August 24, 2017

Jay Clayton, Chairman
Securities and Exchange Commission
100 F Street NE
Washington, DC 20549

via Email: chairmanoffice@sec.gov

Dear Chair Clayton:

On behalf of the Investor Advisory Committee (IAC, Committee), I am writing to provide you with some of our previous recommendations for your consideration as you work to set the agenda for the Commission for the coming year. We appreciated your remarks at our June 22nd meeting and welcome your shared interest in promoting transparency for retail investors in our fixed income markets, better disclosures and tools to help investors conduct background searches on their investment professionals, as well as continuing our discussions on ways to improve the attractiveness of the U.S. public markets.

Specifically we call your attention to five recommendations the committee presented, all of which we believe protect the long term interests of America's retail investors – or as you stated in your recent speech to the Economic Club of New York City, "to protect the long-term interests of Mr. and Ms. 401(k)."[1] While the committee has submitted a number of recommendations to the SEC over the past five years, some of which have been implemented or partially implemented, these five represent to us those key to responding to your call to protect the Main Street investor.[2]

First is our recommendation[3] on the broker-dealer fiduciary rule which directly responds to your request for public comments from retail investors and other interested parties on standards of conduct for investment advisors and broker-dealers.[4] The IAC has taken the position that all "personalized investment advice to retail customers should be governed by a fiduciary duty, regardless of whether that advice is provided by an investment advisor or a broker-dealer" and that the fiduciary duty "should include first and foremost an enforceable, principles-based obligation to act in the best interest of the customer" as supported under the Investment Advisers Act and Section 913(g) of the Dodd-Frank Act.

We offered two approaches designed to fulfill the goal of eliminating "the regulatory gap that allows broker-dealers to offer investment advice without being subject to the same fiduciary duty as other investment advisers" without eliminating "the ability of broker-dealers to offer transaction-specific advice compensated through transaction-based payments." The Committee's favored approach would entail rulemaking under the Investment Advisers Act to narrow the broker-dealer exclusion, while providing a

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[1] Remarks at the Economic Club of New York, SEC Chairman Jay Clayton, July 12, 2017. https://www.sec.gov/news/speech/remarks-economic-club-new-york

[2] SEC Investor Advisory Committee – Recommendations https://www.sec.gov/spotlight/investor-advisory-committee.shtml

[3] Recommendation of the IAC, Broker-Dealer Fiduciary Duty, 2013. https://www.sec.gov/spotlight/investor-advisory-committee-2012/fiduciary-duty-recommendation-2013.pdf

[4] SEC Public Statement, Chairman Jay Clayton, "Public Comments from Retail Investors and Other Interested Parties on Standards of Conduct for Investment Advisers and Broker –Dealers," June 1, 2017. https://www.sec.gov/news/public-statement/statement-chairman-clayton-2017-05-31

"safe harbor" for brokers who "do not engage in broader investment advisory services or hold themselves out as providing such services." Recognizing that the Commission was, at the time, considering rulemaking under Section 913 of the Dodd-Frank Act, the Committee also outlined an approach under that framework.

Regardless of which approach the Commission elects to adopt, the Committee also advocated development of a uniform, plain English pre-engagement disclosure document for brokers and advisers, "that covers basic information about the nature of services offered, fees and compensation, conflicts of interest, and disciplinary record." While the Committee made clear its view that disclosure alone is not "sufficient to address the harm that can result when broker-dealers are free to offer 'advice' that puts their own interests ahead of the interests of their customers," it suggested that improved disclosure designed to help investors make an informed choice among financial professionals "should be included as part of any fiduciary rulemaking."

Our four other recommendations included here also directly address the protection of Main Street investors. These four are recommendations to:

- Enhance mutual fund cost disclosure,
- Empower elders and other investors through the use of enhanced background checks in the financial markets,
- Enhance disclosure and risk measurements of target date retirement funds, and
- Enhance information for bond investors.

Mutual funds have become the investment vehicle of choice for so many Americans saving for retirement, college funds or other needs due to their efficiency and ease of use. Yet, as you know, so many of these very individuals using these funds do not fully understand the true costs of these products. When asked in survey after survey if they knew the real costs of these funds, the majority of respondents could not identify the real costs or expenses of these funds. Better and simpler disclosure of the costs and expenses of these funds will go a long way to help these retail investors. Our recommendation outlines the importance of the account statement and emphasis needed on the method of whether fund costs are expressed as a percentage of the fund or presented as a dollar amount.[5]

As our next recommendation[6] so aptly points out, "Unfortunately we live in an era of elder fraud, something that has been described as an epidemic."[7] Elders can be and are attractive targets to dishonest financial professionals. Developing and enhancing disciplinary databases for violations of securities laws will allow elders, their family members and caregivers as well as other investors to more easily conduct background searches of financial market professionals.

The popularity of target date funds as a vehicle for retirement savings has increased exponentially in recent years. Target date funds can provide a very cost effective investment solution for Main Street investors

[5] Recommendation of the IAC, "Mutual Fund Cost Disclosure," April 14, 2016. https://www.sec.gov/spotlight/investor-advisory-committee-2012/recommendation-mf-fee-disclosure-041916.pdf

[6] Recommendation of the IAC, "Empowering Elders and Other Investors: Background Checks in the Financial Markets," July 16, 2015. https://www.sec.gov/spotlight/investor-advisory-committee-2012/final_iac_backgroundcheck_recommendation_071615.pdf

[7] Elder Fraud and Abuse: A Silent Epidemic, by Michael A. Gleiber, M.D., November 9, 2016. http://www.huffingtonpost.com/entry/elder-fraud-and-abuse-a-silent-epidemic_us_5823338de4b0102262411f47

who may find it difficult to construct and maintain a diversified portfolio on their own to meet their retirement needs. Yet despite their popularity many individuals still remain uninformed about how these funds actually operate and how their performance can differ so dramatically during different market cycles. The IAC recommends the Commission develop better and more specific marketing materials including glide path illustration for these target date funds that would be based on a standardized measure of fund risk and adopting a standard methodology or methodologies to be used in both risk based and asset allocation glide path illustrations. We believe the development of these enhanced marketing materials again will go a long way to helping better inform and protect investors as they utilize these products for their retirement savings.[8]

Finally, we have recognized that retail investors participate significantly in the municipal and corporate debt markets both as direct investors and as investors in mutual funds. To that end, we have recommended that the SEC work with FINRA and the MSRB to improve pre-trade and post-trade disclosure to investors of price and transaction cost information. For example, this could include improved pre-trade information on bids and offers from multiple brokers and expanded post-trade data on recent relevant transactions. Doing so thoughtfully could improve protections for investors and further competition and informed market decisions.[9]

Thank you in advance for your consideration of these recommendations. The Committee stands ready to assist you in any way possible as you and your fellow Commissioners continue your important work protecting our nation's investors.

Sincerely,

Anne Sheehan
Chair, Investor Advisory Committee

Cc: Kara M. Stein, Commissioner, SEC [redacted]
Michael S. Piwowar, Commissioner, SEC [redacted]
Investor Advisory Committee Members

[8] Recommendation of the IAC, "Target Date Mutual Funds," April 11, 2013. https://www.sec.gov/spotlight/investor-advisory-committee-2012/iac-recommendation-target-date-fund.pdf

[9] Recommendation of the IAC, "Enhance Information for Bond Market Investors," June 7, 2016. https://www.sec.gov/spotlight/investor-advisory-committee-2012/recommendation-enhance-information-bond-market-investors-060716.pdf