MEMORANDUM

To: File Nos. S7-07-18, S7-08-18, S7-09-18

From: Division of Investment Management, Division of Trading and Markets

Re: Roundtable on June 4, 2018 Regarding Standards of Conduct for Investment Professionals

Date: July 31, 2018

On June 4, 2018, SEC staff and Chairman Clayton held a roundtable at the Houston branch of the Federal Reserve Bank of Dallas. Approximately 22 individuals attended. The roundtable was intended to gather information from retail investors who will be directly impacted by the Commission’s rulemaking regarding standards of conduct for investment professionals.

Attached is the entire transcript of the Houston roundtable discussions. The discussions at the roundtable were intended to be conversational, and the Chairman and SEC staff provided summary descriptions of the Commission rulemakings. To the extent that any descriptions contained in the transcript deviate from the Commission’s proposed rule text and rulemaking releases, such descriptions do not supersede the proposed rule text and releases. In this regard, see proposed Form CRS Relationship Summary, Regulation Best Interest, and Interpretation.
INVESTMENT ADVISER/BROKER-DEALER ROUNDTABLE

Monday, June 4, 2018
3:30 p.m.

Federal Reserve Bank - Houston
1801 Allen Parkway, San Jacinto Room
Houston, TX 77019
PARTICIPANTS:

On behalf of the Securities and Exchange Commission:

Jay Clayton, Commission Chair
Dalia Blass
Lori Schock
Eric Werner

PARTICIPANTS(CONT.):

On behalf of the Federal Reserve Bank:

Daron Peschel

GENERAL ATTENDEES:

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PROCEEDINGS

MR. PESCHEL: Good afternoon, everyone. My name is Daron Peschel. I am the Senior Vice President for the Federal Reserve Bank. And on behalf of our nation's Central Bank, I just wanted to stop by this afternoon and send a warm welcome to all of you. We're delighted to have the SEC here, especially Chairman Jay Clayton. So welcome to Houston, Jay.

CHAIRMAN CLAYTON: Thank you, Daron.

MR. PESCHEL: Great to have you here.

You -- the Fed and the SEC have distinctly different missions. But if you get at the root of it, we are both working toward financial stability and economic strength. So for the Fed, that means monetary policy and a safe and sound banking system. With the SEC, that means protecting the investor and making sure we have fair, orderly and efficient markets.

So together, we consider them one of our great sister organizations and we're delighted to be able to provide the space for you today. And I hope you all have a great meeting. And I'll leave, so you can have your meeting.

CHAIRMAN CLAYTON: Daron, thank you. Thank you very much. Terrific to be here.

Wow, welcome. Thank you all for taking time out of your day to be with us.

MR. WERNER: Sorry, there's a lot of moving parts here. I apologize. So my name is Eric Werner. I am the Associate Director of Enforcement in the Ft. Worth Regional Office of the SEC and I would like to welcome you all here for the first of four Investment Adviser/Broker-Dealer roundtables here in Houston, Texas, on June 4, 2018.

Sitting on the ends of Chairman Clayton, we have representatives from our Division of Investment Management and Division of Trading and Markets, who are here prepared to talk with you, to hear from you, answer your questions, and try to help you better understand some of the rulemakings that we are involved in.

Before I jump in and introduce the Chairman, I will have a little bit of housekeeping. First, on the table in front of you, there are some documents. One is a Broker-Dealer Investment Adviser Relationship Summary that sort of goes through the substance of what we would like to talk about today and compares one side -- I believe the left is broker-dealer, on the right is investment adviser. If I have that wrong, I apologize.

Also with you is a feedback form. We would like you to fill it out. You may do this anonymously. So if you do not feel like putting your name or any information leading us back to you, that's totally fine. I will probably wrap this up and ask you again -- encourage you to fill out the form. It gives us an idea of what we're doing right, what we're doing wrong and what we can do better, especially with the three additional roundtables that we have planned.

In terms of participation, we would love for this to be a dialogue between the SEC and you. And, really, us and investors. We are trying to figure out what is important to you, what we can do to help you and what we need to do better.

So even though you have name placards sitting in front of you, please do not be discouraged that there will be attribution to you. We do not plan on, even though there is a court reporter here taking down the discussion, we are most interested in the substance of your conversation, not who it's from. So don't feel like there will be any attribution to you at all. That is not our goal here.

Let's see, I think that's it. So again, please -- oh, yes, that's important. To help our court reporter out, there microphones between every other seat. If you could, press the red button before you
Chairman Clayton: So today, I have the privilege of introducing the Chairman of the Securities and Exchange Commission, Mr. Jay Clayton. Although Mr. Clayton's full name is much longer and formal sounding than Jay Clayton, one of his first actions upon being sworn in as Chairman was to come and address the staff and I don't know if encourage or demand that we call him Jay. Really sort of put us on our heels. And for me, someone who still calls his mother and father sir and ma'am, something I'm not quite getting used to.

But don't be fooled by his informality because, underneath that, lies incredible aptitude, intellect and dedication to the Commission's mission. And I think that one of the things that Chairman Clayton brings is, with his informality, he's able to bring out ideas and comments from people that may not otherwise been able to. So hopefully he will enjoy and get the same thing.

Before joining the Commission, Chairman Clayton received a bachelor of science in engineering from the University of Pennsylvania, graduating summa cum laude, and then later earned his law degree from the University of Pennsylvania Law School, where he was a member of the Order of the Coif and graduated cum laude.

In between his years at Penn, he studied in the U.K., receiving a bachelor of arts and master of arts in economics from the University of Cambridge. After law school, Chairman Clayton spent two years clerking for the Honorable Marvin Katz, District Judge for the Eastern District of Pennsylvania. In 1995, he joined the law firm of Sullivan and Cromwell, where he became partner in 2001 and was a member of the firm's management committee and co-head of the firm's corporate practice. Chairman Clayton has also served as a lecturer and adjunct professor at the University of Pennsylvania Law School.

Since joining the Commission, Chairman Clayton has set an agenda to support the three pillars of the SEC's mission, investor protection, maintaining fair, orderly and efficient markets, and facilitation of capital formation, specifically noting that all three parts are equally critical and that harm could result if the SEC were to emphasize one over any other.

In addition to making sure that America's capital markets are accessible to businesses and investors alike, and seeking to achieve fairness, efficiency and resiliency in our fixed income markets, the Chairman has found time to delve into some cutting-edge issues surrounding things like distributed ledger technology, the dark web and initial coin offerings. In fact, the first time that I met the Chairman, I walked into a heated discussion he was having with an attorney in my office about the legitimacy and viability of cryptocurrencies. I was taken aback, honestly, about how much thought he had given to this space and the issues surrounding that. And what I have learned in the time working with him is that he has given every single issue that he has confronted that same dedication and thought process.

So it's exciting for me to be able to work with someone who is so dedicated and helpful to the mission. And it is my pleasure to introduce Chairman Jay Clayton.

Chairman Clayton: Wow, I don't know what to say. Thank you.

(Applause.)

Chairman Clayton: Let me -- I do want to get quickly to -- but I just want to say, Eric represents our Ft. Worth office and we have regional offices. That office is dedicated to our mission here in Texas and some surrounding states. And it's terrific to have these regional offices because many of the issues that retail investors face here are different from those that they would face in Chicago or San Francisco or New York. And Eric and his colleagues do a great job tailoring their work, you know, to the region they cover. So I want to thank them.

What I really want to do though is get into what we're doing. I will briefly ask both Lori Schock and Dalia Blass to introduce themselves so you know who you are dealing with. But then let's get our conversation started.

So, Lori, you want to go ahead?

MS. SCHOCK: Great. I'm Lori Schock. I'm the Director of the Office of Investor Education and Advocacy, so the kinder, gentler side of the SEC. And I just want to thank all of you for being here. Your input into our rulemaking process is fabulous and I appreciate you taking time out of your day to come and share it with us. Thank you.

Chairman Clayton: Lori, 24/7, thinks about investors. That's her job.

MS. BLASS: And I'm Dalia Blass. I'm the Director of the Division of Investment Management. And in short, what we do in the Division is that we regulate mutual funds, exchange-traded funds, closed-end funds, so the investment products that you know, put a lot of...
your money into, my division is tasked with the
regulation of these products and their advisers, people
who run them.

CHAIRMAN CLAYTON: And we have a few
colleagues in the audience. I just wanted to ask them
to raise their hands so you know who is here from the
SEC. Terrific. Thank you.

And with that, I'm going to very briefly talk
about what we've done in proposing new rules in the
areas of investment advisers and broker-dealers.

There are two channels through which retail
investors access investment advice in the U.S., a
broker-dealer or an investment adviser. The investment
adviser relationship is a portfolio relationship. It's
a relationship that goes over time and deals with your
investment decisions as a whole. A broker-dealer
relationship is a transactional-based relationship which
deals with individual recommendations at a moment in
time.

These two relationship models have developed
in our economy. There has been a shift in recent years
more toward an investment adviser portfolio type
relationship but the broker-dealer community is still
very significant and serves a number of our investors.

There has been a great deal of confusion in
the marketplace for investors about whether they are
dealing with a broker-dealer or whether they are dealing
with an investment adviser, or whether they are dealing
with someone who is both. First level of confusion.
Second level of confusion is once you figure out who
you're dealing with, what does that mean?

The rules that we have proposed are an attempt
to deal with both of those. Making it clear for people
what type of adviser they are dealing with and then,
secondly, what that means for them. In doing so, we
decided that the broker-dealer relationship, the
regulation that was applicable in the broker-dealer
relationship, needed to be enhanced. So we have raised
or are proposing raising the level of legal obligation
of broker-dealers to their clients. In short, they
can't put their interests ahead of their clients when
they make a recommendation.

The other thing we are proposing which is
fairly simple is, whatever relationship you have, you
have to describe the key terms to your clients in four
pages or less, the key financial terms. As I like to
put it, you understand who you are dealing with when
they explain to you clearly how they are making money
and what incentives they have. And we want investors to
understand how the person they're dealing with is making

money and what incentives they have. So that's our
proposal.

And I would love to start with a question of
who has had a good experience with their investment
adviser and why, and who has had a bad experience with
their investment professional and why? And then we'll
go to wherever you guys want to take this.

But if somebody is willing to start with a
personal experience that should inform our views, I
would love to hear it. And so this, when I think about
what to do, it's people's personal experiences that are
in my mind, and I know they are in everyone else's
minds.

So I'd love to kick it off that way. Anyone?
Yes, great.

INVESTOR ONE: I'm [--- Investor One ---] and I am an
independent financial resource consultant, so I don't
manage people's money but I provide education and
information for my clients. So I have clients who have
had all kinds of experiences. And before this meeting,
I called several of them who had bad experiences and
talked with them on the phone to get feedback so that I
could present it here today.

And I think probably the biggest mistake
people make is trusting the person with whom they're

dealing at the brokerage. And that was the feedback
that I got from most people, that I went in, I saw this
person, it was either a friend or a friend of a friend,
and I trusted that person. And I was a novice, I didn't
know what I was doing, so I lost a lot of money.

So I think that's probably the main thing and
the main reason that people do lose money, and they're
not educated.

So I really commend you for the form that
you've laid out here. I think it's great. My question
after you get the feedback on your question is, how you
intend to use these forms?

CHAIRMAN CLAYTON: Dalia?

MS. BLASS: That's a great question. And I
think we should also start by saying that this is not
necessarily a form. Right? It's disclosure. And what
we put out is an example, but we really want people to
help us walk through how the disclosure should look like
because, you know, there's a lot of modern technology as
far as design and content delivery and, in this day and
age, we should be making use of that as opposed to,
frankly, just handing over again, you know, pages and
pages of disclosure so we would love your input on that
as well.

What this is supposed to do, before you begin
a relationship, so for example your friends who walk into a brokerage house or an investment advisory shop, before you sign on the bottom line and start that relationship, the investment professional is supposed to give you this form, with the idea being that you understand the terms of that investment professional’s relationship, what it will be towards you as a client.

If you walk for example — I think the one that’s in front of you is the one that has both the brokerage and the advisory model. There are lots of shops that are just one or the other. Again, you will be handed a form disclosure that would tell you, yes, we just give investment advisory services but, by the way, there is this other type of service that you should consider. So at least before you sign into an account, you understand what’s out there.

They would also be required to give you this form, this disclosure, in the event that you changed the type of account, open a new account. So this is educational. It should give you information so you can make an informed decision as to the type of investment professional that you think would be best suited to handle your investment needs. That’s the intent of this disclosure.

Now, our question is, where does it stand with you? Does it do it? Does it not do it? What would you suggest?

INVESTOR FOUR: Let me give you my observation. I was working with an investment adviser and I don’t like getting moved down with papers, and so I got the agreements electronically. And, you know, you just see a notice that something is in your documents, you don’t know what it is. And most of the time I ignore it, but I went and read it. And what my observation was is they were very blatantly saying, we’ll make investments and we may put you in a fund and it may not be the best fund, the most economically beneficial to you, it may be the most beneficial to us because we have a relationship with them, but you don’t really know what that relationship is or what they’re earning but, you know, it was very up front in how it was approached. And I think your idea of having, you know, a short four page, where somebody can get a grasp of it, is really helpful.

And part two is, you know, some accounts may be adviser accounts and some may be broker-dealer accounts, and you have no idea what the commission structure is on the broker-dealer accounts. And so, you know, the question resolves around in my mind is what benefit is having those assets to the firm? When I ask the question, I’m told none. I don’t know if that’s true or not but that was the answer that I received.

And so, you know, if you are talking to the adviser and you’re sort of trying to balance things and make sale options and stuff, if it’s in the broker-dealer account, then you may be slammed with a huge sales charge whereas, if it’s in the advisory account, you’re not. But in reality, investment advisers have a huge base of clients and how they can personalize their service to individuals I don’t know it’s really practical.

CHAIRMAN CLAYTON: Well, [Investor Four], you have raised a lot of issues that drove where we are. Let me start with the first which is you can have a relationship with somebody today where they say, I’m charging you a flat fee, it’s $1,000 or it’s 1 percent of your money. And that’s all.

But then when you read page 27 of your agreement it says, by the way, I could put you into funds where I get paid something extra for putting you into those funds. So it’s really not $1,000 a year and 1 percent. It’s $1,000 or 1 percent plus some more.

And you shouldn’t have to go to page 27 to understand that. And I think if you don’t have to go to page 27 to understand that, it’s less likely that’s going to be the kind of relationship that you have.

On commissions, we recently added a rule that it mandatory that when you get a confirmation of your transaction, you call up your broker and you say, please sell this bond for me or please buy me this bond, it’s now much clearer -- and I’ve seen some examples, it’s only a week old -- it’s now much clearer how much that transaction is costing you.

Because I think when you know how much it’s costing you to get investment advice and you know how much it’s costing you to transact, you’re going to make better decisions. But also, those prices are going to come down. You know, if you have to look five different places to see how much something costs in total, you’re not going to shop around as much as if you only have to look one place.

So that is what we are trying to do with this form. I don’t know, Lori, do you want to talk a little bit about your experience in this area?

MS. SCHOCK: I think what you raised is absolutely correct, and there is lot of confusion. How many of you work with a broker-dealer? Just a show of hands. How many of you work with an investment adviser? How many of you work with a professional and you’re not quite sure how they’re -- it’s okay. It’s confusing,
you know. So knowing how your experience is and I think also understanding the fees that are charged, that's -- everyone needs to know that information because that's money that's not going to be working for you. But people do this as a profession, you know, they've got to get paid also. But you need to know how they're being paid and what they're being paid and how much that is. Do you know your financial professional is paid? Okay. And that's what we're trying to help with. In the back, talk to me. Talk to me.

INVESTOR FIFTEEN: We're probably a weird group here, the three of us. We're the Houston Better Business Bureau so we deal with the problem children. We've only got 401(k)s, we're not even in the league of the people in this room. But we don't know the answers to most of the questions you just mentioned. So I guess, tuck away our stuff for later. Because what we're going to be asking you is what can we do, eyes and ears, to help you? You know, Farol Parco in Ft. Worth is our contact. We send him stuff, he sends stuff back to us.

I will tell you, a lot of it's energy related, you know, bad oil and gas stuff, and it's harder to find, because it looks good. They have nice offices, but they got -- you know, beautiful everything. And two years down the road, you find out it was a pyramid scheme. So I didn't really answer your question --

CHAIRMAN CLAYTON: No, no, no, but you -- I wanted to come back to this disclosure form. Because this disclosure form has a couple of purposes. The first, we just talked about, trying to get all the key terms on the table up front. So the kind of conversation you'd expect to have with somebody who's trusted you in and don't want to put misplaced trust in, you know, how are you getting paid and what are you doing for me?

But it's more than that. If somebody doesn't give you the form, we can go after them. If somebody is making money that's not disclosed on the form, we can go after them. And that is very important.

It's difficult now when there's 27 pages of disclosure and back in the back there are some words that say, oh, by the way, we may get paid some more. Or, oh, by the way, we may do this. If it's not in there, and they're making money doing it, we can get them to stop, and that's part of what we're doing. So are we going to solve every charlatan or not? Probably not. But is this going to make it easier for us to shut them down? Yes. And that's another objective of this simple form.

INVESTOR FIFTEEN: Another suggestion is, on the issues that you're bringing up that you want to have an across-the-board -- although, the key terms, if you professional. And to the point in the back that if there's language in there they would have to give disclosure and back in the back there are some words that should be in our database. And these forms will be available -- you know, you can use the mockup as a good place to have the questions to ask. And get the answers ahead of time, before starting a relationship. The professional owes that to you. Okay? And if you don't get the answers that you want, maybe that's not the person to do business with.

MS. BLASS: Just on the point that Lori made about going to investor.gov to check out the investment professional and see, you know, their qualifications,
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whatnot, I did a similar outreach event a few weeks back. And when we introduced the concept, somebody from the audience actually just there and then, went on the website, put the name of the person, and found out that person had been disbarred. It is a great tool to use when you are -- before you hire an investment professional. It's there, it's free, it's easy.

He was just like, wow, like this was just so easy to do. It's right there, on your phone, on your computer, very easy to access. So just a real-life story of it happening as we talked about it.

INVESTOR NINE: My name is [Investor 9] and this is very timely for me. I am looking for a new adviser. And a couple of points I'd like to make. First, with any industry, they are very well -- they are very aware of the old adage, if you can't dazzle them with brilliance, baffle them with -- I'll leave that blank, you fill in the blank.

I went to a major advisory firm's website and was looking at their Form ADV. That form was three years old. When I go to the SEC and look at the form, it is a little over two months old.

I think it is -- I don't know if it was intentional. I don't know what differences there were. But it is, in my opinion, deceptive to have old information posted on your website and know it. The form sounds very great. One problem we have though is, we get multiple versions or updates to those forms and we have no idea what was changed.

Any forms that go to the consumer, there needs to be either change bars or some kind of note to indicate what was changed, what was inserted, potentially what was deleted, or that there was a deletion.

Thank you.

CHAIRMAN CLAYTON: That's a great point. So if, for example, an adviser starts collecting fees from a provider to that adviser -- you hire an investment adviser, the investment adviser charges you a 1 percent fee, but then the investment adviser changes their business model and starts collecting fees from the mutual fund company they use, they should send you -- this has a question mark at the end -- they should send you your updated form and highlight that that has been changed? That's what you're saying, that's an example of what you're saying?

INVESTOR NINE: Exactly. And as more of us go paperless, this other gentleman alluded to a fact that we just get a notice in our mailbox at the brokerage that a document has been archived or sent to you. And

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when you look at them, initially, it looks like just the same one that came in, that you saw last year or just a few months ago. It is very difficult for you to tell through all these different various forms what has changed, what is the significance of this, and whether or not you accept this change. Not -- just because you've received it does not -- should not indicate acceptance.

CHAIRMAN CLAYTON: Understood. Understood. [Investor Eighteen], did you have --

INVESTOR EIGHTEEN: Yes. I think that one of the biggest things, even before we talk about forms or anything that each of the ladies on either side of you discuss is, check out your investor first. That should be the top thing on the form. Have you contacted investor.gov or have you done FINRA Brokercheck? Have you done -- these are the things that should be alerted to first, before we talk about forms, if you ask me, before the conversation even begins.

CHAIRMAN CLAYTON: I could not agree more. I say to people, if you are not dealing with a registered broker-dealer or investment adviser, your risks have gone up substantially. You'd be better off picking an investment adviser -- a registered investment adviser with a dart(sic) than you are taking virtually anybody who is not registered. That's unfortunately our all-too-frequent experience.

INVESTOR ONE: If there is a lawsuit against someone, what do you do if they have already registered with you and then they have lawsuits against them?

CHAIRMAN CLAYTON: We publicize it.

INVESTOR ONE: Okay.

CHAIRMAN CLAYTON: So our database --

INVESTOR ONE: Because on one of my clients just recently, you know, she had lost all this money and then found out there were lawsuits against the person who sold them.

CHAIRMAN CLAYTON: As [Investor Eighteen] pointed out, investor.gov and Brokercheck, it's very quick to find out. And we've actually added a new database for people who are no longer registered but may be out there peddling investment schemes. It's called SALL. Because we want people to know about these unregistered recidivists. So we just added this recently.

INVESTOR TWO: Yes, Chairman Clayton, I want to thank you and your team for coming down here. I think this is timely.

Though I don't personally have any bad experiences, I am a knowledgeable investor, I know plenty of people who have bad experiences. And to me, I
think just the fact that the industry has used the term "fee-based" as opposed to "fee-only," and if you are most consumers, they couldn't tell you the difference.

There's a huge difference. Fee-based could be commission, and you don't know which is which.

I do applaud and encourage you to -- me, I don't have an issue with people getting paid commissions. I just think it should be plainly disclosed what commission they are receiving and their firm is receiving, even on products that don't fall within the purview of the Securities and Exchange Commission; i.e., certain insurance products. They advertise on the radio all the time. And, you know, let the consumer be informed what they're paying and they can decide whether there's sufficient value.

And the other aspect which does fall under the SEC are private placements. A lot of advisers will promote these, and it's vetted somewhere. But I can assure you, most investors have no idea what they're buying and what they're paying. And I think the key is not just disclosure but transparency. So I applaud your efforts. I hope to see some tangible results.

I think if people understand what they're paying, I think they're going to make better decisions. CHAIRMAN CLAYTON: We agree with you. And can I just, for the people in the audience, explain on the private placement side? Someone comes to you and says, stocks and bonds that, you know, you've heard of the companies or they're quoted on the exchange, this is an investment. A private placement is probably something you haven't heard of, it's a new idea. It's not something where the investment is registered with us.

And what can often happen, unfortunately, in those investments is the person selling you the investment is making a substantial amount of money just for making the sale. And if you're putting $100 in and that person is making 10 percent for that sale, well 10 percent of your money just went out the window in terms of putting it to work. And if someone told you, well, hey, you know, you're putting in 100 but you're actually only really putting $90 to work, you'd probably think twice about making the investment. When if you're putting $100 to work in the market, you're probably putting $99.25 to work. That's a big difference and it's something -- it's another area that we just want to bring clarity to, in terms of how much money falls out of the system and into the pockets of the people you're dealing with.

I'm sorry, go ahead, [Investor Fifteen].
model, which is a more portfolio-based model. So we've tried to put the same fiduciary principle — I, as a professional, can't put my interests ahead of yours — in both places, but not make the relationships exactly the same. Because we believe there is room for a broker-dealer relationship and an investment adviser relationship.

Have I been -- there was a lot of jargon in there. I'm trying not to -- was that clear? If it wasn't -- okay.

INVESTOR THREE: So I'm glad to hear that you have an investing -- investor education and advocacy team, because the form -- simple forms that provide clarity are good. And in my experience, when I was starting to look for a broker-dealer, I kept running into investment advisers and they either couldn't or would not explain how they made their money. And so I just avoided them. You know, that was my experience.

The fact that we need this kind of thing, I think, points out something deeper and more important, which is a shocking amount of people that are successful in whatever chosen profession they have, have absolutely, one, no interest in how to manage their money and no understanding. And it's breathtaking to me, and I saw it a lot with people I worked with.

because, again, that money is not working for them and they just don't know how much they're doing and how much they're paying for that.

We put out a brochure called Ask Questions, and it just lays out questions to ask your financial professional. And I applaud your -- you know, the fact that the person that you interviewed with, that they did not disclose how they were being paid, you walked out the door, you voted with your feet. And that's -- we need people to do that and to be actively engaged.

And I know, some people are self-directed. They want to get into their investing. They spend a lot of time doing their homework, they do -- they're doing this on their own. A lot of folks, though, just don't want to deal with it. And I'm a teacher during the day and I don't want to go learn something at night, you know. And so that's why this relationship with your financial professional is so important and it's necessary to have a good understanding of, you know, the whole -- the whole picture, if you will, how they're being paid, how they're working for you, what they're doing. And so that's what we're trying to help with, you know, this rulemaking and other rulemakings that the Commission has been involved with.

INVESTOR THREE: So again, for me, how do we educate young people so that they start thinking about this early, so that they know? I mean, to me, it's a huge gap. I don't think we're setting our youngsters up for success in one of the wealthiest countries in the world. And, you know, that's disturbing to me.

CHAIRMAN CLAYTON: So I could not agree more with you. I do roundtables for AARP to basically answer questions that people have. And what I start those roundtables with is a request that the people on the line educate their children and their grandchildren about what they are going through and how they would be much better off today, not matter how well they've done, if they had understood these things earlier.

It's not my lane, I'm not the Secretary of Education. But the fact that we have shifted from an employer- and government-based retirement system to an employee-responsible retirement system but haven't had early education around this is something we should address.

INVESTOR THREE: Big gap.

CHAIRMAN CLAYTON: You know, so our market has changed a lot. The individual responsibility for retirement is very high. We should be educating people about that fact and what they can do to prepare for it. There's no doubt about it.
MS. BLASS: And also add to the fact that, with the younger generations, they don't interact face to face with anybody anymore.

(Laughter.)

MS. BLASS: I've got teenagers. They text me even if I'm in the same room.

And increasingly, if you're going to talk about anything they buy or sell, including investment advice, they're going to do it electronically and it's faceless.

CHAIRMAN CLAYTON: Let me give you a statistic that's an amazing stat that I wish every child in America knew. We have somewhere between four and four and a quarter percent of the world's population. We have in this country somewhere between 40 and 50 percent of the world's market capitalization. It's actually an amazing thing.

But we need to keep that investment and economic engine going if the people coming out of high school today are going to have the same quality of life in retirement that people retiring today have. And I wish they understood that.

INVESTOR THREE: So the last thing along those lines is, you know, if I understand correctly, about 50 percent of the people in this country haven't even saved enough money to go to somebody to talk about this.

CHAIRMAN CLAYTON: You have it exactly right.

It's another interesting stat. Households' investment for retirement is approaching 50 percent. But that still means that there's 50 percent of the households that are not.

INVESTOR FIVE: So I think there is a lot of information out there in terms of books for self-education and self-doers. And putting this documentation(sic) -- kind of economic references to get additional information -- education, through your community schools or universities -- I think it would be very helpful.

Because I think one of the things is just being able to be informed, as there is a lot of other sources for other products, and choices. This is just one of the most important ones, as was mentioned earlier.

MS. BLASS: Can I ask a couple questions about the form? The length. You know, you mentioned getting electronically, you know, a whole bunch of stuff from your investment professional and you had to dig through layers and layers to get to, you know, conflicts. We're proposing about four pages' worth of information. How does -- what do you think about that? Readable? Too much? Too little? Just right?

Yes, sir.

INVESTOR NINETEEN: So what's being left out when you've got four pages? Will you cram this thing down into four pages? The consent form for Google is way, way more than four pages. What's being left out?

MS. BLASS: That's a good question.

CHAIRMAN CLAYTON: That, you know, not -- what I don't want left out, and I want to hear if we are leaving this out, is what's motivating your financial professional. What I want in are the financial and other terms that motivate your -- you know, when the person is thinking, what am I trying to sell you? [Investor 19], what's in it for me when I'm trying to sell? I want those terms to be there.

What's not in there that's in these long forms? Disclosure like, there are many options available to you. There are equities and bonds and we might -- those types of portfolio allocation questions are not in the form. It's really about how your professional gets paid and what other potential conflicts or motivations they have.

Because I think until you understand those, the rest of that stuff is -- it's secondary. That was our approach.

I don't know, does that make sense to you?

INVESTOR NINETEEN: Well, I think of the insurance, bond life insurance policy, where the salesman gets a big cut right off the top at the beginning and that's very rarely disclosed.

CHAIRMAN CLAYTON: It's not my space. But if a salesman in this space is getting a big cut, you're putting $1,000 to work and, you know, $75 is coming off the top, you should know that. It's hard to take the other side of that, isn't it?

INVESTOR ONE: I find there is huge confusion between people who sell investment products and those through the insurance companies. Is there any way that you can put some statement on your form that this does not apply to anyone selling insurance products? There is huge confusion there, and I see some of the biggest losses and inappropriate investments sold through insurance companies. It's huge. It is huge.

CHAIRMAN CLAYTON: So you're not the first person who has told me that. And --

INVESTOR ONE: Can you put something on here?

CHAIRMAN CLAYTON: We are trying to make clear who you are dealing with. It is my -- when I talked about the different regulators, the seven different regulators, one of the ones I was thinking about was the
insurance regulatory industry, which is largely a state
industry.

I am hoping that they will follow our lead in
this area.

INVESTOR ONE: People don't know the difference.

CHAIRMAN CLAYTON: I know, and you can have --
well, people don't know the difference. And you can
have a very similar product that on the one hand is an
insurance product and on the other hand is an investment
product.

INVESTOR ONE: Right. So how can you do your job
without pointing that out?

CHAIRMAN CLAYTON: Well, we're working on it.

That's why we're here.

INVESTOR ONE: If you are there for investor
protection --

MS. BLASS: This gentleman in the back.

INVESTOR TWENTY-ONE: So my name is [Investor 21] and I
probably am one of the youngest persons here. So in terms of the
awareness of those issues here, I will share with you my
experience and people surrounding me.

I joined the industry and I started my career
three years ago. And in our agency, we have an
acknowledgement stating compensation into the individual
responsible retirement. But to be responsible for our
retirement, I guess, it's probably a good idea to start
from now or even right after school, when you start to
make money. But from my experience, my coworkers, when
they started out the job, when they try to deal with
those things, which one to choose, should I invest by
myself or should I believe in some investors, my
experience is people around me say, I don't care. But
from my opinion, it's like, it's your money and you are
responsible for your retirement when you are old, you
don't have many other income.

So back to this, what's your comments about
what can do to improve the awareness of those issues,
like how the advisers, mutual fund managers make money,
where they have conflicts with the -- with the clients,
and what questions we should ask. Not like just say we
have forms there, but by proactively promoting the
awareness so that the job -- the young generation can be
more aware and make all right decisions?

CHAIRMAN CLAYTON: Let me note one area where
we've been successful. I don't want to call it
successful. Where we're starting to have success.

Teachers.

We found that teachers were not well informed
about these issues and that they were -- they're people
who think about the long term. So they were actually
putting money away on a regular basis for their
retirement, but they were paying way more for it than
they should have.

And we've had a focus in that area and I'm
very happy to say it's gotten traction. And we want to
keep doing that in other areas. And if you have ideas
for affinity groups where we can appeal to them and
educate them on how to get started.

But Lori knows the -- there are a number of
teacher groups where for every, you know -- a good
return, a great return is 10 percent a year. There were
a number of teacher groups where they were losing 2 and
3 percent a year to fees. Every year. Because they
weren't asking the right questions.

You know, so my view is that, like you and
your friends, the more you can get affinity groups
together, the better chance you have to have an
educational impact. So we're doing work with teachers.

I would like to expand that to other places.

MS. BLASS: Just one other thing I want to
add, because it was a theme several of you brought up
is, what do I ask? Making sure you're asking questions,
making sure that you're taking sort of the reins of your
investment health and retirement future.

You know, Lori mentioned, the Ask Questions

that we have on investor.gov. That's also part of this
form.

You know, I don't know if we were successful
in the questions that we put in there. But part of this
form is to get the investor used to the concept that
they should -- it's not just about getting a piece of
paper or disclosure and reading it. It's about the fact
that you have to have a conversation, an interactive
discussion with your investment professional. And to
push them on giving you more information.

So, [Investor 19], to your question about
what's missing, that's a question that you can ask. The
form is sort of broad brush, in terms of "the general
fees are." One of the questions is, well, walk me
through it. What does it mean for my money, for my
account. Tell me what it costs to me.

So to your point about the idea that we need,
you know, sort of education, financial literacy, part of
this form, we hope, is that we encourage that.

What did you guys think about the questions
that we included in the form? Does it get to any useful
questions or is it too high level?

INVESTOR TWENTY-ONE: So the questions for me are very,
very good. As Jay said, the success with the teachers
is good. But can we promote something like, when people
get employed in their first half year or so, either employer or the financial adviser the employer hires can sort of give a sort of a --

CHAIRMAN CLAYTON: So in my sort of, you know, thinking down the road, let me say this. In government, you can't let the best be the enemy of the good. So one of the things we're trying to do here is do something good, and then we'll do the next thing.

If I tried to do everything that I thought was a good idea, I wouldn't get any of it done.

But a second good idea is when you start with your 401(k), to get the same kind of disclosure. So that you know when you put $100 a month into your 401(k), how much of that money is actually going to work in the marketplace.

INVESTOR NINE: I have a question on the mechanics of the form. How are you going to be able to put fee information into that form in a degree that it has any meaning? For example, those of us who have brokerage agreements with large brokerages, they may have hundreds of different fund families that each have their own individual fees. And are all I can see, visualize, is seeing, "fund families may have additional fees," something very general. I don't know how that really affects me.

I can only relate it to your phone bill. How many of us have ever looked at your phone bill, looked at all those incidental charges? 911 equalization fee, rural electrification fee, things like that.

Compare that to whenever you buy a house. Prior to your closing, you will have a closing statement that clearly identifies every dollar and where it is going to.

Why shouldn't brokerages and advisory fees have the ability to take a transaction, one account, and outline these are going to be the fees that you will either incur at the time of closing the transaction, ongoing, or at sale? Why is it too difficult to do something like that? And it's not something you can do on a four-page document.

CHAIRMAN CLAYTON: Well, we are looking at that issue. And let me give you a hypothetical. You have an investment adviser who you pay 1 percent a year to, and then that investment adviser puts money into mutual funds. If the investment adviser gets fees back from those mutual funds, that can be pretty clearly disclosed. They get another 100 bucks. You should know that you're paying 1,100. Those mutual funds have expense ratios. Part of those expense ratios is a management fee paid to someone else. Your investment adviser is probably not making money there. Hopefully, they're choosing that adviser based on their performance. Let me tweak that a little bit. They're actually affiliated with that mutual fund company. And so their company is making some money on your money going into those mutual funds.

You should know that.

Now, quantifying that exact amount is not easy. But getting you a feel for how much more is in it for them is something that you should know. That's how I look at it.

MS. BLASS: I think this form gets to sort of the -- there are two levels, right? So the form you have in front of you is an educational piece that tells you the difference in the fee structure and the conflicts between an adviser and a broker, so you can make a selection. I want this side of the column and not that side of the column, right?

Once you make that selection, then it goes to your questions. Okay, fine, I have X amount to invest. Now, how is this going to play out in terms of the fees, expenses, my bottom line?

But as an initial matter, we are finding people that don't really appreciate that there is a significant difference in the fee structure and one may suit you better than another, depending on your investment goals. So this form gets to that level.

But we do ask a lot of questions about how to get to the second level. So we definitely appreciate that it's something that's important to all investors, important to me.

CHAIRMAN CLAYTON: And I want to go back to what we've done just last week with mark-up/mark-down disclosure on when you buy bonds. It used to be you couldn't tell how much money your broker was making when selling you the bonds. You can now tell. Which is a big difference.

You're shaking your head.

INVESTOR TWO: That's huge. I've dealt with people who didn't know and redo your bond portfolio and got mark-downs and mark-ups, so it was a double trade.

I love the idea of the questionnaires. But I've also seen a lot of advisers are pretty adept at answering a question verbally but not putting it in writing. And to your point earlier, the SEC can enforce documentation. So maybe some thought in terms of not just a disclosure but maybe some of these key questions that they have to provide in writing. Because the fiduciary rule, the DOL people are starting to ask that question, and I've heard the stories of how they dance.
around it and not really addressing the question. So if there was any way to try to say, hey, these are things they need to disclose in writing, great.

CHAIRMAN CLAYTON: And that's what the form is. If you're getting money back for putting my money into a particular product, you have to disclose it. And if you don't, you violated the new rule.

INVESTOR FIVE: In creating this form, you are getting a lot of feedback from users and consumers. Have you presented this form or to what extent are you seeking input from the professionals about the content of the form? And what kind of feedback are you getting? Pushback? Can you comment on that, please?

CHAIRMAN CLAYTON: So here is -- we will get lots of feedback from the professionals. They know how to give us feedback.

(Laughter.)

CHAIRMAN CLAYTON: They're not shy and they're good at it.

What I want to make sure is that the regional investment advisers and broker-dealers don't think that this is going to put them out of business -- I don't think it's going to. I don't think it's going to put them out of business. I think they're going to be just fine with it. I haven't heard a lot of complaints. But that wouldn't be my -- that would be my worry.

Because people need individual investment advice. They need to talk to somebody who's registered, they need to talk to somebody who is going to give them the form.

I'm hoping that we've struck the right balance here and that -- here's what's really in my mind. Are we requiring what the good people were doing already? If you're requiring what the good people were doing already, it can't be that costly to do it.

INVESTOR FIFTEEN: It's not a panacea for total success, but at the end of the document, maybe signatures. Thank you for my rights, I have read them. And in a partnership relationship, both of them. Because when people sign their name, okay, I've got to take this a little more seriously. And maybe even a cool-off period.

CHAIRMAN CLAYTON: You mentioned the same thing. How do you acknowledge that you've actually -- that both sides have done what they're supposed to do?

INVESTOR FOUR: I've got another question. I mean, when somebody gives advice, do they say that they come from the fiduciary duty of understanding what they're recommending to the person that they buy? Does that make sense.

CHAIRMAN CLAYTON: Yeah, so putting aside the form, on the investment adviser side, there is a general fiduciary duty of care that applies to investment advisers. It's kind of a common law duty of care.

We have, in our proposal, specified the process that a broker-dealer needs to go through to get to the recommendation. What procedures they need to go through internally to get to a point where it makes sense to recommend a particular product or not.

INVESTOR FOUR: Because I've noticed that people will pitch a product, I think merely because the company tells them to, and they really don't understand what they're recommending. It just sounds good, and if you want to talk to the people that are doing it directly, you know, you can talk to them. But they don't really -- they don't understand it.

CHAIRMAN CLAYTON: So let's just talk about a specific product. There are these products called structured notes. And what a structured note may be is you give me $100, I'm going to tell you the minimum I'm going to give you back is $95 and the maximum I'm going to give you back is 50 percent of the increase in the S&P 500. Now, that's something that an investment adviser ought to be able to explain if they're recommending.

Let's make that a little bit more elaborate.

Let's say that the deal is the least you're going to get back is $30. You might lose 70. But I'm going to give you three times the increase in the S&P 500. My view is, that's a difficult product to explain. Because a good question for you to ask me is how much money am I making selling you that product? And the answer is, it could be a lot.

And my point in this is, I'm agreeing with you. You can't have this kind of relationship where the person offering you the product doesn't understand how much money is being made in offering you the product.

Am I being clear?

INVESTOR FOUR: You're being clear from the compensation standpoint. And I'm coming from the standpoint of if an investor gets a pitch that this is a product that's, you know, a vehicle to make an investment in and the investment adviser is pitching it but they don't understand the guts of how it operates, but their brokerage firm or whatever is probably putting it out so they're hawking it.

CHAIRMAN CLAYTON: I agree that that's a problem.

INVESTOR FOUR: You know, is there a fiduciary
-- you know, they're supposed to have a fiduciary obligation and risk that they are undertaking by selling that product that the investor can rely upon.

CHAIRMAN CLAYTON: The short answer is, our proposal, yes. You're not allowed to sell something you can't explain.

But I want to go more to this point. I don't know who can explain that second product I talked about.

There are certain products that, to me, are so elaborate, it's a lot to expect a retail investor or their adviser to be able to reach a meeting of the minds. But to your specific question, yes, you have to understand the product to sell it.

INVESTOR ONE: But on your form, you said, under broker-dealer, we must act in your best interest. How can they act in their best interest if they don't even know what they're selling them?

CHAIRMAN CLAYTON: We agree, they can't. INVESTOR ONE: I mean, and so there are some little conflicts in your forms here.

CHAIRMAN CLAYTON: No, just to be clear, I wasn't -- if you can't explain it, you can't sell it.

MS. BLASS: So the form explains the fees, the services offered, the conflicts.

INVESTOR ONE: Okay.

MS. BLASS: But beyond the form, okay, beyond this form -- this was a 1,000-page proposal, by the way. It's a huge package, and we don't expect you to read it. But you're welcome to. I would love the feedback.

There are two -- there are three pieces to this package that the Commission put out. One of it is the standard of conduct for broker-dealers. And as part of that, they have to look at the products and make sure any product first of all, before they sell it to a retail investor, it has to be reasonable for some. Like it has to be a product that is suitable for the retail space.

Once they go through that check, then they have to look at you, personally look at you as an investor, look at your investment profile, look at your investment needs and goals, and make sure that it's in your best interest. So that's beyond this form.

This form just explains to you their relationships. But they have to go through that.

On the investment adviser side, there is a similar idea, where they do have to, as part of their duty of care, they do have to look at the product and make sure that they explain it to you and get your informed consent. Right? Informed consent. So if they can't explain it to you, it's kind of hard for them to be getting your informed consent.

So this form just explains a certain high level. But then part of the package is we do explain how they are supposed to conduct themselves vis-a-vis you the retail investor.

CHAIRMAN CLAYTON: We're going to go one more -- well, if we do them quickly, and then we're going to wrap up.

INVESTOR TWO: This will be quick. The complexity of some of these structures is hard for about anybody to explain. But I can assure you these advisers all know how much they're making. They all know that.

(Laughter.)

CHAIRMAN CLAYTON: Yeah, yeah.

INVESTOR THREE: So I wanted to share a story about my friend to reinforce what she had said about insurance products, and this was about an annuity, okay?

This is a wealthy individual. He and his wife have a net worth north of $5 million. They've worked very hard for their money. He had about 30 or 40 percent of that money to have it out of the market for eight-plus years in a bull market, et cetera, et cetera.

So he had this money. He found out it was going to cost him a stiff, I don't know, 40 or 50 grand to get out of this agreement. And, bottom line is, he thought it was an investment. Probably nobody ever told him it was an insurance product. It cost him a lot of money to have it out of the market for eight-plus years.

Last year, he woke up for some reason and realized that he had about 40 percent of that 30 or 40 percent of his money in an annuity that was costing him 4 percent a year, 4 percent.

Now, he had entered that contract -- you know, he's an intelligent, educated guy. He's an engineer. But he's not a money guy. His wife is the one that made all the money because she was buying real estate.

So he had this money. He found out it was going to cost him a stiff, I don't know, 40 or 50 grand to get out of this agreement. And, bottom line is, he thought it was an investment. Probably nobody ever told him it was an insurance product. It cost him a lot of money to have it out of the market for eight-plus years in a bull market, et cetera, et cetera.

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approach, what am I buying and how much is it costing me, across that spectrum. That's, frankly, overdue.

INVESTOR NINE: You have been using the term adviser quite extensively. In the 419-page proposed rule that I believe it was —

MS. BLASS: Quite correct.

INVESTOR NINE: 419 pages -- I did not read it all. However, I did note that one of the proposals was a restriction on the use of the term "adviser." I know it's like using the trademark name Xerox, how many of us use it, or Kleenex.

There is currently a title, specifically RIA, Registered Investment Adviser. How is this proposed rule going to affect titles and use of names in the investment industry, such that it is totally clear and unambiguous what the person's role is?

MS. BLASS: So actually in two ways. First and foremost and most importantly is that it would require every investment professional to tell you exactly what they are. So if I was an investment adviser, I would have to tell you I'm an registered investment adviser, I work for an investment adviser, so you would be able to know that. If I am both, I would tell you I am both. So both the firm and the individual have to tell you what their title actually is, so you would be able to have that.

CHAIRMAN CLAYTON: So to be clear, if you're a broker-dealer but not an investment adviser, you can't say you're an investment adviser.

MS. BLASS: Correct. I could work for a dual registrant, a firm that's both advisory and broker-dealer. But I can't say I'm an adviser, I'm an investment adviser, because I work for a dual-registered firm if I personally am not a dual-hatted individual.

So I have to tell you what my firm is but also what I am personally, so you would have insight into that. At the same time, we did propose to prohibit the use of "adviser" in any kind of spelling, e-r or o-r, whatever they come up with, because that title really is very close to the, you know, investment adviser, the RIA that you mentioned. So our proposal is, unless you actually are a registered investment adviser, you really should not be using the term "adviser" in your title. So that's part of the proposal. But the first part of it, to bring clarity, is to say exactly what you are.

CHAIRMAN CLAYTON: Eric, do you want to wrap us up?

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MR. WERNER: Absolutely. So I really appreciate all of you being here today and engaging with the panel as much as you did. I think that we all have done this enough, and we get some days where no one wants to ask a question and we end up talking amongst ourselves and don't know if it's relevant to you at all.

So we have almost nonstop dialogue and questions from you, I know if I was at that table, I would appreciate it. I'm sure they do as well. And I know there are some incredible issues that you raised that we will take back, the Staff will take back, and consider ultimately, you know, what changes do we need to make, are we headed in the right direction, have we gotten something wrong? So that's invaluable for us.

From an enforcement perspective, and I know this has nothing to do with that, there are a lot of things I could spend hours with you talking about and things that the Commission has done on the enforcement side to sue people who have done just the things you are complaining about.

We don't have enough time or resources to get everybody, but there are many that you have highlighted that we are aware of, we don't like, and we are doing everything we can to stop it and fix it.

You know, it was exciting to hear about, you know, things from financial literacy to the insurance versus investment product distinction, all very important.

What I would like to say, and I apologize in my initial remarks saying that we had representatives from Division of Investment Management and Trading and Markets, what I meant to say, and Lori is going to kick me for it, Office of Investor Education, they have investor alerts on our website that talk about a lot of these issues.

We can't talk to everybody all the time, but please use the resources that we have, investor.gov, sec.gov. That will direct you to various places. FINRA has a lot of investor alerts as well that cover annuities, that cover insurance products that will give you at least some insight to know this might not be the product for me or, if it is, I need to ask a few more questions. So her office has done an incredible job and will continue to do it.

And we'd appreciate you, if you go out there and tell people, hey, just go and check out some of these websites, that may help you with what you want to do.

But I want to thank our panelists for coming
here, Chairman Clayton, Dalia Blass and Lori Schock.
And I want to thank all of you for being here, taking
time out of your day to help us with this important
initiative.
And ultimately, we hope that it will help
you, help your children and help your pocketbook. So
thank you.

(Applause.)
CHAIRMAN CLAYTON: Thank you. Lots of great
ideas. This is really helpful. And when we're sitting
around trying to figure out how to get this right, we
will remember this. So thank you. Thank you all.
MS. BLASS: And if you have the feedback
flier, Staff is around the room. We really, really
appreciate it.
You don't have to put your name. But if
you even filled out just a part of it.
By the way, this is available online.
Actually, we have postcards. If you have an iPhone, you
can just do a QR code and submit it electronically as
well if you don't have the paper ready. Theresa is
going to be passing them around. So we're happy to take
the paper, happy for you to submit it. Really, really
would appreciate your direct feedback and input on the
form.

CHAIRMAN CLAYTON: Thank you. Thank you.
(Applause.)
(Whereupon, at 4:51 p.m., the roundtable was
adjourned.)

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