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 July 17, 2018 Regarding Standards of Conduct for Investment Professionals

Date: August 6, 2018

On July 17, 2018, SEC staff held a roundtable at the Philadelphia Regional Office. Approximately 28 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 Philadelphia roundtable discussions. The discussions at the roundtable were intended to be conversational, 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.
PARTICIPANTS:

SEC PARTICIPANTS:
1. G. Jeffrey Boujoukos, Regional Director
2. Lori Schock
3. Sarah ten Siethoff
4. Emily Westerberg Russell
5. Cynthia Hoekstra
6. Parisa Haghshenas

NON-SEC PARTICIPANTS:
7. Investor 1
8. Investor 2
9. Investor 3
10. Investor 4
11. Investor 5
12. Investor 6
13. Investor 7
14. Investor 8
15. Investor 9
16. Investor 10
17. Investor 11
18. Investor 12
19. Investor 13
20. Investor 14
21. Investor 15
22. Investor 16
23. Investor 17
24. Investor 18
25. Investor 19
26. Investor 20
27. Investor 21
28. Investor 22
29. Investor 23
30. Investor 24
31. Investor 25
32. Investor 26
33. Investor 27
34. Investor 28

NON-SEC PARTICIPANTS(CONT.):
35. Investor 13
36. Investor 14
37. Investor 15
38. Investor 16
39. Investor 17
40. Investor 18
41. Investor 19
42. Investor 20
43. Investor 21
44. Investor 22
45. Investor 23
46. Investor 24
47. Investor 25
48. Investor 26
49. Investor 27
50. Investor 28

C O N T E N T S

PAGE

5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26
27
28
29
30
31
32
33
34
35
36
37
38
39
40
41
42
43
44
45
46
47
48
49
50
51
52
53

P R O C E E D I N G S

MR. BOUJOUKOS: If I could just have your attention for one moment, I'm going to kick off our roundtable today. First, welcome to the Philadelphia office of the Securities and Exchange Commission. My name is Jeff Boujoukos and I am the director of the office. Before we start, I have to make a standard disclaimer for all the SEC personnel that are in attendance today. We talk here today on behalf of ourselves. The statements made today expressed are individual views and not those of the SEC, the Commissioners, or other members of the staff. Why are we here today? As you're likely aware, in April the Commission proposed for public comment a significant rulemaking package that would; one, require broker-dealers to act in the best interest of their retail customer; two, reaffirm and in some cases clarify the fiduciary duty owed by investment advisers to their clients; and three, require broker-dealers and investment advisers to clarify for all retail investors the type of investment professional they are and key facts about that relationship. This rulemaking, often referred to as the best interest rule, seeks to align investor expectations with legal requirements, while preserving consumer choice and access to investment services and products. It's designed to serve mainstream investors like all of you and...
that's why we're here today to talk about it. SEC Chairman Jay Clayton recently remarked that, quote, it has been incredibly informative and gratifying to talk with investors in their own backyards about their expectations regarding relationships with their investment professionals. Our proposed rules are intended to match our rules with the investor expectations, and it is crucial that we hear directly from the investors themselves on how we can best ensure that result.

So for today what are we trying to accomplish?

This roundtable discussion is an opportunity for you to discuss with the SEC staff in attendance your expectations regarding relationships with your investment professionals. Our goal is to hear from you so that we can enhance retail investor protection and promote choice and access to a variety of investment services and products. Roundtable discussions like this one here today have already taken place with retail investors like you in Houston, Miami, Atlanta and Washington D.C., and soon in Denver.

By way of introduction at the end of the table here from the SEC, Lori Schock, sitting second from the left, is Director of the Office of Investor Education and Advocacy for the SEC. She's been in this position for approximately nine years. Before that she was the associate director of FINRA's Investor Education Foundation and Office of Investor Education. And Lori's group does a number of wonderful things for investors, and I'm going to throw out a little pitch for her group's Website, investor.gov. I'm going to give you all the credit for that. But it's a wonderful resource for all of you. It answers a lot of questions about investing and it's a resource that I myself personally use and recommend to my friends and people who ask me about investing when I go out and I'm sitting at the ballpark or I'm sitting at a cookout.

At the table is also Sarah ten Siethoff, Associate Director Division of Investment Management for the SEC. She's seated second from the right. In this role she leads the rulemaking office for the division developing recommendations for rulemaking and other policy initiatives relating to funds and investments advisers under the federal securities laws. She's served in a number of roles in the division since 2008.

To her immediate right is Parisa Haghshenas. She's a Branch Chief, Division of Investment Management for the SEC, and she gives interpretive advice to the divisions on how rules apply.

And then last, but not least, is Emily Westerberg Russell. She's Senior Counsel, Office of Chief Counsel for Sales Practices in the Division of Trading and Markets. In this role she works on a broad range of broker-dealer regulatory matters, including broker-dealer sales practices, advice activities and related fiduciary issues.

So this may seem like a lot of titles and names, but it's a wonderful resource for all of you. It answers a lot of questions about investing and it's a resource that I myself personally use and recommend to my friends and people who ask me about investing when I go out and I'm sitting at the ballpark or I'm sitting at a cookout.

We have a court reporter. It's going to make her job so much easier -- if we don't do this it's going to be impossible actually. If you will state your name just before talking so that we can get this on the record. When the transcript is put into the rulemaking, your names will be redacted out. But it just helps us to have the conversation flow for this and that's why we're having it as an on-the-record discussion. So that, you know, the industry knows how to reach us when we put out proposed rules. They know the rulemaking process and how to put in comments. We have a hard time getting comments from retail investors. So, again, thank you for taking time out of your busy schedules today to participate with us. You have the rulemaking divisions here. So why don't we go ahead and get started. Sarah, you want to kick us off?

MS. TEN SIETHOFF: I think actually --

MS. SCHOCK: Thank you, Jeff. And thank you all for being here. This is our fifth roundtable. The last one takes place next week in Denver. We have had robust discussions with investors across America and I expect nothing less here in the City of Brotherly Love.

A couple of housekeeping items before we get started. In case of an emergency, should we need to evacuate the room, if you will exit this door, turn to the right, there is a stairwell. Also, in that same direction should you need to use the restrooms, they are also down to the right. Please just -- the door is taped open. The handle may not turn, but just push it and that will get you into the restrooms. We do have coffee, water and some refreshments over here should you feel that you need some extra nourishment.

And then this is an on-the-record discussion.
broker-dealers provide advice in an investor’s best interest and don’t place their interest ahead of the retail customer's interest. There's a series of obligations underlying that rule to promote those types of recommendations.

As you provide comment today on the form and how it helps you understand your relationship with the broker-dealer it will be very useful if you keep in mind that rulemaking and not the current state of affairs. We understand how the world works now, but we really want to know how does it help you if the rule was to be adopted as proposed. So keep that in mind as you comment on regulation best interest. Focus on that proposal, as opposed to the current state of the world.

MS. TEN SIETHOFF: So this was a pretty long rulemaking package. We're going to focus on the four pager that came out of it, not the thousand pages that the SEC published relating to it. And another important piece of that package is this relationship summary form that you all got an example of. So as Emily mentioned, one important part of the rulemaking is enhancing the standard for broker-dealers in the care that they need to provide for giving investment advice. But another key part is this relationship summary. And the goal of that form is to really help you understand what is the difference between...

an investment adviser and a broker-dealer, how might their services differ, how might the way they get paid differ, what incentives do they have when they give advice to you. And also to understand that they could have a disciplinary history and to arm you with information. So there's a series of questions at the end to have a conversation with whatever financial professional you are looking at, whether there are multiple and you're shopping around or it's one that -- I know a lot of people sometimes start with their financial professional, I know my mother-in-law has this, because it was a friend in the family, they used it. But still they want due diligence when they go in. What type of questions could you ask to start that conversation and find out more about that person.

So I think that is the key goal of this forum and we're really excited to have you here to give us some feedback on where we might have some good ideas in here that we should make sure we keep because this is just a proposal. So we're in the comment period into August on this and then we have to go through this process all over again to create a final version. So this is a great time to get your feedback on what you like about this, what you don't like about it, what information you wished was in it, what information you think why you are spending page time on this, this is not useful to me. So that I think is what we're hoping to get from you today.

So I thought just one way we might start out just to get a sense of the room is do you know what kind of investment professional you use right now? If I could get a show of hands, how many people use an investment professional?

(Hands raised.)

MS. TEN SIETHOFF: So a lot of people. How many people know whether there's -- and it's okay if you don't know, so I'll ask this three ways. How many people, you know that the person you use is a broker?

(Hands raised.)

MS. TEN SIETHOFF: How many of you know that the person you use is an adviser?

(Hands raised.)

MS. TEN SIETHOFF: How many of you have no idea whether the person you use is a broker or an adviser?

(Hands raised.)

MS. SCHOCK: And you're not alone. That's the thing. That's why we're spending time on this.

MS. TEN SIETHOFF: So I guess just to start it off and then hopefully we'll get free-flowing in here. One of the places I wanted to start actually is near the end of the form. The very back. So you guys all have this.

MS. SCHOCK: It's marked Appendix C. It's a two-page, front and back.

MS. TEN SIETHOFF: One with two columns. One on broker services, one on adviser. If you can turn to the very last page of it. I know it's funny to start at the end, but I was hoping to start here.

There's a section called additional information and this is actually where we ask and raise the prospect that the person you're dealing with could have disciplinary information. How many of you have ever looked up for the person you work with whether they have a disciplinary event?

(Hand raised.)

MS. TEN SIETHOFF: We've got one. Did you find this a good way to highlight? Because I think -- we do think this is an important part of this. It's not just understanding the services, but understanding that's something that you might look at.

Was this helpful for people or would you rather there be different types of information about if they have disciplinary information?

INVESTOR ONE: My name is INVESTOR 1. I'm not the owner of the [Redacted organization name]. But the second was very confusing. Too many Websites there and I'm not sure which is which.

MS. TEN SIETHOFF: Too much going on there.

INVESTOR ONE: Yeah. There's investor.gov.
BrokerCheck, our website, samplefirm.com. I'm just not sure what -- you know, what all the difference is.

INVESTOR ONE: I have a question about that they were on it. Fortunately nobody was on it. That was middle paragraph for additional information about our MS.

INVESTOR THREE: Yeah. And by contrast, getting you to the site?

INVESTOR FIVE: I was going to piggyback in a way because I'm always a proponent of bullet points. So maybe, like you said, these things need to be separated out and there might be a little bit of an explanation about what each one provides.

MS. TEN SIETHOFF: Do you think overall was the information in this relationship summary too dense? Was there too much there and not enough sort of white space to get through it or do you think it was about right?

INVESTOR TWO: No, I agree not enough white space for me.

MS. TEN SIETHOFF: INVESTOR 3?

INVESTOR THREE: I think that was a comment I was going to make just generally. Any time you have a four-page form and you're dealing with certain percentage of the population, let's say, are not going to be sophisticated investors necessarily. I think you have to be wary about their willingness to invest the time to get through that. So even if you retain the four-page form because there is important disclosures in here for those who want to delve into it, maybe some type of very high-level executive summary that can really drive home the most important points. Like I think the point about checking your broker's disciplinary record. As you saw from the show of hands, a lot of people don't do that. That's something that people should do. So maybe highlighting that earlier in the summary.

MS. RUSSELL: To follow up on that, I mean do you think that there's points on here if you were to do a condensed summary, do you think the themes on here, so fees, conflicts, general services provided or would you -- are there some that you think are more important?

MS. TEN SIETHOFF: What would you highlight if you wanted to create more white space?

INVESTOR THREE: I think all the things you just mentioned are pretty important. Actually I think you got the right themes.

INVESTOR FOUR: I have a question about that middle paragraph.

INVESTOR FOUR: Just getting me there to see if they were on it. Fortunately nobody was on it. That was fine with me. That was fine.

INVESTOR FIVE: Just quickly, I'd like to know what's in place now that this proposal is replacing?

INVESTOR FIVE: Disclosure.

INVESTOR FIVE: Do you mean on disclosure or do you mean on the standard of care for disclosure?

INVESTOR THREE: I think all the things you just mentioned are pretty important. Actually I think you got the right themes.

INVESTOR ONE: I think that's fine where it is, personally.

INVESTOR TWO: I was going to piggyback in a way because I'm always a proponent of bullet points. So maybe, like you said, these things need to be separated out and there might be a little bit of an explanation about what each one provides.

MS. TEN SIETHOFF: Do you think overall was the information in this relationship summary too dense? Was there too much there and not enough sort of white space to get through it or do you think it was about right?

INVESTOR TWO: No, I agree not enough white space for me.

MS. TEN SIETHOFF: INVESTOR 3?

INVESTOR ONE: I think that's fine where it is, personally.

INVESTOR TWO: I was going to piggyback in a way because I'm always a proponent of bullet points. So maybe, like you said, these things need to be separated out and there might be a little bit of an explanation about what each one provides.

MS. TEN SIETHOFF: Do you think overall was the information in this relationship summary too dense? Was there too much there and not enough sort of white space to get through it or do you think it was about right?

INVESTOR TWO: No, I agree not enough white space for me.

MS. TEN SIETHOFF: INVESTOR 3?

INVESTOR ONE: I think that's fine where it is, personally.

INVESTOR TWO: I was going to piggyback in a way because I'm always a proponent of bullet points. So maybe, like you said, these things need to be separated out and there might be a little bit of an explanation about what each one provides.

MS. TEN SIETHOFF: Do you think overall was the information in this relationship summary too dense? Was there too much there and not enough sort of white space to get through it or do you think it was about right?

INVESTOR TWO: No, I agree not enough white space for me.

MS. TEN SIETHOFF: INVESTOR 3?

INVESTOR ONE: I think that's fine where it is, personally.

INVESTOR TWO: I was going to piggyback in a way because I'm always a proponent of bullet points. So maybe, like you said, these things need to be separated out and there might be a little bit of an explanation about what each one provides.

MS. TEN SIETHOFF: Do you think overall was the information in this relationship summary too dense? Was there too much there and not enough sort of white space to get through it or do you think it was about right?

INVESTOR TWO: No, I agree not enough white space for me.

MS. TEN SIETHOFF: INVESTOR 3?

INVESTOR ONE: I think that's fine where it is, personally.

INVESTOR TWO: I was going to piggyback in a way because I'm always a proponent of bullet points. So maybe, like you said, these things need to be separated out and there might be a little bit of an explanation about what each one provides.

MS. TEN SIETHOFF: Do you think overall was the information in this relationship summary too dense? Was there too much there and not enough sort of white space to get through it or do you think it was about right?

INVESTOR TWO: No, I agree not enough white space for me.

MS. TEN SIETHOFF: INVESTOR 3?

INVESTOR ONE: I think that's fine where it is, personally.

INVESTOR TWO: I was going to piggyback in a way because I'm always a proponent of bullet points. So maybe, like you said, these things need to be separated out and there might be a little bit of an explanation about what each one provides.

MS. TEN SIETHOFF: Do you think overall was the information in this relationship summary too dense? Was there too much there and not enough sort of white space to get through it or do you think it was about right?

INVESTOR TWO: No, I agree not enough white space for me.

MS. TEN SIETHOFF: INVESTOR 3?

INVESTOR ONE: I think that's fine where it is, personally.

INVESTOR TWO: I was going to piggyback in a way because I'm always a proponent of bullet points. So maybe, like you said, these things need to be separated out and there might be a little bit of an explanation about what each one provides.

MS. TEN SIETHOFF: Do you think overall was the information in this relationship summary too dense? Was there too much there and not enough sort of white space to get through it or do you think it was about right?

INVESTOR TWO: No, I agree not enough white space for me.

MS. TEN SIETHOFF: INVESTOR 3?

INVESTOR ONE: I think that's fine where it is, personally.

INVESTOR TWO: I was going to piggyback in a way because I'm always a proponent of bullet points. So maybe, like you said, these things need to be separated out and there might be a little bit of an explanation about what each one provides.

MS. TEN SIETHOFF: Do you think overall was the information in this relationship summary too dense? Was there too much there and not enough sort of white space to get through it or do you think it was about right?
both broker-dealers and investment advisers. But then as part of regulation best interest there will be additional disclosure more inline, it’s not as specified as Form ADV and we hope it won’t be as long, personally, as Form ADV. It keys off key information. It goes into a little bit more detail on these themes that you have presented on this form. So the Commission would like to see brokers give more specific information to retail investors about the services they’re going to be getting from their broker-dealer, the fees that they would be charging, when they’re acting if they’re a dual registrant, in the case here, whether they’re acting as a broker with you or as an investment adviser. That type of information would be required by a broker-dealer upfront.

MS. TEN SIETHOFF: And that is one distinction with this type of document. So this is meant to be a comparative. It’s meant to be given at the very beginning of a relationship where you're trying to choose. Not just should I go with this person, but should I go with a broker or an adviser and how do they differ. So all of what we put out has this comparative feature about it. The Form ADV is just here’s my business, here’s my conflict. It’s not comparative at all and it’s not meant to be just an upfront document. As I mentioned, they have to deliver it every year an updated version of that to you. So that

INVESTOR SIX: A quick intro, I have been doing pro bono work on investor education for 20, 25 years. The vast majority of retail investors really don't have enough knowledge to understand what this form is. And so to the extent that you can on page one actually refer people to the additional information on the back page and help people understand what some of these terms mean, then they can read the form better.

The second is to support what INVESTOR 3 said, the simpler, the better. So when it comes to, for example, lending standards, the concept of an APR, it’s one number and that one number helps people understand how good this loan is. So to the extent that you can have a brief summary that actually talks about what the conflicts are, what type of an account it is and what are the fees specifically for the services offered, that kind of summary on page one will actually help investors really understand.

Because people don’t read four pages.

And the last thing I’ll say is to support what Sarah just said. I personally just opened a private client account with Goldman Sachs and bought a structured investment. The disclosures that came to me from Goldman Sachs were over 200 pages. And so to the extent that you can stop that because that actually prevents investor interest and really understanding more. If something like this can replace the 200 pages and then you have access to the 200 pages if you want them, that’s a better system.

MS. TEN SIETHOFF: So just one follow-up question. So you said the shorter the better, the more high-level, simple language so people can really understand it. So is there information in here that when you read this you were thinking I would just drop this point? This is really not at a level -- you know, you need to focus on just these other key things?

INVESTOR SIX: I think the information in the form is all relevant and I just do exactly what INVESTOR 3 was talking about. A condensed summary upfront that essentially gives you just the three or four key things and then the rest can be follow-up or detail that adds on. So if this is actually done electronically, which you absolutely should because nobody reads paper these days, you can have hyperlinks. So have that little summary and have hyperlinks to things that take you to more detail. And that way you can essentially keep the front as simple as possible.

MS. SCHOCK: INVESTOR SEVEN, I think you were next.

INVESTOR SEVEN: Thank you. I would emphasize or maybe it’s even redundant to what was just said. This is a public document. You asked the group here as you must have done in your other roundtables how many are investment advisers, how many are broker-dealers. Everybody in this room seemed to know the difference between those two words, those two phrases. Not everybody out there knows those. So maybe there needs to be a little box or something at the very beginning which summarize the essence of the difference between a broker-dealer and an adviser. Now I don’t know how many of those professionals have a plaque on their wall saying I’m a broker-dealer, I’m not an adviser, I’m both. So it’s not always clear to the client who they’re dealing with. So there may be some -- if I go to Investopedia I’ll probably find a four-sentence description, but it ought to be there.
MS. RUSSELL: And reading this form, do you get a sense of what the differences are and do they line up with your understanding?

INVESTOR SEVEN: Not totally. It seems to me somebody gives me advice, you pay for it. That applies to both of these in different ways. I think I can ferret out the difference. I know who I deal with personally. I'm not sure that many of the students that I deal with would know right offhand if they're dealing with a broker-dealer, working with a broker-dealer or investment adviser. Advice and money, they're all there.

MS. SCHOCK: INVESTOR 8.

INVESTOR EIGHT: Thank you. My concern is right at the top you see on the four pages this is a summary for dually-registered people. And I don't know the percentage of your broker-dealers and advisers who are both. So my concern as a consumer going in would be well, if I'm only going to see a broker-dealer or -- like right at the get-go how do I know I could go with A or B or maybe both. So it's like I have to make that choice and this it looks like it's only presented to me if I'm already seeing somebody who is dually-registered. So that bothers me because I do think it's an important choice.

The other question mark I have is that in other type of financial things, like if we go to sell a house I think consumers in general have a ballpark idea of what a reasonable sales commission is. Is there some way that the word can get out? Like there's kind of a range to expect in these fees so that you can make a decision maybe. You think you have got a great person, you want to pay outside the range. But I think the average consumer on services like this may not really have any idea what's reasonable and where are you being fleeced.

MS. SCHOCK: So just to clarify one thing. What we gave you all was the dual registrant because that's the most comprehensive where you can see both. But there are versions for just a broker and just an adviser. Which we didn't hand out, but those are on our Website. And the difference with those is it's not the side by side, but it has a section that says compare to. So if you're looking at adviser only it would describe the adviser, these subject areas. But then there would be a section that says compare this with a broker. Here is how they typically differ.

INVESTOR EIGHT: So you're at least alerted that there's another option, either the broker or the adviser?

MS. TEN SIETHOFF: Correct.

INVESTOR EIGHT: Thank you.

MS. SCHOCK: INVESTOR 9, did you have a question?

INVESTOR NINE: I'm looking at the form and agreeing to what they're saying and I'm looking at it and it's overwhelming. It's overwhelming. If this is what the dual form is going to look like, it's overwhelming. And some of the things that I'm seeing it's like -- just the format is, once again I'm really -- because I am totally overwhelmed.

MS. SCHOCK: What -- what would make it better?

INVESTOR NINE: Cleaner, as they were saying, "You're using a lot of unnecessary words." And today we can have links to see that.

MS. SCHOCK: Sure.

INVESTOR NINE: I tell people -- I'm assuming, and I am wrong -- but a lot of senior citizens, when I use links, that scares them.

So that should be -- I'm with AARP, in fact. That's something that I'm not seeing. It's not user friendly, in my opinion, for senior citizens. And we are a large, large number, especially in Pennsylvania, of the population, and that -- a lot of my friends, they don't know the difference between a broker -- like the young lady on the end, a lot of them are driven to advisers, financial advisers, through friends. So that's something that I saw.

MS. TEN SIETHOFF: Can I just ask a follow-up?

Are there particular words when you read this that you're like I don't think a lot of people would understand what that means or too technical?

INVESTOR NINE: Could be, if you're using, like, your terms. Transaction-based fees. Just call them base fees sometimes, you know. Base fees, transaction. And maybe if there are base fees and there are transactional, just start off with base fees rather than transactional. But like you said, this is a dual. I don't know what the other one looked like.

And on the back I -- the additional information, I totally agree with them and the format. Some of this additional information I perceive it as information, not additional. I would want to know some of this upfront if I'm dealing with a person and they have some criminal issues. That's one thing. Thank you.

MS. SCHOCK: INVESTOR 10.

INVESTOR TEN: I'm wondering if this has been run through a grade level checker. Because I think that will simplify a lot of the language. I would like to see this at a ninth grade reading level, not because of the literacy of the investors but because it just makes it a lot simpler to read. Words like achieve could be meets. Words like monitor could be check. You could really simplify this a lot.

MS. TEN SIETHOFF: Give it like a Lexile reading score and see where it comes out.
MS. SCHOCK: You know, as government employees who are retired and who they’re dealing with or is it the same as with everyone else? You know, what is your role? It would be easier for us to understand and to provide that information and then who they can go to as an adviser.

MS. SCHOCK: You know, as government employees then we have the Thrift Savings Plan. So if your money stays with the Thrift Savings Plan then you’re in the investments that are chosen by the Thrift Savings Board. Now if you roll the money out, then you’re in our world. Okay? So you’re in the world of investment advisers and broker-dealers who are going to be registered with the SEC. So if you have CSRS, Civil Service Retirement System, that means you’re receiving your pension. Which means one, congratulations. Yes. At two percent per year that you worked for the government and so that is -- it’s a different plan than a defined contribution plan such as a 401K plan and Thrift Savings plan. I wouldn’t worry about the advisers for that.

INVESTOR TWELVE: I have two thoughts. One --

MS. TEN SIETHOFF: Name?

INVESTOR TWELVE: INVESTOR 12. I’m just general public.

MS. SCHOCK: Welcome.
INVESTOR TWELVE: Thank you. We're all very familiar with the shopping Websites. When you buy something you see a whole bunch of models and here's checks, there's like a series of checks that on the left-hand side is all the features and then it checks which one -- which feature exists in that model. That could be an alternative or an additional way of -- a simple way people are used to finding that information and it does a head-to-head comparison with the features on the left side. That's one suggestion.

The other thing that occurs to me is that in general, this form assumes a lot of knowledge and sort of loaded, like why would I want that. May I suggest, and I'm sure there's many -- you know, you're not -- one would not be comfortable making recommendations, but I would suggest that you might want to do some hypothetical situations. In other words, there are certain criteria that a person has that might lead -- that might make one or the other option more appropriate, maybe the amount of assets or the -- so if you could just perhaps offer some scenarios that people could relate to that would be sort of generic, wouldn't offer a bias. But there are certain situations, I think that would be, I don't know enough to answer you, but I would expect that would make a broker situation more applicable, more useful or meet their needs, in general, versus the investment. And vice versa. And I just think that people, particularly those without a lot of knowledge, could identify with these situations. If you could do a couple generic hypothetical situations I think that would be very effective.

MS. RUSSELL: And to follow up. If we had that chart, what would be the checks you would want to see?

What would be the information you would want compared?

INVESTOR TWELVE: The top level information, like the fee issue, like the commission, additional fee issues, commissions. Like some of the big chunks. There's a lot of criteria here. But sort of the big decision points that would disclose the major differences between the two options.

MS. SCHOCK: Does this also go back to INVESTOR 8's point earlier about also knowing the range of fees to know, you know, what's appropriate? 1.5 percent doesn't sound like that much necessarily. But 1.5 percent say on a hundred thousand dollar account, $1,500 a year, transaction fees for trades let's say are seven dollars a trade, that's an awful lot of trading that's going to have to go on and you're paying for advice.

INVESTOR TWELVE: How it would apply to the chart is -- on the left-hand side in terms of the criteria it would say net transaction fee and then under each one you would give the range. And so people could see sort of the difference.

MS. TEN SIETHOFF: That's great. One thing I would just point out about this, because we have definitely heard, and I totally get it. I just bought a car. In Kelley Blue Book, where I go and do that, I sort by who's got the automatic seats and whatnot for each criterion. But one of the hard things on this, because we have talked about this is, just how you do that upfront in a relationship when you haven't yet figured out what sort of investment strategy you're going to follow. So for an adviser where it's a one-percent fee off your assets for the next however long you use them, that's a little easier. But for a broker where, you know, if you're buying bonds, it's a mark-up and mark-down. If you're buying stocks it's a commission. It depends on how many transactions you made it's a little harder to do that upfront. So do you have thoughts on how we can do scenarios --

INVESTOR TWELVE: I mean just, you know, acknowledge that there are certain things that aren't answered, that it's not complete but so they understand the nuances, as opposed to if they went to an investment adviser would be one of -- it would be more particular.

MS. TEN SIETHOFF: Right. Or even, you understand if you're going to be someone who makes 50 trades a year, you're going to pay a lot more for that.

INVESTOR TWELVE: Then you would point that out.

MS. RUSSELL: So along these lines, the hypo -- and I'm going to promise, I'll let you comment, but just to focus your attention on page three right above conflicts of interest, there's two kind of -- they're not quite hypotheses, but they're trying to explain from a cost perspective you may prefer a transaction-based fee if you do not trade often or if you plan to buy and hold. And then on the other side under investment adviser it talks about an asset-based fee may cost more than a transaction-based fee, but you may prefer XYZ. Is that language that you think would be more helpful? Is that the type of hypothetical that you're thinking of? Should that kind of comparison come up? Does that address some of the confusion with fees and the services?

MS. TEN SIETHOFF: Or are you thinking assume, you know, a hundred thousand dollars to invest, they do, you know, a mix of stocks and bonds, 50 trades a year it looks like that, and an investment adviser versus broker-dealer -- like more assumed with actual numbers and more concrete?

INVESTOR ONE: I think that would be good. People don't understand -- I want to go back and answer your original question of should we layer the fees. And I
think, especially for the adviser, absolutely because, you
know, if they're charging one or one-and-a-half percent and
then they're putting you in mutual funds that charge
another one percent, people do not understand that. They
could be paying two-and-a-half percent and there's just no
way they're going to do well paying those type of fees. I
always thought advisers, if all they're doing is putting
you in mutual funds charging you one-and-a-half percent for
that, that's just outrageous. They should be putting you
in individual stocks where there's no additional cost if
they're really going to do it and then charge you like a
mutual fund manager would charge you.

MS. TEN SIETHOFF: Well, in a fund you're paying
the mutual fund for them to manage the stock and bond, and
then when you pay the adviser for them to do that for you
you're paying for two levels.

INVESTOR ONE: That's my point. An adviser I
would think it would be better if they just put you in
individual stocks that have no ongoing fees if they're
charging you one or one-and-a-half percent. But if they're
putting you in mutual funds then you're getting double
charged and people don't understand that and that's very
important.

MS. SCHOCK: INVESTOR 6, we're going to get to you.
INVESTOR 5, you're next.

INVESTOR FIVE: Something we haven't talked
about, how to get out of the relationship. Because you may
be signing some kind of agreement when you go with these
people and you would -- to know that there's a way to
terminate it and withdraw without penalty or with penalty
or whatever. I'm not sure where you would put it or what,
but I think this could be an important part of information
for the public or for the retail buyer.

MS. TEN SIETHOFF: Can I ask just quick, that
sort of makes me think of the key questions at the very end
of it. I don't think we have really talked about -- did
people find these key questions helpful? Are there ones
they wished they saw? Should they be upfront as opposed to
at the end? Anyone have thoughts they want to share on the
key questions?

INVESTOR ONE: Number two would be a good example
you could do for them.

MS. TEN SIETHOFF: That's the scenario example
you were talking about?

INVESTOR ONE: Right. Right.

INVESTOR FOUR: I was wondering if there's a
difference in training or accreditation between a broker
and an investment adviser and whether that information
should be available?

MS. SCHOCK: There are different licenses that
INVESTOR SIX: Sure, I think it could be both. But to the extent that there's a simple graphic that explains this on the first page of the document and then below that graphic is the link for more detail, it then explains to people what the rest of the document is about.

MS. TEN SIETHOFF: Well, if we have any great graphic designers who would like to submit comment letters or in your feedback sketch in your little graphic, we would love to see it.

INVESTOR THIRTEEN: Sarah asked a question whether or not she thought that the questions at the end of the document -- I think they're fine, but I think we add some more questions because not all investors are as sophisticated as we all are here today. I think that we should have a few more questions about the math that goes into the fees, and also conflicts of interest.

INVESTOR FOURTEEN: And just to build on those last two comments. I think one of the things that we have to recognize is that there are -- you know, with the changes in our retirement systems there are going to be more and more investors with fewer and fewer skills to invest. And perhaps, you know, as we just listened, one of the things that this form that is the first thing that many investors will receive when they walk into a broker or an investment adviser might be a disclosure on the top

in response to your suggestion. The first one we heard in a roundtable in D.C. was that the form at the front should say shop around. And the second question I have is should there be a delay. Should you get this form or either be forced to take it home, wait 24 hours before you can open an account, or should you have to sign every page to show that you have really kind of thought about it? What can we do to address some of those concerns you're raising about the disclosure and try to educate people? Would it be useful to have a more, you know, upfront point, saying you should consider your options first or require people to take time with the form and not just let it be handed to you as part of an account opening process?

INVESTOR FOURTEEN: We make people sign disclosures at the doctor's office. I mean, you know, this is equally as important as their health really.

MS. TEN SIETHOFF: Do they read those disclosures before they sign them?

INVESTOR FOURTEEN: No.

MS. SCHOCK: INVESTOR 15, let's hear from you.

INVESTOR FIFTEEN: Most advisory appointments are pre-booked. There are the rare exceptions that you bump into someone and have a conversation. But, you know, that would be the perfect sort of time to convey some kind of guidance messaging because you're usually always pre --

INVESTOR SIXTEEN: And just to kind of make a comment about what INVESTOR 15 was saying about the education.
It's really sad when you think about how we get to a certain age and try to be educated. Because I only know of a few schools -- I'm talking about like high schools -- where they actually teach financial education as an important part. So if we can look at starting to get to our young people at an earlier age so that when they get here they're already successful and understand what it is that's going on. But besides that, I did appreciate the questions, you know, that you had. And looking at the questions I know for someone who may not be very savvy in financial investments, number four, just knowing, you know, what people are doing in connection with your money. You know, how is it being used. How is it being invested. And that's something that I think a lot of us, we really don't have a sense of. You trust people to handle your money, but then exactly what is it that they're doing with your money. And then if you have a question, do you really have a key person that you can go to in order to get the information. And also just looking at number, you know, 10 also. People's legal obligations, you know, to us and again, getting back to what I think what INVESTOR 3 said, if you're not happy with the relationship then what are your legal rights to be able to end that relationship.

INVESTOR SEVEN: At the AARP we know that they see all these numbers every 14-and-a-half seconds somebody turns 65 or whatever those numbers happen to be this week. But from the education on what this is all about, think about who those people are. So there are these billions of people who are -- many of whom, they don't have the defined benefit pension anymore. They have got some type of IRA or Keogh or whatever it is and they're making decisions about Medicare and they may be making decisions about when to take their Social Security. There's a whole bunch of decisions that are coming around this time and now there's a decision that you're being unthreated from your company's or employer's financial womb. I don't know. And you're going to be on your own or you may have the chance to be on your own. All that comes at once and you have got a decent defined contribution nest egg there and what do you do with it? It goes back to the earlier question as to what is a broker and what do they do and how are they paid, what is an investment adviser and which avenue should I choose. Once I go down one, am I stuck there forever. But trying to understand the empathy from the SEC's point of view, to whom and for whom this document is directed. It seems as if as written it is directed towards pretty sophisticated people. There's a lot of vocabulary for people who understand vaguely at least what these are, what these words mean. But there's a whole bunch of people for whom it's brand new. You have had a company taking care of you.

They have chosen which mutual funds and you said I want five percent, leave me alone now. And you slept well, eat at night because you didn't have to deal with it. Some of us love numbers and we look at it every day. Oh, my god, Amazon is up four dollars a day. But there's a lot of people who don't want to do that. They don't want to be kept awake at night. And yet now they have this responsibility.

So it seems this whole SEC regulatory initiative should take into account the public or the public for whom it's meant.

MS. RUSSELL: Thanks, INVESTOR 7. You know, before I -- I'll let my colleagues jump in. I know time is ticking down. I think related to that, I know we have spent a lot of time on the too much information on the form or how to streamline that.

Before we close, is there any information that's missing?

So beyond a glossary, figuring out what the terms mean. Is there something on the form that you wish you knew and you don't see it addressed here?

MS. TEN SIETHOFF: Besides the how do I get out of this relationship?

MS. RUSSELL: The things that we have already touched on.
that it's then are we saying this one is better than another? Are we grading someone?

INVESTOR SEVENTEEN: Not the products. I'm not talking about products. I'm talking about these relationships.

MS. SCHOCK: Just the relationships themselves?

INVESTOR SEVENTEEN: Yeah.

MS. SCHOCK: I don't know if Consumer Reports would be interested in that, but it's something we can contemplate. We have worked with them before.

INVESTOR FOURTEEN: Medicare does it with nursing homes and that's the example.

MR. BOUJOUKOS: One more point on complaints. You can also call the Philadelphia office and we do encourage you to do that, 215-597-3100. And we have people on staff that work with Lori's group that triage complaints and handle them appropriately. So a little pitch for our office too.

INVESTOR EIGHTEEN: I have a question and two suggestions for you. This document, which is the market that are you trying to target with this document? Are you trying to target more sophisticated individuals or the general market which normally doesn't have the knowledge to understand, to even know why should I make the decision? And the two suggestions is before -- to begin with this document, why should I invest? I think we should have that question there.

And what are the benefits that I would receive.

Again, because most of the general markets, they don't even know what it is. Why should I invest my money? The business community. And that is my two suggestions and the question.

INVESTOR TWO: Also in terms of answering your question about what isn't there. One thing that occurred to me is, I guess, it's on page one where you talk about the advisory accounts, that they'll meet quarterly to discuss a portfolio. I think there ought to be something in there to be agreed upon by the firm and the client ahead of time.

So it's not like all of a sudden the adviser picks them on the day that they have a presentation to make across the country or something. It's somehow getting them to make sure that they're talking and that they agreed to the terms of different things, including this quarterly review which could be extremely important to them.

INVESTOR FIVE: There should be more than just English in this community.

MS. TEN SIETHOFF: That was something we requested comment on is whether there should be a requirement to do it in multiple languages.

Actually can I ask -- I know we're running low on time.

But one question I wanted to make sure we got to because I think this is one area on the form we didn't talk so much.

On the bottom of page three there is a section on conflicts of interest.

And I wondered what people thought of that in terms of is this highlighting conflicts in a useful way. Would you rather see it done differently?

INVESTOR ONE: I just have one real suggestion on a real critical area.

For an adviser they have an incredible conflict of interest if you have a pension and you have an option to take it as a lump sum or as an annuity.

Obviously they want you to take it as a lump sum and then they get to charge you a percent for the rest of your life.

It would be great to spell that one out. It's such a big one. It would really be a nice simple addition for example if you have this situation.

MS. TEN SIETHOFF: That actually raises a good question and something we debated about and asked a lot of questions on when we did this, is how much we should try and capture different types of specific conflicts. And by the way, advisers, brokers, right, they're all going to have conflicts, and how much we should take a higher level approach and more highlight that everybody is going to have conflicts.

You should -- and layer it where you should go to other places to get more details. What do people think is the most helpful balance for people in getting information about conflicts?

INVESTOR SIX: So just a quick comment on your conflicts question.

The idea of selling investments from your account is foreign to 90 percent of the people out there.

The idea that your dealer has a certain inventory and they're trying to sell you from that inventory is what this is pointing out. So I think this is pointing out conflicts that are beyond the understanding of a lot of investors.

And to the extent that we can have examples of concrete conflicts, that helps folks really understand what to look for in the area, that's helpful. Thank you.

MS. TEN SIETHOFF: INVESTOR 8.

INVESTOR EIGHT: Under the Affordable Care Act,
the Centers for Medicare and Medicaid Services requires now
physicians and other medical providers under something
called open payments to reveal their possible conflicts,
drug company payments, for example, medical equipment. I'm
a joint surgeon.

Oh, I only use the durable medical
equipment from this supplier. But a consumer, you can go
right online and you can go to the open payments website
and you can have a conversation with that healthcare
provider about the advice they're giving you and whether
that's influenced at all by that revealed, very transparent
relationship they have.

So I think something in the
investment world related to that might be a great idea.

MS. TEN SIETHOFF: If we do make links to that, will
people click on those links?

INVESTOR EIGHT: Well, the open payment, when you
talk - a lot of consumers aren't even aware of that, but
when you educate people, like health literacy rather than
financial literacy, but when you educate people about that,
a lot of folks really want to pursue that. I have also
been at medical presentations where the physician, like if
they're doing a PowerPoint, will actually put up on the
screen like either I have no conflicts or oh, I do speaking
events for, you know, this drug company. And so, again,

that's not saying it's bad, good or indifferent but it
makes the information publicly available. And also, I love
the reading level thing.

And talking about another fellow
government agency, NIH, National Institute of Health, for
their consumer-based Website Medlineplus.gov, I believe
that their view is they run their text at an eighth grade
reading level, and they think that to really be an
informative consumer Website, eighth grade should be where
you target the language.

MS. SCHOCK: INVESTOR 10.

INVESTOR TEN: I have just one last comment.

Readability.

There's some standard user - sort of user
design techniques that are generally employed. Websites
for example.

When you're looking for a phone number, you
always look at the bottom of the page. You don't look at
the fourth page embedded in the text. There's just basic
information, places that people always go for it. Any
graphic designer can help with that.

INVESTOR FIVE: You should probably be aware that
here in Philadelphia the United Way is requiring all of
their agencies that they give money to to do some financial
counseling to the people that they give money to or

services, and that just looking at that level of education
it could be a very low level of education in some of these
poverty groups and in some of the other groups. So that
keep that in mind in terms -- it's a follow-up on the level
of the grammar.

MS. SCHOCK: Great. We're going to have to wrap
up and I want to thank all of you for coming here today.
Jeff, I know you have some closing remarks. But do know
that we will take your comments into consideration with
proposed rulemaking. Stay tuned. You'll see it again.
Thank you.

MS. TEN SIETHOFF: Please, we encourage you to
fill out those feedback flyers, the one page that you have.
And just want to mention, we're also doing a general
outreach on just how we can improve all sorts of investor
disclosure for the fund industry as well. So in your
packet you're also going to get this card and feedback
flyer.

If you read disclosures for mutual funds, ETFs, any
of those types of products. This is to help us understand
how we can better reach retail investors on that. So
encourage you to give us that feedback.

MR. BOUJOUKOS: I'd like to take a second to
thank a couple people in this office who worked really hard
to make this happen.

Cynthia Hoekstra, who is one of the
microphone wielders today, Mark Dowdell, David Butler and
Christine Swede.

Thank you for working so hard to make
this happen.

And thank all of you for coming out. As
Sarah just said, the feedback form is very important for
us.

So please take the time to fill it out. You can drop
it here today or you can mail it in. Another thing I would
say is after the meeting we do senior outreach for
educational opportunities.

We just finished one out in -- at West Chester.
and to the extent that you are members of, or know
of groups that would be interested in receiving
that kind of a program, we had the AARP, we had FINRA; we
had someone from Temple, plus SECP people, Lori's group does
a great job of preparing us to give out some really key
information about a lot of the questions you're asking. If
you have a group or if there's a contact person that you
would like to give us, you can talk to me, you can talk to
Cynthia.

Please do it. We're planning another one for
several months from now and we would really love to have
all of your participation and it's vitally important as I
think we all recognize to raise the level of understanding
and education among senior investors in particular and so
help us do that.

With that, thank you very much for coming
and enjoy the rest of your day.

(Whereupon, at 12:13 p.m., the examination was
concluded.)

* * * * *