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

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

July 24, 2018

Charles SCHWAB
retail investors want and need (see some portions of that research below)

Undertook investor research looking across categories of BD and RIA to uncover what

has conflicts

transparent, provide clear explanations about how Schwab makes money, pays reps,

Reps are dually licensed, most are CFP professionals

About 15% of retail investors advisory (most also have at least one brokerage account)

Majority is self-directed, some of whom want occasional investment advice

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

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

receive and pay for investment advice

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

"through clients' eyes" strategy

over 40 years of experience communicating with retail investors

dual registrant with exclusive focus on individual investors and those who serve them

Schwab's Unique Perspective

Schwab's Unique Perspective

Schwab's Unique Perspective

Business Lines

Who We Are

Perspective

Schwab's Unique Perspective
General support for a new BD common disclosure (RIA provides)

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

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

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

Main findings:

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

- Be sparing with frequency
- Think digitally
- Make it visual
- Unfold complexity in stages
- Stay focused (less is more)

Form CRS: Simplify, Shorten, Link to Additional Information

Panelist views were consistent with several Commissioners' concerns:

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

Panelist views were consistent with several Commissioners' concerns:

(quoted at panel) (noted at panel)

Research
Commissioned
Schwab
Insights

Schwab "Insights"

June 14 Investor Advisory Committee

Experience from decades of

Would you be more or less likely to read a disclosure if it...

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

- **Was more informative if I want it**
  - More Likely: 85%
  - Less Likely: 11%
  - Don't know: 4%

- **Was longer and more comprehensive**
  - More Likely: 61%
  - Less Likely: 8%
  - Don't know: 3%

- **Covered information relevant to me and my account**
  - More Likely: 91%
  - Less Likely: 6%
  - Don't know: 8%

**Source:** Koski Research (independent survey fielded between July 10-15, 2018; paid for by Charles Schwab & Co Inc.)
Assuming you are thinking about an account or relationship with a Brokerage Firm or a Registered Investment Advisor (RIA), which of the following would be most important for that firm to communicate to you? [Top results presented below]

<table>
<thead>
<tr>
<th>Percentage</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>38%</td>
<td>Any conflicts of interest related to the investment advice I receive comes to investment advice</td>
</tr>
<tr>
<td>41%</td>
<td>The obligations the firm and its representatives owe me when it provide to me</td>
</tr>
<tr>
<td>54%</td>
<td>A description of the investment advice services the firm will provide to me</td>
</tr>
<tr>
<td>63%</td>
<td>The costs I will pay for investment advice</td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th>Option</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Online or digital (including by email) at or before I open my account</td>
<td>46%</td>
</tr>
<tr>
<td>At or before I open my account only</td>
<td>24%</td>
</tr>
<tr>
<td>Online or digital (including by email) every time I receive investment advice</td>
<td>30%</td>
</tr>
<tr>
<td>Available on an ongoing basis, such as on a firm's website</td>
<td>22%</td>
</tr>
<tr>
<td>Updates on an annual basis</td>
<td>17%</td>
</tr>
</tbody>
</table>

How would you prefer to receive disclosures about investment advice you would receive from a brokerage firm or investment advisory firm?

<table>
<thead>
<tr>
<th>Option</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Paper</td>
<td>24%</td>
</tr>
<tr>
<td>Online or digital (including by email), with a choice to receive paper when I want it</td>
<td>30%</td>
</tr>
<tr>
<td>Online or digital (including by email) at or before I open my account only</td>
<td>46%</td>
</tr>
</tbody>
</table>

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

Recommendation has not already been covered.

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

Relationship to Disclosure Obligation under Regulation BI:

Evergreen CRS on firm’s website (update within 30 days of material change).

Annual update and reminder with link to access the current version.

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

See attached Schwab alternative in Appendix A.

Follow Pew approach, make it usable for digital.

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

Start with scope of investment advice service with obligations.

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

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

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

One page organized around questions to allow easier comparisons.

Form CRS: Simplify, shorten, link to additional information.

Revisions indicate these.

Research.
Regulation BI: Harmonize Best Interest, Simplify Disclosure

Re ulation BI: Harmonize Best Interest, Simplify Disclosure

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

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

Allows development of appropriate guidance and precedent

But will not address investor confusion

Confused regarding the scope of the investment advice they will receive

Research shows that investors have general understanding of "fiduciary" and "best interest"

But like legal experts, they have a hard time distinguishing between them.

But will not address investor confusion unless make some changes

Final Rule

Expections

Investor

Reasonable

Should Meet

Caveat

Should Standard for

Support Tailored

Best interest standard generally should be the same except:

- for RIA's it is continuous (depending on contractual obligations)
- for BD's it is transactional

Best interest standard generally should be the same except:

- for BD's it is transactional

Research shows that investors have general understanding of "fiduciary" and "best interest"

But like legal experts, they have a hard time distinguishing between them.

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

<table>
<thead>
<tr>
<th>Yes</th>
<th>No</th>
</tr>
</thead>
<tbody>
<tr>
<td>96%</td>
<td>4%</td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th>Yes</th>
<th>No</th>
</tr>
</thead>
<tbody>
<tr>
<td>80%</td>
<td>20%</td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th>The same thing</th>
<th>Something different</th>
<th>Don't know</th>
</tr>
</thead>
<tbody>
<tr>
<td>59%</td>
<td>32%</td>
<td>9%</td>
</tr>
</tbody>
</table>

Source: Koski Research (Independent survey fielded between July 10-15, 2018 paid for by Charles Schwab & Co. Inc.)
<table>
<thead>
<tr>
<th>%</th>
<th>Option</th>
</tr>
</thead>
<tbody>
<tr>
<td>3%</td>
<td>I have no preference</td>
</tr>
<tr>
<td>5%</td>
<td>Don't know because the difference isn't clear to me</td>
</tr>
<tr>
<td>46%</td>
<td>Both be subject to a fiduciary and a best interest standard</td>
</tr>
<tr>
<td>15%</td>
<td>Brokerage firms should be subject to a fiduciary standard only and Registered Investment Advisory firms should be subject to a best interest standard</td>
</tr>
<tr>
<td>12%</td>
<td>Both be subject to a best interest standard</td>
</tr>
<tr>
<td>19%</td>
<td>Both be subject to a fiduciary standard</td>
</tr>
</tbody>
</table>

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

- Investors do not understand the nuances
- Dual-hatted representatives (including CFP professionals) can’t deal with differences
- Stay close to DOL impartial conduct standard (DOL may be down, but not out)
- Consider places to bring consistency between BDs and RIAs
  - Statement of “best interest” standard
  - Fees and charges
  - Investment advice services with corresponding obligations
  - Capacity (one time is sufficient—more is not meaningful to investors)

Assume one-page CRS with links (see above and attached) that covers:

- Material conflicts of interest (Rep and firm)
- Assumptions
- Disclosure

Disclosure Obligations
- Takes into account that many recommendations are over the phone
- Requires disclosure that many firms already have good disclosures in place
- “Reasonably disclose” standard is the right one
- Allows flexibility for each firm’s business model
- Allows flexibility for each firm’s business model

Disclosure Obligations
- Guidance on conflicts of interest and mitigation (including neutral compensation)
- Material conflicts of interest (Rep and firm)
- Considers places to bring consistency between BDs and RIAs
- Stay close to DOL impartial conduct standard (DOL may be down, but not out)
- Dual-hatted representatives (including CFP professionals) can’t deal with differences
- Investors do not understand the nuances

Regulation BI: Harmonize Best Interest, Simplify Disclosure
No Case To Burden RIAs and Investors With Additional Prescriptive Rules

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

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

- Full results at: https://www.sec.gov/comments/4-606/4606-4606-3137.pdf
- Set up + year one = 150% increase in RIA costs and over $1B industry costs
- Would be costly benefits exceed costs
- Need this type of data to justify any new proposal

Commission authority unclear: Dodd-Frank directed rulemaking regarding "existing standards of care for providing personalized investment advice" and only listed one of three areas (licensing and continuing education)

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

Continuing education
No Case To Burden RIAs and Investors With Additional Prescriptive Rules

RIAs do not have same custody / asset responsibilities

BD risks are not relevant risks

"Serious fraud" addressed by Custody Rule, enhanced ADV

RIs do not have same custody / asset responsibilities

Investors already receive fee info on custodian account

No justified need

No evidence of additional benefit for SEC to step-in

NASAA is working on continuing education proposal

State regime for licensing already in place

Requiring two statements could be confusing to investors

Advisor bills directly

Statements, or

3. Account

2. Licensing and Education

1. Financial Responsibility

Rules

Rules

Statements With Fees
Appendix

- Alternative one-page Form CRS
- Example of link to additional information in digital format
- Annotated version

Regulatory update: Privileged & Confidential Attorney Client Communication
A Summary of Your Brokerage Account Relationship with Charles Schwab & Co., Inc.

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

What investment advice services do you provide and what are your obligations?

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

What are the fees and costs for investment advice?

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

How does your firm make money from investment advice and what are its conflicts of interest?

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

How do you pay your professionals who give investment advice?

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

What additional information should I consider?

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

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

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

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

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

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

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

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

## Commissions & Trades

<table>
<thead>
<tr>
<th>Stocks &amp; ETFs</th>
<th>Online Trades</th>
<th>Automated Phone Trades</th>
<th>Broker-Assisted Trades</th>
</tr>
</thead>
<tbody>
<tr>
<td>Stocks</td>
<td>$4.95</td>
<td>$4.95 - $5.00 service charge</td>
<td>$1.95 - $25.00 service charge</td>
</tr>
<tr>
<td>Schwab ETF OneSource™</td>
<td>$0</td>
<td>$0 - $5.00 service charge</td>
<td>$0 - $25.00 service charge</td>
</tr>
<tr>
<td>All other ETFs</td>
<td>$4.95</td>
<td>$4.95 - $5.00 service charge</td>
<td>$4.95 - $25.00 service charge</td>
</tr>
</tbody>
</table>

### Investment Advice

- **Automated Investing**
  - Schwab Intelligent Portfolio™

- **Personal Planning and Automated Investing**
  - Schwab Intelligent Advisor™

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

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