



***Submitted Electronically to rule-comments@sec.gov***

August 7, 2018

Brent J. Fields, Secretary  
U.S. Securities and Exchange Commission  
100 F Street, NE  
Washington, D.C. 20549

**Re: File No. S7-07-18: Regulation Best Interest  
File No. S7-08-18: Form CRS Relationship Summary; Amendments to Form ADV;  
Required Disclosures in Retail Communications and Restrictions on the Use of Certain  
Names or Titles  
File No. S7-09-18: Interpretation Regarding Standard of Conduct for Investment  
Advisers**

Dear Secretary Fields:

The Principal Financial Group® (“Principal”) appreciates the opportunity to provide comments on the Securities and Exchange Commission’s (the “Commission”) Standard of Conduct Rulemaking Package, including the proposed Regulation Best Interest; proposed Form CRS Relationship Summary (“Form CRS”); Amendments to Form ADV; Required Disclosures in Retail Communications and Restrictions on the Use of Certain Names or Titles; and the proposed Commission Interpretation Regarding Standard of Conduct for Investment Advisers.

Principal is in the financial services industry offering investment, income, and insurance solutions, and retirement plan recordkeeping services, as well as providing education and administrative services to small- and medium-sized employers, their employees, and individual investors. We currently offer services to more than 50,000 retirement plans and over 5 million employee participants. In addition to our experience with developing and offering investment product solutions, our comments also reflect our experience with a dual-registrant retail Broker-Dealer and Registered Investment Adviser affiliate offering a variety of products and solutions for individuals and businesses through our Registered Representatives/Investment Advisor Representatives (“financial professionals”).

Investors have the choice to receive investment services and products that suit them best, as well as choice in how to pay for those services and products. They can access our services and products through our 1,640 financial professionals via a face-to-face meeting or through our phone-based services. Financial professionals offer a mix of affiliated and unaffiliated mutual funds, exchange traded funds, annuities (variable, fixed and fixed indexed), and insurance products, as well advisory products and services to almost 500,000 investors through our retail Broker-Dealer and Registered Investment Adviser affiliate.

We applaud and support the Commission's step to reassure consumers that when they interact with a financial professional, the guidance given will be in the consumer's best interest, regardless of the type of investment services provided or the securities-related investment product purchased. Principal has long been supportive of a harmonized, principles-based Best Interest Standard, and we urge the Commission to expeditiously finalize its rule. A standard that is harmonized across Federal agencies, self-regulatory organizations, and the various State regulators provides consistency, clarity, and stability to consumers and the market. A principles-based approach effectively protects and preserves options to access financial education and assistance for retail investors, as well as investors' choice of financial professional, and the method of payment for their chosen financial services and products.

Importantly, we support the final rule preserving both models of distribution - Broker-Dealer and Registered Investment Adviser. Preservation can be accomplished by maintaining a principles-based approach that provides Broker-Dealers the flexibility to establish a supervisory system in a manner that reflects their business model. Avoiding a rule that's too prescriptive allows the Broker-Dealer to focus on areas where heightened concern may be warranted.

Promptly finalizing a harmonized, principles-based Best Interest Standard will best serve consumers by preserving choice and providing stability. Based on our expertise, as well as our experience with the Department of Labor Fiduciary Rule, we recommend preserving consumer choice and clarifying requirements of Broker-Dealers and Registered Investment Advisers. Specifically, we are commenting on the proposed definition of the retail customer, conflict of interest obligations, standard of care obligation, and disclosure regime.

### **The Proposed Definition of "Retail Customer"**

The Commission proposes to define "retail customer" as: "a person, or the legal representative of such person, who: (A) receives a recommendation of any securities transaction or investment strategy involving securities from a broker, dealer or a natural person who is an associated person of a broker or dealer, and (B) uses the recommendation primarily for personal, family or household purposes." The Commission noted its intent to extend the Section 913 of the Dodd-Frank Act definition beyond "natural persons" to "any persons" to cover non-natural persons, such as trusts that represent the assets of a natural person and to maintain consistency with the Section 913 definition in limiting the application of Regulation Best Interest to "any person, or the legal representative of such person, receiving and using a recommendation primarily for personal, family, or household purposes, such as trusts that represent natural persons."

While the Commission's proposal is directed at retail investors, not institutional investors (such as retirement plan fiduciaries), it would be helpful for the Commission to clarify the definition of "retail investor." Retirement plan fiduciaries (including employers and their representatives) are responsible for selecting and monitoring the investment options subsequently made available to the covered participants and beneficiaries of a plan. Plan sponsors are obligated under fiduciary laws to administer their retirement plans in the interest of participants and beneficiaries as a whole. As such, they are not focused on any one participant's individualized needs or a participant's unique personal, family, or household situation, but on participants and beneficiaries covered by the plans as a group. Regulation Best Interest is tailored toward individual needs, and therefore, inclusion of plan sponsors in the

definition of “retail investor” would be inconsistent with the principles of the proposal. We urge the Commission to clarify that plan sponsors and other plan fiduciaries are not retail investors.

Similarly, other Registered Investment Adviser and Broker-Dealer affiliates of Principal serve primarily institutional clients in business-to-business relationships. We urge the Commission to clarify important differences in distribution and delivery of services to institutional clients, or other sophisticated clients (whether or not natural persons) who may also employ the services of a sophisticated intermediary unrelated to the Investment Adviser or Broker-Dealer.

### **The Proposed Conflict of Interest Obligations**

Principal supports Regulation Best Interest’s intent to impose a requirement that Broker-Dealers establish, maintain, and enforce policies and procedures reasonably designed to identify, disclose, and address material conflicts of interest associated with recommendations under Regulation Best Interest.

However, the Conflict of Interest Obligation as currently proposed, with two distinct requirements, creates unnecessary complexity. Combining the two requirements into a single obligation stating that Broker-Dealers establish, maintain, and enforce policies and procedures reasonably designed to “identify, disclose and *manage* all material conflicts of interest (including those arising from financial incentives)” streamlines and simplifies this obligation. In addition to reducing unnecessary complexity, the approach provides Broker-Dealers the flexibility to appropriately tailor policies and procedures to account for business practices, size and complexity, and the services and products offered, as well as the resulting or associated conflicts of interest. In addition, the streamlined language would provide Broker-Dealers greater clarity to develop appropriate compliance and supervisory policies and procedures.

### **The Proposed Standard of Care Obligation**

As we are seeing with many Baby Boomers retiring every day, Americans are living longer, requiring retirees to stretch retirement savings. In the last 40 years, employers have moved away from offering defined benefit pension plans and moved toward defined contribution savings plans. As a result, more and more Americans are retiring with inadequate retirement income due to insufficient savings. Under Regulation Best Interest, the Broker-Dealer must exercise reasonable diligence, care, skill, and prudence when making recommendations. We encourage the Commission to clarify that longevity risk is an appropriate factor firms can consider in addition to the factors required to meet the standard. Especially when thinking about lifetime income, the risk of running out of savings is an important consideration.

### **The Proposed Disclosure Regime**

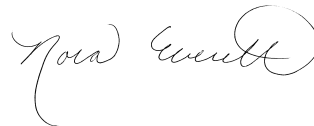
Principal agrees with and supports the Commission’s principles-based approach to disclosure within the proposed Regulation Best Interest and Form CRS. Retail customers want and need clear and concise information to help them understand how and in what capacity a financial professional is acting when discussing certain investment services and products. We are concerned that the definition of “retail investor” under proposed Form CRS could encompass retirement plan participants and beneficiaries. Delivering Form CRS in every interaction through a call center or otherwise is not practical or cost effective, and in many cases duplicative of disclosures already provided to retirement plan participants. We recommend excluding retirement plan participants and beneficiaries from the definition of “retail

investor,” or that the delivery requirements related to such investors are adapted to allow inclusion in periodic plan notices, such as ERISA Reg. section 404a-5.

In addition, Form CRS seems to contemplate an account structure. However, this approach could cause confusion in regard to products typically not held in a brokerage account. For example, variable annuities are not typically sold and held within brokerage accounts; rather, when a client purchases a variable annuity recommended by a Broker-Dealer, the product is typically held by the insurance company that issues the annuity. This could lead to investor confusion regarding the status of a variable annuity that has been recommended by the Broker-Dealer. We request clarification by the Commission on use of Form CRS for such services, and that such clarification include additional flexibility for revision of the form to the reality of the transaction or relationship at hand. Adapting Form CRS would be consistent with the Commission’s overall objectives in providing flexibility for Broker-Dealers to consider the facts and circumstances in determining how best to comply with the requirement to provide Form CRS to retail investors. In addition, the Commission’s clarity and guidance on the timing requirements for the delivery of the disclosure would be helpful.

Thank you for the opportunity to comment on the proposal. We appreciate the Commission’s work to develop a harmonized, principles-based regulation. In the absence of significant changes, we hope the regulation can be finalized quickly. We stand ready to assist the Commission in any way that may be helpful.

Sincerely,

A handwritten signature in cursive script that reads "Nora M. Everett". The signature is written in black ink and is positioned to the right of the typed name.

Nora M. Everett  
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Cc: The Honorable Jay Clayton, Chairman  
The Honorable Robert J. Jackson, Jr.  
The Honorable Hester M. Peirce  
The Honorable Kara M. Stein