

Betterment

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December 7, 2018

Via Electronic Filing

Mr. Brent J. Fields
Secretary
U.S. Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549-1090

Re: Form CRS Relationship Summary; Amendments to Form ADV; Required Disclosures in Retail Communications and Restrictions on the use of Certain Names or Titles (SEC Rel. No. 34-83063; File No. S7-08-18)

Dear Mr. Fields,

We write on behalf of Betterment LLC, a registered investment adviser that serves nearly 400,000 clients. As we explained in our previous comment letter, we believe that Form CRS has the potential to help investors better understand their options for investment advice.¹ We also believe that more informed investors will achieve better outcomes in their financial lives. But this can only happen if Form CRS meaningfully helps investors to understand the choices before them. That is why we conducted our own investor testing in connection with our proposed enhancements to Form CRS. Notably, that testing indicated that our suggested changes to Form CRS would significantly improve its effectiveness.

We appreciate that the Commission has also recognized that investor testing has an important role to play in the process of finalizing Form CRS. We believe that the testing described in the November 2018 report (the "Report") published by the SEC's Office of the Investor Advocate provides additional support for our suggested changes to the disclosure.² That said, the testing conducted by the Rand Corporation had important limitations in its design and scope. Most significantly, the Rand Corporation research did not test alternative approaches to Form CRS and did not include "objective" testing of whether the disclosure actually improved investor understanding. These limits were not present in our own research.

We greatly support, and appreciate, the Commission's ongoing efforts to improve the quality of advice provided to retail investors. We hope that you will find our testing to be an important source of empirical evidence as you consider potential improvements to Form CRS.

¹ See [Letter from Jon Stein, Founder and CEO, et al., Betterment LLC, to Brent J. Fields, Secretary \(Aug. 7, 2018\)](#) (the "Comment").

² [Investor Testing of Form CRS Relationship Summary \(November 2018\)](#).

I. Betterment's Proposed Improvements to Form CRS and Investor Research

In our previous comment letter, we advanced a detailed proposal for improving Form CRS. In summary, we suggested that:

- The form should more clearly highlight how firms differ with respect to conflicts arising from product-level revenue and should clearly identify all forms of revenue associated with particular accounts.
- The form should be better organized, streamlined, and clarified.
- The form should better implement design principles that have been shown to facilitate visual appeal and comprehension.

Our comment letter extensively discusses how these suggestions could be implemented.³ We also provided a redesigned form with a detailed explanation of the reasoning behind it, including citations to the existing body of research on effective disclosures.

Additionally, to ensure that our suggestions actually improved Form CRS, we tested our form with real investors. Specifically, we partnered with a third-party research firm, which surveyed 304 current and potential investors. Each participant was shown either the version of Form CRS initially suggested by the Commission (the "SEC Form") or our alternative form (the "Betterment Form").⁴ Our testing approach included both eliciting subjective impressions of each form (e.g., whether participants considered the form to be "appealing" or "useful"), and also testing investors who had reviewed the form to measure whether it objectively improved their understanding of investment provider options. As discussed below, and more fully in our comment letter, the Betterment Form outperformed the SEC Form on a number of key measures.

II. The Commission's Research

The investor testing detailed in the Report consisted of: (1) a nationwide survey of 1,800 individuals, and (2) qualitative interviews of individual participants. Both sets of participants reviewed a single disclosure document: a model Form CRS created based on the Commission's proposed guidelines that described a hypothetical hybrid broker-dealer/investment adviser.

The Commission's investor testing did not extend to model disclosures for: (1) firms that are standalone broker-dealers or investment advisers, or (2) firms (however registered) with significantly different business models than the hypothetical hybrid firm. These limitations cabin the insights offered by the Report because the proposed disclosures would look very different for other firms. For example, the proposed disclosure for a hybrid firm contains a side-by-side comparison format that is mostly inapplicable to standalone broker-dealers and investment advisers.

³ See Comment at 6-16.

⁴ See *id.* at 16-17.

Additionally, the Commission’s investor testing did not include alternative approaches to the design or content of Form CRS (i.e., other ways of conveying information about the same hypothetical firm, such as those proposed by Betterment and other commenters). As a result, the Report does not provide direct indicators of the merits of specific changes to the content or organization of the form. Our research, on the other hand, compared the effectiveness of two alternative disclosure documents.

Finally, the Commission’s research was largely limited to investors’ subjective impressions of the proposed form. That is, the testing did not attempt to assess whether investors objectively obtained a better understanding of the information that the document was intended to convey. This is a significant limitation. Subjective and objective measures can diverge for many reasons and the critical question is not whether investors like a particular disclosure, but whether it actually improves their understanding. Indeed, the interviews described in the Report suggest that, notwithstanding relatively high measures of subjective approval of the tested form, participants varied in their actual understanding of the information provided, with some expressing significant confusion.⁵ Our testing also assessed whether particular versions of the form were more effective in instilling actual investor understanding of the concepts conveyed.

III. The Commission’s Research Supports Our Proposed Approach

The Report demonstrates that Form CRS serves a valuable function. For example, nearly 90 percent of respondents indicated that Form CRS would help them make more informed decisions about investment accounts and services.⁶ As we noted in our previous comment letter, such findings support the importance of the disclosure and the value in making it as effective as possible. And, notwithstanding the limits in its scope, the Report also offers general insights into ways in which Form CRS could be improved. Below, we highlight a few of the potential improvements suggested by the Report and discuss how they are reflected our own proposal.

More than half of the respondents in the survey indicated that the proposed form was too long, even though they could not identify specific sections that they would shorten.⁷ Interviewees also struggled with confusing industry jargon.⁸ Our proposed form addresses both of these issues directly. First, although we retained the “Important Questions” and “Additional Information” sections in essentially their original state, we reduced the overall length of the document by more than 30%. We also cut unnecessary jargon and simplified language throughout the form. We created a more appealing visual presentation using additional whitespace and other design elements. Despite being significantly shorter, our document performed better on a range of

⁵ See, e.g., Report at 25.

⁶ Id. at 34. This was consistent with our own research: almost 90% of respondents in our study said that Form CRS was either “very” or “somewhat” useful and fewer than 20% of respondents said they would not be motivated to read it. See Comment at 17.

⁷ Report at 34.

⁸ See, e.g., Report at 43.

subjective and objective measures, indicating that we were able to cut length and improve readability without sacrificing important content.⁹

Not surprisingly, the Report indicates that investors considered information about fees to be particularly important. It also suggests that investors wanted greater specificity and clarity than was provided in the Commission's proposed form.¹⁰ Our proposed form addressed this by providing specific information about the fees that average investors would pay (both advisory and fund-level), as well as dollar-based examples for a hypothetical account. As a result, respondents in our research marked information concerning fees to be "useful" at a 91% higher rate on the Betterment Form than on the tested SEC Form. They were also approximately 15% more likely to indicate that information about fees and costs was clearly communicated.¹¹

The Report found that many participants struggled to understand the "Conflicts of Interest" section.¹² Among other things, participants had difficulty reconciling this section with information about a firm's standard of care, with some questioning how a firm could be acting in their interests if it only offered proprietary funds. (A great question!) We believe that a simpler, more structured approach to conflicts is necessary and that it should be oriented around clear information about how firms generate revenue. Our proposed disclosure draws sharper distinctions around the most fundamental categories of conflicts, including those associated with specific fee structures and product-level revenue.¹³ We also attempted to make it clear that this section was not "boilerplate" and that firms can differ significantly with respect to conflicts. Finally, we sought to describe conflicts in terms of their potential impact on the services that an investor would actually receive. Our own investor research strongly supports the efficacy of these changes, which resulted in more than ten times as many investors indicating that they found this section of the disclosure useful to them.¹⁴

The Report indicated that respondents struggled to differentiate between a fiduciary and "best interests" standard.¹⁵ As we noted in our comment letter, this confusion is likely partly attributable to a lack of clarity regarding the standards themselves.¹⁶ That said, in our own research, our proposed explanation of a fiduciary's obligations was marked as "useful" at a 111% higher rate than the corresponding approach proposed by the Commission.¹⁷

On a more positive note, the Report suggests that investors generally appreciated the comparison-based format of the tested form, with eighty-five percent of respondents indicating

⁹ See Comment at 17-18.

¹⁰ See, e.g., Report at 41-42.

¹¹ See Comment at 17.

¹² See, e.g., Report at 43-44.

¹³ We proposed a new "Alignment of Interests" section, which would more clearly indicate whether firms have financial incentives to recommend particular investments and how this might impact the services received by an investor. See Comment at 13-15.

¹⁴ See Comment at 18.

¹⁵ See, e.g., Report at 40-41.

¹⁶ See Comment at 5.

¹⁷ Id. at 18.

that it helped their decision-making process.¹⁸ Unfortunately, this comparison-based approach is not present to the same degree in the Commission's proposed disclosures for standalone broker-dealers and investment advisers. Our proposed form, on the other hand, is structured around three basic categories, with specific alternatives contrasted in the body of the disclosure:

1. **Obligations:** (1) Fiduciary (investment adviser), or (2) "Best Interests" (broker-dealer)
2. **Fee Methodology:** (1) Asset-based, or (2) Transaction-based
3. **Alignment of Interests:** (1) Level-fee, or (2) Variable-fee

We believe that this approach facilitates comprehension and informed comparison, and our own research bears this out. For example, relative to the SEC Form, respondents receiving our proposed disclosure were 52% more likely to state that the disclosure helped them understand how their options differed.¹⁹ More broadly, our proposal resulted in a 68% increase in respondents indicating that the information they received was "very easy to understand," as well as a 17% improvement in the rate at which they correctly answered substantive questions about the concepts presented in the form they viewed.²⁰

As we indicated previously, we strongly support the Commission's efforts to improve the quality of advice provided to retail investors, as well as the Commission's objectives in proposing Form CRS. We also appreciate the Commission's continued openness to feedback about potential ways to improve Form CRS. By incorporating our suggested changes and other insights from investor testing into the final version of the form, the Commission can ensure that it is providing additional clarity to investors on the most important issues and not simply adding to the volume of existing disclosures.

Sincerely,



Jon Stein
Founder and CEO



Benjamin T. Alden
General Counsel



Seth Rosenbloom
Associate General Counsel

¹⁸ See Report at 22.

¹⁹ See Comment at 17.

²⁰ Id.