

TO: File Nos. S7-07-18, S7-08-18, S7-09-18  
FROM: Benjamin Tecmire, Division of Investment Management  
RE: Meeting with Representatives of AARP  
DATE: February 12, 2019

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On February 12, 2019, representatives of the Securities and Exchange Commission (“SEC”) participated in a meeting with representatives of AARP. The SEC representatives present in person were: Dalia Blass, Sarah ten Siethoff, Sara Cortes, Jennifer Porter, Roberta Ufford, Sirimal Mukerjee, Elizabeth Miller, James McGinnis, Elizabeth Miller, and Benjamin Tecmire from the Division of Investment Management; Lourdes Gonzalez, Alicia Goldin, Emily Westerberg Russell, Stephen Benham from the Division of Trading and Markets; Mattias Nilsson from the Division of Economic and Risk Analysis. The following representatives of AARP were present in person: Cristina Firvida and Jasmine Vasquez. There were additional SEC representatives who participated by telephone.

The participants discussed, among other things, the SEC’s proposed rules and interpretation relating to standards of conduct for investment professionals. After the meeting, the AARP representatives circulated the attached document.



December 7, 2018

The Honorable Jay Clayton  
Chairman  
U.S. Securities and Exchange Commission  
100 F Street, N.E.  
Washington, D.C. 20549

Dear Chairman Clayton:

We are writing on behalf of AARP and all Americans age 50 and older, and the Certified Financial Planner Board of Standards, Inc. (CFP Board), to deliver the results of a second round of recent usability testing of the proposed Customer Relationship Summary (CRS). Thank you for the opportunity to provide this information and to work with you on the CRS form.

We believe the results of this round of testing, much like our first round of testing, clearly indicate the need for the Commission to rethink, revise, and retest the content, language, and format of the CRS, as well as its underlying policy. During this testing we found multiple opportunities to amend the CRS and improve the experience of the retail investor. This is demonstrated in each phase of our testing. However, we also found that despite our best efforts we could not improve the overall clarity related to important issues. Most significant was the challenge with attempting to clarify the underlying best interest standard, which continued to cause confusion and ultimately rendered retail investors unable to make informed decisions about which type of account or service would be best for them.

Recognizing the important role the CRS plays in the Commission's proposed regulatory approach to Regulation Best Interest, our organizations hired Kleimann Communications Group, Inc. (Kleimann), a non-affiliated third party, for two separate research projects. The first project was concluded in September 2018 and the findings were filed with the Commission.<sup>1</sup> That research was centered on testing the combined Broker-Dealer and Investment Adviser services disclosure with typical consumers using the SEC's Dual Registrant Mock-up of Form CRS. As previously communicated, we found that overall participants had difficulty distinguishing the standards of conduct between different financial professionals, they did not understand how conflicts of interest could affect them, and they struggled with the language used on the form, especially with respect to fees and conflicts of interest.

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<sup>1</sup> Letter from AARP, the Financial Planning Coalition, and the Consumer Federation of America to the SEC, dated Sept. 11, 2018, available at <https://www.sec.gov/comments/s7-08-18/s70818-4341455-173259.pdf>.

Now we write with the findings of our second round of research where Kleimann conducted supplementary usability testing and redesign of the CRS. The purpose of this round of research was to develop and test alternate language and design for a CRS used by the dually registered Investment Adviser and Broker-Dealer. Within that task, we set three overarching goals for the alternative CRS:

1. Enable retail investors to understand the basic services offered by an Investment Adviser, Broker-Dealer, and dual registrant and the terms under which those services are offered;
2. Enable retail investors to compare the services of an Investment Adviser and a Broker-Dealer; and
3. As a result of improved comprehension and comparability, to enable retail investors to make informed decisions about the types of accounts and services that are most appropriate for them.

Toward that end, we adopted alternative language and formatting based on lessons learned in our first round of research. These included shortening the document from four pages to the front and back of one page, reordering the topics, simplifying and clarifying the language, and adopting a question-and-answer format. The purpose of all these changes was to improve the usability of the CRS, reinforce the differences between the two types of accounts, and thereby facilitate a retail investor's ability to make an informed decision.

Testing of the revised CRS took the form of 18 one-on-one, 60-minute interviews in three geographically diverse sites: Denver, Colorado; Tulsa, Oklahoma; and St. Louis, Missouri. After each round of testing, we identified the major issues that presented problems during that round of testing. In some cases, we proposed a design or content modification to CRS as an experimental solution in the next round of testing. The goal was to evolve an alternate CRS that retail investors could use to better understand the differences between Broker-Dealer and Investment Adviser services.

Despite our extensive revisions, the inescapable conclusion of this second round of testing, like the previous round, was that many, if not most, investors failed to understand many of the key points illustrated in the CRS and, therefore, could not use it to make an informed choice of accounts. However, as we discuss further below, we believe this iterative testing demonstrates opportunities to further improve the CRS and its underlying rule so that retail investors can be informed and protected.

We hope this testing will be another step in a process of revision and retesting by the Commission to arrive at a further clarification of the rule and a final document that clearly conveys these important issues to retail investors. As we have in the past, we continue to urge the Commission to commit to undertaking such a process and to delay final adoption of its regulatory package until it can be certain that the disclosures that



form the centerpiece of that regulatory package work as intended to support informed investor decision-making.

## KEY TAKEAWAYS

**The overall level of comprehension was poor, despite efforts to redesign (language and format).**

The redesigned CRS provided participants with a somewhat better understanding than the Commission's originally proposed CRS, most notably in broad differences in the underlying investor relationship of Investment Adviser and Broker-Dealer accounts. On the other hand, participants continued to struggle to understand applicable legal obligations, conflicts of interest, and cost structure. The more technical or abstract the concept, the lower the level of comprehension.

**Most participants did not understand disclosures regarding legal obligations.**

As we previously noted, in proposing Regulation Best Interest, the Commission chose to adopt a standard of conduct for broker-dealers that it is similar to the standard for investment advisers but not identical. It did so on the assumption that disclosures would be sufficient to alert investors to these differences. Our first round of testing of CRS did not support that assumption. We found that most participants assumed the standards would be the same despite the different language used to describe them.

In this round of testing, we found that, unlike with the Commission's CRS mock-up, participants understood that the two standards were the fiduciary standard for the Investment Adviser and best interest standard for the Broker-Dealer. However, participants struggled with defining these legal standards, especially when asked to define the best interest standard. Participants wondered whose best interest would be served, especially when it came to the brokerage account type, since the underlying relationship was a sales relationship. As further detailed in the accompanying report, this likely reflects, in part, our own difficulty in arriving at a clear description of a standard that the Commission has not itself clearly defined.

**Participants understood the existence, but not the import, of conflicts of interest.**

Participants struggled to define "conflicts of interest" although they had a vague and general intuitive sense that it would not be good for them. As we previously found, most participants were able to understand, based on the CRS, that conflicts of interest were present in both the brokerage and the advisory accounts. They understood, moreover,



that these conflicts took the form of payments that created incentives to recommend certain products. For most participants, however, that is where their understanding ended, and some did not even demonstrate that level of comprehension.

In addition, participants could not adequately explain what it meant to consent to a conflict. Some participants wondered to what they were giving consent, finding the definition and the timing unclear. Other participants mistakenly assumed that having to give consent implied that they would be giving explicit consent for any transaction that included a conflict of interest. Across testing, few participants knew what the word “mitigate” meant and, thus, were confused about how exactly conflicts of interest were to be handled, some even wondering if they would know if a conflict existed. Regardless of whether they saw the conflicts as a threat or simply as business as usual, they want their interests to come first.

### **Participants were deeply confused by the disclosure of fees and costs.**

Participants in the testing understood the need for brokers and advisers to get paid for their services, but nearly all expressed surprise at the types and number of fees described in the CRS' Costs and Fees section. With few exceptions, participants understood the basic pay structure of a percentage based on the value of total assets under management (AUM) in Investment Adviser accounts or a commission based on each transaction completed in Broker-Dealer accounts. However, participants wanted examples of costs built into the CRS so they could identify dollar amounts that they may potentially pay. With regard to the hyperlinks provided in this section, participants wanted descriptions of those links to be more concrete in terms of what information they would find. While some were clearly interested in additional information, others admitted they would not follow the links because it was extra effort, they were uninterested, or the link did not itself suggest what would be there.

### **Conclusion**

Each of these issues is discussed in greater detail in the attached report from Kleimann, which includes actual quotes from participants in the testing. Reading these quotes helps to reveal the extent to which they genuinely struggle to understand the topics discussed in the CRS. Too often that struggle leads not just to a lack of understanding but to a misunderstanding of the information presented. While more testing is needed, only one conclusion is possible based on our initial results: the CRS for dual registrant firms, as currently designed and drafted, does not support an informed decision between different types of accounts. While investors like the idea of a brief disclosure document for brokers and advisers, the disclosures as currently conceived do not achieve the intended result.

Although our testing identified serious problems with the proposed CRS disclosures, it also shows opportunities to strengthen the form and create better understanding from the form. The final CRS form resulting from our effort is not presented as a final or perfect product. Rather, we wanted to show that with explicit assumptions about the form's content, use, and readers, it is possible to solve some of the issues inherent in such an undertaking and identified in our previous round of testing. Ultimately, a strong and clear best interest standard, along with plain language and careful presentation, should facilitate clarity around key ideas, such as the best interest standard, the concept of consent, or the term "mitigate," which participants struggled to understand. We recognize that clarification of the standard is no easy task, but without such efforts at a policy level, improvements at a disclosure level will be modest.

As we have done before, we urge you not to move forward to finalize the Regulation Best Interest regulatory package until these issues have been resolved. Disclosure plays too central a role in the proposed approach for the Commission to dismiss evidence that the proposed disclosures do not fulfill their intended function. We look forward to working with the Commission to improve the final rule and forms to achieve a comprehensive, clear, and useful disclosure form that protects retail investors as they make crucial decisions that will impact their long-term financial security.

Sincerely,

AARP  
CFP Board

cc: Commissioner Robert J. Jackson, Jr.  
Commissioner Kara M. Stein  
Commissioner Hester M. Peirce  
Commissioner Elad L. Roisman



# Report on Development and Testing of Model Client Relationship Summary

December 5, 2018

Presented to AARP and Certified Financial Planner Board of Standards, Inc.



Prepared by

**Kleimann Communication Group, Inc.**

[www.kleimann.com](http://www.kleimann.com)



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# Section 1: Introduction

## Overview

The Securities and Exchange Commission (SEC) has proposed a Customer Relationship Summary disclosure (Form CRS) to give to retail investors as they begin an engagement with a Broker-Dealer or Investment Adviser. The disclosure is intended to assist investors in making an informed choice between different types of professionals and different types of accounts. Toward that end, it provides standardized information about six common areas relevant to that selection:

- Types of Relationships and Services
- Our Obligations to You
- Fees and Costs
- Conflicts of Interest
- Additional Information
- Key Questions to Ask

The SEC has proposed three versions of Form CRS: one for use with standalone Broker-Dealers, one for use with standalone Investment Advisers, and one for use by dual registrant firms that provide both Broker-Dealer services and Investment Adviser services. The SEC developed mockups of each of the three versions.

AARP, Consumer Federation of America (CFA), and the Financial Planning Coalition (FPC), which is comprised of Certified Financial Planner Board of Standards, Inc. (CFP Board), the Financial Planning Association (FPA) and the National Association of Personal Financial Advisors (NAPFA), all filed comments with the SEC as part of the formal comment process on the regulatory proposal. As a supplement to their comment letters and to better analyze the SEC proposal, the groups previously hired Kleimann Communication Group (Kleimann) as a non-affiliated third party to test the combined Broker-Dealer services and Investment Adviser services disclosure with typical consumers.<sup>1</sup> In its September 10, 2018, report, Kleimann reported that, overall, participants:

- had difficulty throughout the proposed Form CRS with sorting out the similarities and differences between the Broker-Dealer services and Investment Adviser services;
- had particular difficulty recognizing the different standards to which Investment Advisers and Broker-Dealers are held;

<sup>1</sup> Kleimann Communication Group, *Final Report on Testing of Proposed Customer Relationship Summary Disclosures*, September 10, 2018, Washington, D.C.

- did not understand the fundamental difference in the relationships;
- did not understand how conflicts of interest could negatively affect them;
- had difficulty understanding some vocabulary, especially with respect to fees and conflicts of interest;
- found the basic design of Form CRS confusing.

Based on that research project and a consultation with SEC Chairman Jay Clayton, AARP and CFP Board engaged Kleimann for an additional one-month project. The purpose was to develop and test alternate language and design for a Form CRS used by the dual registered Investment Adviser and Broker-Dealer.

Within that task, we set three overarching goals for the alternate Form CRS:

- **Comprehension.** Form CRS should enable potential investors to understand the basic services offered by an Investment Adviser, Broker-Dealer, and dual registrant and the terms under which those services are offered.
- **Comparison.** Form CRS should enable potential investors to compare the services of an Investment Adviser and a Broker-Dealer. Potential investors should be able to identify the key differences between the two services or, at least, to recognize what they don't understand and be prompted to ask additional questions or do additional research about the aspects they do not understand.
- **Choice.** Both comprehension and comparison should enable potential investors to make informed decisions about the services that are most appropriate for them, given their personal circumstances.

To that end, the objectives of the development and testing were to:

- Clarify the language to ensure better understanding of basic concepts by potential investors, so they have adequate information to make a choice that is right for them.
- Refine the design to improve its usability and reinforce the differences between the two types of accounts.
- Test the revised content, language, and design in three rounds of iterative form development.



## Assumptions

As we developed the alternate Form CRS, we made several critical assumptions about Form CRS itself and about readers based on research and our previous testing of the SEC Form CRS.

### About Form CRS

Based on the panel discussions at the Atlanta, Georgia, meeting of the SEC's Investor Advisory Committee and input from subject matter experts involved in this project, we made several assumptions about Form CRS that influenced our decisions about content and design:

1. **Our redesign of Form CRS will use the dual registrant Form CRS as the basis of our revised design.** AARP and CFP Board decided this version of Form CRS seemed most appropriate for several reasons: (1) the majority of clients work with firms that are dually registered as both an Investment Adviser and a Broker-Dealer;<sup>2</sup> (2) this type of form offers the more complicated presentation of services; and (3) our previous sponsored study had examined Form CRS for dual registrants proposed by the SEC.
2. **Our redesign of Form CRS will follow the SEC topics and content.** We chose not to adjust the topics or content significantly from the SEC's proposed Form CRS. We wanted to work within the SEC's parameters and assumed our work would be more useful to the SEC if we worked within its current policy decisions as reflected in the proposed Form CRS.
3. **Potential investors should receive Form CRS before they choose their type of service— Investment Adviser or Broker-Dealer.** Form CRS is intended to serve as a decision-making aid for the potential investor. It is the reason Form CRS provides information about both the Investment Adviser and Broker-Dealer. Thus, Form CRS is a transactional document that requires action from the person who is reading it. For it to fulfill its purpose, the potential investor must receive it before making a decision.
4. **Form CRS should be as short as possible.** Form CRS is a summary of key information and is not intended to give complete information about every detail of the relationship or services offered. We kept the length of the redesigned Form CRS to one 8 ½" x 11" sheet of paper, front and back. The goal was to provide the most critical information essential to a basic understanding that could allow an informed decision without overwhelming potential investors with the amount of information. As the team defined the "most critical information," we found that Form CRS needed the allotted length to communicate the information and to

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<sup>2</sup> The SEC reports that "366 broker-dealers were dually registered as Investment Advisers; however, these firms hold nearly 90 million (68%) customer accounts." See <https://www.sec.gov/rules/proposed/2018/34-83063.pdf> at pg. 204.

retain the ability for a potential investor to discriminate between the two services.

5. **Form CRS should allow for layered disclosure.** Because Form CRS provides only a summary, potential investors may want additional information. Throughout the document, we built in four links to additional information that is too lengthy or complex to include in a summary document because it is:
  - variable for the investor and the firm, such as fees paid;
  - significantly detailed, such as the options on how a relationship could work;
  - detailed and complex information individual to the firm, such as how it specifically handles different instances of conflicts of interest.

Thus, the links allow for more detailed information to be provided as a supplement to the summary, which allows the summary to remain shorter. However, it is possible that testing could show potential investors as unwilling to use the links for additional information. If so, key information should be included in Form CRS.

### **About Readers**

Making disclosures work for consumers—whether potential investors or others—requires acknowledging some basic assumptions about readers. These assumptions, based on research, influenced many of our decisions about content, design, and word choice.

1. **Readers of functional documents read to do, not to learn.** Functional documents are not provided for pleasure, nor are they read for pleasure. As a result, readers look for a motivation to read them and that motivation is often a required task: make a decision, compare two choices, fill out a form, choose between options. This concept needs to be built into Form CRS. Otherwise, Form CRS can come across as merely providing information. This undercuts the transactional nature of Form CRS as a decision-making tool. With that in mind, we have sought to emphasize the task aspect of Form CRS.
2. **Readers ask questions when they read, especially of functional documents.** When readers enter a text, they begin to ask high-level questions, such as what is the topic, is this relevant to me, and should I continue reading? If those high-level questions are answered with yes, readers then ask more questions related to the specific topic. These questions can be more about advantages, disadvantages, cost, or timeline, but they will be more specific to the topic. For good design, we want to build upon this tendency by identifying the key questions investors should or are likely to ask and featuring them prominently in the text, thus easing the cognitive task for readers. As a result, we used questions in the headings to introduce each section's major topic.
3. **Readers skim and read non-linearly.** As much as content specialists want readers to notice and absorb each word in the order given, this is not how readers actually behave. Readers skim through content, looking for key words and for



what grabs their interest. With dense paragraphs and undifferentiated text, readers tend to skip passages of text or simply not read. Headings and white space allow readers to have an overview of the content, see the overall structure of the content, and choose which parts most interest them in the order they want. Generally, readers then work to backfill the parts they skipped. With this in mind, we placed the headings in prominent positions within each design to facilitate skimming.

4. **Readers use design as much as they use words.** Comprehension is more than simply decoding letters and shaping words into sentences. True comprehension is understanding the relationship of one piece of information to another and the implications of one detail to another. Good design requires that we use white space, typography, bolding, indentations, headings, bullets, and other techniques to show the reader the hierarchy of information and the relationship of one piece of information to another. Thus, we used these techniques within each section of Form CRS to enhance meaning.
5. **Readers require simplicity.** When people work within their field of knowledge, they can deal with complex concepts, abstract language, jargon, and complicated sentences. They know the topic, and they're familiar with the language. However, when readers move into a less familiar field, it's a new game. To help readers understand the information and to be able to compare, we need to avoid abstract words, simplify the language, and break up sentences as much as possible. With this in mind, we simplified language and sentence structure in plain English, using terms of art as rarely as possible.

## Our Approach

This project had two parts:

- Part 1. Content and design development
- Part 2. Iterative formative testing

In Part 1, we used the results of our previous testing as well as our assumptions about both Form CRS and readers as the foundation for our work. Working with those assumptions, we formulated the key questions to which investors would want answers. Then, we worked with content experts from the team to identify the answers. We used divergent thinking to expand the information, and we worked with the team to condense the information to fit on the front and back of one sheet of paper. Working with an information designer, we developed two alternate designs for the content. See Appendix B for the initial designs used at the first testing site.

In Part 2, we conducted a total of 18 one-on-one, 60-minute interviews in three geographically diverse sites: Denver, Colorado; Tulsa, Oklahoma; and St. Louis, Missouri. After each round of testing, we identified the major issues that had presented

problems during that round of testing. In some cases, we proposed a design or content modification to Form CRS as an experimental solution in the next round of testing. In other cases, we alerted the next round of testing researchers to determine whether the issue continued to emerge. The goal was to evolve an alternate Form CRS that potential investors could use to better understand the differences between Broker-Dealer services and Investment Adviser services.

## Methodology

**Research Questions.** Within the three objectives of achieving comprehension, comparison, and choice for the potential investor, we identified four basic research questions to assess as participants reviewed the two designs for the alternate Form CRS:

1. Can participants articulate the key differences between Investment Adviser services and Broker-Dealer services, that is, advising versus selling?
2. Can participants, having understood the difference in the basic relationship of the Investment Adviser account and Broker-Dealer account, then relate that to the differences in services, how the relationship works with the investor, legal obligations, and conflicts of interest?
3. Does Design 1 or Design 2 result in better understanding of the content of Form CRS?
4. Do participants have difficulty with any particular content or design elements of Form CRS?

## What We Tested—Alternate Designs

For each round of testing, we tested two alternate designs of Form CRS used by dual registrant firms that offer both Broker-Dealer services and Investment Adviser services.

In the first two rounds of testing, the designs shared an identical set of questions used as headings:

- What kind of basic services do we provide?
- How do you pay for our services?
- How does our relationship work?
- What is our legal obligation to you?
- What is a financial conflict of interest?
- How do we handle a financial conflict of interest?
- How can you research our firm?

Although initially the content under each heading was identical, both the questions and the content evolved slightly from site to site during testing.

**Figure 1. Alternate Form CRS Design 1**

In this design, the key questions are placed in shaded boxes in the far-left column. The answers are displayed to the right of the shaded boxes in two columns, the first for Investment Adviser services and the second for Broker-Dealer services.

**Figure 2. Alternate Form CRS Design 2**

In this design, the headings run across the page in a shaded bar. At the start of each bar is an icon. Beneath each heading, two columns of information provide the answers to the heading question. The first column holds Investment Adviser information; the second holds the Broker-Dealer information.



## How We Tested

We conducted qualitative interviews that incorporated a think-aloud technique followed by specific questions. The goal of qualitative testing is not to develop statistical results; that is the scope of quantitative validation. In qualitative testing, we focus on how consumers interact with the disclosure, and a small sample size is typical. According to Robert Virzi, an experimental psychologist and usability expert, five participants uncover 80% of usability problems and ten participants uncover 90%.<sup>3</sup>

The 60-minute interview was divided into four parts.

1. **Introduction.** In this part, we confirmed that participants had agreed to participate and had signed a confidentiality statement. We provided a brief overview of the topic, explained the structure of the interview, and introduced the think-aloud technique. We also introduced a task: they must decide whether they want to use Investment Adviser services or Broker-Dealer services. To provide a context and cognitive frame for the participants to process the information as they read the disclosure, we provided them with a brief scenario. In this instance, the scenario stated:
  - You do not currently have any investment accounts.
  - You have \$10,000 or more to invest.
2. **Think-Aloud.** In this part, we asked participants to think out loud as they used one of the two designs. At each site, we alternated which design was seen first, with three participants seeing Design 1 first and three seeing Design 2 first. They could make any comments they wanted on any aspect of the document as they encountered it—without commentary from the moderator other than encouragement to talk aloud. During the think-aloud, participants could remark on parts that confused them, that they particularly liked, that they choose not to read. They could comment on the layout and how it helped or didn't help them understand the content. Whatever they commented on, it was done without the explicit intervention of the moderator and, as a result, provided their untainted, objective opinions about the materials.
3. **Structured Interview.** In this part, we encouraged participants to refer to Form CRS as they answered our questions. We asked specific, direct questions about the disclosure, such as, who monitors your investments with Broker-Dealer services? We also asked more open-ended questions, such as, how could a conflict of interest harm you? This combination of question types allowed us to elicit responses that could demonstrate two levels of cognitive skills. One is the ability to locate information within the disclosure (a fairly low-level cognitive skill). The other is the ability to integrate information and synthesize it into a rational evaluation (a more complex and higher-level cognitive skill). The higher cognitive

<sup>3</sup> Virzi, Robert. (1992). Refining the test phase of usability evaluation: How many subjects is enough? *Human Factors* 34,457-486.

skill set usually reflects a deeper understanding and comprehension of the material in the disclosure.

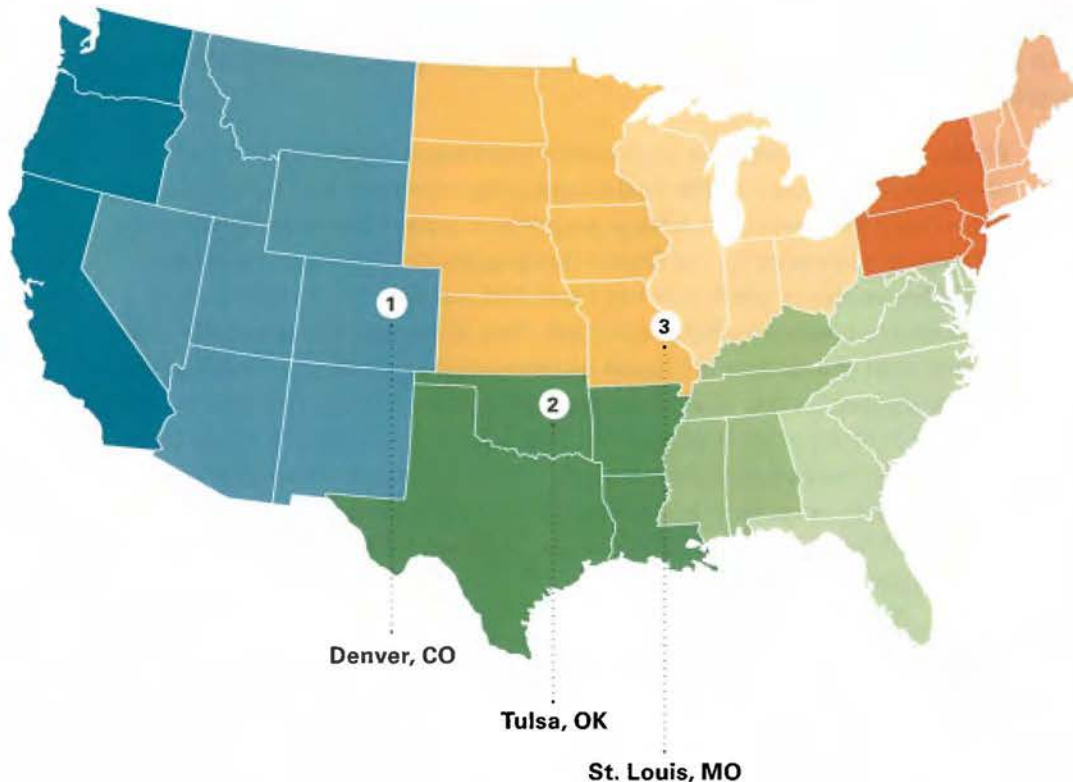
4. **Review of Alternate Design.** In this part, we showed the participant the design we had not used previously in their interview to discuss preferences between the designs.

## Who and Where We Tested

In each city, we recruited six participants who represented a mix of demographics, such as age, education, gender, and income. We recruited participants who had various types of accounts, such as 401(k) or IRA as well as those who had no accounts. We disqualified any participant who had a family member employed in financial services. See Appendix A Demographics for a table of demographic characteristics of the 18 participants across the three sites.

We tested in three geographically diverse sites. We chose Denver, Colorado, as a mid-sized, affluent city in the West/Mountain Census Bureau sub-region. We chose Tulsa, Oklahoma, as a small city in the South/West South Central Census Bureau sub-region. Our last site was a middle-income suburb outside St. Louis, Missouri, a mid-sized city in the Midwest/East North Central Census Bureau sub-region.

**Figure 3. Testing Locations**







## Section 2. Findings

### Overview

The redesigned Form CRS provided participants with significantly better understanding than the SEC Form CRS for some aspects, most notably the difference in the underlying relationship of Investment Adviser accounts and Broker-Dealer accounts. On the other hand, participants continued to struggle to understand other important issues, most notably differences in the legal obligations that would apply. The more technical or abstract the concept, the lower the level of comprehension.

In striking contrast to our previous testing on the SEC Form CRS, participants clearly understood the underlying relationship of the Investment Adviser account as advisory and the Broker-Dealer account as sales. In addition, they could list the similarities in the services of the two accounts, but they also were able to delineate key differences: the ongoing versus short-term advice inherent in the relationships; who had the responsibility for making the final decision on transactions; who had responsibility to monitor the account; and some aspects of the basic pay structure for each account. Generally, participants characterized Broker-Dealer accounts as requiring them to take more responsibility and that, as a result, they—as investors—would need more knowledge and expertise about investing and the markets than they would need with Investment Adviser accounts.

Despite these successes and improvements on the original Form CRS, this version of Form CRS shows the need for further development, testing, and refinement in several important areas:

**Costs.** With few exceptions, participants understood the basic pay structure of a percentage based on the total assets under management (AUM) value of the account for Investment Adviser accounts or a commission based on each transaction completed for the Broker-Dealer accounts. However, participants wanted examples of costs built into Form CRS, so they could identify what the accounts could potentially cost them. They suggested the possibility of an average cost of a sample fee based on percentage of AUM, or an average or sample transaction fee. In terms of the links, participants wanted links to be more concrete in terms of what information they would find at the link. While some were clearly interested in additional information, others admitted they would not follow the links because it was extra effort, they were uninterested, or the link didn't itself suggest what would be there. The exception was the high interest in finding more concrete cost information.

**Legal Obligations.** Unlike with the SEC Form CRS, participants understood that the two standards were the fiduciary standard for the Investment Adviser and best interest standard for the Broker-Dealer. However, participants struggled with definitions of both, particularly the best interest standard. Their difficulty



reflects, at least in part, the fact that the subject matter experts involved in the project struggled to develop a clear description of a standard that remains largely undefined in terms of its concrete obligations. Participants responded positively to the words “the highest legal standard” and “fiduciary standard.” They saw these as giving the Investment Adviser account more requirements and more accountability. Despite changes to the text to correct a perceived imbalance of information in later versions tested, participants continued to struggle to understand the best interest standard. They perceived Broker-Dealer accounts as being held to a lower standard. Some wondered whose best interest would be served, especially since the underlying relationship was a sales relationship with the Broker-Dealer account. Participants did understand, for the most part, that the standard for the Broker-Dealer account held only for sales recommendations. The warning inserted about not being required to choose “lowest cost, least risky, or best performing product” was misinterpreted by nearly all who commented on it. They explained how you get what you pay for, often ignoring the other two parts of the warning.

**Conflicts of Interest.** While modifying the Conflicts of Interest section on Form CRS seemed to increase some level of understanding in St. Louis, it did not give the participants an adequate level of understanding. At all three sites, participants grappled with a definition of “conflicts of interest,” although they had a vague and general intuitive sense that it would not be good for them.

Participants at all three sites could not adequately explain what it meant to consent to a conflict with an Investment Adviser. Some participants legitimately wondered to what they were giving consent, finding the definition and the timing unclear. Other participants mistakenly assumed that having to give consent implied that they would be giving “real time” consent for any transaction that included a conflict of interest.

Across sites, few participants knew what the word “mitigate” meant and, thus were confused about how exactly Broker-Dealer accounts would handle a conflict of interest, some even wondering if they would know if a conflict existed. Because the obligation to “mitigate” conflicts is not clearly defined in the proposed standard, subject matter experts were unable to come up with language to clarify this requirement.

**Research and Alert.** Many participants said that they would use the investor.gov site to research the firm, but few knew what specific information would be at that site. Although we specifically asked participants about their understanding of the titles of “adviser,” “financial consultant,” and “wealth manager,” few participants were able to distinguish among the titles in terms of roles or responsibilities. As a result, we introduced the Alert box in St. Louis. It proved helpful to St. Louis participants in making them aware of the lack of standardization of titles and the importance of clarifying roles.

**In general.** Participants understood the sections titled “What kind of basic services do we provide?” and “How does our relationship work?” They understood the basic fee structure of both types of accounts in the “How do you pay for our services?” section even though some wanted some sense of costs to be built into the Form CRS, so they could see examples of typical costs, since cost was a factor in choosing the type of account. On the other hand, participants had significantly more trouble with the section called “What is our legal obligations to you?” including the fiduciary and best interest standards, and with the sections “What is a financial conflict of interest?” and “How do we handle a conflict of interest?”—even when we combined these two sections and reordered the information. These sections were more abstract, and participants were simply less familiar with the concepts and terms. Over the course of the testing, we made minor changes to Form CRS to experiment with different approaches to increase understanding, not all of which were successful.

**One observation.** After the Denver and Tulsa testing, we observed that participants seemed to be reading Form CRS for information, often looking for what was similar between the two accounts. While we wanted them to see similarities, we also wanted to emphasize the differences, because we believed that their informed decision of which to choose would be based more on differences than similarities. As a result, for St. Louis, we changed the question headings to emphasize the differences and began each heading with “What is different ....?” This change did seem to help participants focus more on differences than similarities.

**After testing was completed.** At the end of testing, we edited Form CRS one last time, attempting to further simplify language and presentation. We also incorporated some of the recommendations that emerged as we were drafting the final report. As noted in the detailed findings above, there are still significant problems with the proposed disclosures, particularly with their failure to clearly convey differences in legal obligations or the importance of conflicts of interest. As such, we intended that this final version of Form CRS could serve not as a final model for the CRS, but as a stepping stone for further development and testing. See Appendix E for a version of this final draft.

## Organization of This Section

For the discussion of testing results, we have divided the discussion according to the topic areas of Form CRS. Within each topic discussion, we have included results from Denver, then Tulsa, then St. Louis. Each topic discussion ends with Conclusions and Suggested additional changes to Form CRS.” See the Appendices B, C, and D for the testing versions of Form CRS at each site.

## What kind of basic services do we provide?<sup>4</sup>

<b>What kind of basic services do we provide?</b>	<b>Investment Adviser Services</b>	<b>Broker-Dealer Services</b>
	<b>INVESTMENT ADVICE AND MANAGEMENT</b> <b>This is an advisory relationship.</b> We offer personalized investment advice by: <ul style="list-style-type: none"><li>• working with you to identify your investment goals,</li><li>• developing strategies to reach those goals,</li><li>• selecting investment products to meet your specific objectives,</li><li>• implementing our advice for you, and</li><li>• managing your portfolio.</li></ul>	<b>SALES RECOMMENDATIONS AND TRADING</b> <b>This is a sales relationship.</b> We offer brokerage services, by: <ul style="list-style-type: none"><li>• recommending investments for you to buy and sell based on an assessment of your financial situation and investment goals, and</li><li>• executing trades for you based on your investment decisions.</li></ul>

In this section of Form CRS, our primary goal was for participants to be able to identify the key difference in the relationship they would have with Investment Adviser and Broker-Dealer accounts—advisory or sales. Secondly, we wanted them to have an overview of the services they would receive from the two different accounts.

### Nearly all Denver participants identified a key relationship difference as advisory versus sales.

Participants primarily described the difference as an advising relationship with an Investment Adviser account and a sales relationship with a Broker-Dealer account. Several said the Investment Adviser account established a long-term relationship and the Broker-Dealer account created more of a one-time relationship, even if one used the same Broker-Dealer over time. Provided with a clear distinction between advice and sales recommendations, participants expressed a strong preference for advice.

*It looks like the Investment Adviser services are more advice to me about my entire portfolio and the Broker-Dealer is more I'd be dealing with a salesperson who is trying to sell me specific investments, stocks, and things like that.*

—Denver 003

*The first thing I notice is that I'm going to have a relationship with this Adviser... The other one [Broker-Dealer] they're just going to recommend, and I feel like they're just going to kind of leave me in the dust. I feel like they're just going to be like, "OK, well, this is what you should do." I feel like I'm going to trust an Adviser relationship more than just the brokerage.* —Denver 002

<sup>4</sup> All inserts at the start of each section are taken from Design 1 as tested in Denver. If we made substantial changes to the text between sites, we have inserted a copy of the changed text before we report the results for that site.



*...this side [Broker-Dealer] is kind of a little scary because it says buy and sell... So, the buying and selling part of it is for me... it kind of scares me. But this side with investment and developing strategies and advice, I think appeals to me.*

—Denver 004

## Tulsa participants also identified the advisory versus sales relationship as a key difference.

All participants demonstrated a basic understanding of the broad relationship differences between an Investment Adviser account and a Broker-Dealer account. Primarily participants noticed the sales versus advisory relationship, but further understood that Investment Adviser accounts establish a more goal-driven relationship, whereas Broker-Dealer accounts have a more transactional relationship. Participants often independently noted that the first section helped them understand a distinction that they could not make before.

*I wouldn't have [known the difference] before I read this, I don't think. But now I see that the Broker-Dealer is more of a sales tactic dealing with transactions. The Investment Adviser seems to be... more long-term investing.* —Tulsa 001

*It seems that the Investment Adviser has a more one-on-one [relationship], just based on the relationship of trust that they give you, rather than the other one [Broker-Dealer] that is more sales-based. It [the section] actually helped me because I didn't know the difference.* —Tulsa 005

*I would say the Broker's obligation is to facilitate the transaction to trade, buy, sell, or whatever they need to do... I think the Adviser is obligated to give you straightforward advice that you can trust, that they are obligated to look at your best interests or to put you first, I guess I'll say.* —Tulsa 002

*It looks like the Adviser takes my money and invests it based on their experience to accomplish the goals that I want to eventually meet. The Broker, I'm going to assume, takes my money and buys, purchases sales, moves, different items or stocks, but also assists me in making those decisions; my investment decisions, I guess.* —Tulsa 006

## St. Louis participants saw Design 1 with a different heading.

	<b>Investment Adviser Services</b>	<b>Broker-Dealer Services</b>
	<b>INVESTMENT ADVICE AND MANAGEMENT</b> <b>This is an advisory relationship.</b> We offer personalized investment advice by: <ul style="list-style-type: none"><li>• working with you to identify your investment goals,</li><li>• developing strategies to reach those goals,</li><li>• selecting investment products to meet your specific objectives,</li><li>• implementing our advice for you, and</li><li>• managing your portfolio.</li></ul>	<b>SALES RECOMMENDATIONS AND TRADING</b> <b>This is a sales relationship.</b> We offer brokerage services, by: <ul style="list-style-type: none"><li>• recommending investments for you to buy and sell based on an assessment of your financial situation and investment goals, and</li><li>• executing trades for you based on your investment decisions.</li></ul>

Although this section was working well with Denver and Tulsa participants, we had observed that, in other sections of Form CRS, participants were tending to emphasize the similarities between the two accounts, rather than the differences. To counter this, we changed all Form CRS headings in St. Louis to begin with “What is different in...” St. Louis participants were the only participants to see this new phrasing. Our goal was to have participants focus on the differences throughout.

## St. Louis participants focused more on the differences in the specific services offered than on the underlying advice versus sales relationship difference.

To some extent the change in phrasing of the heading was effective, since more participants focused on the bulleted list of differences. On the downside, these same St. Louis participants seemed to overlook the key relationship difference—advisory for the Investment Adviser account and sales for the Broker-Dealer account, or at least commented on it less often than participants at other sites. Instead, these participants commented on the specific services that they would receive from an Investment Adviser account, such as managing the portfolio, or from a Broker-Dealer account, such as executing trades. While participants often got the gist of the differences correct, they did mistakenly shortchange the professional services of the Broker-Dealer accounts, stating in one case, for example, that the broker couldn’t see their account or, in another case, that their goals would not be considered.

*...I know what a Broker is, he’s like a middleman. And it says an advisory relationship versus a sales relationship. —St. Louis 003*

*Okay, my understanding is that an Adviser will actually manage the account for you. The Brokers, they are more of a salesperson, so they give you what is in the market, what’s good, what’s not good. I’m assuming they cannot see your*



*account, so they don't know exactly what you have. They are just there to sell whatever is in the moment versus an Adviser looks at your overall account and says, "Hey I think we need to sell this. I think we need to buy more of this. This company is doing great, let's buy some more product." The other ones are just in the moment and he or she is gone afterwards. —St. Louis 002*

*Well, again, I think an Adviser has a lot more involvement. It's kind of a start to finish, we start with goals and we go along a lot—it's a whole spectrum. Where the Broker-Dealer is, whether you've done this part of the spectrum or not, he's just going to do this part, the—or maybe this part. Because he's not going to do any reviews, so he's just kind of doing this middle part for you, he's going to buy whatever you tell him to, he's going to do whatever transaction you ask him to do. So, this [the Investment Adviser] I see in the whole spectrum; this [the Broker-Dealer] I see as 12 o'clock to 2 o'clock. —St. Louis 001*

## Conclusion

Overall, this first question-and-answer section, taken in isolation from the rest of Form CRS, seems to give Denver and Tulsa participants a clear sense of the underlying relationship they would have in an Investment Adviser account or a Broker-Dealer account. Across the three locations, participants identified the basic services they would receive from each type of account, with some participants focusing on this aspect more than the underlying basic relationship. Participants identified the potentially longer term, more continuous advisory relationship they would establish with an Investment Adviser account and the more transactional relationship that they would create with a Broker-Dealer account. For many, this fundamental relationship was eye-opening. However, perhaps because the heading directed them to focus on differences, some St. Louis participants misunderstood key aspects of the services in a Broker-Dealer account, including, for example, the misunderstanding that Broker-Dealers do not consider goals when in fact they are required to ascertain investment objectives as part of a broader investment profile. This focus on the services more than on the advisory versus the sales relationship may, in fact, be expected, given the title of the section and the heading which directed them to consider differences.



## Suggested additional changes to Form CRS

1. To be more reflective of the primary content of this first section, we changed the title of the section to “What is different in our relationship with you?” We continued to emphasize the difference in the heading. Although St. Louis participants were overly focused on talking about the bulleted list, we think with the removal of the other information in this section (see #2 below), they will no longer be distracted by that information and will comment on the underlying differences.
2. We changed this renamed section to include this text for the Investment Adviser account: “This is an advisory relationship. We offer personalized investment advice.” We also added the first sentence from the next section since it too is about the relationship: “We have an ongoing advisory relationship of trust and confidence with you.” The Broker-Dealer Account includes this text: “This is a sales relationship. We offer brokerage services.” We also included the first sentence of the next section, since it too is about the relationship: “We have a sales-based transactional relationship with you.” The information about services is already in the section now called “How does our relationship work?” which is renamed “What is different in the services we provide?” and becomes section 2 in Form CRS.
3. See Appendix E for a Proposed Version 2 Form CRS.

## How do you pay for our services?

### How do you pay for our services?

#### FEES

You pay ongoing fees for advice and implementation based on a percentage of the value of the assets in your account.

- Alternatively, you may contract with us to provide limited services, for which you will pay a flat or hourly fee.
- You may pay additional fees.

Visit [www.xxxxxx.com](http://www.xxxxxx.com) or request a paper copy for a list of various fees that may apply to your situation.

#### COMMISSIONS AND OTHER FEES

You pay a commission or other sales fee for each transaction in your account.

- Commissions and fees will vary depending on the size of the transaction and the investment product purchased.
- Ongoing asset-based fees may also be charged for some products we recommend that are held in your account.
- You may pay additional fees.

Visit [www.xxxxxx.com](http://www.xxxxxx.com) or request a paper copy for a list of various fees that may apply to your situation.

In this section, we expected participants to primarily focus on the key difference in the two payment models—a percentage based on the total AUM value of the account or a commission based on each transaction completed. We expected the alternative methods of payment to be of secondary interest. Since we designed this section to be a part of the layered design, we included a link to a fee list and we expected participants to be interested in clicking through to the list.

## Denver participants could articulate the basic difference in the two payment models.

In general, Denver participants could articulate the basic difference in the two payment models. They could state that the Investment Adviser account generally was paid AUM-based fees. In contrast, they could state that the Broker-Dealer account was paid a commission on each transaction. Although the section focuses on how investors pay for services, a few participants connected the third-party payments as an additional source of revenue for the professional or saw that other payment options were also available.

*Because they [Investment Adviser] don't make the money off of the transactions; they make the money off of how much money I have in my accounts.*

—Denver 003

*On the Broker side? Usually per transaction, by the size of the transaction and how many transactions.* —Denver 002

*Yes. It [Investment Adviser] goes by percentage and they said that they do have a flat or [hourly] fee if you don't want the percentage.* —Denver 006

*Over here [Broker-Dealer]... me thinking they're working for me but, in reality, they could be getting more commission based off of that because it is commission-based. So, of course, they want you to do more tradings and*

everything... The Broker gets paid through... I think it said either by a percentage, commission and fees, third party – they can receive payments from third party or an incentive if they recommend. And higher commission from some products, they also get incentive. That [incentive for some products] was also kind of the advisory side too. —Denver 005

## Some Denver participants wanted specific fees to be displayed on Form CRS.

To achieve a layered disclosure, we included only a high-level discussion of the payment model used for Investment Adviser accounts and Broker-Dealer accounts. However, two Denver participants wanted more detail around fees because they wanted to know what they were going to pay or, at least, an idea of the differences in costs since that would be helpful as part of their decision-making. For example, one wanted a chart that showed the range of dollar amounts in an account and the percentage charged; the other felt it important to at least give ranges. Although most participants understood the basic fee structure, some were bothered by the listing in the bulleted items of other fees that could be charged, since these fees were neither defined nor explained in terms of when they would be charged or in effect. In general, participants wanted more concreteness in this section.

*I'm looking at the comparison between fees versus commission and other fees. Both of these would be better to me to understand it if they were more detailed, so I could really see... visit the website, but I would want to know right away what type, you know, the fees. It said based on a percentage – well, I'd want to know what that percentage is right up front... I'd want to know that. So, I'd want to see a chart that says your fees would be based on this chart and so if you had x amount of money invested with us it's 1%, x amount is 2%. This is what your fees would be. —Denver 003*

*"How do you pay" section. Based on percentages [for Investment Adviser services]. Yep. Fees are always tricky because you just never know percentage-wise how much that actually comes out to be; but obviously, they can probably break that down. Commission and other fees [for Broker-Dealer services]... Fees for me are always over my head because I never know exactly. Fees are kind of a wash here for me just because it is always a percentage, or it's based on commission, but you don't really have hard numbers. As long as they can tell you, like maybe your range and what you're putting in, that would be helpful. —Denver 001*

*Additional fees, commission. Ongoing asset-based fees may also be charged, so what does that mean? I don't know. I mean what does "may also be charged"? What does that mean? I don't really know. —Denver 002*



## Tulsa participants also identified the basic difference in how the two accounts collected payments.

Participants identified these two models, but they tended to not elaborate on their discussion. They also sometimes made the connection to the additional fees that could be collected from third parties.

*I think the Adviser is paid based off of the assets in your account and offers continued advice; whereas a Broker-Dealer takes your money and charges a fee for each transaction that they make, where and when they move your money.*

—Tulsa 001

*The Investment Adviser will have a fee rather than a Broker who will have commissions.*

—Tulsa 005

*[Broker-Dealer accounts get paid] By transactions. [For Investment Adviser accounts] I believe it's just a fee based on your investments. It's a percentage.*

—Tulsa 003

*[Broker-Dealer accounts get paid] By however much the transaction is, the percentage...Well, I would say commission is a percentage... [For Investment Advisers], It says ongoing fees.*

—Tulsa 004)

## Only two Tulsa participants wanted more detailed fees on Form CRS.

It was unclear whether the lack of fees on Form CRS failed to stimulate questions about fees or the Tulsa participants were uninterested, but one Tulsa participant expressed an interest in seeing actual fees. The other Tulsa participant was more concerned with the “additional fees.” He wanted a sense of what the fees would cover rather than the actual fees. More importantly, neither participant wanted to go to a link to get that information or request the information, both because of the effort involved and the cognitive task.

*... I'm sure somewhere else in that [the link] those fees will be listed, but then it may not be on my mind. If it says immediately, "You may pay additional fees, and these fees would include this fee, this fee, this fee." If they're included in the same context, it's much easier for a layman to keep them organized in their mind.*

—Tulsa 006


*I've told you before I don't like it when they say, you know, if you want to see a list of various fees that may apply to your account then it's up to you to go to this .com and figure it out.*

—Tulsa 003

*... "You may pay additional fees," I mean, that's probably my biggest issue with this whole thing. I want those fees listed right there. Why would I pay additional fees? Not necessarily how much each fee may be, but what would they be*

covering? You're going to pay a consultation fee. You're going to pay this fee, that fee. Again, not necessarily so much it's going to cost you \$73, but exactly what is it? Why do I have to pay it? What am I getting for that service? I personally would want to see all that information on there. —Tulsa 006

## St. Louis participants saw Design 1 with a different heading.



**FEES**  
**You pay ongoing fees for advice and implementation based on a percentage of the value of the assets in your account.**

- Alternatively, you may contract with us to provide limited services, for which you will pay a flat or hourly fee.
- You may pay additional fees.

Visit [www.xxxxxx.com](http://www.xxxxxx.com) or request a paper copy for a list of various fees that may apply to your situation.

**COMMISSIONS AND OTHER FEES**  
**You pay a commission or other sales fee for each transaction in your account.**

- Commissions and fees will vary depending on the size of the transaction and the investment product purchased.
- Ongoing asset-based fees may also be charged for some products we recommend that are held in your account.
- You may pay additional fees.

Visit [www.xxxxxx.com](http://www.xxxxxx.com) or request a paper copy for a list of various fees that may apply to your situation.

## St. Louis participants articulated a surface understanding of the difference in the payment models, but some later showed a misunderstanding of the details.

Participants understood the basic idea that Broker-Dealer accounts are paid based on each transaction, and Investment Adviser accounts are generally paid for by a percentage. Only a few, however, were able to get to the sophistication to state that the Investment Adviser generally was paid an AUM-based fee and the Broker-Dealer generally was paid a commission on each transaction. Even there, their articulation could be somewhat imprecise. If the initial discussion suggested they had the right gist, some participants' later comments showed a misunderstanding of how these payment models work, such as the participant stating that the Broker-Dealer account was paid even if the transaction was not completed.

*...the Investment Adviser would be like more mutually beneficial or something because it's based on how much I have in my account. So, it's like in everybody's interest for that number to be high whereas this [Broker-Dealer]—it's like I can buy a crap stock and they're still getting their transaction fee.*

—St. Louis 003

*Basically, payment [for the Investment Adviser account] is how well your assets are doing, is how much they will get paid for it. [No, it's] A percentage of the*



value of the assets in your account. [For the Broker-Dealer account,] It's going to be a commission based on the size of the transaction, so... if somebody's calling and saying "Hey, I've got this hot thing over here; if you put in 10 grand, it [the commission] may come back with 4 or 5%." —St. Louis 005

[Broker-Dealer accounts get paid] Just based off of the commission of what they sell you and I'm assuming if you don't buy anything from that person, they won't get paid from you... I think they [Investment Adviser accounts] get paid based off of how much you have in your account, a flat fee. I think flat fee, but I really think it's a percentage. —St. Louis 002

[Broker-Dealer accounts get paid] When you make a trade... They [Investment Adviser accounts] get paid a fee based on how many—the value of the portfolio... Yeah, on the Broker-Dealer side, [the commission] it's going to vary, depending on what product you purchase and how big the transaction is... under the Broker it says we still get paid regardless whether you complete the transaction. —St. Louis 001

## St. Louis participants were far more focused on the additional fees than on the key difference in the payment models.

Perhaps as a result of the heading change that emphasized differences, St. Louis participants moved away from the key difference in the payment models and focused almost exclusively on the additional fees that were mentioned for both the Investment Adviser account and the Broker-Dealer account. No participant specifically mentioned the heading, but the behavior was similar to what we had seen in the previous section with moving far more to the bulleted items to look for the detail in the section. One participant suggested that formatting within the section might be one reason this occurred, with the bolding at the top of the information serving as a text heading and the bullets carrying the important information.

...and you can also pay additional fees, like, "Ah, what?" I don't know. Things like—well, you may pay additional fees—I mean, I would immediately go, Wow, what else am I paying for? I don't know if—to me, I would like it if it was more defined, "You may pay this for A, B, C," "You may pay additional fees for A, B, C, D, F." —St. Louis 001

It looks like the Investment Adviser says you will pay a flat or hourly fee. That at least tells me I know what to expect whereas the Broker-Dealer just says commissions and fees will vary depending on the size of the transaction which doesn't tell me much. Once again going back to the other bullet, "you may pay additional fees" does not tell me how much I'm still expecting to pay on both of them. —St. Louis 002



*So, the difference, you can see it's in all caps, but with "fees," it's such a small word, you kind of don't notice the word fees and my eyes are going to blend it. I'm looking at stuff like this all day long and, unfortunately, everything is time, so I've got to just kind of glance and the bold words are what's going to get me. And then if there's anything small that I should know about, then I'll focus on that. —St. Louis 006*

## Like Denver and Tulsa participants, St. Louis participants wanted fees to be listed within Form CRS.

Although St. Louis participants had focused almost exclusively on the additional fees associated with the accounts, they were unhappy with not knowing what the fees would be. At least one participant noticed the link but mistakenly thought the link would only let him get a paper version of the fees, not an immediate listing.

*I don't like that it says you may pay additional fees underneath Investment Adviser services because that doesn't tell me exactly what I'll be paying. It doesn't really give me a definite amount that I should expect to pay. —St. Louis 002*

*Now, I do notice on Fees—and, again, I think it's because of the sliding scale—like it doesn't say how much you're going to be charged—a percentage of the value of your assets. What is that percentage? Yeah, that's not there. And a lot of times I know it's based on how much—50 or a hundred or 500,000, it changes. So that could be why it's not there. But I do notice there's no number. —St. Louis 001*

*And there's a difference in the way that they're going to be paid, so I see fees and additional fees. I need to ask what are those fees or ask some questions or go to this website... —St. Louis 001*

## Conclusion

This section had mixed results. Although many participants were able to articulate the basic difference in the two payment models, some participants clearly misunderstood how the models worked. At least one participant misread the heading for the Investment Adviser account, thinking the bolded text—"You pay ongoing fees for advice and implementation based on a percentage of the value of the assets in your account"—was a heading and not the key information. Interestingly, many participants in Tulsa and St. Louis focused more on the statement "You may pay additional fees" than on the actual payment model. In St. Louis, this focus may be linked to the change in the question heading to "What is different in how you pay for our services?" But since both Tulsa and St. Louis participants paid more attention to the additional fees, it may be tied to the lack of any numbers in a section about cost. Participants seemed to intuitively have

some discomfort with the lack of cost in a disclosure about investing their money, and the additional fees exacerbated that concern. Participants wanted to have some sense of actual cost in Form CRS, even realizing that actual numbers would depend on varied factors. At least one participant suggested offering a range of costs or a sample cost. Few participants saw the link as a place they would go, perhaps because the language around the link was also too general with “various fees that may apply to your situation.”

## Suggested additional changes to Form CRS

1. Because at least one participant missed reading the heading in the Investment Advisory services column, we changed the heading to “Advisory Fees” to give it more visual weight.
2. We changed the text around the link to be more explicit: “Go to [www.samplefees.com](http://www.samplefees.com) to see a list of typical fees we charge. You may also request a paper copy.”
3. We moved this section to become the third section on page one. That alone may focus readers more on the basic payment models since they will then have read the section about services.
4. For future development, we recommend that the SEC experiment with incorporating an example of fees into both the Investment Adviser column and the Broker-Dealer column. We understand the difficulty of making these comparable and not misleading.
5. See Appendix E for a Proposed Version 2 Form CRS.



## How does our relationship work?

### How does our relationship work?

**We have an ongoing advisory relationship of trust and confidence with you.**

**For investments, we**

- work with you to identify your investment goals, develop investment strategies, and choose investments to implement those strategies;
- consider your entire portfolio, your investment goals and profile, including factors like your age and how much time you have to meet your goals; and,
- implement those strategies for you.

**For monitoring and oversight, we**

- monitor your investments to ensure that they continue to be the best for your needs and your portfolio;
- provide quarterly account statements; and
- meet with you at least annually to discuss your investment progress and any changes to your goals and profile.

**Other options**

You may choose how much you want to be involved in overseeing your investments. See [www.xxxxxxx.com](http://www.xxxxxxx.com) for more information on these choices.

**We have a sales-based transactional relationship with you.**

**For investments, we**

- make buy and sell recommendations to you,
- consider your investment goals and profile, including factors like your age and how much time you have to meet your goals.
- **We** then execute the transactions you decide to make based on our recommendations

**YOU** have the responsibility to make the final investment decision on the transaction.

**For monitoring and oversight, we**

- do provide quarterly account statements
- do **NOT** monitor your account after the transaction unless you contract separately with us to do so.

**YOU** are responsible for monitoring your transactions and portfolio; and

**Other options**

You may choose a self-directed account. See [www.xxxxxxx.com](http://www.xxxxxxx.com) for more information on this choice.

In this section, the goal was for participants to begin integrating and synthesizing information from the previous sections. The section provides more details, stressing the underlying relationship and detailing specifics about the services that are and are not provided and who has responsibility for action. We specifically wanted participants to be clear about who is responsible for monitoring their accounts. To introduce the idea that both services can accommodate other approaches to managing their accounts, the section includes an “Other options” heading with a link for more information.

## Denver participants characterized the difference in Investment Adviser accounts and Broker-Dealer accounts by the level of management and advice.

Denver participants carried their perception from the first section of Form CRS—that the Investment Adviser accounts offered an advisory relationship and Broker-Dealer accounts offered a sales relationship—into this section about relationship and services. They listed the services they would receive from the Investment Adviser, seeing this as part of their relationship. They perceived this relationship as important because of their own limited knowledge about how to choose investments and how to select what would be the best for them. They characterized the Broker-Dealer account as being sales-based, requiring them to manage their own account, and offering them less help overall with their account and choices.



*So, the advisory relationship, they're going to watch it for me, they're going to monitor it for me, they're going to keep tabs. They probably going to want to meet with me. They're going to probably want—if I make more, like to invest more in other accounts, and they're going to really be watching it for me, and I don't really have to do anything. I just let them handle it, and they tell me what is being done. They would handle my retirement, they'd handle what my goals were. They tell me what my retirement is going to be later, if I'm doing well, if I'm not doing well, if I need to do more. That's what I kind of feel like with that. I feel like we're going to meet, we're going to talk, we're going to have a relationship. —Denver 002*

*For me, when I read the left side under Investment Adviser, I feel like they're going to work with me. I can see those words. It says literally, "Work with you and consider your entire portfolio, meet with you, meet your goals, and implement those..." That stuff is catching to me because I'm like, this is what I need; I need someone to advise me. I need someone to help me with my goals versus the sales-based stuff where it sounds like I have to know what I need to do and they're just going to take their time to help me out so that I don't have to find those investments. I feel like they are going to hold my hand a little bit more on the left side [the Investment Adviser account] versus the right side [the Broker-Dealer account]. —Denver 001*

*Just the overall how I would be managing my own account [with the Broker-Dealer account]. In my own mind, I'm just a little confused what I would be choosing and what would be best for me. This is really straightforward [with the Investment Adviser account] on what am I going to get out of them. I'm just saying as me if I were to choose one of these I think I would choose this one [the Investment Adviser] because you get more help. —Denver 005*

Most Denver participants characterized the Broker-Dealer accounts as requiring investors to have more knowledge and do more work, in part because they were skeptical of the sales motivation.

Many participants felt they were ill-equipped to make the final decisions in investments because they knew little about investments and the markets. They understood that the Broker-Dealer would make recommendations, yet they were unsure of the motivation behind the recommendations. They said that the fundamental "sales relationship" shaded their opinions throughout about all aspects of their interactions. At least two participants understood that they had the ultimate financial responsibility because they had the decision-making power in the relationship.

*Because this [Broker-Dealer] seems more like you need to be like well-knowledgeable of the market and everything. —Denver 005*

*Brokerage is... I'd be calling them quite a bit to sell and buy and do that type of thing, but it's on my knowledge base... The brokerage would only call me to try*

to sell me things – “Hey, I’ve got this opportunity for you.” —Denver 003

*I’d feel kind of just like it was a sales pitch and I was kind of on my own. I wouldn’t feel like I had any help, like I just—we did it and then it was done... I kind of feel like they’d just be like, “OK, you’re done. Here you go,” and then left.*  
—Denver 002

*Ultimately, I’m the one that says yes or no. I’m the one that gives the permission... So, I feel like there’s more pressure when I see commission because the person that’s giving me advice, they would get a commission based on the size of the transaction... To be honest, I feel like I could be pushed towards something that I may not want because there’s commission based on it.*  
—Denver 004

*I feel that you have to make the decision. I feel like that was really bulletted. The responsibility is more on the investor. They’re getting advice as to where to go or how to invest but in the long run, you’re going to be putting your money in, if you don’t like where it is, you have to tell them to move it around.* —Denver 001

## Denver participants clearly understood who monitored their accounts and were uncomfortable with their responsibility in Broker-Dealer accounts.

All participants understood from the text that Investment Adviser accounts provided monitoring of their investments and Broker-Dealer accounts did not. The level of monitoring was a part of the ongoing relationship they have with an Investment Adviser account, and a part of the transactional relationship they characterized as having with the Broker-Dealer account. Some said they were stressed by the responsibility of monitoring their own accounts, while others viewed being in control, a variant of having responsibility, favorably.

*I am [monitoring my investments with the Broker-Dealer account]... I didn’t know that... Do not monitor. That feels a little bit more stressful now. That feels a little bit more stressful on this side [Broker-Dealer]... [The investment Adviser account is] kind of eyeballing it and keeping an eye out. Versus when there is no monitoring [in a Broker-Dealer account] then it’s done, and we part our ways unless they contact you for anything else.* —Denver 004

*I’d be more nervous with the Broker. I have never had a Broker, but so, if I’m reading this not really knowing about it, that leaves me responsible and I’m not very good at stuff like that. Right here, so for monitoring and oversight, they [Broker-Dealer] do not provide something and I am responsible for monitoring the transactions... They [Investment Adviser] do.* —Denver 002



... I would be doing this stuff myself. It says right here that we [Broker-Dealer account] do not provide... and it will be more of me being in control, keeping track of certain things. Here [with Investment Adviser account] you've got monitoring... —Denver 005

[Monitoring is] watching over the account, which from what I read here, the Investment Adviser has a responsibility to do so; the Broker does not... I think I need to watch it [my investments] myself... I need to monitor it. If he [Broker-Dealer] sells me \$10,000 worth of Apple stock, it's my job every day or whatever I want to look or once a week to monitor that Apple. If it's not going the way I want it to, I need to call him and say sell or if it has doubled and I want to sell, it's my job to call him. I can't just expect him to call me. —Denver 003

It [Broker-Dealer account] says, "You're responsible for monitoring your transactions in your portfolio." I like that... It just says that you're responsible. —Denver 006

## Tulsa participants characterized the difference in Investment Adviser accounts and Broker-Dealer accounts in terms of the relationship and the breadth of the services.

If Denver participants focused on the kinds of services they would receive and who had the responsibility, Tulsa participants were slightly more focused on the relationship with both the Investment Adviser and the Broker-Dealer accounts. Certainly, they talked about the management and advice with the Investment Adviser account, but also the ongoing communication and meetings they would expect to have. It was to them more "personal." And, as we saw in Denver, the participants characterized the Broker-Dealer account relationship as lesser, partially because they talk about it as short-term, a product, and the Broker-Dealer being ready to move on. One participant even described the Broker-Dealer account relationship as almost antagonistic with the use of the words "you" and "we" as opposed to the Investment Adviser account relationship as being one of helpfulness.

I think the main difference is – and I've already stated that – is that the Adviser gives you advice from day one and you have a good working relationship ongoing, whereas the Broker he'll give you advice until you complete the sale and that's pretty much it. In other words, he's going to give you information initially to complete a transaction but once that transaction is completed that's pretty much it until they are ready to go on to the next one. The Adviser is going to manage your account. In other words, he's going to, like I said, periodically review it, where the Broker is not – it's up to you if you're dealing with the Broker. But the Adviser is going to have an ongoing relationship and, also, he would be reviewing the account and making changes accordingly. —Tulsa 003



*It [a relationship with a Broker-Dealer] seems more like a business relationship, and less like an Adviser or a like a relationship-relationship, so it seems almost more like a, "Hey, here, I want you to do this for me," and then they perform that. Then, I pay them for performing that. It just seems like they offer a product. I paid them for that, and they give me that product, whereas as on the Investment Adviser side, I'm trusting the Adviser to make good moves with my money, so we have more of a personal relationship. —Tulsa 006*

*The Adviser is going to look at your whole game plan, like what your goal is, what they're going to help you reach depending upon your age, what your end result you want to be before you retire or invest. And then the Broker-Dealer, they might make recommendations but it's up to you to have the final say in what goes and the fees are different. —Tulsa 004*

*I noticed that with the Investment Advisers, they meet with you routinely to discuss your investments whereas the other one [Broker-Dealer] you are more responsible to do it on your own... I would meet with an Adviser more often. I would have to be contacting the Broker to ask how it's going. Maybe they [the Broker] would set up an appointment to meet with me. I don't know how they would do that. Where an Adviser we would probably have ongoing either some type of communication on when we're going to meet, reading the statements, interpretation of the statements if I have questions. —Tulsa 005*

*Basic relationship [with Broker-Dealer]—give them your money, invest my money, and I'm going to pay you for it. [With an Investment Adviser, the relationship is] personal. A little bit more personal where you would have a little bit more communication with potentially getting feedback, giving feedback. Maybe a little bit you would be more in contact with potentially an Adviser. —Tulsa 002*

*I understand what the Investment Adviser services are offering, and what their role would be, and also what my role would be... On the Broker-Dealer service, I don't know. It may be just me not understanding, but it almost feels like a me/you relationship to where it's two teams helping each other, and less of someone helping me, because it's got "you" in bold, and then "we" in bold. It [the Broker-Dealer service] just comes across as less of a "We're here to help you" thing. —Tulsa 006*

## **Tulsa participants understood that monitoring meant to watch over the account but varied on how frequently it would occur.**

All Tulsa participants offered a layman's definition of monitoring. Some suggested that, due to the monitoring, their investments could be rebalanced, thus implying the oversight that an Investment Adviser account could provide in their definitions. Some participants saw the monitoring as continuous and others as occurring periodically or regularly.

*I guess just monitoring the return rate on my investment, I guess. That would be what I consider monitoring. Looking at the percentage of year to date or even life of what it's doing up and down. —Tulsa 001*

*Monitor an account means at regular intervals you are looking at the performance, whether or not you are losing or gaining, looking at trends to see what has been going on with that particular account over time. Just staying abreast of what is actually happening and not just leaving it and not even thinking about it. Staying engaged with it. —Tulsa 002*

*It means that they [Investment Adviser] would review the account and based upon any changes in the economy, you would have to make changes in your account appropriately. —Tulsa 003*

*Continuously checking the account to see how the activity is, how it's going. —Tulsa 005*

*Just to make sure that it's being managed maturely and that they're making good moves with it. In my opinion, it doesn't necessarily mean that they're sitting there 24/7 watching over the point process on it, but it intermittently has some type of supervision, making sure some crack dealer in Omaha doesn't have my 401(k) to party with. —Tulsa 006*

## **All but one participant understood that the Broker-Dealer accounts do not provide monitoring.**

Tulsa participants were quite clear that Investment Adviser accounts were more involved in monitoring their investments and that Broker-Dealer accounts did not monitor. Only one participant totally misunderstood, thinking the Broker-Dealer would monitor the account for his own financial gain. On the other hand, one participant noticed that the Broker-Dealer account could monitor accounts if contracted separately.

*Here's a major difference that I see is that, like it says, they're [Broker-Dealer] not going to monitor your account, whereas the Investment Adviser [does]... that's the difference. —Tulsa 003*

*I would monitor my investments [in a Broker-Dealer account]... At the very bottom of the section "How does our [Broker-Dealer] relationship work" it says, "You are responsible for monitoring your transactions and portfolio." —Tulsa 001*

*I think the Broker is monitoring it because they want to know how it's doing. That's going to tell them how much they're going to get out of it, what advantage they're going to get or how much they can expect to get as commission or what have you. —Tulsa 002*



*Yeah. I monitor it, but if I wanted to, I could contract separately with them to do so, which is moderately confusing... We do not monitor your account after the transaction unless you contract separately with us to do so. Why would they not automatically do that for me?... We do not monitor your account after the transaction unless you contract separately with us to do so... "You're responsible for monitoring your transactions and portfolio." —Tulsa 006*

## St. Louis participants saw Design 1 with a different heading.

<p><b>What is different in how we work with you?</b></p>	<p><b>We have an ongoing advisory relationship of trust and confidence with you.</b></p> <p><b>For investments, we</b></p> <ul style="list-style-type: none"> <li>• work with you to identify your investment goals, develop investment strategies, and choose investments to implement those strategies;</li> <li>• consider your entire portfolio, your investment goals and profile, including factors like your age and how much time you have to meet your goals; and,</li> <li>• implement those strategies for you.</li> </ul> <p><b>For monitoring and oversight, we</b></p> <ul style="list-style-type: none"> <li>• monitor your investments to ensure that they continue to be the best for your needs and your portfolio;</li> <li>• provide quarterly account statements; and</li> <li>• meet with you at least annually to discuss your investment progress and any changes to your goals and profile.</li> </ul> <p><b>Other options</b></p> <p>You may choose how much you want to be involved in overseeing your investments. See <a href="http://www.xxxxxx.com">www.xxxxxx.com</a> for more information on these choices.</p>	<p><b>We have a sales-based transactional relationship with you.</b></p> <p><b>For investments, we</b></p> <ul style="list-style-type: none"> <li>• make buy and sell recommendations to you;</li> <li>• consider your investment goals and profile, including factors like your age and how much time you have to meet your goals; and</li> <li>• execute the transactions <b>you decide</b> to make based on our recommendations.</li> </ul> <p><b>YOU are responsible for making the final investment decision on the transaction.</b></p> <p><b>For monitoring and oversight, we</b></p> <ul style="list-style-type: none"> <li>• do provide quarterly account statements</li> <li>• do <b>NOT</b> monitor your account after the transaction unless you contract separately with us to do so.</li> </ul> <p><b>YOU are responsible for monitoring your transactions and portfolio</b></p> <p><b>Other options</b></p> <p>You may choose a self-directed account. See <a href="http://www.xxxxxx.com">www.xxxxxx.com</a> for more information on this choice.</p>
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## St. Louis participants characterized the difference in Investment Adviser accounts and Broker-Dealer accounts in terms of the relationship and the breadth of the services.

Like the Tulsa participants, St. Louis participants focused on the relationship in the Investment Adviser account. The use of the new heading did not seem to make any difference in what participants considered in this section. They characterized the Investment Adviser account relationship as feeling trustworthy or “warm and fuzzy” or as giving them confidence. They understood that from this relationship would come a series of services, primarily managing the account and understanding the investor’s goals. As in Denver, some participants mentioned that the investor had the responsibility and the work with the Broker-Dealer account. Some participants saw the underlying sales relationship with the Broker-Dealer account as influencing both services and their own somewhat negative attitude toward the Broker-Dealer account, although at least one participant acknowledged that some investors would prefer this arrangement.



*I think on that one [Investment Adviser account], it says we have an ongoing advisory relationship of trust and competence for you on your investments*

**—St. Louis 004**

*The Investment Adviser type account is more shepherded, it's more like they're going to... at least it feels like someone's got an eye on it all the time. It says we have an ongoing advisory relation with trust and confidence. It does actually feel more trustworthy... but it feels like [I have] more confidence in this one on the left [Investment Adviser]. I don't know if [I] would be like skeptical of sales [with the Broker-Dealer account] or something like that just because it has the word "sales" in it. —St. Louis 003*

*The Investment Adviser services, for someone like me who's not a CPA, who's not really a financial person, I mean, this is warm and fuzzy, they're going to take care of me... they're going to do all the work and then implement that for you. So, I get like warm, fuzzy here, because of my level of expertise in the financial situation... And I could see how on this side, the Broker-Dealer side, for people who know what they're doing... "You do all the work—" and I know there are people who like to do that—but from my perspective, this seems cold and "You're going to do the work, and we're not responsible for helping you at all."*

**—St. Louis 001**

*I know the Investment Adviser goes back to what I was saying earlier about them actually managing your account for you. Just seeing what it says in the first three bullets, they are working with you, understanding your investment strategies, what you are comfortable with, and whatever you have to do to meet your goal, which is great... The other one seems more like for the consumer who does want to manage or has confidence in their abilities to choose stocks, ETFs, bonds, treasuries and whatnot. Once again it goes back to the sales thing.*

**—St. Louis 002**

*I would take it as I would have to have the—now you can take the word—but the trust and confidence that I can put my money over there [Investment Adviser account] and it's kind of a worry-free thing that they're going to handle the transactions for me based on what I told them my investment goals were and where I'd like to be in the future. [The Broker-Dealer account is] Sales, baby. Transaction. They're looking for volume, so they'll make recommendations. But in the end, it seems as though I'm responsible. I make the final decisions.*

**—St. Louis 006**

## St. Louis participants understood the purpose and importance of monitoring, but at least two participants misunderstood who monitored Broker-Dealer accounts.

St. Louis participants, as a whole, understood the purpose of monitoring and the importance of it. They also recognized that they had some responsibility in monitoring no matter who their account was with. They also understood that Investment Adviser accounts provided ongoing monitoring and responsibility for their investments. Participants linked the lack of monitoring of the Broker-Dealer account to the transaction-based, sales relationship. At least one participant stated that he personally would monitor his own accounts no matter which type of account he had, although he understood the difference in monitoring requirement. Another participant stated that the Broker, not the company, would be paid to monitor the account. It was unclear from the interview if she saw this as a separate contracted payment to the Broker-Dealer, but she understood that it was an extra payment. One other participant initially stated that the Broker would be monitoring the account along with himself. After being prompted to read more, he was surprised that he would be solely responsible.

*Well, I mean, the Adviser has an obligation to review your portfolio, to meet with you, make recommendations based on if anything has changed. And I can think of, again, as you get older, a lot of times you take money out of stocks and put it in something that's a little more—little less risky. Because if we have free fall of—you're not as exposed anymore. So, the older you get, you don't have as much time to recover. So, they're looking at those things and they're saying, "Hey, again? Let's see now. I think you need to have this much money in this stock. What else can we do?" So, they're monitoring it, again, over the whole spectrum... In a Broker-Dealer account... you're going to be doing your own monitoring. —St. Louis 001*

*At the end, they [Broker-Dealer account] don't monitor your account. So, they show you that one idea and then they leave. It goes back to that car salesman type agenda for them... The Adviser would be monitoring it. —St. Louis 002*

*Who monitors your account with a Broker-Dealer? You. You do it; you're responsible... Who monitors your account on the Investment Advisory? Me... So, with either one of them, I would say I'd monitor it too, but I think with the one, it seems as though the Investment Adviser has a little bit more of a risk but takes more responsibility than a Broker. A Broker is just like "Hey, I found this for you; here's your money, you watch it." —St. Louis 006*

*The Broker you pay. You are giving a fee. It wouldn't be to this company, it would be that Broker, right?... —St. Louis 004*

*I would say me and the Broker, agent himself... Well, I figured I was responsible, but I didn't think it was solely on me. —St. Louis 005*



## Conclusion

For the most part, across the three sites, participants could characterize the main differences between the Investment Adviser accounts and the Broker-Dealer accounts but often missed the nuances and practical intricacies of the relationships. They saw the Investment Adviser account as providing an ongoing relationship with a series of services that reflected that relationship. These services included looking at the entire portfolio, identifying the investment goals, making sure that their portfolio accomplished these goals, and monitoring the accounts. They understood that their account would be monitored and that they would receive statements and meet with their Investment Adviser. They saw this relationship as one of trust.

On the other hand, the Broker-Dealer account was characterized as being based on a sales relationship. Many participants were less comfortable with that relationship, unsure if interactions would be grounded in the sales aspect or the well-being of the investor. Participants further characterized the Broker-Dealer accounts as requiring investors to do more work and to have more responsibility for the financial decisions, including monitoring of their investments. Some participants saw that, for knowledgeable investors, the Broker-Dealer accounts offered advantages.

In each site, at least one participant misunderstood one aspect of this section, usually regarding the monitoring. They seemed to understand that the Broker-Dealer account would require an extra payment for monitoring, but they were unclear if that payment went to the firm or the Broker himself. In other instances, they were concerned that any monitoring would be done only for the purpose of turning another sale.

Generally, participants had positive attitudes toward the Investment Adviser accounts and somewhat negative attitudes toward the Broker-Dealer accounts. The attitudes did not seem rooted in the specific details provided in this section. Rather, participants had seemed surprised by the underlying sales relationship of the Broker-Dealer account and reacted negatively to the idea of sales in the very first section of Form CRS, "What are our basic services?" Because it was unexpected, they may have paid disproportionate attention to that relationship and carried it into this section. Perhaps more importantly, the idea of the best interest standard might have countered some of the negative attitude, but Form CRS does not mention the standard until the next section—"What is our legal obligation?"—which is located on the back page of Form CRS. While we think it is important to continue to define the two underlying relationships clearly, as we attempted, it is evident that more effort needs to be expended to accurately illustrate both business models and thereby reduce such strong black-and-white perceptions.



## Suggested additional changes to Form CRS

1. In our opinion, this section consists more of a listing of services than a description of how the relationship works. Although no participant commented on this topic, we changed this section's title to "What is different in the services we provide?"
2. As we suggested earlier, we moved this section to become the second section of the disclosure.
3. We changed the text of the link to be more specific. For the Investment Adviser account, it reads "See [www.involvementoptions.com](http://www.involvementoptions.com) for more information on these choices." For the Broker-Dealer account, it reads "See [www.accountoptions.com](http://www.accountoptions.com) for more information on this choice."
4. For future development and testing of Form CRS, we recommend that the SEC experiment with strengthening the information around Broker-Dealer accounts considering the best interest of the potential investor as they provide services to their clients. We think this is particularly challenging because participants tend to define "best interests" in terms of themselves and not a legal standard, so any reference to the phrase outside of the legal obligations section may be misunderstood.
5. See Appendix E for a Proposed Version 2 Form CRS.

## What is our legal obligation to you?

What is our legal obligation to you?	Investment Adviser Services	Broker-Dealer Services
	<p>By law, we must follow the highest <b>legal</b> standard of conduct, called a <b>fiduciary</b> standard.</p> <p><b>We are required to</b></p> <ul style="list-style-type: none"><li>• put your financial interests ahead of our own,</li><li>• disclose any conflicts of interest (see below), and</li><li>• monitor your account continuously throughout our relationship.</li></ul> <p><b>We are required to follow these legal obligations</b></p> <ul style="list-style-type: none"><li>• for ALL advice we provide to you, not just to investment recommendations.</li><li>• for the entire length and scope of our advisory relationship</li></ul> <p><b>We are not required to:</b></p> <ul style="list-style-type: none"><li>• choose the lowest cost, least risky, or best performing product.</li></ul>	<p>By law, we must follow a <b>best interest</b> standard.</p> <p><b>We are required to</b></p> <ul style="list-style-type: none"><li>• satisfy certain disclosure, care, and conflict of interest obligations (see below).</li></ul> <p><b>We are required to follow these legal obligations</b></p> <ul style="list-style-type: none"><li>• when making recommendations to you.</li></ul> <p><b>We are not required to:</b></p> <ul style="list-style-type: none"><li>• follow this legal obligation for any other advice we may provide to you beyond sales recommendations,</li><li>• monitor your account unless you contract separately for that service;</li><li>• choose the lowest cost, least risky, or best performing product.</li></ul>

In this section, our goal was that participants would distinguish between the fiduciary standard for the Investment Adviser services and the best interest standard for the Broker-Dealer services, including having a general definition of each. We divided each column into three units that delineated the legal requirements of each, when the requirements were applicable, and what was not required. We intended the statement “We are not required to choose the lowest cost, least risky, or best performing product” to serve as a caution for both accounts.

### Denver participants characterized the Investment Adviser account as having a fiduciary standard that ensured the best interests of the potential investor.

Only one participant defined “fiduciary standard” and did so in terms of the best interest of the potential investor. Although participants did not demonstrate any meaningful understanding of the term “fiduciary,” they inferred through the words “highest legal standard” that the Investment Adviser account was legally required to meet the requirements listed in the section. As a result, nearly all participants perceived the Investment Adviser account as having rigorous standards, especially in contrast to how they perceived the Broker-Dealer account.

*I feel more comfortable with somebody who has a fiduciary responsibility to really look out for my best interest first... Legally that they've got to... that their goal is they can't recommend something that's better for their company... that's just better for their company. It has to be better for my personal interest. —Denver 003*

*They [Investment Advisers] have to follow the highest legal standard, it says. They have to put my interests ahead of their own. They have to disclose stuff... So, they have to basically put my financial well-being in front of their own... Well, the word "by law" and "the highest legal standard of conduct." Just all those standards they have makes me feel a lot safer with my money. They have my interest in mind. Oh, it even says, "Put your financial interest ahead of our own." They monitor it, the relationship part. It reminds me more of like a trust issue.*

—Denver 002

*I feel like they [Investment Advisers] definitely follow our stuff more because they monitor our accounts. Legally, they're supposed to make sure that we're doing okay with our investments.* —Denver 001

*They [Investment Advisers] put my financial investment interests before their interests and they'll monitor the account working with me. [That standard applies] To everything.* —Denver 005

*I mean I like the description of this with putting... obviously my financial interest ahead of their own. Which I feel like, again, if it's commission-based, it's hard to believe that it's my financial interest ahead of somebody else's. I like that. And just kind of going through my account throughout our relationship, which is great, all advice we provide you, not just investment recommendations. I do like... again, this feels safe to me. This [Broker-Dealer] feels risky but this [Investment Adviser] feels safe to me.* —Denver 004

## While Denver participants recognized that Broker-Dealers had a "best interest" standard, they found the Broker-Dealer's obligations unclear.

Participants thought the initial description of the Broker-Dealer's obligations was vague and did not give them many details, especially in contrast to the Investment Adviser description. They questioned the definition of "best interest," sometimes linking it to the sales relationship of the Broker-Dealer account or equating it with the Broker's best interests rather than the investor's best interests. They could point out that the Broker-Dealer responsibilities were limited to sales recommendations. Some participants drew a contrast with the fiduciary standard of the Investment Adviser account. In the end, however, they found this section more confusing than clarifying.

*They [Broker-Dealers] don't have a fiduciary responsibility to look out for me... Whose best interest? I don't know... "Satisfy certain disclosure, care, and"... it just... I don't know... "certain" just doesn't... I don't know. I just didn't see it as clear [as the Investment Adviser description].* —Denver 003

*And the Broker-Dealer services, again, I feel like it's just more of a sales pitch and just somebody—maybe not somebody as ethical and not somebody who*



*cares about me as much as the Investment Adviser services... So, "by law they must follow a best interest standard." But their best interest and my best interests are probably two different things. —Denver 002*

*I mean I like the description of this [Broker-Dealer] with putting... my financial interest ahead of their own. Which I feel like, again, if it's commission-based, it's hard to believe that it's my financial interest ahead of somebody else's. —Denver 004*

*I really don't know what they'd [Broker-Dealers] do. And then "we're not required to follow this legal obligation for any other... we provide to you beyond sales recommendations." They're strictly one path. They are going to buy and sell for you. —Denver 001*

*I'm looking at the legal obligations. On the Broker-Dealer side, I find it very confusing because it says we are required to satisfy... it says "see below" and I don't see really where those are as much and then we're required to follow these legal obligations—what legal obligations? It's very clear we're not required to do the following. I really don't see the legal obligations that they're [to follow.] That leaves me with a lot of questions. —Denver 003*

## Denver participants saw the responsibilities of the Broker-Dealer accounts as more limited than the Investment Adviser accounts.

Participants interpreted this section as favoring Investment Adviser accounts. They saw Broker-Dealer accounts as limited in scope and motivated by the sales aspect. They saw the Investment Adviser account as creating a more lasting, personal relationship with the potential investor, having a fiduciary responsibility to put the potential investor's best interest first and act as more of a caretaker.

*I feel like the Broker-Dealer will take care of one aspect for you; they're just going to make sure they follow that to their legal standards. I guess Adviser is the same, but I feel like they have a bigger scope; they can do a little bit more for you... When I'm reading it, I feel that the Investment Adviser services are going to take a little bit more care versus the Broker-Dealers. —Denver 001*

*They [Broker-Dealers] are not required to follow this legal obligation for any other advice... we make sales recommendation... once the transaction is over, it feels so disconnected. It feels like I'm done. Okay, it just feels like "I got my incentive or I got my commission or I got my fees and I'm done and you're on your own." Versus on this side [Investment Adviser] I feel like there is some hand-holding, some personal connection. And because of that personal connection that you have with me at least quarterly or yearly that you really do have my best interest at heart. —Denver 004*

*I feel more comfortable with somebody who has a fiduciary responsibility to really look out for my best interest first... I think that the Adviser has more of a legal obligation to look for my best interest, more than just their company. [Obviously, they're still looking out for their company and them personally.] Where the Broker doesn't [have a legal obligation]. The Broker, they want as many transactions and they can say this was [my] decision. —Denver 003*

*There is more help [with an Investment Adviser] and they'll help you make a better choice for yourself and you're not worried about a commission-based. If you need help or whatever, they know they're going to get a percentage out of it anyway, so they're going to help you make the right decision regardless. And there's more help. —Denver 005*

## Denver participants explained away the best interest standard when the professional would not choose the least expensive investment.

Within both the Investment Adviser account and the Broker-Dealer account columns, we included a statement from the original SEC mockup referring to the fact that neither the Investment Adviser nor the Broker-Dealer was required to choose the “lowest cost, least risky or best performing product.” Denver participants reacted to this statement, focusing almost exclusively on the idea of lowest cost. While some participants attributed this limitation on their legal obligations exclusively to the Broker-Dealer, most understood that this limitation could occur within either the Broker-Dealer account or the Investment Adviser account. Although minimizing costs is one of the most important things investors can do to improve their outcomes, most participants did not see this as a concern. Instead, they misread it as a typical investment risk or a matter of getting what you pay for. Some even offered examples of how this would play out in the real world.

*It's fine [if they don't pick least expensive]. Any kind of money decision is a risk. You just have to know that they might not do that for you. But if you have a good relationship with your Broker, I feel that they'd help you out as best they could; but, if they have other commitments to their company to maximize profits, they're going to go that way too. —Denver 001*

*Because they have an interest in mine too [my investments], because they are going to get a percentage of what I make on that investment... Because they want to make the best for them. This is how I would see it: They want the best for them because they want to be successful as well, so they're going to do what makes us [both the best investment]—it's a partnership. —Denver 002*

*Because they're looking at what's best for me. It may be more expensive, but in the long run in their view it's better for me. I look at it similar to a butcher shop.*



*You go into a butcher shop and they are going to try to sell you meat. That's their job. That's kind of like a brokerage. And they're not going to say there are other things besides meat, you know, why don't you look at what's best for your nutrition. You shouldn't be eating this much meat. They would never tell me you shouldn't eat this much meat; you should eat a little bit of fish and poultry and not have every day meat. Their goal is to sell me the most meat they possibly can. They'll talk to me about the different cuts of meat they have, but it's just what they sell. That's all they're going to push. They are like the Broker-Dealer. If I talk to a nutritionist, which is more like an Investment Adviser, they're going to tell me what's best for me. —Denver 003*

*Usually you get what you pay for... Like just food – you could buy generic brands that cost a lot less, but the other stuff will be a lot better. Clothes and shoes, especially with shoes. That's one example that I can think of that you get what you pay for... Because I do that with my shoes. I pay \$180 for my work shoes, but if I buy the cheap shoes that are \$40 or \$50 they are gone within a month and a half. Just the work that I do and I want them around. These last me six to seven months. —Denver 005*

## **Tulsa participants noticed the “fiduciary standard,” but few defined it or fully understood it.**

At least two participants stated their confidence in understanding the term “fiduciary” and their sureness that others would not understand it. Their confidence may have been misplaced, since one compared it to a popular investment service company and provided a brief, broad definition or generalized it to more legal obligations than the Broker-Dealer account would have. However, the firm in question is a dual registrant brokerage firm that is not required to follow a fiduciary duty in its brokerage accounts. Other participants had a general sense of the term, but they wanted a definition.

*I went to OSU and graduated with a finance degree so I know the word “fiduciary.” I know people don't understand what that means sometimes and that kind of gets misconstrued as what even that is... the fiduciary standard. It seems that they [Investment Advisers] have to follow more legal obligations than a Broker-Dealer does. —Tulsa 001*

*Luckily, I understand “fiduciary” and the context, what it means, but someone that doesn't read as much as me might be extremely confused as to what's going on there with that standard... From my understanding, it's like Edward Jones. It's the standard by which the market allows for the treatment of someone that is managing your portfolio. That's moderately broad, but that was the understanding that I got. —Tulsa 006*



*They [Investment Adviser accounts] have to put your financial interests ahead of their own and they have to follow a high legal standard of conduct. "Fiduciary"... isn't that relationship based? I'm not sure... I'd probably like a little bit more of the description... a definition [of fiduciary] would be nice. —Tulsa 005*

## **Like the Denver participants, Tulsa participants did not fully understand the "best interest standard."**

Tulsa participants paid little to no attention to the term "best interest" standard. The information appeared to confuse participants. On the positive side, they recognized and commented on the fact that the legal responsibility for brokers extends only to making recommendations, an important distinction. On the other hand, they, like the Denver participants, raised questions about the definition of best interest. One participant explained how lowest cost investments could still be in their best interests, but he did not understand how recommending more poorly performing investments would be consistent with a best interest standard.

*Right off the bat, the one thing that really sticks out to me is the Broker-Dealer services where it says by allowing us to follow best interest standard. That makes me go what do you mean by best interest? Best interest for whom? Then the Investment Adviser legal stands out to me where it says there's a standard, something that we have to do these things, but if you say best interest standard it calls into question what are you talking about? Whose interests are we talking about? —Tulsa 004*

*But it's the best interest standard [for the Broker-Dealer account.]. So when they say that, I assume they have my best interest in mind. That one doesn't throw me off... only when they make recommendations to you is it under legal obligation. I don't know if they were to tell you something different if that's legal or not. —Tulsa 001*

*It says they [Broker-Dealers] are required to "satisfy certain disclosures, care and conflict of interest obligations only when they are making recommendations to you." So, it doesn't seem like they have the same [obligations]. I don't know if this is because there is a different kind of contract. —Tulsa 005*

*"Satisfy certain disclosure, care and conflict of interest." I don't understand that. I don't understand the conflict of interest. They are not required to choose the lowest cost, least risky, or best performing product... I can understand why they wouldn't choose the lowest cost because that doesn't necessarily mean the greatest gain. But the best performing product? I mean that may not be a requirement, but it should certainly be in your best interest, so it should be considered by them, I would imagine. —Tulsa 003*

## Tulsa participants commented on the imbalance of information presented under the Broker-Dealer services column.

Like Denver participants, Tulsa participants noticed the imbalance of information in the Broker-Dealer information compared to the Investment Adviser information. Participants said that the legal obligations of the Broker-Dealer were not identified clearly. One participant assumed his lack of understanding was because he had more experience with investment services. Another participant concluded mistakenly that the Broker-Dealers had no legal obligations, even though he thought they had an ethical/moral obligation.

*The question wasn't answered. What is our legal obligation to you? That wasn't fully answered either because I felt like it's only in this little part [under Broker-Dealer]... and you say, "oh, that's only one little line here, and they have a bunch of things [on the Investment Adviser side]; so maybe their legal obligation is better for me over here." —Tulsa 001*

*On the Broker-Dealer services side, it's just less clear as to what's going on. Maybe that's just I've got more experience on the investment side. —Tulsa 006*

*I think this [best interest] is something new as far as the legal standard. I believe that recently changed this year, which is probably a good thing for the consumer. "Satisfy certain disclosure, care and conflict of interest." I don't understand that... The obligation of the Broker? I'm not sure they have any obligation... I don't know if they have any obligation legally, but ethically they should. —Tulsa 003*



## Changes to Form CRS before the St. Louis testing

	Investment Adviser Services	Broker-Dealer Services
<p>What is different in our legal obligation to you?</p>	<p>By law, in our advisory relationship, we must follow the highest <b>legal</b> standard of conduct, called a <b>fiduciary</b> standard.</p> <p><b>We are required to</b></p> <ul style="list-style-type: none"> <li>• put your financial interests ahead of our own,</li> <li>• disclose any conflicts of interest (see next section), and</li> <li>• monitor your account continuously throughout our relationship.</li> </ul> <p><b>We are required to follow these legal obligations</b></p> <ul style="list-style-type: none"> <li>• for ALL advice we provide to you, not just to investment recommendations.</li> <li>• for the entire length and scope of our advisory relationship</li> </ul> <p><b>We are not required to</b> choose the lowest cost, least risky, or best performing product.</p>	<p>By law, in our sales relationship, we must follow a <b>best interest</b> standard.</p> <p><b>We are required to</b></p> <ul style="list-style-type: none"> <li>• analyze your financial situation, investment profile, and the investments we have available to meet your needs;</li> <li>• disclose material information about the investments we recommend, including costs and conflicts of interest (see next section); and</li> <li>• mitigate financial conflicts of interest.</li> </ul> <p><b>We are required to follow these legal obligations</b></p> <ul style="list-style-type: none"> <li>• when making recommendations to you.</li> </ul> <p><b>We are not required to</b></p> <ul style="list-style-type: none"> <li>• follow this legal obligation for any other advice we may provide to you beyond sales recommendations,</li> <li>• monitor your account unless you contract separately for that service;</li> <li>• choose the lowest cost, least risky, or best performing product.</li> </ul>

Results from Denver and Tulsa clearly indicated serious shortcomings in our presentation of legal obligations, particularly with the lack of specificity in the description of the Broker-Dealer obligations. Based on those findings, we made several changes to Form CRS before the St. Louis testing. We modified this section to provide greater detail about the Broker-Dealer requirements. In addition, we added a phrase to the first sentence of each description to emphasize the kind of relationship. Despite confusion around these terms, however, we did not define either “fiduciary standard” or “best interest standard,” because in the view of the subject matter experts working on the project, these terms are not well-defined in SEC regulations and any definition offered risks being misleading. In addition, St. Louis participants saw Design 1 with a new heading.

### Like the participants in Denver and Tulsa, St. Louis participants characterized Investment Adviser accounts as having a higher legal obligation because of the fiduciary standard.

While the St. Louis participants could not clearly define a fiduciary standard, they characterized it as requiring the Investment Adviser account to do more or go further than the Broker-Dealer account in taking care of their investments. Some participants seemed to suggest this standard was a bulwark even against the whims of their clients—which may or may not be true. Providing more detail about the Broker-Dealer obligations did not appear to change this perception of the heightened protections afforded under a fiduciary standard.

*I don't know what a fiduciary standard is, but it seems like it's a special type of standing that they [Investment Adviser] have. Or it's like they've legally bound themselves in a certain way but then it also gives them a certain like... it's not just that they say that they are trustworthy. So, they are legally bound to be, in a certain sense, like having my best interest... It seems like it's higher; it seems like they're bound by some higher standard... and not everybody can just be an adviser. You have to feel like there's a higher standard. —St. Louis 003*

*I think the fiduciary standard is higher than the best interest standard. And maybe what this means is they're [Investment Adviser] going to follow the fiduciary standard for all advice they provide to you. —St. Louis 001*

*I think it [fiduciary standard] means no matters what, they [Investment Adviser] will stand to the highest level of standards possible, regardless if the consumer wants it or not. You at least know everything they are doing is legal and allowed. At least that gives the consumer peace of mind. —St. Louis 002*

*Oh, the legal and fiduciary, so basically more of an above the line and not taking as many risks, I would say. —St. Louis 006*

Despite changes to the text, St. Louis participants' discussion of the Broker-Dealer best interest standard suggested a suspicion or misunderstanding of the standard.

Although some participants seemed to have a basic understanding of the Broker-Dealer account responsibilities, the undertone in comments suggested they saw a more lax and situational standard for Broker-Dealer accounts than they perceived for the Investment Adviser accounts. Even more, participants linked the Broker-Dealer accounts back to the underlying sales relationship and saw the best interests entwined with the Broker-Dealer goal to make the sale, more than make a good recommendation for the investor. We believe, to some extent, their focus on these details can be attributed to the heading change which directed participants to look for differences.

*Whereas this guy [Broker-Dealer] might go, "Hey, cool car." They're not required, I guess, to take into consideration like can we really afford it, just because it's not the same standard [they have to follow.]... So maybe that's the difference, in terms of when—they [Broker-Dealer] only have to meet that standard when, according to this, when they're telling you about something to buy, a sales recommendation. But if you're asking them about "Should I sell my house? Is this a good time? Should I start taking Social Security?" I'm not sure that they would be required then to follow any best interest. —St. Louis 001*

*Interesting how it says "By law in our sales relationship, we must follow the best interest standards" and the Adviser goes through the actual legality and fiduciary standards. That's a little interesting... The fact that they [Broker-Dealer] don't talk about what they are legally allowed and not allowed to do. It just goes into what the consumer wants and maybe needs, regardless if it's legal or not, but*



*halfway down it does say "We are required to follow these legal obligations." It's interesting how that's not at the top; it's just in the middle where you could just easily scan over it at one point... I think best interests just goes to what the consumer wants. Just saying "Hey, I want this regardless of whether it's legal or not." They [Broker-Dealer] might be okay with it. That's how I take it, at least.*

**—St. Louis 002**

*I think by saying they [Broker-Dealer accounts] would put your interests ahead of theirs is kind of red flag. It tells me that they are just doing whatever they can to get you on their side. I know it probably says what's in the best interest because it does say it follows best interest standard. But like I said, I think they just want to sell whatever they need to sell at that point. So regardless, if you are the person that buys whatever stock they are trying to sell, all they really want is to meet their quota at the end of the month in my opinion. —St. Louis 002*

Investment [Adviser] side is more on the fiduciary and looking out for you, where it seems as the Broker is more on the best interest probably for both parties. So, they seem to look out for themselves with a little bit of profit and handle your money the right way... So, they're going to be out looking for more opportunities. And I'm going to use that word "more" opportunities rather than the better opportunities, the way I might expect on the Investment [Adviser] side. —St. Louis 006

## Conclusion

Our subject matter experts struggled the most with developing this section, and our results show that more needs to be done. Across the three sites, participants responded positively and strongly to the use of the phrases "highest legal standard" and "fiduciary standard." Although they could not define either phrase, they surmised it required a high level of conduct for Investment Adviser accounts. Most understood that the standard would apply to all advice supplied about an Investment Adviser account. A few participants had misplaced confidence in their understanding of "fiduciary standard," with one participant clearly talking about it applying to a national brokerage firm.

In contrast, participants had far more difficulty with the best interest standard. Few were able to offer a definition and nearly all perceived it as a lower standard than that of the Investment Adviser account. Most understood that the standard applied only when making sales recommendations. Although we balanced the perceived imbalance of information between the Investment Adviser and Broker-Dealer accounts by adding information to the Broker-Dealer description in St. Louis, there remained an undercurrent of distrust in nearly all of the statements about the Broker-Dealer accounts, especially when participants raised the underlying sales relationship of these accounts. In sum, the fiduciary standard was considered a concrete standard against which all Investment Adviser activities would be measured, and the best interest standard was perceived as a situational standard that the Broker-Dealer could adapt as needed.

## Suggested additional changes to Form CRS

1. For future development and testing of Form CRS, we recommend that the SEC clarify the policy issues around the best interest standard. Participants mistakenly associated the best interest standard with the best interests of the Broker-Dealer, serving to undermine the perceived value of the Broker-Dealer accounts.
2. For future development and testing of Form CRS, we recommend that the SEC experiment with explanations of the standard that applies within the text to help potential investors better understand the key differences.



## What is a financial conflict of Interest? and How do we handle a financial conflict of interest?

<p><b>What is a financial conflict of interest?</b></p>	<p><b>Sometimes our interests conflict with yours.</b> This means advice that results in extra income for us is not the best for you.</p> <p>For example:</p> <ul style="list-style-type: none"> <li>• <b>Because we receive asset-based fees</b>, we have an incentive to— maximize the amount of money you invest with us.</li> <li>• <b>Because we receive payments from third parties</b>, we have an incentive to— recommend investments that have these payments, even if other options have lower costs or better performance.</li> </ul>	<p><b>Sometimes our interests conflict with yours.</b> This means a sales recommendation that results in extra income for us is not the best for you.</p> <p>For example:</p> <ul style="list-style-type: none"> <li>• <b>Because we get paid only when you complete a transaction</b>, we have an incentive to— encourage you to trade more often.</li> <li>• <b>Because we receive payments from third parties</b>, we have an incentive to— recommend investments that have these payments, even if other options have lower costs or better performance.</li> <li>• <b>Because we get higher commissions from some products</b>, then we have an incentive to— encourage you to buy those products that pay us more, even if other options are better for you.</li> </ul>
<p><b>How do we handle a financial conflict of interest?</b></p>	<p>When our interests conflict with yours, we must identify and disclose that conflict, <b>and you must consent to it.</b></p> <p>See <a href="http://www.xxxxxx.com">www.xxxxxx.com</a> for more information on how we handle our conflicts of interest.</p>	<p>When our interests conflict with yours, we must identify, disclose, and <b>in some cases mitigate that conflict.</b></p> <p>See <a href="http://www.xxxxxx.com">www.xxxxxx.com</a> for more information on how we handle our conflicts of interest.</p>

In the first of these two related sections, the goal was for participants to be able to define a conflict of interest. To help them understand conflicts of interest, we included examples for both the Investment Adviser account and the Broker-Dealer account. In the second section, our goal was to show how an Investment Adviser account and a Broker-Dealer account would handle these conflicts differently and to offer a link for additional information, continuing our effort to make this a layered document when information could be lengthy or detailed. Our subject matter experts chose to use the word “mitigate” instead of the word “reduce” used in the SEC Form CRS. They believed that “reduce” conveys a more concrete certainty to the potential investor than is inherent in the ambiguity of the SEC standard.

### Denver participants said they were unsure of the definition of conflict of interest, yet were fairly accurate in their description.

Although Denver participants described the definition of conflict of interest as “general” or “confusing,” most understood the gist of the idea. For at least one participant, however, trying to maximize a profit was simply good business, suggesting that they did not understand the potentially harmful impact of those conflicts.

“This means advice that results in extra income for us is not the best for you.”  
That’s such a general statement. —Denver 001

*I'm saying this is getting a little confusing. Just what exactly is the... conflict of interest? Because it seems almost like they're going to go based on what third party helps them out, not what's helping me out. —Denver 005*

*In terms of this, I'd say if they want to maximize their profit, but it probably wouldn't give me maximum return. My money might not be getting invested to its fullest potential. That's what I'm assuming. —Denver 002*

*I think somebody else could gain... gosh, I think [it means] if the Investment [Adviser] or the Broker got something else out of it that wasn't in my best interest, if that makes sense. —Denver 004*

*Financial conflict of interest would be where by telling me to sell or telling me to do something, they personally or their company would be making money off of the deal that I might not be aware of. —Denver 003*

*I didn't know they receive payments from third parties; that's good that they disclose it... Of course, they're going to want us to get products that are going to maximize their profits as well, which again is understandable; otherwise, I'd do this on my own. But all this is clear. It's definitely stated what each service gets from us investing with them... But conflicts are kind of a wash between the two. —Denver 001*

## **Denver participants primarily saw a conflict of interest as the way that the financial professional made money immediately, but they, as investors, did not.**

Overall, participants understood the conflict as a negative but did not demonstrate an understanding of how those conflicts actually work. When Denver participants elaborated about conflict of interest, many of them mistakenly explained the conflict in terms of who took the financial risks. Many of them saw that they, the investors, were taking the risk by investing while the professionals—whether Investment Advisers or Broker-Dealers—were getting paid up front through AUM-based or transaction fees. While it is true that both payment methods involve conflicts, the key issue has less to do with who is taking the risk than with what incentives the Broker-Dealer or Investment Adviser has to make recommendations that are not in their customers' best interests. These same participants also commented that third parties were paid upfront. Some participants understood quite generally the issue around third-party payments and characterized these payments as a kind of double dipping.

*The way this is set up is the Broker makes money, the third party gets his product sold and he makes money, and you've paid for [it]. So, if it [the investment] doesn't work, that's a huge conflict because they got paid and you didn't. —Denver 006*



*Because they [Investment Advisers or Broker-Dealers] could advise me to invest in a certain investment that they know it might be doing good now, but [it] is going to go down in a year or two. But they know they're still getting a bonus or whatnot... like it's good right now, stocks are up or whatever, even though they know two years from now or next year it might not. But they're still going to get their commission base, their bonus. —Denver 005*

*If it's highly profitable for somebody else but it's a high risk for me, I think... because it is a high risk for me and it's not their money, it's my money... somebody can already profit from me doing the high-risk investment. I could end up losing my money, but they've gotten whatever... they can move on. —Denver 004*

*Third parties. So, they're going to have—that also makes me feel like so, if they're going to get more of a cut from Apple, or let's say even more from Kate Spade than Michael Kors, so they're going to want to sell me the Kate Spade more than the Michael Kors if they're getting a cut from them as well, right? So, double dipping is what it kind of would say to me. —Denver 002*

## Participants were confused by or misinterpreted the meaning of “consent.”

Some participants were confused by the statement “You must consent to it.” They were unsure what they were consenting to and even what “consent” meant in this circumstance. Of more concern, several participants mistakenly interpreted consent as the Investment Adviser needing their approval before taking any action, thus giving the investor knowledge and decision-control of any investment. On the other hand, one participant read the phrase “must consent” as a requirement for the investor and considered it putting the Investment Adviser in complete control of the decision to move forward with the investor having knowledge, but no decision control, since consent had to be given. None recognized that, simply because information about the conflict had been disclosed, they would be considered to have consented to the conflict.

*Yes, it just seems like I don't know what I'm consenting to. This one is more clear though, like if something does happen, we're going to go through the conflict, but—and “you must consent to it.” So, I must consent to what? Have I already consented? Or am I going to consent? —Denver 002*

*I like that I still have to consent to this. They [Investment Adviser] can't do anything without me knowing and approving it. This [the Broker-Dealer] is telling me they'll make the decisions for me, even if there is a conflict of interest. —Denver 005*

*I have to have consent here [with Investment Adviser services] and I don't have the consent here [with Broker-Dealer services]. I don't like that. I just want to*

*make sure I'm reading this right. I have to consent here, which means I can say no or whatever. —Denver 004*

*What does this mean? "You must consent to it." So, am I consenting to the financial conflict of interest? Or am I consenting—so that's kind of where it was confusing, too. Am I consenting to the financial conflict of interest, or am I consenting before I even do it?... Are you consenting to the conflict or had I already consented to what we bought or what we did with my money?... So, I feel like here, they're going to have to get permission first. —Denver 002*

*The Broker will mitigate, but the Investment Adviser says, "You must consent to it." It seems totalitarian. —Denver 006*

## Few Denver participants understood the meaning of "mitigate."

Most participants stumbled on a definition of "mitigate," while others did not know what the word "mitigate" meant. Some participants understood that Broker-Dealer accounts would "disclose" the conflict to them, but they were unsure how that would happen. One participant believed "mitigate" meant "mediate." Some even wondered if they would know if a conflict existed with a Broker-Dealer account. A few participants perceived that the Broker-Dealer account decided for the investor about the resolution of the conflict, seeing that they were not in a position to say no.

*["Mitigate" means] Sort of... like try to steer you a certain direction. —Denver 005*

*["Mitigate" means] Discuss it. Go to court or a third party who can handle it and decide if it was fair for both sides; if it wasn't, who was it fair to? —Denver 006*

*This one, I feel like someone's decided for me and so if something goes wrong, I don't know... This one I feel like [the resolution of the conflict] was just kind of forced on me because of that last sentence, "and in some cases mitigate that conflict." It makes me think like something wasn't done properly. —Denver 002*

*Over here [with Broker-Dealer account], I feel like I can't say no sometimes... They are disclosing it to me. I don't know what mitigate... what does "mitigate" mean? I don't know. I don't know what that means. —Denver 004*

*[with the Broker-Dealer services]... in some cases we disclose and "in some case mitigate that conflict," which I don't understand really what "mitigate the conflict" means... [with Investment Adviser services] I have to consent to it [the conflict] and the other is they'll try to make the conflict not as bad. But I don't have to consent, so I may not know about it. —Denver 003*



## Changes to Form CRS before the Tulsa testing

Because of issues with these two sections and the researchers' observation that participants seemed to read the two sections without acknowledging how information in one section informed the other section, we modified our Form CRS. We combined the two sections into one section with a new heading: What is a financial conflict of interest?

### What is a financial conflict of interest?

**What is a financial conflict of interest?**

When our interests conflict with yours, we must identify and disclose that conflict, **and you must consent to the conflict.**

**Sometimes our interests will conflict with yours.** This means advice that results in extra income for us is not the best for you.

For example:

- **Because we receive asset-based fees,** we have an incentive to—maximize the amount of money you invest with us.
- **Because we receive payments from third parties,** we have an incentive to—recommend investments that have these payments, even if other options have lower costs or better performance.

See [www.xxxxxxx.com](http://www.xxxxxxx.com) for more information on how we handle our conflicts of interest.

**What is a financial conflict of interest?**

When our interests conflict with yours, we must identify, disclose, and **in some cases mitigate that conflict.**

**Sometimes our interests will conflict with yours.** This means a sales recommendation that results in extra income for us is not the best for you.

For example:

- **Because we get paid only when you complete a transaction,** we have an incentive to—encourage you to trade more often.
- **Because we receive payments from third parties,** we have an incentive to—recommend investments that have these payments, even if other options have lower costs or better performance.
- **Because we get higher commissions from some products,** then we have an incentive to—encourage you to buy those products that pay us more, even if other options are better for you.

See [www.xxxxxxx.com](http://www.xxxxxxx.com) for more information on how we handle our conflicts of interest.

In this revision, we combined the two sections with a goal to better link the information in the two sections. We placed the information about how the conflict of interest was handled first, to emphasize the more obvious differences between the Investment Adviser and Broker-Dealer accounts. Then we included the information that defined the conflict of interest and gave examples which also included differences. We also included the link.

## Despite these changes, Tulsa participants did not fully understand what conflicts of interest were or how they could potentially harm them as investors.

Tulsa participants did not fully understand the potential impact of conflicts of interest, even if they understood them in an abstract and general way and could apply a general definition. One participant tied the conflict to the basic relationship of sales and advisory, and, as in Denver, another participant just saw it as a way of doing business.

*What is a conflict of interest other than what you see with the FCC getting involved or something like that?... I don't know what a conflict of interest would be... I guess it's like if an investment firm is highly invested in another big company and they know something... I'm going to use Fidelity as an example*

*because they're a large company. Let's say they're invested in a Fortune 500 company and they know that something is going down and they need to sell. That seems like that would be a conflict of interest... —Tulsa 001*

*The conflict of interest is just a disagreement in how you feel. —Tulsa 003*

*That's when he's going to gain something else by making a transaction on my behalf. It won't benefit me, but he's going to get benefitted if I do the transaction. —Tulsa 004*

*To me, a conflict of interest is something that comes up that might have a hidden agenda, and they need to let you know because it might not work out with the contract you have with that person... If there was an investment that is going to go on with my account, that somehow they figure they can make more money using a different method maybe, then they would have to change my investment for them to make more money? —Tulsa 005*

*So, what is a financial conflict of interest? With this conflict of interest, it kind of goes back to the sales versus more investment advisory... So, it wouldn't be as much about my best interest because they'd want just transaction after transaction. —Tulsa 001*

*I'm reading because where it says payments from third parties. I'm just going through my mind why would they [Investment Adviser accounts] receive payments from third parties? Yes. I understand them receiving asset-based fees but why would they receive payments from the third parties to recommend an investment? I guess that's what the world has come to. I guess it's like a politician where you scratch my back, I'll scratch yours, that's what it seems like. I'm reading the other side, the Broker-Dealer side. Maybe they're a third-party paying this because of the higher commission. I guess it's incentive or bonus plan maybe. —Tulsa 004*

## **Like Denver participants, Tulsa participants were unclear what “consent” meant, but few participants commented on “mitigate.”**

Tulsa participants had questions about what was meant by “consent,” but there were fewer that did so than in Denver. They seemed to understand that they were required to consent, but their understanding was often foggy. One person stated that he would research both the term “consent” and “mitigate.” The only other person to mention the term “mitigate” felt that the use of that word made the Broker-Dealer approach to handling a conflict clearer.

*And you must consent to the conflict. So, what does that mean? I have to state I understand there's a disagreement? They're coming right out and saying that*



*we're not actually going to do what's best for you; we're going to do what's best for us and our investment partners. —Tulsa 003*

*I'm taking it as they have the obligation to talk to you because there is a contract involved, but I'm not sure. I would have to do more research on my own to really understand these terms [consent and mitigate]. —Tulsa 005*

*Broker-Dealer services—it almost seems to explain it [how to handle a conflict of interest] a little better. Or maybe, just the use of the word "mitigate" just broke it down better in my head. —Tulsa 006*

## St. Louis participants saw Design 1 with a different heading.

<p><b>What is different in how we handle a financial conflict of interest?</b></p>	<p>When our interests conflict with yours, we must identify and disclose that conflict, <b>and you must consent to the conflict.</b></p> <p><b>Sometimes our interests will conflict with yours.</b> This means advice that results in extra income for us is not the best for you.</p> <p>For example:</p> <ul style="list-style-type: none"><li>• <b>Because we receive asset-based fees,</b> we have an incentive to — maximize the amount of money you invest with us.</li><li>• <b>Because we receive payments from third parties,</b> we have an incentive to — recommend investments that have these payments, even if other options have lower costs or better performance.</li></ul> <p>See <a href="http://www.xxxxxxx.com">www.xxxxxxx.com</a> for more information on how we handle our conflicts of interest.</p>	<p>When our interests conflict with yours, we must identify, disclose, and <b>in some cases mitigate that conflict.</b></p> <p><b>Sometimes our interests will conflict with yours.</b> This means a sales recommendation that results in extra income for us is not the best for you.</p> <p>For example:</p> <ul style="list-style-type: none"><li>• <b>Because we get paid only when you complete a transaction,</b> we have an incentive to — encourage you to trade more often.</li><li>• <b>Because we receive payments from third parties,</b> we have an incentive to — recommend investments that have these payments, even if other options have lower costs or better performance.</li><li>• <b>Because we get higher commissions from some products,</b> then we have an incentive to — encourage you to buy those products that pay us more, even if other options are better for you.</li></ul> <p>See <a href="http://www.xxxxxxx.com">www.xxxxxxx.com</a> for more information on how we handle our conflicts of interest.</p>
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## Like Tulsa participants, St. Louis participants had only a limited and general idea of the meaning of conflict of interest.

St. Louis participants tended to define a conflict of interest in very general terms or in terms of a disagreement with the Investment Adviser or Broker-Dealer, including for one participant over something like their fees. That same participant did broaden the definition of conflict to include a more philosophical disagreement on what the investment would be. In short, with few exceptions, St. Louis participants did not understand the concept of conflicts of interest.

*I'm not really sure. I understand like a conflict of interest if I had more than one Broker and they were working against each other. —St. Louis 005*

*A conflict of interest is when you disagree and they disagree on a certain thing. If you [Investment Adviser] made a trade or it wasn't approved by myself and my*

husband, that would be a conflict of interest... Say they sent something to you, a statement to you and you disagree with that statement, that would be a conflict of interest. You don't know until you get a statement. —St. Louis 004

To me regarding conflict of interest as far as the finance term goes, if they want you to buy 20 Apple stock and maybe you're not an Apple person and you don't think Apple is going to do well in the financial world, in the business world. Even though they might be doing very well right now, you still don't agree with it and they are trying to get you to buy it and you just disagree, in my opinion that's a conflict of interest... As far as the finances go, I'm trying to think. Maybe just thinking that their fees were too high would be a conflict of interest. You still want their services could be a conflict of interest even though that's not a negotiable thing. That could be under consideration for it. —St. Louis 002

I think I understand that which is like there are better options for me to buy but these guys are going to do better with the stiffer ones, not necessarily to harm me. It just means that it's not as good as it could have been, but at the same time I couldn't do anything without these people. It [a conflict of interest] can also be like someone assigned me something that is going to lose money. Or it's like the biggest rage and then it tanks. —St. Louis 003

It could also mean things like your values, your morals. I hope that would never come into question as far as both the Brokers and Advisers, joining a firm and being a consumer. You could go into things like clean energy stuff and those types of deals where maybe the person doesn't care about that, the consumer doesn't care about that but maybe they want to push you towards it. It's not always about the dollar but more about maybe what you think is right or wrong. —St. Louis 002

## As with the previous sites, St. Louis participants struggled with the meaning of “consent” and did not know the meaning of “mitigate.”

Participants understood there existed a difference in how a conflict of interest was handled, but they didn't clearly understand the details of those differences. As in Denver and Tulsa, most participants mistakenly understood the statement “You must consent to the conflict” to mean they had to say it was okay to proceed. While that is a rational interpretation of the disclosure, it overstates the extent to which explicit consent is required for compliance. As in Denver and Tulsa, participants were not sure what was meant by the word “mitigate.”

They're [Broker-Dealer] going to disclose it to you, they say. And then they'll kind of mitigate it... But I don't understand what that is. As opposed to [Investment Adviser], I have to consent to it, over here they're going to tell me, and then I have to say, “Oh, that's okay.” —St. Louis 001



*I guess I don't understand what it means to "consent to that conflict" versus not... It doesn't seem that it's anything other than just like disclosure. It seems like they could still manipulate my investments to their benefit so long as all that material is available, and I'm not educated in the stuff like would it be hard to show me... if I show you this, I think you should buy it and I would be like okay.*

—St. Louis 003

*The other one [Investment Adviser] says that, "We'll disclose it to you and you must consent to it." [For the Broker-Dealer] In some cases, it will mitigate that complex... I don't know—I always thought the word "mitigate" meant like to negotiate. So, we're going to negotiate the conflict and—I don't know—I'm not really—that doesn't serve me at all. And then "in some cases, we're going to mitigate conflicts." So, in others they're not. I mean, again, to me, I don't really understand what that statement means.* —St. Louis 001

*Yes, the adviser, it says you must consent. So basically, if there's a conflict and they disclose it, they can't just move on without you; you have to say OK, we need to part away from that. Whereas the other side [the Broker-Dealer], it seems like they're going to try to negotiate a little to hey, you may want to; you don't have to, but you may want to.* —St. Louis 006

## Conclusion

Like the section "What are our legal obligations?" this section has ongoing challenges to solve. Across the three sites, participants struggled with a definition of "conflicts of interest" although they had a vague and generally intuitive sense of it not being in their best interest. Of most concern is their understanding of "consent" for Investment Advisers and their lack of understanding about the word "mitigate." Some participants legitimately wondered to what they were giving consent, finding the definition and the timing unclear. Other participants mistakenly assumed that having to give consent implied that they would be giving "real time" consent for any transaction that included a conflict of interest. While that is a rational interpretation of the disclosure, it overstates the extent to which explicit consent is required for compliance.

Across sites, few participants knew what the word "mitigate" meant and thus were confused about how exactly Broker-Dealer accounts would handle a conflict of interest, some even wondering if they would know if a conflict existed. The changes we made after the Denver testing to try to address those concerns did not appear to increase investor understanding of these issues.

What is most remarkable about the participants across the three sites is what is missing from their comments. Few, if any, participants explicitly linked the conflicts of interest to the legal obligations of either the Investment Adviser accounts or the Broker-Dealer accounts. A few commented on how the underlying sales relationship of the Broker-

Dealer accounts could set up conflicts of interest. On the whole, participants seemed to regard the two sections “What are our legal obligations?” and “How do we handle a conflict of interest?” as separate and distinct. This failure to connect may be because the two sections are the most abstract conceptually in Form CRS.

## Suggested additional changes to Form CRS

1. We inserted the phrase “As part of our legal obligation” to the first sentence of both the Investment Adviser account column and the Broker-Dealer account column.
2. We changed the text in the Investment Adviser column to read “As part of our legal obligations, we must identify and disclose when our interests conflict with yours, and you must consent to the conflict either directly or indirectly.”
3. For future development and testing of Form CRS, we recommend that the SEC experiment with additional ways to better link the two sections titled “What are our legal obligations?” and “How do we handle a conflict of interest?”
4. For future development and testing of Form CRS, we recommend that the SEC continue to refine the definition used for “conflict of interest.”
5. For future development and testing of Form CRS, we recommend that the SEC clarify what the phrase “give consent” means and does not mean. In particular, make it clear that consent may be implied rather than explicit.
6. For future development and testing of Form CRS, we recommend that the SEC provide a layman’s definition of mitigate, even if “mitigate” must remain as a parenthetical synonym.
7. For future development and testing of Form CRS, we recommend that the SEC retain the newly combined section in the order suggested in order to begin with the differences between the Investment Adviser account and the Broker-Dealer account.
8. We made the link description more specific about its content:  
See [www.conflictspolicy.com](http://www.conflictspolicy.com) where we explain how our firm meets our legal obligation to protect your best interest.
9. See Appendix E for a Proposed Version 2 Form CRS.



## How can you research our firm?

How  
can you  
research  
our firm?

Visit [Investor.gov](https://investor.gov) for a free, simple search tool to research our firm and our financial professionals.

Visit [Investor.gov](https://investor.gov) for a free, simple search tool to research our firm and our financial professionals.

In this section, our goal was to refer participants to additional information about the firms. We intended to use this as one aspect of a layered disclosure that provides a link to detailed information that was not on Form CRS.

### Participants in all three sites stated they would research the company they were looking at doing business with.

While they were not sure what type of information would be at the website, they would use it. They would also use other methods of research such as Googling the company name.

Denver participants liked that Form CRS included a web site to research a particular company.

*That's good. There's an easy website. I like that it's bolded. It's easy to see and it would be easy to get to if I do need to do a little more research. —Denver 001*

*Okay. Same on both of them. Seems transparent. It gives you a website to go and look at stuff for free and do your research. Make sure what their firm is all about and everything. —Denver 005*

*Well, if I was brand new and didn't know anything, that's where I'd go. I'd be glad that I found the site and I'd have to investigate and make a decision. —Denver 006*

Although the Tulsa participants were not sure what they would find on the website or what type of information they would be looking for, they said they would use the links to do some additional research on a company.

*It just seems like they were a little freer with information on the Broker-Dealer services side as well. Under the area where it says "How can you research our firm?" you might want to put something that explains why I would want to research their firm. Everyone should do extensive amounts of research, but I would put something on there so that you understand that we're being morally, ethically encouraged, or following a high line of morals, whatever. You can check*

*this up on investor.gov. I guess it can be easily misled as in "Hey, we're not doing anything illegal. You can check that here." I would use it more as a "Hey, we are one of the best in the business, and you can verify that here." —Tulsa 006*

*Because I would like to do my own research. I wouldn't just want lip service. I would want to do some research on my own plus maybe Google that firm. —Tulsa 004*

*Because I'm curious. I always want to know. First of all, are you legit? Let me read and see what I can find out and get some more information about the company itself. I do that. I go to the "about" section on websites just to find out about them. I think especially nowadays the internet is the end all, be all anyway but just to get more information than what's here. This may lead me to other questions and let me go to the website to see if I can find out about anything else. —Tulsa 002*

Participants in St. Louis said they would use the .gov website and would also Google the company and see what would come up. They did not really know what they would be looking for other than people's opinions about the company.

*Well, now I'm confused. This must be something that the government puts up, that helps you understand—because I think that's their job—so it's got to be something that the government put out there to, again, help you compare financial services companies and—I don't know, I'm not aware—so I'm assuming they have some kind of—I know there are standards that they have to meet and reports they have to do, and I'm assuming then that the government puts that all out there, on this website, so that you can look at. —St. Louis 001*

*I would, because it's a .gov website it tells me that it is trusted. It does say free and simple, so that tells me hopefully it won't take a lot of time to research it, research or find whatever specific information I'm looking for. —St. Louis 002*

*Maybe, I would actually probably search outside of that, just look for reviews or I would Google the name of the company and then scan and see if anything comes up where people are saying it's a scam. Or I'd look for BBB or something. —St. Louis 003*

*You can research all of them by getting on the internet and just looking them up —St. Louis 004*

*Well, yes, quite naturally, when I see .gov, it gives you a little more security to let you know that it's a neutral site. It's not controlled by that actual client. It's not a .com, so they're not putting their own information on there to make themselves look better, but it's going to be information that's probably comprised by some governmental documents and investigations and consumer reports. —St. Louis 006*



## Conclusion

Across all three sites, the participants stated that they were comfortable using the web to do research on a company. While the participants did not have a clear idea from the description what they would find at the investor.gov website, they did say that they would put a high level of trust in whatever information would be on the site because it was a government site. The participants indicated that they also would use search engines and other websites to do research on a company.

As a side note, participants rarely mentioned the three other links we provided to make this a layered notice. Some participants commented on the link in “How do you pay for our services?” with the understanding that detailed costs information would be too lengthy to include in Form CRS, but they still wanted general cost information in Form CRS. Very few said they would use the link about Other Options in the section on “How does our relationship work?” Only one participant said he would use the link in the Conflicts of Interest section. The varied responses suggest that the use is dependent on perceived relevance. Some of that relevance is inherent—cost and research. Some of that relevance can be built in with more specific descriptions of what can be found at the link. We continue to believe that the links can provide a valuable resource for some potential investors, but paper copies of supplemental information would likely be valuable to many investors.

## Suggested additional changes to Form CRS

1. We changed the text to read “Visit investor.gov for a free, simple resource on investing, generally, and for links to search tools to research whether our firm or any of our financial professionals have a disciplinary record.”
2. We changed all in-text descriptions of the links to be more descriptive about the information that we suggested would be found there.
3. See Appendix E for a Proposed Version 2 Form CRS.

## Alert!

### Alert!

Many financial professionals use titles, such as Financial Consultant, Wealth Manager, Adviser, or variations of that title. A firm or individual's title does NOT mean that they are acting in an advisory capacity. It's important that you understand which role (advice or sales) that they are performing at all times.

We added the Alert box after the Tulsa testing. In both Denver and Tulsa, we gave a list of titles to participants and asked if they thought the title would be used by someone associated with an Investment Adviser account or a Broker-Dealer account. Most participants in Denver and St. Louis had little consistent pattern in how they assigned the titles to the two accounts. Only St. Louis participants saw the Alert. Our intent was to alert participants to the fact that the use of titles is unregulated and can be misleading.

## Denver and Tulsa participants were clearly surprised by the various titles and angry about possible misuse.

After participants had reviewed Form CRS, we presented them with a series of titles and asked them which category they would place the title in—Investment Adviser or Broker-Dealer. Participants showed no pattern as to which category they assigned a particular title. Then we asked them how they would feel if someone used a title they thought was associated with an Investment Adviser account, but they later found that the person was associated with a Broker-Dealer account with all the differences that implied. They said that it would be misleading to them if they relied on the titles and then found out later that the person was just using the title to get business. And some of them felt they would be angry. Some recounted personal experiences of this happening to them.

*I feel like they're two totally different things, not totally different, but they have some really different—I mean there are some significantly different things that are in both of these columns based on what they're going to do with my money. So, yes, I think I would be upset. I think I'd feel like wait, you're supposed to be my Financial Adviser, but instead you're really a Broker—I mean you're working for a Broker-Dealer. —Denver 001*

*He said he was a Financial Adviser. I thought that was a financial planner. I didn't know there was a difference. He didn't falsely advertise. I misunderstood. His industry plays semantic games and I've learned that, but he didn't... that's his title. On his card it says Financial Adviser. —Denver 003*

*[I would feel] Like I was led to believe something different. That I would be lied to; only because they have different services. If I'm looking for an Adviser, I*



obviously am looking for different kind of services than what the Broker would do. I would feel misled, yes. —**Denver 004**

If they are strictly sales and they are using the word Adviser. Yes, because in the end there is another agenda that I'm probably either not understanding in the beginning of the contract or they are really going to be looking out for my interests because they are still trying to make sales. —**Tulsa 005**

Not much surprises me anymore, but I would really feel like a sucker. And I mean all you can do is move on with somebody else. —**Tulsa 003**

Yeah, absolutely. I would be pissed. —**Tulsa 006**

## St. Louis participants reacted positively to the inclusion of the Alert.

St. Louis participants were unaware of differences in titles, often assuming they were interchangeable. One participant saw it as dishonesty, implying an intent to mislead investors. Others recognized the necessity of verifying the role of the professional given the lack of standardized vocabulary.

*It's interesting how they write that because I wouldn't have thought of that. I just thought that financial consultant, wealth management adviser, I thought they were all the same. For it to tell me that they don't all do the same and it's important you understand what role that they are performing at all times. I wouldn't have thought to even read that if I was coming across this paper.*  
—**St. Louis 002**

*It does surprise me but there's just like a lot of dishonesty so no that does not surprise me. It's good to know also.* —**St. Louis 003**

*Well, I just think it means that there's no standardized vocabulary, if you will, among titles and—and so you should not assume that the person that you're working with, which side of the comparison they're on, you need to ask and understand what they're doing for you.* —**St. Louis 001**

*That's basically saying that—how do I want to say it? I was going to say stuff in layman terms. Basically, anybody can call themselves a duck, but can he quack and make water along his back? So, you can give yourself any title. I mean it looks good on a nameplate or a business card, but what are they actually—you got to make the investigation for yourself to just try to see what is this person actually about.* —**St. Louis 006**

## Conclusion

Across the three sites, participants believed that they would have been misled or lied to if the person using some of the titles were a Broker-Dealer. In St. Louis, participants thought the Alert made them aware that there was an “interchangeability” within the industry on the usage of the terms and that they now understood they needed to ask for clarification.

## Suggested additional changes to Form CRS

1. We changed the wording of the Alert to be more concrete.
2. For future development and testing of Form CRS, we recommend that the SEC include an Alert in subsequent versions.
3. For future development and testing of Form CRS, we recommend that the SEC consider standardizing the use of titles, beyond the proposed restriction on use of the term Adviser/Advisor, or providing guidance on their use.
4. See Appendix E for a Proposed Version 2 Form CRS.







## Section 3. Conclusions and Recommendations

Creating an effective disclosure is hard. It requires not only effort, but time to perform iterative developmental testing with consumers to communicate the complicated concepts inherent in Form CRS. So far, only some of the language tested in either the original SEC mockup or our revised version of Form CRS achieves the necessary level of understanding to support an informed investor choice. Both the fiduciary standard and best interest standard need better explanations, definitions (in the case of the best interest standard), examples, and simply more SEC-led experimentation on how to present this information to consumers before the final Form SEC is issued. “Consent” and “mitigate” also need small-scale testing or rapid prototyping to allow multiple approaches to be tried and discarded and fine-tuned before settling on the better option.

The Form CRS resulting from this one-month effort is not presented as a final or perfect product. Rather, we wanted to show that with explicit assumptions about the form’s content, use, and readers, it is possible to solve some of the issues inherent in such an undertaking. A different set of assumptions about the form’s content and use could result in strikingly different designs and language. While some of our assumptions resulted in improvements in investor understanding, particularly regarding differences in the nature of the relationship and the services provided in Broker-Dealer and Investment Adviser accounts, other changes did not have the beneficial effect we hoped for. And none of the testing conducted thus far has examined how Form CRS works for standalone firms, as opposed to dual registrants. This represents a serious gap in our knowledge, since examining these issues in isolation, without a comparison immediately available, may lead to very different results.

Ultimately, plain language and artful presentation cannot hide the fundamental lack of clarity around key ideas, such as best interest standard, consent, or mitigate. We, our subject matter experts, and our participants struggled with understanding and expressing these ideas cogently and explicitly. We recognize that clarification is no easy task. But, as always, clear writing is rooted in clear thinking. Without such efforts at a policy level, our results at a disclosure level will be modest.

We also urge that the SEC *itself* undertake the next steps to develop and consumer test Form CRS. Industry and consumer advocates will undoubtedly have strong opinions, and we encourage the SEC to hold stakeholder feedback sessions or industry testing. We have seen this process successfully work in multiple formats—allowing stakeholders and the industry to give valuable input on the final product. However, the SEC is in the best position to drive this process and objectively measure when the language and consumer understanding of the concepts in Form CRS meet its intent and goal.



## Recommendations

Based on the results of this project's testing, we make the following recommendations for the SEC's undertaking:

1. Clarify the policy issues around the best interest standard since it was key to participants' understanding.
2. Clarify the policy issues around consent and mitigate, since participants generally misconstrued or did not know the terms.
3. Require that Form CRS be given as early as practical BEFORE the relationship begins.
4. Maintain the question-and-answer format for headings that we've adopted here for the dual registrant form, using the "What is different in ...?" format to emphasize the comparison purpose, not merely the informational purpose, of each section. For single registrant forms, use the question-and-answer format.
5. Continue to build on the distinction between the advisory relationship of the Investment Adviser account and the sales relationship of the Broker-Dealer account.
6. Experiment with the possibility of incorporating sample costs in a standard way into Form CRS that does not mislead potential investors.
7. Continue to experiment with ways of clarifying the sections on legal obligations, conflicts of interest, and resolution of conflicts of interest, since these were the least understood by participants. (See Items 1 and 2 in this list.)
8. For any links, give a specific description of the kind of information to be found there.
9. Continue to include the Alert section to create awareness of the lack of standardization of title use.
10. Consider standardizing the use of titles, beyond the proposed restriction on use of the term Adviser/Advisor, or providing guidance on their use.
11. Consider using the two designs in Appendix E as a starting place for further work, recognizing that additional revisions will be needed if Form CRS is to serve its intended function of supporting informed investor decision-making.
12. Continue to engage with consumers through small-scale and rapid prototyping testing as Form CRS continues to evolve.



## Appendix A. Demographics

		One-on-One Interviews			Total
		Denver	Tulsa	St. Louis	
Gender	Male	3	3	3	9
	Female	3	3	3	9
Age	20-29		1	1	2
	30-39	2	2	2	6
	40-49	2	1	1	4
	50-64	1	2	1	4
	65+	1		1	2
Education Level	High School	1		2	3
	Some college		3		3
	College graduate	3	2	3	8
	Advanced degree	2	1	1	4
Income	Less than \$49,999	1	3	3	7
	\$50,000–99,000	4	3	1	8
	\$100,000–149,999			1	1
	Over \$150,000	1		1	2
Race	Asian	2			2
	African American		1	1	2
	Native Hawaiian or Pacific Islander				0
	White	3	3	3	9
	Hispanic	1	1	2	4
	American Indian or Alaska Native		1		1
Have Retirement or Investment Account	Yes	6	6	5	17
	No			1	1
Current investment*	401K Account	6	5	2	13
	IRA Account	6	5	5	16
	Other Investment Account	1	1	1	3
Account Decision Status*	Makes own investment decisions	3	2	5	10
	Receives advice	7	6	2	15
Current Investment Payment Method*	By Transaction	1	1	2	4
	A percentage fee on the assets they manage	5	4	5	14
	Another way		1	1	2

\*some participants have multiple accounts





## Appendix B. Denver Form CRS

### Client Relationship Summary of Basic Services

Use this summary to understand the key differences between Investment Adviser Services and Broker-Dealer Services, so you can choose which service and account is best for you.

	Investment Adviser Services	Broker-Dealer Services
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<b>How do you pay for our services?</b>	<p><b>FEES</b>  <b>You pay ongoing fees for advice and implementation based on a percentage of the value of the assets in your account.</b></p> <ul style="list-style-type: none"> <li>Alternatively, you may contract with us to provide limited services, for which you will pay a flat or hourly fee.</li> <li>You may pay additional fees.</li> </ul> <p>Visit <a href="http://www.xxxxxx.com">www.xxxxxx.com</a> or request a paper copy for a list of various fees that may apply to your situation.</p>	<p><b>COMMISSIONS AND OTHER FEES</b>  <b>You pay a commission or other sales fee for each transaction in your account.</b></p> <ul style="list-style-type: none"> <li>Commissions and fees will vary depending on the size of the transaction and the investment product purchased.</li> <li>Ongoing asset-based fees may also be charged for some products we recommend that are held in your account.</li> <li>You may pay additional fees.</li> </ul> <p>Visit <a href="http://www.xxxxxx.com">www.xxxxxx.com</a> or request a paper copy for a list of various fees that may apply to your situation.</p>
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## Appendix C. Tulsa Form CRS

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	Investment Adviser Services	Broker-Dealer Services
	<p><b>What is our legal obligation to you?</b></p> <p>By law, we must follow the highest <b>legal</b> standard of conduct, called a <b>fiduciary</b> standard.</p> <p><b>We are required to</b></p> <ul style="list-style-type: none"> <li>• put your financial interests ahead of our own,</li> <li>• disclose any conflicts of interest (see below), and</li> <li>• monitor your account continuously throughout our relationship.</li> </ul> <p><b>We are required to follow these legal obligations</b></p> <ul style="list-style-type: none"> <li>• for ALL advice we provide to you, not just to investment recommendations.</li> <li>• for the entire length and scope of our advisory relationship</li> </ul> <p><b>We are not required to:</b></p> <ul style="list-style-type: none"> <li>• choose the lowest cost, least risky, or best performing product.</li> </ul>	<p>By law, we must follow a <b>best interest</b> standard.</p> <p><b>We are required to</b></p> <ul style="list-style-type: none"> <li>• satisfy certain disclosure, care, and conflict of interest obligations (see below).</li> </ul> <p><b>We are required to follow these legal obligations</b></p> <ul style="list-style-type: none"> <li>• when making recommendations to you.</li> </ul> <p><b>We are not required to:</b></p> <ul style="list-style-type: none"> <li>• follow this legal obligation for any other advice we may provide to you beyond sales recommendations.</li> <li>• monitor your account unless you contract separately for that service;</li> <li>• choose the lowest cost, least risky, or best performing product.</li> </ul>
	<p><b>What is a financial conflict of interest?</b></p> <p>When our interests conflict with yours, we must identify and disclose that conflict, <b>and you must consent to the conflict.</b></p> <p><b>Sometimes our interests will conflict with yours.</b> This means advice that results in extra income for us is not the best for you.</p> <p>For example:</p> <ul style="list-style-type: none"> <li>• <b>Because we receive asset-based fees,</b> we have an incentive to— maximize the amount of money you invest with us.</li> <li>• <b>Because we receive payments from third parties,</b> we have an incentive to— recommend investments that have these payments, even if other options have lower costs or better performance.</li> </ul> <p>See <a href="http://www.xxxxxx.com">www.xxxxxx.com</a> for more information on how we handle our conflicts of interest.</p>	<p>When our interests conflict with yours, we must identify, disclose, and <b>in some cases mitigate that conflict.</b></p> <p><b>Sometimes our interests will conflict with yours.</b> This means a sales recommendation that results in extra income for us is not the best for you.</p> <p>For example:</p> <ul style="list-style-type: none"> <li>• <b>Because we get paid only when you complete a transaction,</b> we have an incentive to— encourage you to trade more often.</li> <li>• <b>Because we receive payments from third parties,</b> we have an incentive to— recommend investments that have these payments, even if other options have lower costs or better performance.</li> <li>• <b>Because we get higher commissions from some products,</b> then we have an incentive to— encourage you to buy those products that pay us more, even if other options are better for you.</li> </ul> <p>See <a href="http://www.xxxxxx.com">www.xxxxxx.com</a> for more information on how we handle our conflicts of interest.</p>
	<p><b>How can you research our firm?</b></p> <p>Visit <a href="http://investor.gov">investor.gov</a> for a free, simple search tool to research our firm and our financial professionals.</p>	<p>Visit <a href="http://investor.gov">investor.gov</a> for a free, simple search tool to research our firm and our financial professionals.</p>

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# Appendix D. St. Louis Form CRS

## Client Relationship Summary of Basic Services

Use this summary to understand the **key differences** between Investment Adviser Services and Broker-Dealer Services, so you can choose which service and account is best for you.

	Investment Adviser Services	Broker-Dealer Services
<b>What is different in our basic services?</b>	<p><b>INVESTMENT ADVICE AND MANAGEMENT</b>  <b>This is an advisory relationship.</b>            We offer personalized investment advice by:</p> <ul style="list-style-type: none"> <li>• working with you to identify your investment goals,</li> <li>• developing strategies to reach those goals,</li> <li>• selecting investment products to meet your specific objectives,</li> <li>• implementing our advice for you, and</li> <li>• managing your portfolio.</li> </ul>	<p><b>SALES RECOMMENDATIONS AND TRADING</b>  <b>This is a sales relationship.</b>            We offer brokerage services, by:</p> <ul style="list-style-type: none"> <li>• recommending investments for you to buy and sell based on an assessment of your financial situation and investment goals, and</li> <li>• executing trades for you based on your investment decisions.</li> </ul>
<b>What is different in how you pay for our services?</b>	<p><b>FEES</b>  <b>You pay ongoing fees for advice and implementation based on a percentage of the value of the assets in your account.</b></p> <ul style="list-style-type: none"> <li>• Alternatively, you may contract with us to provide limited services, for which you will pay a flat or hourly fee.</li> <li>• You may pay additional fees.</li> </ul> <p>Visit <a href="http://www.xxxxxx.com">www.xxxxxx.com</a> or request a paper copy for a list of various fees that may apply to your situation.</p>	<p><b>COMMISSIONS AND OTHER FEES</b>  <b>You pay a commission or other sales fee for each transaction in your account.</b></p> <ul style="list-style-type: none"> <li>• Commissions and fees will vary depending on the size of the transaction and the investment product purchased.</li> <li>• Ongoing asset-based fees may also be charged for some products we recommend that are held in your account.</li> <li>• You may pay additional fees.</li> </ul> <p>Visit <a href="http://www.xxxxxx.com">www.xxxxxx.com</a> or request a paper copy for a list of various fees that may apply to your situation.</p>
<b>What is different in how we work with you?</b>	<p><b>We have an ongoing advisory relationship of trust and confidence with you.</b>  <b>For investments, we</b></p> <ul style="list-style-type: none"> <li>• work with you to identify your investment goals, develop investment strategies, and choose investments to implement those strategies;</li> <li>• consider your entire portfolio, your investment goals and profile, including factors like your age and how much time you have to meet your goals; and,</li> <li>• implement those strategies for you.</li> </ul> <p><b>For monitoring and oversight, we</b></p> <ul style="list-style-type: none"> <li>• monitor your investments to ensure that they continue to be the best for your needs and your portfolio;</li> <li>• provide quarterly account statements; and</li> <li>• meet with you at least annually to discuss your investment progress and any changes to your goals and profile.</li> </ul> <p><b>Other options</b>            You may choose how much you want to be involved in overseeing your investments. See <a href="http://www.xxxxxx.com">www.xxxxxx.com</a> for more information on these choices.</p>	<p><b>We have a sales-based transactional relationship with you.</b>  <b>For investments, we</b></p> <ul style="list-style-type: none"> <li>• make buy and sell recommendations to you;</li> <li>• consider your investment goals and profile, including factors like your age and how much time you have to meet your goals; and</li> <li>• execute the transactions <b>you decide</b> to make based on our recommendations.</li> </ul> <p><b>YOU are responsible for making the final investment decision on the transaction.</b></p> <p><b>For monitoring and oversight, we</b></p> <ul style="list-style-type: none"> <li>• do provide quarterly account statements</li> <li>• do <b>NOT</b> monitor your account after the transaction unless you contract separately with us to do so.</li> </ul> <p><b>YOU are responsible for monitoring your transactions and portfolio</b></p> <p><b>Other options</b>            You may choose a self-directed account. See <a href="http://www.xxxxxx.com">www.xxxxxx.com</a> for more information on this choice.</p>









	Investment Adviser Services	Broker-Dealer Services
What is different in our legal obligation to you?	<p>By law, in our advisory relationship, we must follow the highest <b>legal</b> standard of conduct, called a <b>fiduciary</b> standard.</p> <p><b>We are required to</b></p> <ul style="list-style-type: none"> <li>• put your financial interests ahead of our own,</li> <li>• disclose any conflicts of interest (see next section), and</li> <li>• monitor your account continuously throughout our relationship.</li> </ul> <p><b>We are required to follow these legal obligations</b></p> <ul style="list-style-type: none"> <li>• for ALL advice we provide to you, not just to investment recommendations.</li> <li>• for the entire length and scope of our advisory relationship</li> </ul> <p><b>We are not required to</b> choose the lowest cost, least risky, or best performing product.</p>	<p>By law, in our sales relationship, we must follow a <b>best interest</b> standard.</p> <p><b>We are required to</b></p> <ul style="list-style-type: none"> <li>• analyze your financial situation, investment profile, and the investments we have available to meet your needs;</li> <li>• disclose material information about the investments we recommend, including costs and conflicts of interest (see next section); and</li> <li>• mitigate financial conflicts of interest.</li> </ul> <p><b>We are required to follow these legal obligations</b></p> <ul style="list-style-type: none"> <li>• when making recommendations to you.</li> </ul> <p><b>We are not required to</b></p> <ul style="list-style-type: none"> <li>• follow this legal obligation for any other advice we may provide to you beyond sales recommendations,</li> <li>• monitor your account unless you contract separately for that service;</li> <li>• choose the lowest cost, least risky, or best performing product.</li> </ul>
What is different in how we handle a financial conflict of interest?	<p>When our interests conflict with yours, we must identify and disclose that conflict, <b>and you must consent to the conflict.</b></p> <p><b>Sometimes our interests will conflict with yours.</b> This means advice that results in extra income for us is not the best for you.</p> <p>For example:</p> <ul style="list-style-type: none"> <li>• <b>Because we receive asset-based fees,</b> we have an incentive to — maximize the amount of money you invest with us.</li> <li>• <b>Because we receive payments from third parties,</b> we have an incentive to — recommend investments that have these payments, even if other options have lower costs or better performance.</li> </ul> <p>See <a href="http://www.xxxxxx.com">www.xxxxxx.com</a> for more information on how we handle our conflicts of interest.</p>	<p>When our interests conflict with yours, we must identify, disclose, and <b>in some cases mitigate that conflict.</b></p> <p><b>Sometimes our interests will conflict with yours.</b> This means a sales recommendation that results in extra income for us is not the best for you.</p> <p>For example:</p> <ul style="list-style-type: none"> <li>• <b>Because we get paid only when you complete a transaction,</b> we have an incentive to — encourage you to trade more often.</li> <li>• <b>Because we receive payments from third parties,</b> we have an incentive to — recommend investments that have these payments, even if other options have lower costs or better performance.</li> <li>• <b>Because we get higher commissions from some products,</b> then we have an incentive to — encourage you to buy those products that pay us more, even if other options are better for you.</li> </ul> <p>See <a href="http://www.xxxxxx.com">www.xxxxxx.com</a> for more information on how we handle our conflicts of interest.</p>
To research our firm	Visit <a href="http://investor.gov">investor.gov</a> for a free, simple search tool to research our firm and our financial professionals.	
Alert!	Many financial professionals use titles, such as Financial Consultant, Wealth Manager, Adviser, or variations of that title. A firm or individual's title does NOT mean that they are acting in an advisory capacity. It's important that you understand which role (advice or sales) that they are performing at all times.	

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## Client Relationship Summary of Basic Services

Use this summary to understand the **key differences** between Investment Adviser Services and Broker-Dealer Services, so you can choose which service and account is best for you.

Investment Adviser Services	Broker-Dealer Services
 <p>What kind of basic services do we provide?</p> <p><b>INVESTMENT ADVICE AND MANAGEMENT</b>  <b>This is an advisory relationship.</b>            We offer personalized investment advice by:</p> <ul style="list-style-type: none"> <li>• working with you to identify your investment goals,</li> <li>• developing strategies to reach those goals,</li> <li>• selecting investment products to meet your specific objectives,</li> <li>• implementing our advice for you, and</li> <li>• managing your portfolio.</li> </ul>	<p><b>SALES RECOMMENDATIONS AND TRADING</b>  <b>This is a sales relationship.</b>            We offer brokerage services, by:</p> <ul style="list-style-type: none"> <li>• recommending investments for you to buy and sell based on an assessment of your financial situation and investment goals, and</li> <li>• executing trades for you based on your investment decisions.</li> </ul>
 <p>How do you pay for our services?</p> <p><b>FEES</b>  <b>You pay ongoing fees for advice and implementation based on a percentage of the value of the assets in your account.</b></p> <ul style="list-style-type: none"> <li>• Alternatively, you may contract with us to provide limited services, for which you will pay a flat or hourly fee.</li> <li>• You may pay additional fees.</li> </ul> <p>Visit <a href="http://www.xxxxxxx.com">www.xxxxxxx.com</a> or request a paper copy for a list of various fees that may apply to your situation.</p>	<p><b>COMMISSIONS AND OTHER FEES</b>  <b>You pay a commission or other sales fee for each transaction in your account.</b></p> <ul style="list-style-type: none"> <li>• Commissions and fees will vary depending on the size of the transaction and the investment product purchased.</li> <li>• Ongoing asset-based fees may also be charged for some products we recommend that are held in your account.</li> <li>• You may pay additional fees.</li> </ul> <p>Visit <a href="http://www.xxxxxxx.com">www.xxxxxxx.com</a> or request a paper copy for a list of various fees that may apply to your situation.</p>
 <p>How does our relationship work?</p> <p><b>We have an ongoing advisory relationship of trust and confidence with you.</b>  <b>For investments, we</b></p> <ul style="list-style-type: none"> <li>• work with you to identify your investment goals, develop investment strategies, and choose investments to implement those strategies;</li> <li>• consider your entire portfolio, your investment goals and profile, including factors like your age and how much time you have to meet your goals; and,</li> <li>• implement those strategies for you.</li> </ul> <p><b>For monitoring and oversight, we</b></p> <ul style="list-style-type: none"> <li>• monitor your investments to ensure that they continue to be the best for your needs and your portfolio;</li> <li>• provide quarterly account statements; and</li> <li>• meet with you at least annually to discuss your investment progress and any changes to your goals and profile.</li> </ul> <p><b>Other options</b>            You may choose how much you want to be involved in overseeing your investments. See <a href="http://www.xxxxxxx.com">www.xxxxxxx.com</a> for more information on these choices.</p>	<p><b>We have a sales-based transactional relationship with you.</b>  <b>For investments, we</b></p> <ul style="list-style-type: none"> <li>• make buy and sell recommendations to you;</li> <li>• consider your investment goals and profile, including factors like your age and how much time you have to meet your goals; and</li> <li>• execute the transactions <b>you decide</b> to make based on our recommendations.</li> </ul> <p><b>YOU are responsible for making the final investment decision on the transaction.</b></p> <p><b>For monitoring and oversight, we</b></p> <ul style="list-style-type: none"> <li>• do provide quarterly account statements</li> <li>• do <b>NOT</b> monitor your account after the transaction unless you contract separately with us to do so.</li> </ul> <p><b>YOU are responsible for monitoring your transactions and portfolio.</b></p> <p><b>Other options</b>            You may choose a self-directed account. See <a href="http://www.xxxxxxx.com">www.xxxxxxx.com</a> for more information on this choice.</p>

	Investment Adviser Services	Broker-Dealer Services
	<p><b>What is our legal obligation to you?</b></p> <p>By law, in our advisory relationship, we must follow the highest <b>legal</b> standard of conduct, called a <b>fiduciary</b> standard.</p> <p><b>We are required to</b></p> <ul style="list-style-type: none"> <li>• put your financial interests ahead of our own,</li> <li>• disclose any conflicts of interest (see next section), and</li> <li>• monitor your account continuously throughout our relationship.</li> </ul> <p><b>We are required to follow these legal obligations</b></p> <ul style="list-style-type: none"> <li>• for ALL advice we provide to you, not just to investment recommendations</li> <li>• for the entire length and scope of our advisory relationship</li> </ul> <p><b>We are not required to</b> choose the lowest cost, least risky, or best performing product.</p>	<p>By law, in our sales relationship, we must follow a <b>best interest</b> standard.</p> <p><b>We are required to</b></p> <ul style="list-style-type: none"> <li>• analyze your financial situation, investment profile, and the investments we have available to meet your needs;</li> <li>• disclose material information about the investments we recommend, including costs and conflicts of interest (see next section); and</li> <li>• mitigate financial conflicts of interest.</li> </ul> <p><b>We are required to follow these legal obligations</b></p> <ul style="list-style-type: none"> <li>• when making recommendations to you.</li> </ul> <p><b>We are not required to</b></p> <ul style="list-style-type: none"> <li>• follow this legal obligation for any other advice we may provide to you beyond sales recommendations,</li> <li>• monitor your account unless you contract separately for that service;</li> <li>• choose the lowest cost, least risky, or best performing product.</li> </ul>
	<p><b>What is a financial conflict of interest?</b></p> <p>When our interests conflict with yours, we must identify and disclose that conflict, <b>and you must consent to the conflict.</b></p> <p><b>Sometimes our interests will conflict with yours.</b> This means advice that results in extra income for us is not the best for you.</p> <p>For example:</p> <ul style="list-style-type: none"> <li>• <b>Because we receive asset-based fees,</b> we have an incentive to — maximize the amount of money you invest with us.</li> <li>• <b>Because we receive payments from third parties,</b> we have an incentive to — recommend investments that have these payments, even if other options have lower costs or better performance.</li> </ul> <p>See <a href="http://www.xxxxxx.com">www.xxxxxx.com</a> for more information on how we handle our conflicts of interest.</p>	<p>When our interests conflict with yours, we must identify, disclose, <b>and in some cases mitigate that conflict.</b></p> <p><b>Sometimes our interests will conflict with yours.</b> This means a sales recommendation that results in extra income for us is not the best for you.</p> <p>For example:</p> <ul style="list-style-type: none"> <li>• <b>Because we get paid only when you complete a transaction,</b> we have an incentive to — encourage you to trade more often.</li> <li>• <b>Because we receive payments from third parties,</b> we have an incentive to — recommend investments that have these payments, even if other options have lower costs or better performance.</li> <li>• <b>Because we get higher commissions from some products,</b> then we have an incentive to — encourage you to buy those products that pay us more, even if other options are better for you.</li> </ul> <p>See <a href="http://www.xxxxxx.com">www.xxxxxx.com</a> for more information on how we handle our conflicts of interest.</p>
	<p><b>How can you research our firm?</b></p> <p>Visit <a href="http://investor.gov">investor.gov</a> for a free, simple search tool to research our firm and our financial professionals.</p>	<p>Visit <a href="http://investor.gov">investor.gov</a> for a free, simple search tool to research our firm and our financial professionals.</p>
<b>Alert!</b>	<p>Many financial professionals use titles, such as Financial Consultant, Wealth Manager, Adviser, or variations of that title. A firm or individual's title does NOT mean that they are acting in an advisory capacity. It's important that you understand which role (advice or sales) that they are performing at all times.</p>	

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# Appendix E. Proposed Version 2, Form CRS



## Client Relationship Summary of Basic Services

Use this summary to understand the **key differences** between Investment Adviser Services and Broker-Dealer Services, so you can choose which service and account is best for you.




	Investment Adviser Services	Broker-Dealer Services
<b>What is different in our relationship with you?</b>	<p><b>INVESTMENT ADVICE AND MANAGEMENT</b>  <b>This is an advisory relationship.</b></p> <ul style="list-style-type: none"> <li>• We offer personalized investment advice.</li> <li>• We have an ongoing advisory relationship of trust and confidence with you.</li> </ul>	<p><b>SALES RECOMMENDATIONS AND TRADING</b>  <b>This is a sales relationship.</b></p> <ul style="list-style-type: none"> <li>• We offer brokerage services.</li> <li>• We have a sales-based transactional relationship with you.</li> </ul>
<b>What is different in the services we provide?</b>	<p><b>For investments, we</b></p> <ul style="list-style-type: none"> <li>• work with you to identify your investment goals and develop strategies to meet those goals;</li> <li>• analyze your entire portfolio and profile, including your age and the time you have to meet your goals; and</li> <li>• select investments to meet your goals.</li> </ul> <p><b>For monitoring and oversight, we</b></p> <ul style="list-style-type: none"> <li>• monitor your investments over time to ensure they meet your investment goals;</li> <li>• provide quarterly account statements; and</li> <li>• meet with you at least annually to discuss your investment progress and any changes to your goals and profile.</li> </ul> <p><b>Other options</b></p> <p>You may choose how much you want to be involved in overseeing your investments. See <a href="http://www.involvementoptions.com">www.involvementoptions.com</a> for more information on these choices.</p>	<p><b>For investments, we</b></p> <ul style="list-style-type: none"> <li>• consider your investment goals and profile, including your age and the time you have to meet those goals;</li> <li>• make buy and sell recommendations to you; and</li> <li>• execute the transactions <b>you decide</b> to make based on our recommendations.</li> </ul> <p><b>For monitoring and oversight, we</b></p> <ul style="list-style-type: none"> <li>• do <b>NOT</b> monitor your account after the transaction unless you contract separately with us to do so.</li> <li>• do provide quarterly account statements.</li> </ul> <p><b>YOU make the final decisions on the transactions, and YOU monitor your own transactions and portfolio.</b></p> <p><b>Other options</b></p> <p>You may choose an account in which you make investment decisions and trade on your own with no Broker-Dealer recommendations. See <a href="http://www.accountoptions.com">www.accountoptions.com</a> for more information on this choice.</p>
<b>What is different in how you pay for our services?</b>	<p><b>ADVISORY FEES</b></p> <p>You pay ongoing fees for advice and implementation based on a percentage of the value of the assets in your account.</p> <ul style="list-style-type: none"> <li>• Alternatively, you may contract with us to provide limited services, for which you will pay a flat or hourly fee.</li> <li>• You may pay additional fees.</li> </ul> <p>Visit <a href="http://www.samplefees.com">www.samplefees.com</a> to see a list of typical fees we charge. You may also request a paper copy.</p>	<p><b>COMMISSIONS AND OTHER FEES</b></p> <p>You pay a commission or other sales fee for each transaction in your account based on the size of the transaction and the product purchased.</p> <ul style="list-style-type: none"> <li>• You may pay ongoing asset-based fees for some products in your account that we recommend.</li> <li>• You may pay additional fees.</li> </ul> <p>Visit <a href="http://www.samplefees.com">www.samplefees.com</a> to see a list of typical fees we charge. You may also request a paper copy.</p>

	Investment Adviser Services	Broker-Dealer Services
What is different in our legal obligation to you?	<p><b>In our advisory relationship, we must follow the highest legal standard of conduct, called a fiduciary standard.</b></p> <p><b>We are required to</b></p> <ul style="list-style-type: none"> <li>• put your financial interests ahead of our own;</li> <li>• review your financial situation and profile as we select investments to meet your goals;</li> <li>• disclose and get your consent for any conflicts of interest (see next section); and</li> <li>• monitor your account continuously throughout our relationship.</li> </ul> <p><b>We are required to follow these legal obligations</b></p> <ul style="list-style-type: none"> <li>• for ALL advice we provide to you, not just when making investment recommendations; and</li> <li>• for the entire length and scope of our advisory relationship.</li> </ul> <p><b>We are not required to</b> choose the lowest cost, least risky, or best performing product.</p>	<p><b>In our sales relationship, we must follow a best interest standard.</b></p> <p><b>We are required to</b></p> <ul style="list-style-type: none"> <li>• review your financial situation and profile as we recommend investments we have available; and</li> <li>• disclose material information about the investments we recommend and mitigate any conflicts of interest (see next section).</li> </ul> <p><b>We are required to follow these legal obligations</b></p> <ul style="list-style-type: none"> <li>• ONLY when making sales recommendations.</li> </ul> <p><b>We are not required to</b></p> <ul style="list-style-type: none"> <li>• follow this legal obligation for anything other than our sales recommendations;</li> <li>• monitor your account unless you contract separately for that service; or</li> <li>• choose the lowest cost, least risky, or best performing product.</li> </ul>
What is different in how we handle a financial conflict of interest?	<p><b>As part of our legal obligations, we must identify and disclose when our interests conflict with yours, and you must consent to the conflict either directly or indirectly.</b></p> <p><b>Sometimes our interests will conflict with yours.</b> This means investment advice that results in extra income for us is not the best for you.</p> <p>For example:</p> <ul style="list-style-type: none"> <li>• <b>Because we receive asset-based fees,</b> we may try to maximize the amount of money you invest with us.</li> <li>• <b>Because we receive payments from other companies,</b> we may recommend their investments, even if other options have lower costs or better performance.</li> </ul> <p>See <a href="http://www.conflictspolicy.com">www.conflictspolicy.com</a> where we explain how our firm meets our legal obligation to protect your best interests.</p>	<p><b>As part of our legal obligations, we must identify, disclose, and in some cases mitigate a situation when our interests conflict with yours.</b></p> <p><b>Sometimes our interests will conflict with yours.</b> This means a sales recommendation that results in extra income for us is not the best for you.</p> <p>For example:</p> <ul style="list-style-type: none"> <li>• <b>Because we get paid only when you complete a transaction,</b> we may encourage you to trade more often.</li> <li>• <b>Because we receive payments from other companies,</b> we may recommend their investments, even if other options have lower costs or better performance.</li> <li>• <b>Because we get higher commissions from some products,</b> we may encourage you to buy those products, even if other options are better for you.</li> </ul> <p>See <a href="http://www.conflictspolicy.com">www.conflictspolicy.com</a> where we explain how our firm meets our legal obligation to protect your best interests.</p>
To research our firm	<p>Visit <a href="http://investor.gov">investor.gov</a> for a free, simple resource on investing and for links to search tools to research whether our firm or any of our financial professionals has a disciplinary record.</p>	
Alert!	<p>Many financial professionals use titles such as Financial Consultant, Wealth Manager, Adviser, or variations of that title. A firm or individual's title does NOT mean that they are acting in an advisory capacity. Every time you interact, ask your financial professional this important question: Are you working in an advisory or selling role?</p>	




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## Client Relationship Summary of Basic Services

Use this summary to understand the **key differences** between Investment Adviser Services and Broker-Dealer Services, so you can choose which service and account is best for you.

Investment Adviser Services	Broker-Dealer Services
 <p>What is different in our relationship with you?</p> <p><b>INVESTMENT ADVICE AND MANAGEMENT</b>  <b>This is an advisory relationship.</b></p> <ul style="list-style-type: none"> <li>• We offer personalized investment advice.</li> <li>• We have an ongoing advisory relationship of trust and confidence with you.</li> </ul>	<p><b>SALES RECOMMENDATIONS AND TRADING</b>  <b>This is a sales relationship.</b></p> <ul style="list-style-type: none"> <li>• We offer brokerage services.</li> <li>• We have a sales-based transactional relationship with you.</li> </ul>
 <p>What is different in the services we provide?</p> <p><b>For investments, we</b></p> <ul style="list-style-type: none"> <li>• work with you to identify your investment goals and develop strategies to meet those goals;</li> <li>• analyze your entire portfolio and profile, including your age and the time you have to meet your goals; and</li> <li>• select investments to meet your goals.</li> </ul> <p><b>For monitoring and oversight, we</b></p> <ul style="list-style-type: none"> <li>• monitor your investments over time to ensure they meet your investment goals;</li> <li>• provide quarterly account statements; and</li> <li>• meet with you at least annually to discuss your investment progress and any changes to your goals and profile.</li> </ul> <p><b>Other options</b>            You may choose how much you want to be involved in overseeing your investments. See <a href="http://www.involvementoptions.com">www.involvementoptions.com</a> for more information on these choices.</p>	<p><b>For investments, we</b></p> <ul style="list-style-type: none"> <li>• consider your investment goals and profile, including your age and the time you have to meet those goals;</li> <li>• make buy and sell recommendations to you; and</li> <li>• execute the transactions <b>you decide</b> to make based on our recommendations.</li> </ul> <p><b>For monitoring and oversight, we</b></p> <ul style="list-style-type: none"> <li>• do <b>NOT</b> monitor your account after the transaction unless you contract separately with us to do so.</li> <li>• do provide quarterly account statements.</li> </ul> <p><b>YOU make the final decisions on the transactions, and YOU monitor your own transactions and portfolio.</b></p> <p><b>Other options</b>            You may choose an account in which you make investment decisions and trade on your own with no Broker-Dealer recommendations. See <a href="http://www.accountoptions.com">www.accountoptions.com</a> for more information on this choice.</p>
 <p>What is different in how you pay for our services?</p> <p><b>ADVISORY FEES</b>  <b>You pay ongoing fees for advice and implementation based on a percentage of the value of the assets in your account.</b></p> <ul style="list-style-type: none"> <li>• Alternatively, you may contract with us to provide limited services, for which you will pay a flat or hourly fee.</li> <li>• You may pay additional fees.</li> </ul> <p>Visit <a href="http://www.samplefees.com">www.samplefees.com</a> to see a list of typical fees we charge. You may also request a paper copy.</p>	<p><b>COMMISSIONS AND OTHER FEES</b>  <b>You pay a commission or other sales fee for each transaction in your account based on the size of the transaction and the product purchased.</b></p> <ul style="list-style-type: none"> <li>• You may pay ongoing asset-based fees for some products in your account that we recommend.</li> <li>• You may pay additional fees.</li> </ul> <p>Visit <a href="http://www.samplefees.com">www.samplefees.com</a> to see a list of typical fees we charge. You may also request a paper copy.</p>



Investment Adviser Services	Broker-Dealer Services
	<p data-bbox="509 554 1040 583">What is different in our legal obligation to you?</p> <p data-bbox="509 604 878 659"><b>In our advisory relationship, we must follow the highest legal standard of conduct, called a fiduciary standard.</b></p> <p data-bbox="509 667 662 688"><b>We are required to</b></p> <ul data-bbox="509 688 894 831" style="list-style-type: none"> <li>• put your financial interests ahead of our own;</li> <li>• review your financial situation and profile as we select investments to meet your goals;</li> <li>• disclose and get your consent for any conflicts of interest (see next section); and</li> <li>• monitor your account continuously throughout our relationship.</li> </ul> <p data-bbox="509 835 894 856"><b>We are required to follow these legal obligations</b></p> <ul data-bbox="509 856 878 936" style="list-style-type: none"> <li>• for ALL advice we provide to you, not just when making investment recommendations; and</li> <li>• for the entire length and scope of our advisory relationship.</li> </ul> <p data-bbox="509 940 829 999"><b>We are not required to</b> choose the lowest cost, least risky, or best performing product.</p>
	<p data-bbox="509 1037 1243 1066">What is different in how we handle a financial conflict of interest?</p> <p data-bbox="509 1087 919 1163"><b>As part of our legal obligations, we must identify and disclose when our interests conflict with yours, and you must consent to the conflict either directly or indirectly.</b></p> <p data-bbox="509 1167 899 1188"><b>Sometimes our interests will conflict with yours.</b></p> <p data-bbox="509 1188 886 1226">This means investment advice that results in extra income for us is not the best for you.</p> <p data-bbox="509 1226 610 1247">For example:</p> <ul data-bbox="509 1247 911 1377" style="list-style-type: none"> <li>• <b>Because we receive asset-based fees</b>, we may try to maximize the amount of money you invest with us.</li> <li>• <b>Because we receive payments from other companies</b>, we may recommend their investments, even if other options have lower costs or better performance.</li> </ul> <p data-bbox="509 1440 902 1499">See <a href="http://www.conflictspolicy.com">www.conflictspolicy.com</a> where we explain how our firm meets our legal obligation to protect your best interests.</p>
	<p data-bbox="509 1530 878 1560">How can you research our firm?</p> <p data-bbox="509 1583 1224 1625">Visit <a href="http://investor.gov">investor.gov</a> for a free, simple resource on investing and for links to search tools to research whether our firm or any of our financial professionals has a disciplinary record.</p>
<p data-bbox="427 1688 493 1709"><b>Alert!</b></p> <p data-bbox="509 1675 1321 1730">Many financial professionals use titles such as Financial Consultant, Wealth Manager, Adviser, or variations of that title. A firm or individual's title does NOT mean that they are acting in an advisory capacity. Every time you interact, ask your financial professional this important question: Are you working in an advisory or selling role?</p>	

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## Appendix F. About Kleimann Communication Group



Since 1997, Kleimann Communication Group, a woman-owned small business, has been a national leader in the development of award-winning plain language forms, disclosures, consumer tools, and education materials to help consumers understand complex topics and make informed decisions. We specialize in projects involving both design and testing and in solving unusually complex or challenging communication problems with multiple stakeholders and complex legal/regulatory requirements and constraints. Our iterative design/test process uses a human-centered methodology and results in products that address consumer, industry, and statutory needs in sophisticated and innovative ways. Kleimann's principals are frequent speakers on issues of financial literacy and the use of plain language. For example, in June 2018, Dr. Susan Kleimann spoke at the Securities and Exchange Commission Investor Advisory Committee on the topic of "Effective Disclosure and Design."

We have completed major redesign and testing projects with national impact:

- The model Financial Privacy Disclosure for Board of Governors of the Federal Reserve System, Federal Deposit Insurance Corporation, Federal Trade Commission, National Credit Union Administration, Office of the Comptroller General, Securities and Exchange Commission
- The Loan Estimate (English and Spanish) to replace the Good Faith Estimate for the Consumer Financial Protection Bureau
- The Closing Disclosure (English and Spanish) to replace the HUD-1 for the Consumer Financial Protection Bureau
- The Health Insurance Portability and Accountability Act (HIPAA) notice to adapt it to the Affordable Care Act requirements for the Department of Health and Human Services
- The Uniform Residential Loan Application (English and Spanish) for Fannie Mae and Freddie Mac

