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 13, 2018 Regarding Standards of Conduct for Investment Professionals

Date: July 31, 2018

On June 13, 2018, SEC staff and Chairman Clayton held a roundtable at the Atlanta Regional Office. Approximately 10 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 Atlanta 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.

Also on June 13, 2018, the entire five-member Commission held a first-ever town hall event at Georgia State University College of Law. At the town hall, Chairman Clayton gave remarks on important considerations when choosing a financial professional. A webcast of the town hall is available here.
U.S. SECURITIES AND EXCHANGE COMMISSION

ROUNDTABLE ON INVESTING IN AMERICA

THE SEC COMES TO YOU

Wednesday, June 13, 2018
10:32 a.m.

U.S. Securities and Exchange Commission
950 East Paces Ferry Road, Suite 800
Atlanta, Georgia 30326
## PARTICIPANTS:

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<table>
<thead>
<tr>
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</thead>
<tbody>
<tr>
<td>1</td>
<td>DONNA ESAU (MODERATOR)</td>
</tr>
<tr>
<td>2</td>
<td>DALIA BLASS</td>
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<tr>
<td>3</td>
<td>JAY CLAYTON (CHAIR)</td>
</tr>
<tr>
<td>4</td>
<td>LORI SCHOCK</td>
</tr>
<tr>
<td>5</td>
<td>LOURDES GONZALEZ</td>
</tr>
<tr>
<td>6</td>
<td>INVESTOR 1</td>
</tr>
<tr>
<td>7</td>
<td>INVESTOR 2</td>
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<td>8</td>
<td>INVESTOR 3</td>
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<td>INVESTOR 4</td>
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<tr>
<td>10</td>
<td>INVESTOR 5</td>
</tr>
<tr>
<td>11</td>
<td>INVESTOR 6</td>
</tr>
<tr>
<td>12</td>
<td>INVESTOR 7</td>
</tr>
<tr>
<td>13</td>
<td>INVESTOR 8</td>
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<tr>
<td>14</td>
<td>INVESTOR 9</td>
</tr>
<tr>
<td>15</td>
<td>INVESTOR 10</td>
</tr>
</tbody>
</table>

## CONTENTS

<table>
<thead>
<tr>
<th></th>
<th>PAGE</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>CALL TO ORDER AND OPENING REMARKS</td>
</tr>
<tr>
<td>2</td>
<td>OPEN-ENDED DISCUSSION WITH AUDIENCE</td>
</tr>
<tr>
<td>3</td>
<td>CONCLUDING REMARKS</td>
</tr>
</tbody>
</table>

## PROCEEDINGS

MS. ESAU: Good morning, everyone. My name is Donna Esau. I am the Associate Regional Director for the Exam Program in the Atlanta Regional Office, and I would like to welcome each of you to this event. We're very happy to have you here to this Investment Adviser and Broker-Dealer Roundtable. I would like to start off by thanking our very distinguished panelists and other SEC staff for participating in this important event. We specifically want to thank Chair Clayton; Dalia Blass; and I learned recently I cannot call her "Director Schock", so I have to say Lori Schock; and Lourdes Gonzalez.

I also want to thank everyone who has worked to make this event possible, especially, our business ops group here in Atlanta who have worked very diligently to make this event successful, and we are very excited here in Atlanta to host this event and pleased to see each of you here. Of course, considering the interesting topics and impressive list of panelists presenting today, we expect this to be a very productive meeting.

Our Roundtable discussion will focus on a client and customer's relationship with their financial professional and the newly proposed Best Interest Rule. As you know in April, the SEC voted to propose a package of rule-makings and interpretations designed to enhance the quality and transparency of investor's relationships with investment advisers and broker-dealers. Evidence indicates that retail investors do not fully understand the difference between an adviser and a broker-dealer. We may say, well, what does that mean for me? I point to my mother-in-law who, although exceptionally sharp, doesn't discern that the person who is managing her brokerage account is actually representing her in the capacity as a registered representative rather than an investment adviser and the impact that that capacity has on the management of her assets. Under the proposed regulation Best Interest, it means a BD would be required to act in the best interest of a retail customer when making a recommendation. Basically, a BD could not put its interest ahead of a retail customer. In addition, the Commission is also proposing to reaffirm or clarify its views on the fiduciary duty an IA owes its clients.

Again, I want to thank every one of you for participating and hope you will share your views on these critical issues. This is a wonderful opportunity to share information and varying points of view. It is important to the process and it will benefit everyone. Thank you and enjoy the Roundtable and I now turn it over to our distinguished panel.
CHAIRMAN CLAYTON: Thank you. And, as Donna said, she runs our inspections program. Part of what we are going to talk about today is inspecting for compliance and what the standard means. And I'm now going immediately away from my remarks, but I want you to understand that when we look at our regulations and look at the standards we put in place, the words only have meaning if you can inspect for them, you can inspect for compliance. And when someone is out of compliance with them, if you can bring an action and get a meaningful remedy.

So when we talk about how we're going to do this, those are things in our mind, and they're -- and so you have a flavor for how the SEC works, we have roughly 4,500 employees, about 2,300 of them are dedicated to enforcement and inspections. That 2,300 is kind of divided about down the middle and it's that inspections side of what we do that really keeps bad things from happening in the first place. And so I can't emphasize how important it is to have rules that enable us to inspect and identify quickly whether bad behavior is going on or good behavior. So I just wanted you to understand that's how we work. Did I get that right?

MS. ESAU: You did. Good job.

CHAIRMAN CLAYTON: Thank you. So I want to get to a dialogue. What I will quickly do is ask my colleagues to introduce themselves and say what they do at the SEC and then will get the dialogue started.

MS. GONZALEZ: Hi. My name is Lourdes Gonzalez and I work on broker-dealer sales practice issues, basically anything having to do with the interaction between the broker and the investor. I usually have a touch to that interaction in terms of the rules that we approve and the policies we pursue.

MS. SCHOCK: I am Lori Schock. I am the Director of the Office of Investor Education and Advocacy, so we put out investor alerts and bulletins, help investors with questions and complaints that they may have, and also do outreach events. So thank you, and thank you for coming here today and spending your time with us.

May I just remind everyone we have a court reporter here, and it's going to help if everyone just sort of speaks up a little bit so that we make sure that we get everything on the record. Thank you.

MS. BLASS: I'm Dalia Blass. I am the Director of the Division of Investment Management at the Commission. In our division we do all the policy regulation for mutual funds, ETFs, and other investment products and the advisers that run these products. We also regulate the exposure that you get from mutual funds and advisers and provide guidance to practitioners and the public as well.

CHAIRMAN CLAYTON: And to say a few words, I think it was a very good summary of what we are attempting to do. We are attempting to bring clarity to the market for investment advice, and we are attempting to raise the bar in really two areas: The obligations that, in fact, professionals owe to their clients, and our ability to enforce those obligations. That's what we're trying to do because that's what's meaningful.

Words only mean something if people actually follow them. And they only actually follow them if you can inspect for them and enforce them. So that's what we are trying to do. And by requiring a clear disclosure of how people make their money and what incentives they have, we are hoping to start a conversation where clarity comes to the marketplace.

So you have a Client Relationship Summary in front of you. That Client Relationship Summary has a number of functions. One is to inform. Another is to start the conversation we hope people will have with their broker-dealer or investment adviser. And most importantly for us, it sets a standard against which we can inspect and hold people accountable.

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INVESTOR FOUR: Sure. I had a bad experience. In retrospect, blame myself and, actually I had a background in financial consulting, actually ran a hedge fund, and I elected to -- I had a broker that I used for transactions that I initiated and I elected to give a shot to an investment adviser who I knew and I thought I had done my research on him, but this -- and this is going back a ways. This is going back 15 years. And I ended up finding out that there was significant problems that he had not disclosed to the SEC. It was not an SEC issue, but it was clearly had I googled this person, I would have found out more information and I should have. And it was I probably lost $30,000 or $40,000, but it just taught me the importance of as an investor to do as much due diligence as you can because you can't rely on someone disclosing information to me or necessarily relying on the information that has been received by the SEC.

CHAIRMAN CLAYTON: So one of the things we are doing is we are looking to do something about due diligence for you or making them do some of it for you but also making it easier to do that due diligence. The new Client Relationship Summary that we are proposing, you have to put any disciplinary history that you have right up front. That's one thing.

Separate from what we are proposing, we have created a new database recently that is intended to pick up bad actions in the investment space that are away from the SEC and FINRA. Other things that people -- it turns out that people who aren't registered with the SEC or with the States are much more likely to be bad actors than people who are registered. We have databases for registered people. We don't have -- we didn't have them until recently for unregistered people. We now have them. The next steps I want to get going is there's a number of separate databases for bad actors, we need to be able to search them as one. So we are working on that.

Does anybody else want to share?

INVESTOR FIVE: I have an investment professional that I worked with and he was pushing a product, and he was pushing the product because of the fee structure. And I don't know how many times I told that man "no". He was very aggressive in pushing that product, so I thought I would kind of follow along and see where he would take me in this process. And, you know, at the first time I told him no, so he waited a couple of months, came back to me, oh, this is going to be great for you. I am bringing so-in-so who is an expert in this product to come meet with you for lunch, you know, went that route.

I still was not comfortable with that product because I still did not understand the product and I kept saying no. Several months later I got a call saying this is your last chance to get into this product, you know, blah, blah, blah. So, finally, I had a pretty much come to Jesus with him and fired him because I felt like he was not listening to my needs. But that is an issue with some people -- I mean, with some investors. I think that you have to be strong enough to say, stop, I don't want this. But he did a very good job of trying to sell me that product.

CHAIRMAN CLAYTON: Lori?

MS. SCHOCK: And that's something we see, aggressive sales practices being used and scarcity is always the close whether it's scarcity of time or scarcity of product. And it's good for you, first and foremost, you know, for standing your ground and, quite frankly, in firing him because you weren't comfortable with it and you took action. Unfortunately, though, where we get the investor complaints later is where somebody folded, they succumb to the pressure, and then they bought a product. And someone is always actively selling this. This isn't, oh, I woke up and decided I didn't want this. But he did a very good job of trying to sell me that product. Other things that people -- it turns out that people who aren't registered with the SEC or registered people. We don't have -- we didn't have them. The next steps I want to get going is there's a number of separate databases for bad actors, we need to create a new database recently that is intended to pick up bad actions in the investment space that are away from the SEC.

MS. SCHOCK: Because I've had other situations where a similar situation happened and when the investor actually did the background check on the person, they found out they had six other investment complaints about selling the exact same product he was trying to sell her.

INVESTOR FIVE: So I didn't -- I mean, I looked on the FINRA brokerage site because that's available to the public, you know, to go look at that, but I never thought about complaining to the firm and maybe I should have done that to find out. Does that make sense?


INVESTOR FIVE: I just left the firm.

CHAIRMAN CLAYTON: Or, to us.

INVESTOR FIVE: Oh, yeah. Yes, I should have.
CHAIRMAN CLAYTON: We have a tips, complaints, and referral system which is actually where we get a lot of our cases. It's investors who take the time to say, look, this is what happened to me and we now learn that through the database and filter it, so we are open for business.

MS. BLASS: It is easier to find if you go to investor.gov which is the webpage.

MS. SCHOCK: It's right here in front of you.

MS. BLASS: It's a place where you can easily access the database to put in kind of any tips or complaints you have, and it's also a place where you can access the database to check out if the investment professional you're working with is registered and their history with us, you know, if they have any extreme history or something else. So it's the one place where you can go for all of this information.

CHAIRMAN CLAYTON: Let me just also state an objective that we are trying to get to with the new disclosure requirements is the fees that you would have been charged for that product can't be buried on page 27, which is what happens. And this is -- I want to be clear about this because some people say, oh, you know, a broker-dealer is better or an investment adviser is better. Under the current law, that can happen in both.

and we want to end that. So another way I describe it is I'm putting in $1,000, how much of that money is going to work for me in the market and how much of it is getting frictronied away in fees. I should know. Look, I get it. Somebody should be able to take a few bucks for having to provide the service. I'm okay with that. But I'm not okay with them taking $100 of my $1,000. That is too much. And I should know so I can say, that's way too much.  

MS. BLASS: So in front of you, you have the form, the mockup which is just a mockup. You know, our expectation would be that any firm that you work with would personalize this and give you more to-the-point information about their services. But it's a side-by-side comparison and we estimate that about 80 percent of the firms out there have both brokerage and advisory and so we thought a side-by-side comparison would be helpful to investors like you when you're going in and choosing, you know, who you want to work with.

I just want to mention that you should also have what we call a little feedback flier, a two-pager. I really would appreciate you going over that, give us your thoughts on the form in front of you. You do not have to put any personal information on it; you can just mark it "anonymous" if you don't want to put your contact information on it. We just want to highlight why it's there. And you can also access that online later. You don't have to do it now. You can access it online and submit it online so I just wanted to make sure that you understand why that's in the flyer.

CHAIRMAN CLAYTON: I have a number of questions, but let me see if people came to this roundtable with questions for us. So why don't we -- if you came with particular questions -- I have a number of questions that I will ask, but you came here and took time out of your day with questions for us. There is no question that is out of bounds.

INVESTOR EIGHT: I do have one.

CHAIRMAN CLAYTON: Yeah.

INVESTOR EIGHT: Are the changes you are considering to the standard of conduct for investment advisers, but we are looking at this with the hope of bringing some clarity to see this coming to fruition?

CHAIRMAN CLAYTON: Yes.

MS. BLASS: So let me throw out a question. Do you generally understand the differences between investment adviser and a broker-dealer and having looked at the form?
in front of you, anything about that surprised you about
what you thought about was an investment adviser or a
broker-dealer? Changed your mind about your, you know,
your prior expectations for the services? The fees? The
products? Conflicts? Or is it clear in your mind what
an adviser does versus what a broker does, and does this
form line up to your expectations? Can you parse that
for us?

INVESTOR EIGHT: It may be beneficial to clarify
that for people who are not knowledgeable in this area when they
are handed this information. There's not actually a huge
statement on that.

MS. BLASS: So you're saying if they were
handed this information, it doesn't jump out for you the
difference between the two?

INVESTOR EIGHT: Well, people who are, perhaps,
starting to invest or, again, not experienced in the
world of financial investments of any kind may not
understand the distinction.

CHAIRMAN CLAYTON: And one of the things we're
thinking about -- this may surprise you -- one of the things,
I guess, I'm thinking about is a video where -- I'll just
give it a shot right now. Okay. There are two types of
relationships that you could have with a registered
professional. You can have a broker-dealer relationship
which is a transaction-based relationship where, for
example, I come to you as my broker and I say, you know,
I would like to invest in some telecom stocks and I'd
like to make sure I have some stocks that are
international stocks. Can you pick some, recommend them
for me and do that? That's a broker-dealer relationship
and I'll pay you a commission for doing that. An
investment adviser relationship is I come to you and I
say, I've got kids, I want to save for college, I have
some retirement goals, here's my income, I have a 401(k)
right now, can you take a look at my investments. Give
me your recommendations, or perhaps, I will even give
you discretion in how to invest them. If you do that and
I pay you an ongoing whether it's a quarterly or an
annual fee, that's an investment adviser relationship.
Do you think if I do a video where I explain it like
that --

INVESTOR FOUR: Very helpful.

INVESTOR EIGHT: If people understand the financial
incentive behind both of those scenarios, they would get
a clearer picture as well as to what those people do for
them.

CHAIRMAN CLAYTON: I'm really thinking about
doing the video as part of this and saying, you know, the
financial incentive for you as my broker is to earn a
commission. And you may have other fees that you should be
targeting. Your financial incentive as an investment
adviser is to collect as much money of mine that you
manage, because your fee probably goes up. And you know,
we have some well-aligned incentives which is the better
I do, the better you do. There are some potential
conflicts on the investment adviser. Some investment
advisers get paid other ways, and that's something they
need to disclose. So I am thinking about doing a video.

MS. BLASS: I think we have some comments.

INVESTOR EIGHT: No, I think that is good and I
would just reinforce that thought. I think it would be
very helpful maybe even to the standpoint, if you can, of
giving some examples of if I invest $100,000, I'm going
to pay this percent a year regardless of the number of
trades that are made. And I know you get into problems
when you give too many examples because not every example
is going to be that, but even to the extent that if I'm
with a broker-dealer and I made five trades a year,
what's the percentage. Just so someone understands, one,
there's a minimum you would be paying on this amount for
this type of service. I think we all understand or a lot
of people understand it, but I think the more detail the
better.

CHAIRMAN CLAYTON: Just kind of designing this
on the fly, you could have the introduction we just gave
and then you could have a click where you say, you know,
give us some examples of how they make our money; give us
some examples of how they make their money. Because the
question I have always asked for 25 years of doing this
whether it's a small deal or a huge deal is, you know,
what's happening with the money? If you know what is
happening with the money, you have a pretty good idea of
people's incentives.

INVESTOR FIVE: So are you proposing at the
beginning of the relationship with a financial
professional, they would hand you this document and say,
this is a --

CHAIRMAN CLAYTON: You can't have a
relationship unless you have that document. That is a
prerequisite for taking people's money.

MS. BLASS: And what about changing accounts?
So let's say if you already have a relationship, like
let's say you work with a broker and then you're
interested in an investment or they are telling you about
investment adviser accounts so they wear both hats, again,
they would have to give you this.

INVESTOR FIVE: Yes. And I agree with the
gentleman. I think that at least in my personal
experience, as when I first went into finding an
investment professional, I didn't know what questions to ask so I didn't know that there were too many different roles, right, and I can tell you they didn't tell me that, either. They didn't tell me that, hey, I am an agent, a broker-dealer person, but I'm also doing this as well.

MS. BLASS: What do you think of the questions that we put in the form? And by the way, I am sure you all understand this, but this form is just a proposal.

CHAIRMAN CLAYTON: Right.

MS. BLASS: So we are looking for comments, so that we can hopefully move to an option. One of the things we’ve heard repeatedly is that when people go in front of an investment professional, they don't know what to ask. They should ask something but they don't know what to ask. So with that thought in mind, we put together a few questions as conversation starters. Is that helpful?

INVESTOR FOUR: Yes.

INVESTOR FIVE: Yes.

INVESTOR NINE: I think that is helpful. I think one of the other things that you have in your proposal that is helpful, though, is standardizing the forms that are presented to you. Because, you know, most people when they are getting started, they have no clue. They are thinking more from a saver perspective rather than an investment perspective and, as a result, they get in a lot of investment vehicles that are not really conducive for what they are trying to accomplish. And one of the main ones in my point of view is mutual funds because they have so many hidden fees that an investor really doesn't understand what they are paying for in a lot of mutual funds and then they start throwing things out there like, you know, open funds and closed funds and this and that and who in the heck knows what that means.

MS. GONZALEZ: That's a great point.

CHAIRMAN CLAYTON: I like the way you put that.

MS. BLASS: Can we use that, right? We'll use that line. Can we use that line?

CHAIRMAN CLAYTON: Don't copyright it, okay?

MS. GONZALEZ: Has anyone ever used the mutual fund calculator on this website, by any chance? The fees are actually in the prospectus, but you've got to actually do the math, you know, to get a -- go to the fund prospectus and figure it out.

CHAIRMAN CLAYTON: Well, what we're trying to do is FINRA has helped us a bit but were trying to be able -- you know, I'm going to buy into a mutual fund and I'll go back to $1,000. I'm going to put $1,000 in. How much of that money actually goes into the market and benefits you and how much gets frictioned away? You should know that. To me, if it is too complicated to explain that to you, then the product is too complicated to sell to you. It's kind of that simple. Does that resonate?

INVESTOR NINE: Right. Oh, that resonates.

Yeah.

MS. BLASS: And part of one of the questions we put in there is do the math for me, right. So if you're asking me to invest in a product, then do the math for me. What's it going to cost me bottom line? They should be able to do that for you. If they can't, red flags should be coming out at that point that, perhaps, someone is not being transparent.

INVESTOR FOUR: I apologize, I haven't read the entirety of the rule --

MS. BLASS: It's 1,000 pages.

CHAIRMAN CLAYTON: It's Washington. It's 1,000 pages.

INVESTOR FOUR: My question is is there any recommendation. I don't know if that's something that's in there. When a broker makes a recommendation that they disclose in simpler terms the upfront fees, the mutual -- all of those fees so that I'm saying to you, this is what I want you to invest in and these are all the fees that I'm going to
you're making an informed decision about which type of investment professional best fits your financial needs.

In a situation, for example, you open up one account and the broker or adviser is asking you to open a different type of account, again, you should be getting that information. And then if there are material changes to the firm's document, they would also be required to send this information to you. So it's not like every month you would be getting it because then, you know, you won't know why you're getting it. But if there is a material change, then, you know, they would be required to give it to you.

One of the comments that we got from an investor group that we talked to is, well, if you send it, how am I going to know what's changed? That was, you know, a great comment that we got because, you know, even though it's four pages you are going to sit with the old one and sit there and compare every page? So that was a great comment that we got from a prior investment group.

INVESTOR FOUR: So there is consideration to a summary of the changes in there like you have in the front of an ADV?

MS. BLASS: The ADV is actually a great example.

CHAIRMAN CLAYTON: Does everybody know what an ADV is?

INVESTOR FOUR: I'm sorry. I should have said.

CHAIRMAN CLAYTON: No, no, that's fine.

Investment professionals have to file with us a rather lengthy form that describes their business in some detail. And one of the great things that came out of these investor roundtables is that's wonderful if there's all that information, but I don't know what's changed so do I have to read it from scratch every time?

MS. BLASS: And it's really a hard document. You know what it is, I mean, if you've seen it.

INVESTOR FOUR: I've seen one.

MS. BLASS: It's really a really really hard document to parse your way through and get to the meaty stuff that we all like to view, you know, as an investor. But we also want to point out one of the things we're looking for with this form is how can we make the design not just the content but the design of it more interactive, more useful. You know, what we put together is the paper format. We would love ideas on how to make the design like if it's coming to you electronically like a disclosure where you can click through different content. So any ideas that you have for us about that, we would definitely appreciate it.

INVESTOR EIGHT: Why not an electronic scorecard where you can compare various financial professionals so you could weigh whatever measures you want but, you know, obviously, that would be helpful if you're looking at more than one and most people should look at more than one investor, obviously.

MS. BLASS: So a comparative feature variable to put in different people?

INVESTOR EIGHT: Well, it would kind of mirror -- I mean, this is a very good form. It is concise and it's easy to read and clear. But unless you can use it to kind of compare and contrast, you know, there may be some other way.

CHAIRMAN CLAYTON: So I am hopeful that by reducing this to no more than four pages and requiring it to kind of compartmentalize these things, that making comparisons will become much easier and that either we or others will design products that does what FINRA's product does which is kind of scrape the information and enable you to make a comparison.

What's really been fascinating as I watch this industry -- I love markets. I've watched this industry change, then, you know, they would be required to give it to kind of compartmentalize these things, that making easy to read and clear. But unless you can use it to format if you could get side-by-side, easy to read, you're looking for a place where investors get harmed, it's where there's capacity where you can't make comparisons. And it's been fascinating to watch the mutual fund industry particularly in the index area and the way competition has brought these way down so more of the investor's money goes to work. I am all for competition because I think if you have fair competition, the investor benefits in the end from that.

INVESTOR FIVE: So to your point about the form or about the brochure, I know that the advisers have to provide a brochure to their clients and most clients, I'm one of them, don't read that brochure because it's so cumbersome and there's a lot of fluff in there. So what we want as an investor is just get straight to the point. And I think that something like this I would think this format if you could get side-by-side, easy to read, direct scripts like a comparison, short, then maybe, in my opinion, it would be more beneficial.

MS. BLASS: So one of the things is, you know, advisers and broker-dealers and other folks in the financial service industry, they have to provide a lot of disclosures and there are two purposes to the disclosure. The primary should be to inform investors so they can make an informed investment decision, right, that's the basis of our disclosure. The secondary is we all know it, litigation, right. Unfortunately, because it's all in a paper or PDF format, it all merges together and you get
this really lengthy thing that's hard to read. So we were mindful of that when we designed this form that is short and concise and comparative. Hopefully, you think it's short. If you don't, please let us know. But, also, we can take technology, varied technology for disclosure and have a layered disclosure and maybe the stuff that you want and is important can rise to the top and other stuff, which is important for other reasons, can be more down the chain, right.

CHAIRMAN CLAYTON: [Investor 7], do you have a question?

INVESTOR SEVEN: Yeah. I just realized when you're talking about this. When I got started having to deal with my own money, I don't want to know anything about how to deal with it. I just want someone to take care of it for me. And I want to know that if I have, let's say, $100,000 in the beginning and I need 'X' more to live on, you know, what are they going to get for me in a year? And I don't really want to -- I just really want to know what the "end thing" will be. I don't even necessarily care. I was listening to y'all and I've have many different kinds of relationships over the years. At this point, I am with an investment adviser, but I wasn't earlier. I didn't realize it, but I didn't care. I just wanted someone to take care of it. And I don't know if I am totally unique, but I never -- I still don't want to know what's going on. I just want someone to take care of it.

CHAIRMAN CLAYTON: I can tell you you are not unique. And, Lori?

MS. SCHOCK: Yes, you are not unique in this. And part of the challenges, though, is the end game is going to be impacted by the fees. That is sort of the number one -- you know, as the Chairman has said, how much money is working for you in the markets. And, you know, in one year, no one is going to project what's going to happen in a year unless you're in a savings account or something like that. And if an investment professional in our area says, I can tell you exactly what you're going to have in one year, let us know because that's just not the way this works. But the fees will impact the end game and so that's part -- I hear what you're saying. It's the look, that's why I'm hiring the professional. I want you to just take it over and do it and make sure I have enough money in retirement. You know, that's what the game is. But all of these different things that we've talked about with this disclosure are going to impact that and so this will also give us the tool to examine against and enforce against if there are sort of bad actors in this area. But I don't know. I can't turn a blind eye to the fees -- where you can pretty easily get a sense of where one percent is high, low, in the middle, et cetera, because that should inform your choice. You know, why are you more? Why are you less? You know, what's happening?

INVESTOR SEVEN: I went and calculated it last night before I came because I didn't know, and I think I'm paying like 1.55, maybe. I'm not exactly sure, but I didn't know what that is a matter of that person having to tell you how much it's going to cost you to have them do that for you because that cost is going to have a significant effect on the overall outcome. And I think they ought to explain that to you.

INVESTOR SEVEN: Okay. Is there an industry way of knowing -- I think he might've told me at the beginning what his percentage was, but I didn't know what that meant. Is there a way to know whether someone tells you it's one percent or 1.5 or whatever it is whether it's a good -- I hate to say a "good deal" -- whether you are being taken advantage of or what? I don't really know any of this.

CHAIRMAN CLAYTON: And going back to [Investor 8]'s point, what we want to get to is a place where you know what the industry is charging, that you have a sense of
look at that. That's the first point.
The second point is I'm a huge fan of trust but verify.

INVESTOR SEVEN: Of what?
MS. GONZALEZ: I'm a fan of trust but verify
which means you want to turn it over to somebody and he'll just take care of it, but please read your account statements. You should be getting account statements if you're working with a broker and take a look at the account statement and what is there is what's supposed to be there is there, in fact. So it's important to open up that envelope or open that email that you receive and take a look at that account statement.

MS. BLASS: And I would just add one more point to that. So an investment adviser, you are paying sort of a fixed percent always off the top of your investment with the idea being that they are providing you this, I am giving you my money and they run your portfolio, they run your trades, they don't bother you, they just tell you at the end what they make, right. So if that's a service you value, that is what an investment adviser is supposed to do for you. And, again, you know, trust but verify is critical to that. Go to investor.gov and check that person's disciplinary history or whatnot and make sure you are with a good financial professional.

But also look at your investment. To the point that Lourdes was making if over that period of time you are essentially a buy and hold investor like your investments really are not changing, you should be looking at whether that account is the right account for you. So, again, to the point of our case, let's say you have 15 mutual funds in your account and you like it and you don't want it changed, is an investment advisory account the right account for you? This is where you look at the service but you also look at the type of investor that you are just to make sure that you are marrying the two together. But, again, you might choose to stay with the investment adviser because you just like not to worry about it. That's important to have that, you know, out there as long as you understand what you are paying for.

INVESTOR FOUR: Is there a -- I love your point there. Has there been any consideration given to maybe in this disclosure incorporating two things, specifically requiring investment advisers to provide a link to the calculator? Let's just say if I want to put in a hypothetically ten percent return and my investment adviser is charging one-and-a-half percent over a 20-year horizon, this is my starting and my ending and you just know it's there and choose to link to it from the investment adviser part of that.

And, secondly, I love your examples as people are -- I know there's been the whole huge shift in investment advisers and for some people that's good because they have to make their own determination, but I think some people don't know that they may have switched to an investment adviser and they may be paying fees for an account where it's not appropriate, your example being a great point to maybe give some examples of some cases where an investment adviser may be an appropriate account or may not be. But I think you stated it very well.

CHAIRMAN CLAYTON: No, I like that a lot. I like the idea of having a video with the fee things and a scenario where -- it would appear an investment adviser relationship would be better for you in a scenario where an investment brokerage relationship may be better for you, just as an example. You know, you are always worried in government that you're not getting -- you know, that you're going to be wrong one percent of the time. I would rather be wrong one percent of the time than have people in the dark.

INVESTOR FOUR: Very good point.

INVESTOR TEN: I have a follow-up to the formatting and maybe it's just because I am of a younger generation and I like words because I'm a lawyer so I do like words, but it seems a bit wordy. So I was wondering if there was any discussion about maybe creating like a pictorial or an info-graph, something similar to what you would see on social media, especially for those that are younger just because, I mean, I think it's short for what it is trying to do but maybe for people who are more visual be given that option especially if you're going to do any type of sharing on the website. It just reads better when it is put in an informal format.

CHAIRMAN CLAYTON: We are very happy to -- we put this out as, hey, this is what we think it would look like in terms of the traditional forms. As long as the information is there and readily accessible and short, I am happy to have it in whatever format people think is easily readable.

INVESTOR TEN: And my second question, how is this going to be enforced? Is it going to be one of those things where you put up like in a doctor's office that says you have a right to get this notice, or, is it going to be required to be given and somebody has to sign off on it? And does it include electronic? What's going to be the enforcement behind making sure that it has gotten done?

MS. BLASS: So it's going to be a regulatory requirement in the same way as advisers, for example,
they are required to give you the Form ADV and this would be the same. If they don't give you that document at the instances where they are required to give it to you, that's examination and enforcement right there. So we will be examining the records. Our proposal does not require the investor to sign for a document. We asked whether this should be done, but our proposal did not go out with "and you have to sign for it" like the HIPAA notices or whatnot you get in the doctor's offices with the idea the experience is if someone is just shoving some piece of paper in front of you to sign, then that becomes their relationship just to sign rather than sit and read and have that conversation, and we are asking for comment on that. But they will have to give it to you and if they are not giving that document, that will be a violation of the regulation. I mean, when adopted.

INVESTOR TEN: Sorry, one more follow-up. Will there be cause for them to have a private right of action if it's not given or it would just be a regulatory violation?

MS. BLASS: So we are not change -- like this regulation, if and when adopted if adopted as-is, does not change any private rights of action, you know, currently standing. But we would have enforcement authority against a broker or an adviser or a dual registrant that does not hand you that document.

INVESTOR ONE: I would just like y'all to consider having people to sign it because -- I come from an educational kind of point of view -- children who have individualized educational plans are always told, are always given what their rights are but no one in the IEP meeting actually goes over that multi-page document with them. The parent is expected to know that before they walk into the meeting and, again, it is a very -- even though it is simply stated, it is not -- the IEP is not for IDEA. So it would actually -- by having someone sign it, you know, that the action has been done and it hasn't just been handed to them without anyone going over it with them. Does that make sense?

MS. GONZALEZ: I've been in a lot of these IEP meetings so I know what you're talking about. But the document that is signed in that situation is what's negotiated, right?

INVESTOR ONE: Correct. That's the IEP. What I'm talking about is at the very beginning of that meeting, you are given the IDEA rights, but no one necessarily goes over with you. But as a parent, you are expected to understand what those rights are. And what I'm suggesting is that that form should be signed in an IEP meeting. Of course, what is negotiated out of that

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is the IEP; it's the work that's going to be done for that child. But no one ever goes over that with parents and it's a very complicated --

MS. GONZALEZ: A very thick document. No one goes over it.

CHAIRMAN CLAYTON: Yeah. You are not the first person to say hey, you know, let's make sure this happens and it may be that people, you know, are a certain level of computer literacy don't view signatures as important anymore, but that doesn't mean we shouldn't find some way, some --

INVESTOR ONE: Some check box.

CHAIRMAN CLAYTON: Yeah. Exactly.

MS. BLASS: And we actually also got the comment not just the signature at the end because that way, it's like the info notice where someone is just shoving it across the desk at you, but like in real estate where you are initialing next to the main disclosure so it will be a discussion, you know, you have a discussion and you initial next to it acknowledging receipt of that information so not just at the end but throughout initials would be required, I think, was another suggestion. I see some heads nodding.

INVESTOR SIX: I think that would be very helpful to have each section so you know that you were sent this part or, at least, this part was explained and then initial it and go on.

INVESTOR ONE: I think it -- I'm sorry. I just think it would bring in that layman's vocabulary that we can't all be experts in every field of what we do in our lives so that people have the confidence of what they're walking in to from a layman's perspective and not necessarily from a financial investment perspective.

MS. SCHOCK: Are you contemplating both the professional side as well that I have explained this to you and then you sign it?

INVESTOR ONE: I mean, that's a good idea as well. I mean, it depends on -- I don't know your standards of accountability, but regulations are complicated, right, so the easiest way to bring it in to layman's terms so that people really understand how they are walking through a particular process, I find that beneficial and I find that when both parties are mutually understanding of one another, that's when you get your work done.

CHAIRMAN CLAYTON: This will not be a success if this form just goes in the file.

INVESTOR ONE: Right.

CHAIRMAN CLAYTON: Then we've spent a lot of time and we haven't come up with -- we need something
that gets the consumer to the point where they can have
the conversation that they should be having, the kind of
conversation we are having with their investment
professional. That's the objective.

MS. BLASS: And also it needs to be -- for it
to be a success, it needs to stand on its own. Like if
you need to, I mean, you can read it and have questions
about it, but if it needs to be explained, then we have
not met the goal that we are looking for. Again, you can
have questions because it is a very complicated field, we
acknowledge that, but you should be able to walk away
with a, I am comfortable that I got information that I
can now move to the second layer on, not that I -- this
is just so opaque for me that I need someone to walk me
through every single item. The plan in motion is to
understand the form.

INVESTOR FOUR: I just have one question. Maybe
it's clear to everyone else, but I think the disclosure
document does a good job of explaining when a broker-
dealer has a best interest obligation and how that
impacts the overall relationship. I'm not sure I
understand totally or with any real understanding if I'm
dealing with on a particular transaction what the
broker's obligation to me is under the best interest rule
versus the investment adviser's under the fiduciary rule

How it kind of -- how that may or may not differ or how
they're going to deal with me on an individual
transaction. For instance, if I buy a mutual fund and
there are a couple of mutual funds that are equally
suitable for me but may have different fees, under the
best interest can a broker sell any of those to me? Is
that consistent with that?

CHAIRMAN CLAYTON: So let me try and say what
we're doing here which is I talked about the different
type of model which is in your case, hey, put me in some
mutual funds that do this for me, okay. In both cases
whether it's an investment adviser or a broker-dealer,
you are not allowed to put your interests ahead of mine.
So it's the same fiduciary principal you're not allowed
to put yours ahead of mine. In the broker-dealer
context, you don't have to look across my portfolio and
say, hey Jay, you know, I'm not sure that makes sense
for you from your overall objectives. It's that you can,
but it's not part of the relationship. But what you
can't do is say, hey, you know, these are both suitable
but I'm going to put you in the one that makes me a whole
lot more money. That can't be the basis for your
decision.

INVESTOR FOUR: Okay. Good.

CHAIRMAN CLAYTON: And as an investment
adviser, you shouldn't be able to do that, either.

INVESTOR EIGHT: Right.

CHAIRMAN CLAYTON: Now, just to be clear, this
is not well understood. An investment adviser could put
you in one where they got a fee rebate if they told you
that. That's the way the law works today. That's one of
the reasons why we are increasing the level of fee
transparency across the board.

Is it time to wrap up? Sorry, I could do this
all day.

INVESTOR EIGHT: I just have a quick question, how
many of these roundtables are you doing?

CHAIRMAN CLAYTON: So we are doing a total of
six. If I can give full disclosure, I am participating
in four of them and we are doing them around the country.

Do you think they are a good idea?

INVESTOR EIGHT: Yeah, I do. I was just curious as
to whether there was more or less consistent kind of
feedback you're getting at these.

MS. BLASS: You're the second one, yes, but
you've had some new ideas also like the calculator, the
cost calculator and some other things.

CHAIRMAN CLAYTON: The cost calculator, the
video, the I'm coming at this from a savings perspective
not an investing perspective, how do we make sure that
people think about it in that way. You know, saving
products don't have drag, they have an interest rate. It
may not be the interest rate you want, but it doesn't
have that kind of fee drag, at least, you know, we hope
not. So these are very helpful. I know you folks all
have other things to do with your day, so I appreciate
you very much. I'm sorry.

INVESTOR SEVEN: I am a graphic designer, and you
need a graphic designer. I mean, it's all -- the words
run together, and even if it's more than these pages that
you are trying to keep it to, if it makes it easier for
things to stand out, we'd be more willing. And your
earlier question about updates, just do it in red. It
always lets everybody know. If there's something red on
here, it's a new thing. But there's got to be a way.

MS. BLASS: If you have other ideas for us on
how to make the design better or more interactive or pop
out, we definitely appreciate your feedback.

INVESTOR SEVEN: Okay.

MS. ESAU: All right. So I have an opportunity
to do closing remarks. All I would like to say is thank
you very much for coming. This event can only be
successful if we have a great panel, which, we did, and
we have people like you who show up, and who
participate, and we have very robust dialogue. So I would
like to thank Dalia, Chair Clayton, Lori, and Lourdes. And they said the bar was set pretty high because the prior roundtable was in Houston, but I think we did a pretty good job.

So thank you, again, very much for participating. Thank you.
(Whereupon, at 11:33 a.m., the roundtable was concluded.)

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