On Tuesday, July 24, 2018, representatives of the Securities and Exchange Commission (“SEC”) participated in a meeting with representatives of Charles Schwab & Co. The Charles Schwab & Co. representatives present in person were Christopher Gilkerson and Jeff Brown. The SEC representatives present in person were Dalia Blass, Sarah ten Siethoff, Sara Cortes, Parisa Haghshenas, Benjamin Kalish, Elizabeth Miller, Brett Redfearn, Heather Seidel, Lourdes Gonzalez, Emily Russell, Alicia Goldin, Brad Bartels, Roni Bergoffen, Vanessa Countryman, Jennifer Juergens, Bridget Farrell, and Mattias Nilsson.

The participants discussed, among other things, the SEC’s proposed Regulation Best Interest. Representatives of Charles Schwab & Co. provided presentation materials, which are attached.
Proposed Regulation BI & Form CRS, and Comments on More RIA Regulations

July 24, 2018
Schwab's Unique Perspective

retail investors want and need (see some portions of that research below) undertook investor research looking across categories of BD and RIA to uncover what has conflicts.

Through clients' eyes strategy.

Over 40 years of experience communicating with retail investors DUAL registrant with exclusive focus on individual investors and those who serve them.

$3.4 trillion in total client assets, 11 million active accounts.

Assets evenly divided between retail-direct, and services to independent RIA.

About 15% investment advisory (most also have at least one brokerage account) Majoriy is self-directed, some of whom want occassional investment advice.

$1.7 trillion in retail-direct.

Fees are dualy licensed, most are CFP professionals.

Who we are.

Business Lines.

Perspective.

Transparent provide clear explanations about how Schwab makes money, pays reps.

$3.4 trillion in total client assets, 11 million active accounts.

Receive and pay for investment advice.

Give investors access to broad choice about how, when, whether, and in what form they.

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Form CRS: Simplify, Shorten, Link to Additional Information

General support for a new BD common disclosure form for RIAs:

Panelist views were consistent with several Commissioners' concerns:

- C. Peirce: "Disclosure overload is an issue for investors ... a sterile compliance exercise that focuses on delivering a pile of documents rather than engaging with the investor's needs."
- C. Stein: "Both too generic and too legalistic such that retail investors won't bother to read it."
- C. Jackson: "Will investors understand the implications of what they see on Form CRS?"

Main findings:

- Panel insights were consistent with several Commissioners' concerns:
- General support for a new BD common disclosure form for RIAs.

Stay focused (less is more)

- Unfold complexity in stages
- Make it visual
- Think digitally
- Experience from decades of Schwab insights

Independent research firm (Koski) survey of 1,000 investors of all types fielded 6/10-15

- More likely to read/understand if shorter, focused, specific to them, visually appealing

Stay focused with frequency

- Independent research firm (Koski) survey of 1,000 investors of all types fielded 6/10-15

63% want disclosure at or before open account, with annual update, plus on web (not at time of investment advice)

76% said deliver online or digital plus choice for paper (only 24% said paper)

Main findings:

- More likely to read/understand if shorter, focused, specific to them, visually appealing
Would you be more or less likely to read a disclosure if it ...

- Was visually appealing and did not seem like a legal document?
  - More likely: 79%
  - Less likely: 12%
  - Don't know: 9%

- Was short and to the point?
  - More likely: 85%
  - Less likely: 11%
  - Don't know: 4%

- Was longer and more comprehensive?
  - More likely: 31%
  - Less likely: 61%
  - Don't know: 8%

- Covered information relevant to me and my account?
  - More likely: 91%
  - Less likely: 9%
  - Don't know: 3%

Form CRS: Simply, shorten, link to additional information.
<table>
<thead>
<tr>
<th>%</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>38%</td>
<td>Any conflicts of interest related to the investment advice I receive</td>
</tr>
<tr>
<td>41%</td>
<td>The obligations the firm and its representatives owe me when it provides to me</td>
</tr>
<tr>
<td>54%</td>
<td>A description of the investment advice services the firm will provide to me</td>
</tr>
<tr>
<td>63%</td>
<td>The costs I will pay for investment advice</td>
</tr>
</tbody>
</table>

Assuming you are thinking about an account or relationship with a Brokerage Firm or a Registered Investment Advisor (RIA), which of the following would be most important for that firm to communicate to you? (Top results presented below)

Source: Koski Research (Independent survey fielded between July 10-15, 2018; paid for by Charles Schwab & Co. Inc.)
Which of the following best describes your preference for when you would like to receive information about how a Brokerage Firm or a Registered Investment Advisor (RIA) does business with you?

<table>
<thead>
<tr>
<th>Preference</th>
<th>46%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Online or digital, with a choice to receive Paper</td>
<td></td>
</tr>
<tr>
<td>Online or digital (including by email)</td>
<td>30%</td>
</tr>
<tr>
<td>Available on an ongoing basis, such as on a Firm's website</td>
<td>24%</td>
</tr>
<tr>
<td>Every single time I receive Investment Advice</td>
<td></td>
</tr>
<tr>
<td>Updates on an annual basis</td>
<td></td>
</tr>
<tr>
<td>At or before I open my account only</td>
<td>19%</td>
</tr>
<tr>
<td>At or before I open my account, plus any</td>
<td></td>
</tr>
</tbody>
</table>

Source: Koski Research (independent survey fielded between July 10-15, 2018; paid for by Charles Schwab & Co. Inc.)
If any more frequent, then investors will become numb to it.

Recommends disclosure obligations regarding a particular investment recommendation at the time of transaction only if a material conflict regarding a particular investment...

At the time of transaction only if a material conflict regarding a particular...

At the time of transaction only if a material conflict regarding a particular...

At the time of transaction only if a material conflict regarding a particular...

At or before account open (and initial delivery to existing clients)

Evergreen CRS on firm’s website

Annual update and reminder with link to access the current version

Relationship to Disclosure Obligations under Regulation BI:

See attached Schwab alternative in Appendix A

Follow Pew approach, make it usable for digital

Remove item asking “what type of account is right for you?”

Start with scope of investment advice service with obligations

Link to more information if an investor wants it, including general education

Focus on one thing: the specific relationship the investor is in or contemplating

For RIAs, should be a cover page or navigation aid to ADV brochure

One page organized around questions to allow easier comparisons

Information

Form CRS: Simplify, Shorten, Link to Additional
Regulation BI: Harmonize Best Interest, Simplify

**Upholds investor freedom of choice (no implication of continuous duty)**

**Relies on settled definitions (e.g., "recommendation," "suitability")**

**Support Tailored Standards for BDs, with Final Rule Expectations**

**Best Interest Standard Generally Should be the Same Except:**

- For RIAs it is continuous (depending on contractual obligations)
- For BDs it is transactional

**But will not address investor confusion unless make some changes**

- Allows development of appropriate guidance and precedent
- Relies on settled definitions (e.g., "recommendation," "suitability")
- Upholds investor freedom of choice (no implication of continuous duty)

Research shows that investors have general understanding of "fiduciary" and best interest. But like legal experts, they have a hard time distinguishing between them.

Confused regarding the scope of the investment advice they will receive

But like legal experts, they have a hard time distinguishing between them.
Regulation BI: Harmonize Best Interest, Simplify and Clarify Disclosure

Acting as a "fiduciary" and acting in your "best interest" in the context of someone giving you investment advice should mean...?

- The same thing: 59%
- Something different: 32%
- Don't know: 9%

When you see the phrase "act as your fiduciary" in the context of someone giving you investment advice, do you have an understanding about what this means?

- Yes: 96%
- No: 4%
Whether investment advice comes from a representative of a Brokerage Firm or a Registered Investment Advisor (RIA), do you think they should...

<table>
<thead>
<tr>
<th>%</th>
<th>I have no preference</th>
<th>3%</th>
</tr>
</thead>
<tbody>
<tr>
<td>5%</td>
<td>Don't know because the difference isn't clear to me</td>
<td>5%</td>
</tr>
<tr>
<td>46%</td>
<td>Both be subject to a Fiduciary and a Best Interest Standard</td>
<td>46%</td>
</tr>
<tr>
<td>15%</td>
<td>Brokerage Firms should be subject to a Best Interest Standard only, and Registered Investment Advisory (RIA) Firms should be subject to a Fiduciary Standard</td>
<td>15%</td>
</tr>
<tr>
<td>12%</td>
<td>Both be subject to a Best Interest Standard</td>
<td>12%</td>
</tr>
<tr>
<td>19%</td>
<td>Both be subject to a Fiduciary Standard</td>
<td>19%</td>
</tr>
</tbody>
</table>

Source: Koski Research (Independent survey fielded between July 10-15, 2018; paid for by Charles Schwab & Co. Inc.)
Re ulation BI: Harmonize Best Interest, Sim pli fy Disclosure

Investors do not understand the nuances
Dual hatted representatives (including CFP professionals) can't deal with differences
Stay close to DOL impartial conduct standard (DOL may be down, but not out)
Assume one-page CRS with links (see above and attached) that covers:

Regulation BI: Disclosure Obligations

Statement of "best interest" standard
Guidance on conflicts of interest and mitigation (including neutral compensation)
Material conflicts of interest (Rep and firm)
Fees and charges
Investment advice services with corresponding obligations
Capacity (one time is sufficient - more is not meaningful to investors)
Assumes one-page CRS with links (see above and attached) that covers:

Layered Form CRS

Assumptions

Consistency is Important

and Clarify Disclosure

Regulation BI: Harmonize Best Interest, Sim pli fy
No Case To Burden RIAs and Investors With Additional Prescriptive Rules

No compelling evidence of enhanced investor protection: need data to quantify potential benefits exceed costs.

Commission authority unclear: Dodd-Frank directed rulemaking regarding "existing standards of care for providing personalized investment advice".

913 Study recommended consideration of rule harmonization but only if "add meaningful investor protection" and only listed one of three areas (licensing and continuing education).

In response to 2013 Request for Data on imposing BD-like rules, Schwab commissioned an independent survey to collect data:

- Full results at: https://www.sec.gov/comments/4-606/4606-3137.pdf
- Set up + Year one = 150% increase in RIAs costs and over $1B industry costs
- Would be costly, benefits exceed costs

No compelling evidence of enhanced investor protection: need data to quantify potential benefits exceed costs.
Additional Prescriptive Rules

No Case To Burden RIAs and Investors With

- Requiring two statements could be confusing to investors
  - Advisor bills directly
  - No justification needed

- No evidence of additional benefit for SEC to step-in

- NASAA is working on continuing education proposal
  - State regime for licensing already in place
  - No evidence of additional benefit

- RIAs do not have same custody / asset responsibilities
  - BD risks are not relevant risks
  - "Serious fraud" addressed by Custody Rule, enhanced ADV

No Justified Need

Investors already receive fee info on custodian account

- Investors already receive fee info on custodian account
- Advisor bills directly
Appendix

• Alternative one-page Form CRS

• Annotated version

• Example of link to additional information in digital format

• Attorney Client Communication

Regulatory update privileged & confidential client communications
A Summary of Your Brokerage Account Relationship with Charles Schwab & Co., Inc.

The purpose of this summary is to inform you about the nature of our relationship for this and other brokerage accounts you may have with Schwab. For more information, please go to schwab.com/relationship.

What investment advice services do you provide and what are your obligations?
- If we give you investment advice such as recommending an investment or investing strategy, we will act in your best interest and not place our interests ahead of yours.
- You may invest on your own in this account without any advice from us.
- Even when we give you investment advice, you make the final decisions.
- We will not manage or monitor this or other brokerage accounts. Schwab offers investment advisory accounts, which include management of your investments for an ongoing fee. To inquire whether that type of account is right for you, talk to a Schwab representative or go to schwab.com/investmentadvisory to see a summary like this one for advisory accounts.

What are the fees and costs for investment advice?
- If you decide to buy or sell a stock, certain exchange-traded funds, mutual funds, or bonds, you will pay a commission or transaction fee. Other investments do not have a commission or transaction fee; instead, the price of the investment includes compensation for Schwab.
- The price you pay is the same whether we recommend an investment to you or not.
- For details on fees and pricing, please go to schwab.com/pricing.

How does your firm make money from investment advice and what are its conflicts of interest?
- Schwab makes more money from some investments you may select compared to others, whether or not a Schwab representative recommends the investment to you.
- For example, Schwab and its affiliates earn more if you purchase a Schwab-affiliated mutual fund or exchange-traded fund than if you purchase one managed by another company.
- For a detailed explanation about how Schwab makes money depending on the investments you choose and our related conflicts of interest, go to schwab.com/firmcomp.

How do you pay your professionals who give investment advice?
- We compensate our representatives who provide investment advice based on factors such as the amount of client assets they service and the time and complexity required to understand your needs, make recommendations, and provide services to you.
- We do not pay our representatives based on product sales commissions.
- For details on how we pay all of our representatives, please go to schwab.com/repcomp.

What additional information should I consider?
- For investor education information about different types of investing account relationships and services that may be available to you, and other questions you might want to consider, please visit www.sec.investoreducation.gov
- For free and simple tools to research our firm, our representatives, and other firms, including disciplinary events, please visit investor.gov and brokercheck.finra.org.
Benefits of Alternate One-Page Approach to Form CRS

**Simple**
Plain English, easy-to-read content in brief, one-page format.
- Covers key questions and provides answers
- Allows for easier comparison with other firms, as well as necessary tailoring

**Focused**
Includes easy-to-understand information on the most important elements of the relationship:
- Services and corresponding obligations
- Fees and costs
- Conflicts of interest
- Additional information, including disciplinary history

**Visual**
Employs a variation of the Pew disclosure format, making it easier for investors to find and follow information conveyed.

**Relevant**
Focuses on the type of account an investor is in process of selecting (in this case, brokerage).
- Avoids confusion of mixing account types
- Instead, dual registrant links to summaries of advisory accounts
- Website version consolidates all linked information and enables download of comprehensive PDF

**Layered**
Q&A approach provides top-line answers on each topic area and links to more in-depth information on company website

**Resourceful**
Provides links to investor education materials and objective third-party sites.

Illustrative – for discussion only
A Layered Approach Leads To More Information
Current Schwab Pricing Hub

Commissions & Trades

Stocks & ETFs

<table>
<thead>
<tr>
<th></th>
<th>Online Trades</th>
<th>Automated Phone Trades</th>
<th>Broker-Assisted Trades</th>
</tr>
</thead>
<tbody>
<tr>
<td>Stocks</td>
<td>$4.95</td>
<td>$4.95 - $5.00 service charge</td>
<td>$4.95 - $25.00 service charge</td>
</tr>
<tr>
<td>Schwab ETF OneSource™</td>
<td>$0</td>
<td>$0 - $5.00 service charge</td>
<td>$0 - $25.00 service charge</td>
</tr>
<tr>
<td>All other ETFs</td>
<td>$4.95</td>
<td>$4.95 - $5.00 service charge</td>
<td>$4.95 - $25.00 service charge</td>
</tr>
</tbody>
</table>

Investment Advice

- Automated Investing
  - Schwab Intelligent Portfolio

- Personal Planning and Automated Investing
  - Schwab Intelligent Advisory™

- Dedicated Financial Advice
  - Schwab Private Client™
  - Schwab Advisor Network™

- Additional Solutions
  - Schwab Managed Portfolios
  - Managed Accounts: Equity Strategies
  - Managed Accounts: Fixed Income Strategies
  - Windham Strategies
  - ThomasPartners Strategies

www.schwab.com/public/schwab/investing/pricing_services/fees_minimums