they don't give you that document at the
 3 instances where they are required to give it to you,
 4 that's examination and enforcement right there. So we
 5 will be examining the records. Our proposal does not
 6 require the investor to sign for a document. We asked
 7 whether this should be done, but our proposal did not go
 8 out with "and you have to sign for it" like the HIPAA
 9 notices or whatnot you get in the doctor's offices with
 10 the idea the experience is if someone is just shoving
 11 some piece of paper in front of you to sign, then that
 12 becomes their relationship just to sign rather than sit
 13 and read and have that conversation, and we are asking
 14 for comment on that. But they will have to give it to
 15 you and if they are not giving that document, that will
 16 be a violation of the regulation, I mean, when adopted.

17 INVESTOR TEN: Sorry, one more follow-up. Will
 18 there be cause for them to have a private right of action
 19 if it's not given or it would just be a regulatory
 20 violation?

21 MS. BLASS: So we are not change -- like this
 22 regulation, if and when adopted if adopted as-is, does
 23 not change any private rights of action, you know,
 24 currently standing. But we would have enforcement
 25 authority against a broker or an adviser or a dual

1 registrant that does not hand you that document.

2 INVESTOR ONE: I would just like y'all to
 3 consider having people to sign it because -- I come from
 4 an educational kind of point of view -- children who have
 5 individualized educational plans are always told, are
 6 always given what their rights are but no one in the IEP
 7 meeting actually goes over that multi-page document with
 8 them. The parent is expected to know that before they
 9 walk into the meeting and, again, it is a very -- even
 10 though it is simply stated, it is not -- the IEP is not
 11 for IDEA. So it would actually -- by having someone sign
 12 it, you know, that the action has been done and it hasn't
 13 just been handed to them without anyone going over it
 14 with them. Does that make sense?

15 MS. GONZALEZ: I've been in a lot of these IEP
 16 meetings so I know what you're talking about. But the
 17 document that is signed in that situation is what's
 18 negotiated, right?

19 INVESTOR ONE: Correct. That's the IEP.
 20 What I'm talking about is at the very beginning of that
 21 meeting, you are given the IDEA rights, but no one
 22 necessarily goes over with you. But as a parent, you are
 23 expected to understand what those rights are. And what
 24 I'm suggesting is that that form should be signed in an
 25 IEP meeting. Of course, what is negotiated out of that

1 is the IEP; it's the work that's going to be done for
 2 that child. But no one ever goes over that with parents
 3 and it's a very complicated --

4 MS. GONZALEZ: A very thick document. No one
 5 goes over it.

6 CHAIRMAN CLAYTON: Yeah. You are not the first
 7 person to say hey, you know, let's make sure this happens
 8 and it may be that people, you know, are a certain level
 9 of computer literacy don't view signatures as important
 10 anymore, but that doesn't mean we shouldn't find some
 11 way, some --

12 INVESTOR ONE: Some check box.

13 CHAIRMAN CLAYTON: Yeah. Exactly.

14 MS. BLASS: And we actually also got the
 15 comment not just the signature at the end because that
 16 way, it's like the info notice where someone is just
 17 shoving it across the desk at you, but like in real
 18 estate where you are initialing next to the main
 19 disclosure so it will be a discussion, you know, you have
 20 a discussion and you initial next to it acknowledging
 21 receipt of that information so not just at the end but
 22 throughout initials would be required, I think, was
 23 another suggestion. I see some heads nodding.

24 INVESTOR SIX: I think that would be very
 25 helpful to have each section so you know that you were

1 sent this part or, at least, this part was explained and
 2 then initial it and go on.

3 INVESTOR ONE: I think it -- I'm sorry. I
 4 just think it would bring in that layman's vocabulary
 5 that we can't all be experts in every field of what we do
 6 in our lives so that people have the confidence of what
 7 they're walking in to from a layman's perspective and not
 8 necessarily from a financial investment perspective.

9 MS. SCHOCK: Are you contemplating both the
 10 professional side as well that I have explained this to
 11 you and then you sign it?

12 INVESTOR ONE: I mean, that's a good idea as
 13 well. I mean, it depends on -- I don't know your
 14 standards of accountability, but regulations are
 15 complicated, right, so the easiest way to bring it in to
 16 layman's terms so that people really understand how they
 17 are walking through a particular process, I find that
 18 beneficial and I find that when both parties are mutually
 19 understanding of one another, that's when you get your
 20 work done.

21 CHAIRMAN CLAYTON: This will not be a success
 22 if this form just goes in the file.

23 INVESTOR ONE: Right.

24 CHAIRMAN CLAYTON: Then we've spent a lot of
 25 time and we haven't come up with -- we need something

1 that gets the consumer to the point where they can have
2 the conversation that they should be having, the kind of
3 conversation we are having with their investment
4 professional. That's the objective.

5 MS. BLASS: And also it needs to be -- for it
6 to be a success, it needs to stand on its own. Like if
7 you need to, I mean, you can read it and have questions
8 about it, but if it needs to be explained, then we have
9 not met the goal that we are looking for. Again, you can
10 have questions because it is a very complicated field, we
11 acknowledge that, but you should be able to walk away
12 with a, I am comfortable that I got information that I
13 can now move to the second layer on, not that I -- this
14 is just so opaque for me that I need someone to walk me
15 through every single item. The plan in motion is to
16 understand the form.

17 INVESTOR FOUR: I just have one question. Maybe
18 it's clear to everyone else, but I think the disclosure
19 document does a good job of explaining when a broker-
20 dealer has a best interest obligation and how that
21 impacts the overall relationship. I'm not sure I
22 understand totally or with any real understanding if I'm
23 dealing with on a particular transaction what the
24 broker's obligation to me is under the best interest rule
25 versus the investment adviser's under the fiduciary rule

1 how it kind of -- how that may or may not differ or how
2 they're going to deal with me on an individual
3 transaction. For instance, if I buy a mutual fund and
4 there are a couple of mutual funds that are equally
5 suitable for me but may have different fees, under the
6 best interest can a broker sell any of those to me? Is
7 that consistent with that?

8 CHAIRMAN CLAYTON: So let me try and say what
9 we're doing here which is I talked about the different
10 type of model which is in your case, hey, put me in some
11 mutual funds that do this for me, okay. In both cases
12 whether it's an investment adviser or a broker-dealer,
13 you are not allowed to put your interests ahead of mine.
14 So it's the same fiduciary principal you're not allowed
15 to put yours ahead of mine. In the broker-dealer
16 context, you don't have to look across my portfolio and
17 say, hey, Jay, you know, I'm not sure that makes sense
18 for you from your overall objectives. It's that you can,
19 but it's not part of the relationship. But what you
20 can't do is say, hey, you know, these are both suitable
21 but I'm going to put you in the one that makes me a whole
22 lot more money. That can't be the basis for your
23 decision.

24 INVESTOR FOUR: Okay. Good.

25 CHAIRMAN CLAYTON: And as an investment

1 adviser, you shouldn't be able to do that, either.

2 INVESTOR EIGHT: Right.

3 CHAIRMAN CLAYTON: Now, just to be clear, this
4 is not well understood. An investment adviser could put
5 you in one where they got a fee rebate if they told you
6 that. That's the way the law works today. That's one of
7 the reasons why we are increasing the level of fee
8 transparency across the board.

9 Is it time to wrap up? Sorry, I could do this
10 all day.

11 INVESTOR EIGHT: I just have a quick question, how
12 many of these roundtables are you doing?

13 CHAIRMAN CLAYTON: So we are doing a total of
14 six. If I can give full disclosure, I am participating
15 in four of them and we are doing them around the country.
16 Do you think they are a good idea?

17 INVESTOR EIGHT: Yeah, I do. I was just curious as
18 to whether there was more or less consistent kind of
19 feedback you're getting at these.

20 MS. BLASS: You're the second one, yes, but
21 you've had some new ideas also like the calculator, the
22 cost calculator and some other things.

23 CHAIRMAN CLAYTON: The cost calculator, the
24 video, the I'm coming at this from a savings perspective
25 not an investing perspective, how do we make sure that

1 people think about it in that way. You know, saving
2 products don't have drag, they have an interest rate. It
3 may not be the interest rate you want, but it doesn't
4 have that kind of fee drag, at least, you know, we hope
5 not. So these are very helpful. I know you folks all
6 have other things to do with your day, so I appreciate
7 you very much. I'm sorry.

8 INVESTOR SEVEN: I am a graphic designer, and you
9 need a graphic designer. I mean, it's all -- the words
10 run together, and even if it's more than these pages that
11 you are trying to keep it to, if it makes it easier for
12 things to stand out, we'd be more willing. And your
13 earlier question about updates, just do it in red. It
14 always lets everybody know. If there's something red on
15 here, it's a new thing. But there's got to be a way.

16 MS. BLASS: If you have other ideas for us on
17 how to make the design better or more interactive or pop
18 out, we definitely appreciate your feedback.

19 INVESTOR SEVEN: Okay.

20 MS. ESAU: All right. So I have an opportunity
21 to do closing remarks. All I would like to say is thank
22 you very much for coming. This event can only be
23 successful if we have a great panel, which, we did, and
24 we have people like you who show up, and who
25 participate, and we have very robust dialogue. So I would

1 like to thank Dalia, Chair Clayton, Lori, and Lourdes.
2 And they said the bar was set pretty high because the
3 prior roundtable was in Houston, but I think we did a
4 pretty good job.

5 So thank you, again, very much for
6 participating. Thank you.

7 (Whereupon, at 11:33 a.m., the roundtable
8 was concluded.)

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