

Draft as of February 21, 2023
To be discussed at the March 2, 2023 meeting of the Investor Advisory Committee

Recommendation of the SEC Investor Advisory Committee’s Disclosure Subcommittee to
Improve Customer Account Statements to Better Inform Investors

The Commission has described the ability of an investor to review their securities account statements as a critical tool to identify inaccuracies and to detect and report fraud and financial exploitation.¹ FINRA describes reviewing account statements as critical to smart money management.² SIFMA and NASAA describe account statements as a means to keep score of customers’ investments, and the best way to track activity and performance.³

Account statements are incredibly important disclosure documents. Like other consumer account statements, they should strive to present investors with the ability to see what is going on in their accounts and effectively monitor the outcomes. However, the rules governing what information a brokerage firm must make available on a monthly or quarterly account statement

¹ See, SEC, Order Approving a Proposed Rule Change to Amend FINRA Rule 2231 (Customer Account Statements), as modified by Amendment No. 1 (Release No. 34-95018; File No. SR-FINRA-2021-024) (June 1, 2022), <https://www.sec.gov/rules/sro/finra/2022/34-95018.pdf>.

² See, FINRA, Your Brokerage Account Statement: How to Read and Make Sense of It (Nov. 7, 2022), <https://www.finra.org/investors/insights/your-brokerage-statement-how-read-and-make-sense-it>.

³ See, SIFMA, SIPC, & NASAA, Understanding Your Brokerage Account Statements, <https://www.nasaa.org/wp-content/uploads/2011/08/SIFMA-SIPC-NASAA-Broker-Statements-Brochure.pdf>.

have remained largely unchanged for almost 30 years,⁴ and registered investment advisers are not currently required to send their clients account statements.⁵

Even when accounts statements are provided, the rules do not require that the information that must be included on a brokerage account statement be presented in any particular format or with any minimal level of clarity. Nor do the rules require that the firms provide definitions when they use terms of art. Firms are permitted to include additional information, and many do. As a result, account statements conveying similar types of information can look very different from firm to firm. Regulators, industry associations, and firms issuing statements have all published guides to assist investors who want to read and understand their account statements. But these guides are lengthy and often are overly general because of the potential variations in client account statements.

Moreover, because it is not required, many account statements do not include disclosure of basic performance information. Fee disclosure is another challenge, as fees are often difficult

⁴ FINRA Rule 2231 was first adopted in 1993 and requires largely the same information today that it did then. The rule requires that the account statement contain:

a description of any securities positions, money balances, or account activity to each customer whose account had a security position, money balance, or account activity during the period since the last such statement was sent to the customer. In addition, each general securities member shall include in the account statement a statement that advises the customer to report promptly any inaccuracy or discrepancy in that person's account to his or her brokerage firm. (In cases where the customer's account is serviced by both an introducing and clearing firm, each general securities member must include in the advisory a reference that such reports be made to both firms.) Such statement also shall advise the customer that any oral communications should be re-confirmed in writing to further protect the customer's rights, including rights under the Securities Investor Protection Act (SIPA).

The SEC recently approved amendments to FINRA Rule 2231 that largely harmonize the rule with requirements of the NYSE but do not address the issues we raise in our recommendation.

⁵ See, Adviser Act Rule 206(4)-2(a)(3) under the Investment Advisers Act of 1940 (Advisers Act) requires advisers with custody of a client's account to have a reasonable basis for believing that the qualified custodian sends an account statement at least quarterly. See also, [NASAA Custody Requirements for Investment Advisers Model Rule 102\(e\)\(1\)-1\(a\)\(3\)](#), and NASAA Custody Requirements for Investment Advisers Model Rule USA 2002 411(f)-(1)(a)(4). In 2021, only 56.5% of advisers reported they have custody of client assets. See, Investment Adviser Industry Snapshot 2022-Investment Adviser Industry Association and National Regulatory Services, <https://investmentadviser.org/wp-content/uploads/2022/06/Snapshot2022.pdf>. We note that the SEC recently proposed a new "Safeguarding Rule" under the Investment Advisers Act that would replace the current custody rule. The proposed rule would expand the definition of when an adviser has custody to include discretionary trading of a client's assets. The proposed rule would preserve the requirement that an adviser have a reasonable basis to believe that a custodian sends an account statement at least quarterly to all of an Adviser's clients. See [Investment Advisers Act Release No. 6240](#) (February 15, 2023).

to find, presented in varying ways, or in sometimes confusing formats which make it difficult to ascertain the total expense paid for services rendered. Performance and fees are vitally important information for investors, and while the information may be available through other documents, it would help investors to have this information easily found within one of the most critical documents an investor receives and reviews on a regular basis.

Given the importance of account statements to the ability of investors to oversee and monitor their costs, holdings and performance, we believe it is imperative that the rules governing these statements be reviewed to ensure that they are consistently made available, comprehensible and highlight key information so that investors are able to evaluate the value of services they are receiving from brokerage firms and investment advisers. Accordingly, the Investor Advisory Committee makes the following recommendations:

1. The SEC and/or FINRA should survey investors to better understand the utility of these statements, including how investors use the account statements and what information they view as important to their decision-making process. Consideration should also be given to whether the categories of information presently required to be disclosed under other regulatory schemes, such as the requirement to disclose investment-related information by 401(k)-type retirement plans, would also be of value to brokerage and advisory investors.^{6, 7}
2. The SEC and/or FINRA should then consider what amendments to the current FINRA Rule 2231 are appropriate with respect to the required content of brokerage account statements, with a view towards aligning account statement requirements with what investors deem to be important in their decision-making process.
3. The SEC and/or FINRA should also consider amendments to FINRA Rule 2231 with respect to the formatting and presentation of account statements, with a focus on

⁶ U.S. Department of Labor, Fact Sheet: [Final Rule to Improve Transparency of Fees and Expenses to Workers in 401\(k\)-Type Retirement Plans](#), Feb. 2012

⁷ U.S. Department of Labor: [Pension Benefit Statements – Lifetime Income Illustrations](#), August 2020.

standardization, simplification, and formatting and design elements that highlights “upfront” information that is important to investors such as fees paid (both direct and indirect) and performance information.

4. The SEC and/or FINRA should consider standardizing certain core terminology and the use of a standardized table highlighting key information such as fees paid and returns for the period and year-to-date. Standardized methodologies for calculating performance should be developed as they are in other contexts, e.g., mutual fund performance calculations.
5. The SEC and/or FINRA should develop model account statement templates, created with the assistance of design experts and tested with investors.
6. Because there is no direct requirement for registered investment advisers to provide account statements, the SEC should propose and adopt a rule requiring advisers to provide either directly or through their custodians account statements, no less frequently than quarterly, to advisory clients and prescribe the content of such statements. We would note that this recommendation is consistent with the SEC’s recent proposal to require private fund advisers distribute a quarterly statement of performance and fees that follows a standardized format.⁸ The SEC should also follow-up on its 2018 request for comment on this issue.⁹
7. The SEC and/or FINRA should also consider requiring brokerage firms and investment advisers to provide an annual performance report in a standardized format separate from the account statement, particularly if performance is not required on monthly or quarterly account statements.
8. While we recommend standardizing and simplifying key information up front in account statements, brokerage firms and investment advisers should not be precluded from providing additional useful information in such statements.

⁸ [Investment Advisers Act Release No. 5955](#) (Feb. 9, 2022)

⁹ [Investment Adviser Act Release No. 4889](#) (April 18, 2018).

9. We recommend that account statements continue to be delivered to investors by paper as the default delivery method. For those investors who opt for electronic delivery of statements, the SEC and/or FINRA should encourage the use of technology to enhance disclosure and investor understanding of electronic account statements, such as the use of layered disclosure through embedded links, etc.

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