December 4, 2018

Via Electronic Filing

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

Re: Investor Testing of Form CRS Relationship Summary

Dear Mr. Fields:

The Investment Adviser Association[1] appreciates the opportunity to comment on the Final Report published by the SEC's Office of the Investor Advocate (Report) regarding investor testing of the proposed Form CRS relationship summary conducted by the RAND Corporation (RAND Testing).[2] Form CRS is a critical component of the Commission's package of proposals relating to the standards of conduct for investment advisers and broker-dealers (SEC Proposals)[3] and it is vital that it be effective.

In our comment letter, we raised significant concerns that proposed Form CRS will not work as intended and may in fact exacerbate the investor confusion it is meant to address (IAA Letter).[4] We thus appreciate the Commission's and the Investor Advocate's commitment to improving Form CRS through investor testing, various outreach efforts, and the public comment

[1] The IAA is a not-for-profit association dedicated to advancing the interests of SEC-registered investment advisers. The IAA's more than 650 member firms manage more than $25 trillion in assets for a wide variety of individual and institutional clients, including pension plans, trusts, mutual funds, private funds, endowments, foundations, and corporations. For more information, please visit our website: www.investmentadviser.org.

[2] Researchers from the RAND Corporation based their results on surveys completed online by 1,460 respondents and in-person interviews of 31 participants in two cities. *See* *Investor Testing of Form CRS Relationship Summary* (November 2018).

[3] *Regulation Best Interest*, SEC Rel. No. 34-83062 (Apr. 18, 2018); *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. Nos. 34-83063; IA- 4888 (Apr. 18, 2018); and *Proposed Commission Interpretation Regarding Standard of Conduct for Investment Advisers*; *Request for Comment on Enhancing Investment Adviser Regulation*, SEC Rel. No. IA-4889 (Apr. 18, 2018).

[4] *See* Letter from Karen L. Barr, President and CEO, Investment Adviser Association, to Brent J. Fields, Secretary (Aug. 6, 2018).

process.[5] We also appreciate that the Commission has made the Report available for public comment.[6] Providing commenters with the opportunity to evaluate and provide feedback on any investor testing conducted by the Commission – and improving the document based on that feedback – is critical to ensuring the effectiveness of Form CRS for retail investors.

We have consistently urged the Commission to conduct rigorous investor testing to determine investor comprehension and assess the utility of Form CRS. Unfortunately, given its subjective nature and limited scope, the RAND Testing was not sufficiently rigorous to appropriately assess the effectiveness of Form CRS, and we strongly believe that it does not provide a reasonable basis upon which to adopt Form CRS as proposed.

Nevertheless, the Report provides valuable insights into investor preferences critical to determining what elements would encourage retail investors to read and be able to understand Form CRS. These insights generally confirm our recommendations for improving Form CRS by: (i) simplifying the required disclosure to improve actual understanding; (ii) streamlining and shortening the relationship summary by focusing only on the most critical aspects of the relationships and services being offered; and (iii) utilizing a truly layered and integrated approach by combining the relationship summary with a robust disclosure framework (*e.g.*, the adviser Form ADV brochure).[7]

A. The Subjective Nature and Limited Scope of the RAND Testing Diminish its Usefulness

We commend the Commission for conducting investor testing of proposed Form CRS. Unfortunately, the RAND Testing is substantially flawed in three important respects – which inherently limit its usefulness in determining whether proposed Form CRS will work as intended. First, the RAND Testing did not test for actual comprehension of proposed Form CRS. Second, it did not test the proposed Form CRS for standalone brokers or advisers. Third, it did not test any alternative content or methods of disclosure. We thus do not believe the Commission can reasonably rely on the results in the Report to finalize Form CRS without making material changes to the relationship summary.

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[5] The Commission's investor outreach efforts have included various town hall meetings and roundtable discussions. While useful for providing anecdotal reactions by participants, the format of these informal events was not conducive to providing assessable data. They did not include formal protocols for gathering data, such as those used in the RAND Testing interviews, which were conducted by experienced researchers using standardized questionnaires and scripts.

[6] The IAA had previously urged the Commission to publish the results of its investor testing and to extend the comment period to provide enough time for commenters to fully consider and incorporate the results into their comment letters. *See* Letter from Gail C. Bernstein, General Counsel, Investment Adviser Association to Brent J. Fields, Secretary (May 25, 2018).

[7] Appendix A to this letter includes the specific recommendations to improve Form CRS that we made in the IAA Letter, and Appendix B includes our hypothetical mock-ups consistent with those recommendations, also included in the IAA Letter.

1. The RAND Testing Did Not Test for Actual Comprehension of Proposed Form CRS

As we have noted previously, it is vital that any investor testing be designed to ascertain not only whether investors find proposed Form CRS useful and informative but, even more importantly, whether the form as proposed provides investors with an accurate and balanced understanding of the information it is intended to convey. Yet, as the Report acknowledges, the survey component of the research was not designed to objectively assess comprehension of Form CRS by respondents.[8] Similarly, the interview protocol was "not designed to serve as a full assessment of participants' objective understanding" of Form CRS.[9] Assessing whether survey respondents believe that they understand information is not the same as assessing their actual understanding of the information and does not provide a sufficient basis to infer comprehension or absence of confusion.

For example, when asked about their general impression of Form CRS, survey respondents "expressed generally positive assessments of the format and content," with "nearly 90 percent of respondents indicating that Form CRS would help them make more-informed decisions about investment accounts and services." However, as the Report notes, researchers were constrained by a methodology that only permitted them to collect non-verifiable subjective information from survey respondents regarding their "opinions, preferences, attitudes, and level of self-assessed comprehension" regarding Form CRS. The almost 90 percent number, therefore, does not reflect whether these respondents in fact understood what they were reading. Indeed, the interview protocol suggests that many respondents did not understand the material.

2. The RAND Testing Did Not Test the Proposed Form CRS for Standalone Brokers or Standalone Advisers

The RAND Testing asked participants to review only the version of Form CRS applicable to dual registrants, despite the fact that the SEC proposed separate and distinct relationship summaries for investment advisers and broker-dealers. There are material differences among the three versions of Form CRS in regard to presentation and content.[10] As a

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[8] We note that the Commission has engaged in investor testing designed to objectively assess investor comprehension in other contexts. For example, comprehension has been tested by asking factual questions, with either closed-end, *i.e.*, multiple choice or true/false questions, or open-end responses. *See* *Investor Testing of Target Date Retirement Fund Comprehension and Communications* (Feb. 15, 2012); *Investor Testing of Selected Mutual Fund Annual Reports* (Revised) (Feb. 9, 2012).

[9] In fact, as noted by the RAND researchers, the interview sample size was too small to offer any information that would be statistically significant.

[10] The instructions specify that the permitted disclosures and format of proposed Form CRS be adjusted for investment advisers, broker-dealers, and dual-registrants. Under our recommendations, dually-registered firms would be required to prepare and deliver different relationship summaries to investors depending on whether the investors enter into an advisory or brokerage relationship. These dual-registrant relationship summaries would be modified to highlight the availability of other account types.

result, it is unclear how the information derived from this investor testing would apply in the context of relationship summaries proposed to be provided by standalone investment advisers and brokers. In addition, dual registrants make up only three percent of the universe of investment adviser and broker-dealer firms, which raises further questions about the utility and applicability of the findings.[11]

3. The RAND Testing Did Not Test Alternative Disclosures

We are also disappointed that the Commission did not attempt to ascertain whether alternative forms of disclosure would be more effective in engaging investors and increasing their understanding. Offering alternatives could have better informed investor feedback on the Commission's proposed approach to the relationship summary. We believe the Commission missed an opportunity to test, refine, and retest various approaches to the relationship summary, including as to content, language, design, and delivery – such as layering the relationship summary with existing disclosures (*e.g.*, the Form ADV brochure), as recommended by the IAA – as well as the viability of more creative and mobile-friendly means of conveying information to investors.[12] Several commenters, including the IAA, submitted alternative disclosures to the Commission as part of the comment process on Form CRS, with many common themes (*e.g.*, shorter, simpler). The RAND Testing would have benefitted significantly from incorporating alternative content and format into its testing process.

B. The Report Underscores the Need for Significant Changes to Proposed Form CRS

While the Report does not support adopting Form CRS as proposed, it does provide some valuable insights into how the relationship summary could be improved. The RAND Testing appears to support the concept of a short, concise disclosure document regarding the key aspects of the anticipated relationship and the services being offered. The testing also provided more specific insight into investor preferences regarding presentation and format of potential disclosures, the types of information investors find useful and less useful, and likely areas of investor confusion. Collectively, these insights underscore the critical need for significant changes to proposed Form CRS and inform constructive, retail-investor focused modifications. We believe our recommendations are consistent with the Report's findings and we again urge the Commission to consider them.

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[11] As of April 10, 2018, there were 455 dual registrants, out of a total population of 12,578 SEC-registered investment advisers and 3,712 broker-dealers. *See* *2018 Evolution Revolution, A Profile of the Investment Adviser Profession by IAA and NRS*.

[12] Notably, the Commission has included alternative approaches in prior efforts to obtain investor feedback. For example, participants in focus groups were asked to assess a hypothetical summary prospectus for mutual funds with a long-form prospectus and two multiple-fund prospectuses. Participants were also asked to review alternative disclosures and formats. *See* *Focus Groups on a Summary Mutual Fund Prospectus* (May 2008).

1. The Underlying Results of the RAND Testing Show that Form CRS Should be Simplified to Enhance Actual Understanding and Reduce Confusion

While the survey results suggest a large majority of respondents indicated that Form CRS would help them make more informed decisions about their investments, and interview participants also expressed their belief that Form CRS improved their understanding, the underlying interview discussions in fact "revealed that there were areas of confusion for participants, including differences between types of accounts or financial professionals." Notably, according to the Report, "[o]pinions of survey respondents [regarding Form CRS] with less education or less investment experience were less positive than those of respondents with more education or investment experience." And because, as discussed above, participants' objective understanding was not measured, it is likely there was even more confusion than suggested by the Report.

In addition, while interview participants generally believed that the information in Form CRS would be helpful to them, when asked to read and describe each section of Form CRS, participants varied in their actual understanding of the information and in some instances expressed confusion. In fact, RAND researchers noted that some participants "demonstrated significant misunderstanding" regarding the comparison information. Interview respondents also expressed difficulty with the language of Form CRS – even language that had further explanations provided – and found certain sections to be "overwhelming." Not surprisingly, words that participants flagged as troublesome included "fiduciary," "markup," "markdown," "load," "surrender charges," "wrap fee," and "custody."[13] The Report results thus confirm our observation in the IAA Letter that proposed Form CRS's use of technical terms and industry jargon is likely to confuse investors and support our recommendation that Form CRS be substantially simplified.[14]

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[13] This is consistent with the investor observations at the SEC roundtables and with independent testing. For example, an investor at the Coral Gables, Florida roundtable stated: "But this document, for the average person, we are not talking about somebody with a master's degree. For the average person, this is much too difficult to read. It doesn't matter if it's one page or six pages, it's too hard, unless you want to put a glossary at the end and put a definition." *See* Coral Gables Transcript at 68. Similarly, at the Atlanta roundtable, investors called for disclosure from "a layman's perspective" that includes graphics and a presentation similar to "what you would see on social media." *See* Atlanta Transcript at 37, 41, 45. And an investor at the Philadelphia roundtable thought it would be helpful to run the form through a "grade level checker" to simplify the language. "I would like to see this at a ninth grade reading level," this investor noted, "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." *See* Philadelphia Transcript at 25. Independent investor testing of Form CRS also raised significant concerns about the complexity of Form CRS. *See, e.g.*, *Final Report on Testing of Proposed Customer Relationship Summary Disclosures*, Kleimann Communication Group, Inc. (Sept. 10, 2018) (Kleimann Study) (finding that participants were confused by the amount of new terminology and absence of definitions, with one noting: "I mean there has got to be a way to simplify this" (page 20)).

[14] We note that our recommended mock-ups use virtually none of these words.

The Report also suggests that proposed Form CRS would not be particularly useful in helping investors distinguish between brokers and advisers. As we discuss below, we believe this information would be more helpful to investors if it were included on the SEC's investor education website, together with information about other types of financial professionals.

2. Proposed Form CRS Should also be Streamlined to Focus Only on the *Most Critical* Aspects of the Relationships and Services being Offered by the Firm to Retail Investors

We agree with the Commission that the utility and effectiveness of any relationship summary will depend on its brevity and clarity. The Report directly addressed this point with testing participants. The majority of respondents found proposed Form CRS to be too long and the responses demonstrate the need to streamline the disclosures.

Specifically, testing participants were asked to assess the length and usefulness of the following sections of proposed Form CRS: (i) the relationships and services the firm offers to retail investors; (ii) the standard of conduct applicable to those services; (iii) the fees and costs that retail investors will pay; (iv) a comparison of typical brokerage and investment advisory services; (v) conflicts of interest; (vi) where to find additional information, including regarding any disciplinary history; and (vii) key questions for retail investors to ask the firm's financial professional. While participants generally found all the information useful, information on fees and costs, relationships and services, and legal obligations were described as being the three most helpful and important topics by testing participants, consistent with our recommendations.[15] And not surprisingly, survey respondents tended to spend the most online "screen time" on these areas as well.

These results reinforce our recommendations regarding the content and presentation of Form CRS. In the IAA Letter, we expressed concerns that Form CRS as currently contemplated will not be effective because it is too long and tries to squeeze too much information into a relatively small space. We noted that while the proposed disclosure items could all be useful for investors, some items are more critical than others *i.e.*, services to be provided, fees and expenses to be paid, legal obligations, conflicts of interest, and disciplinary history. Limiting the information in Form CRS to focus on these areas would, we believe, strike an appropriate balance between useful and readable disclosure and too much disclosure that discourages investor engagement and generates confusion.

Below, we discuss our recommendations for improving Form CRS in light of the findings of the RAND Testing.

Fees and costs. Notably, while testing participants found the fees and costs section of Form CRS to be the most helpful, they also found this section to be the "most difficult to

[15] These finding are also consistent with findings of another independent study. *See* Research Conducted by Koski Research for Charles Schwab & Co., Inc. (July 31, 2018) (Koski Research).

understand in its current form" and suggested that more detail be provided, for example, by hyperlinking to more fulsome disclosures. Some interview participants found this section to be "overwhelming with the number of various types of fees" and others "had some difficulty with the language in the section." According to the researchers, these results suggest that "different language should be used" in the fees and costs section of Form CRS. We believe that our recommended language and approach (*i.e.*, hyperlinking or referring to specific page numbers in integrated disclosures) regarding fees and expenses address many of the concerns expressed by the testing participants.

Services offered by the firm. As proposed, Form CRS would require firms to discuss all of their services relating to investment advice in a four-page summary, including the associated types of fees. Yet, we noted that firms may offer a range of services, including variations that would make the services virtually impossible to disclose in the limited space permitted. Some testing participants found even the currently contemplated disclosures to be overwhelming because of the variety of services and fees being disclosed to them. Our recommendations would simplify Form CRS by telling investors the core advisory service a firm is offering to provide and the fees and expenses related to that service. Because our recommended language links or refers directly to more fulsome disclosure, it is considerably shorter and more to the point than the language in proposed Form CRS.

Key questions to ask. We also recommended that Form CRS not include the "Key Questions to Ask" section and suggested that it would be more helpful and effective for retail investors if the entire relationship summary were in a Q&A format. In our view, this would focus the reader's attention on the import of each disclosure and help keep the relationship summary short, thereby making it more intuitive and more likely that the investor will read it. This approach should naturally encourage investors to engage and ask questions, without the need for a standalone section in Form CRS. The RAND Testing results support our recommendations, with most testing participants finding this section to be the least informative as currently contemplated and about 60 percent of participants favoring a Q&A format instead of the format of proposed Form CRS.

Comparison information. We have recommended that comparison information be provided directly by the SEC as part of its investor education efforts rather than as part of Form CRS. We believe that the RAND Testing results support this recommendation. In the IAA Letter, we questioned whether proposed Form CRS would, in fact, facilitate a comparison between investment advisers and broker-dealers in a manner that is accurate and fair, and expressed the concern that retail investors will inappropriately be influenced to choose one type of financial professional over the other based solely on how the language is worded and without fully appreciating the differences.

While the Report states that more than 80 percent of participants indicated that the dual-registrant version of Form CRS would help them compare accounts offered by a firm or by different firms, the interviews tell a different story. Participants varied greatly in their actual

understanding of the differences between investment advisers and brokers, including, significantly, the applicable standard of care.

For example, the language that describes the obligations of investment advisers uses the legal term "fiduciary," without further description, whereas broker-dealers are described as being required to act in the customer's best interest. The Report notes that many participants did not understand the meaning of the word "fiduciary" and reveals variation in the level of understanding of obligations in general. Participants had either never heard of the word or did not know what it meant in this context. The Report also suggests that interview participants generally had "mixed interpretations" of this section. Thus, as noted in the IAA Letter, investors might incorrectly believe that "best interest" is a higher standard than "fiduciary."

Moreover, the Report notes that although some interview participants appropriately identified some differences between brokerage and advisory accounts, others demonstrated significant and fundamental misunderstanding. For example, some participants appeared to understand discrete sections of Form CRS, but when questioned further, they did "not appear to have synthesized the information and be able to apply it." The Report notes that some investors "seemed to misunderstand the differences between account types and financial professionals from the beginning, never fully grasping it." For example, when asked about which type of financial professional has an incentive to encourage investors to buy and sell frequently, one participant answered, "I think there's probably more incentive on the advisory account."[16]

The results reinforce our concern that the actual legal differences may be too nuanced for the typical investor to fully appreciate when provided in a short-form disclosure document. Thus, contrary to providing clarity and useful information, the findings raise significant concerns that the proposed comparison disclosure would further confuse investors and potentially result in suboptimal or unintended decisions.

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[16] Moreover, transcripts of the SEC roundtables also reveal that proposed Form CRS would not necessarily help investors understand how investment advisers and broker-dealers differ. *See, e.g.,* Atlanta Transcript at 18 ("It may be beneficial to clarify that for people who are not knowledgable in this area when they are handed this information. There's not actually a huge statement on that [in the form]. . . . 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.").

Independent investor testing submitted by commenters also reveals investor confusion regarding proposed Form CRS. *See* Kleimann Study (finding that testing participants overall had difficulty throughout Form CRS with sorting out the similarities and differences between investment advisers and broker-dealers; noting that "[d]espite that more in-depth reading, participants struggled throughout with sorting out the similarities and differences between the Broker-Dealer Services and Investment Adviser Services. Both the formatting and the language contributed to the confusion" and "[i]n our testing, we saw very few participants who were able to integrate and synthesize the information into a deep comprehension of the differences between the Broker-Dealer Services and the Investment Adviser Services. In fact, we saw few participants who were able to consistently comprehend the information within a single section.").

The Report thus supports our recommendation that the Commission play a central role in educating the investing public about the significant differences in business models and practices between investment advisers and broker-dealers – and, indeed, other financial professionals – irrespective of the applicable standards of conduct and notwithstanding any disclosures firms are required to make. The IAA Letter discusses the many advantages to having the Commission provide this information directly to investors via its website. But of most relevance here – given that the investor testing reflects that participants had difficulty in understanding the differing obligations – is that maintaining the website gives the Commission flexibility to reassess and change disclosures as necessary. And the Commission could use website analytics (*e.g.*, measuring screen times as noted above) to continuously assess the effectiveness of the information being provided. To increase the likelihood that investors will access the website, the Commission could require firms to include a link to this website prominently in their disclosures.[17]

Conflicts of interest. In our view, the proposed disclosures relating to conflicts of interest will exacerbate investor confusion. While we agree that disclosure of the existence of conflicts is an essential item in any relationship summary provided to retail investors, the RAND Testing confirms that providing the contemplated disclosures in isolation and on a standalone basis will result in more – not less – confusion for retail investors.

Notably, survey respondents chose the "Conflicts of Interest" section as one of the least informative sections of proposed Form CRS. Furthermore, more than one-third of survey respondents found the section to be difficult to understand. And while interview participants generally appreciated the purpose of this section, many participants struggled with how to reconcile the information in this section with the legal obligations being described in the prior section of the form.

We believe that our recommended approach to disclosing conflicts, including more integration with the adviser brochure (and comparable broker-dealer disclosures) as discussed in the IAA Letter and below, would help to mitigate this investor confusion. For retail investors to appreciate the importance of conflicts and their potential impact fully and to reconcile these conflicts with the legal obligations owed to them, the relationship summary should direct investors to a clear and specific description of the firm's conflicts and how the firm addresses these conflicts in light of its legal obligations. In addition, the relationship summary should not attempt to provide partial or incomplete disclosures regarding these conflicts. Specifically, we do not believe that firms should be asked to pick a single example of a conflict relating to certain investments, as proposed. Rather, the RAND Testing results suggest that investors should be encouraged to read about all such conflicts by providing them with layered and integrated disclosures as described below.

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[17] Our recommendations are also consistent with what the Commission heard at the investor roundtables. For example, one of the themes running through the Houston roundtable was the importance of the investor education provided by the Commission.

Disciplinary history. As noted above, we agree that information regarding disciplinary history should be included in Form CRS. And while survey responses indicated that the "Additional Information" section that includes disciplinary history was among the least useful, a majority (75 percent) indicated they would likely look up disciplinary information. Our recommendations place a greater emphasis on highlighting the availability of this critical information than proposed Form CRS by taking it out of the "Additional Information" section and giving it equal prominence with the other disclosure items.

3. The Commission Should Leverage Rather than Dilute the Robust Disclosures Currently Provided by the Form ADV Brochure

In the IAA Letter, we expressed disappointment that the Commission did not propose to leverage the robust disclosure framework already in place for investment advisers by integrating it directly with the proposed relationship summary. Form CRS, in many respects, truncates and thus risks undermining the more complete disclosures that are already required to be provided by investment advisers to clients or potential clients in their Form ADV brochure.[18]

Under our recommendations, each key point in the relationship summary would be made as simply and succinctly as possible, and the investor would then be pointed clearly and directly (*i.e.*, via hyperlinks or specific page number references) to specific additional plain English disclosure in the Form ADV brochure explaining the point in greater detail. This would allow investors to access and digest fulsome information about each key area more easily and decrease the likelihood that they would view the relationship summary as everything they need to know to make an informed decision.

The RAND Testing results support the notion that a truly layered and integrated approach would make it substantially more likely that retail investors read and understand the information that is most critical to their decision making. Specifically, participants were asked to consider whether they would use hyperlinks embedded in Form CRS to obtain additional information. At least two-thirds of survey participants indicated that they would use a hyperlink for the various sections of proposed Form CRS, with the ability to hyperlink to information on fees generating the most interest by an overwhelming percentage of participants as noted above.[19]

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[18] Investment advisers are required to prepare and deliver Part 2A of their Form ADV, a comprehensive narrative document that provides plain English disclosures regarding, among other things, the adviser's business practices and services, fees and expenses, conflicts of interest, and disciplinary history, as well as Part 2B of their Form ADV, which contains information about the employees who will provide advisory services to a particular client—including their education and business background, compensation, and disciplinary history.

[19] We recognize that many survey respondents expressed a preference for paper over electronic delivery of Form CRS, with about two-fifths reporting that they would be most likely to review a paper document, one-fourth selecting the firm's website, one-fifth selecting email, and fewer than one-tenth selecting video. While the IAA continues to strongly support a "notice plus access equals delivery" model – with the ability to opt-out and continue to receive paper – with respect to disclosure delivery requirements more generally, our recommendations regarding a more integrated and layered approach to Form CRS contemplate either electronic or paper delivery (*i.e.*, cross references provided either via hyperlink *or* actual page numbers).

The RAND Testing results also show that many investors value the more fulsome disclosures that are currently provided to them. Specifically, close to half of all respondents indicated that they would read both Form CRS and existing disclosures. Moreover, the results also validate our concern that providing a short-form standalone disclosure document will give a substantial number of investors false comfort that they have been given all the key information they need to make an informed decision and deter them from reading the other critical disclosures given to them. Specifically, 29 percent of investors indicated that they were likely to read only Form CRS if it were given to them on a standalone basis.

C. Conclusions Regarding the Extent to which Investors Read Existing Disclosures Should not be made Based on the Results of the RAND Testing

The Report seems to imply that investors are not reading the more fulsome disclosures currently being provided to them, specifically the Form ADV brochure. The Report states that survey respondents were informed that "many of the topics included in Form CRS are currently contained in longer documents (such as an investment adviser's Form ADV or a broker-dealer's account opening agreement)…." According to the Report, more than half of all participants indicated that they had never reviewed these documents. Among participants who had reported receiving financial advice, 39 percent reported that they had never reviewed either type of document and 24 percent did not know. The Report concludes that based on these results, "it is clear that most respondents do not recall reviewing" either an investment adviser's Form ADV or a broker's account opening agreement.

We believe that these results are misleading and should not be used to draw any conclusions regarding the extent to which investors read the Form ADV brochures provided by investment advisers. For example, it does not appear from the Report that testing participants were ever informed of the fact that the brochure document that advisers are required to provide is in fact the Form ADV being referenced. In other words, it is entirely possible that testing participants had been given a brochure by their investment adviser but did not realize that it was the Form ADV referenced in the survey questionnaire.

It is also not clear from the Report how many of the survey respondents had in fact engaged the services of an investment adviser and had thus been given a Form ADV brochure as required, because the RAND Testing did not ascertain the number of investing survey participants who invested through an advisory account. Nevertheless, as we noted in the IAA Letter, we strongly support the Commission's undertaking a broader and more comprehensive initiative to review, simplify, and modernize disclosures provided by financial professionals to all investors, including assessing the extent to which investors are reading existing disclosure.

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We appreciate the Commission's consideration of our comments and would be happy to provide any additional information that may be helpful. Please contact the undersigned or Sanjay Lamba, Assistant General Counsel, at [redacted] if we can be of further assistance.

Respectfully Submitted,

Gail C. Bernstein
General Counsel

cc: The Honorable Jay Clayton, Chairman
The Honorable Kara M. Stein, Commissioner
The Honorable Robert J. Jackson Jr., Commissioner
The Honorable Hester M. Peirce, Commissioner
The Honorable Elad L. Roisman, Commissioner
Rick Fleming, Investor Advocate, Office of the Investor Advocate
Dalia Blass, Director, Division of Investment Management
Brett Redfearn, Director, Division of Trading and Markets

Appendix A

The IAA's Specific Recommendations for Improving the Relationship Summary[1]

1. Recommended Presentation and Format

For the reasons discussed above, the relationship summary should be as concise as possible. It should also use "plain language" principles for organization, wording, and design, as is required for the adviser brochures. We do not recommend any formatting (*e.g.*, paper size, font etc.) or page number restrictions in order to give firms the flexibility they need to convey information to retail investors in a manner that is most likely to be read. We recommend, however, that the headings, sequence, and content of the relationship summary be standardized to ensure that each firm's summary contains the key disclosure items in the same order. This should enhance the ability of retail investors to compare firms in a more meaningful way. Further, clearly linking each summary item to additional information on that item in a firm's fuller disclosures should also make it easier for investors to find and compare key information about different financial service providers.

As discussed above, the Commission should eliminate the comparison section of the relationship summary. We also recommend that it remove the "Key Questions to Ask" from the summary and instead include those questions on the www.investor.gov website together with comparison information. We agree with the Commission that framing questions for retail investors can be helpful but think it would be more effective if the entire relationship summary were in a Q&A format to focus the reader's attention on the import of each disclosure. A Q&A format will help keep the relationship summary short and should also remove the onus of the retail investor having to ask questions. This format would encourage further conversation, particularly if the Commission requires firms to point investors to additional information—including comparison information and other key questions—on the SEC's website.

We have prepared mock-up relationship summaries that reflect each of our recommendations in order to assist the Commission in its efforts to craft an effective relationship summary.[2] The four mock-ups, at Appendix [B] to this letter, are designed to be used respectively by an investment adviser, a broker-dealer, a dual-registrant acting as an adviser, and a dual-registrant acting as a broker-dealer.[3] We discuss each of the specific recommended disclosure items below.

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[1] Except as noted in bracketed text, the language in this Appendix is from pages 24-29 of the IAA's August 6, 2018 comment letter.

[2] The mock-ups represent just one potential example of hypothetical firm disclosure. For purposes of the mock-ups, we assumed both the hypothetical broker-dealer and adviser had the three specified conflicts relating to financial incentives.

[3] Appendix [B] also contains an explanation of when language in our mock-ups would be boilerplate and when firms would have the flexibility to craft their own language.

2. Recommended Disclosure Items in the IAA Mock-Ups

We believe that the critical questions a retail investor would want answered are:[4]

- *What services will you provide me?*
- *What fees will I pay you?*
- *What else will I pay for?*
- *What are your responsibilities to me when it comes to investment advice?*
- *What conflicts of interest do you have?*
- *Do you have any disciplinary history?*
- *What else should I consider?*

Limiting the information in the relationship summary to answers to these seven questions in our view would strike an appropriate balance between useful and readable disclosure and too much disclosure that would make the summary less likely to be read by retail investors. Thus, for example, we do not think that the relationship summary should include the proposed introductory paragraph intended to prompt retail investors to think about which type of account is right for them (*i.e.*, advisory, brokerage, or both). Instead, investors should be directed to www.investor.gov for guidance on the range of account types. As shown in our mock-ups, however, we do recommend that dual-registrants be required to alert investors that they offer both advisory and brokerage accounts.

- ***What services will you provide me?***

Form CRS would require firms to discuss all of their services relating to investment advice in the four-page summary, including the associated types of fees. Yet, firms may offer several services along a broad spectrum, including variations that would make the services virtually impossible to disclose in the space allowed.[5] We suggest making this disclosure item considerably shorter and more to the point by telling investors the core advisory service a firm is offering to provide (*i.e.*, ongoing investment management as an investment adviser, episodic securities recommendations as a broker-dealer, or both as a dual-registrant) and where investors can get more information regarding other services that are offered.

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[4] [As noted in the attached letter, the RAND Corporation investor testing of Form CRS generally supports these areas as the correct questions to ask.]

[5] For instance, investment advisers may offer several advisory services or variations thereof, including, for example, discretionary or non-discretionary advisory services through separately managed or unified managed accounts. And firms that provide advice to retail investors about investing in a wrap fee program would be required to include additional disclosures in their Form CRS. With respect to the wrap free program disclosures, we recommend that the Commission only require sponsors of wrap fee programs to include the proposed wrap fee disclosures in the relationship summary, similar to the Form ADV wrap fee brochure delivery requirement, which requires only investment advisers that sponsor wrap fee programs to deliver to their wrap fee clients the Form ADV wrap fee program brochure.

We recommend that the response to this question include a mix of specified wording and short narrative statements, depending on the services provided. If a prescribed statement is not applicable to the firm's business, the firm should be given flexibility to omit or modify that statement. For example, to the extent applicable, investment advisers would be required to state:

> *We will manage investments for you. We will make investments on your behalf based on your goals and financial circumstances and will follow any investment restrictions you request.*
>
> *If you hire us, you will give us discretionary authority to buy and sell investments in your account without having to get your prior approval for each transaction. We will manage your investments on an ongoing basis.*

By contrast, broker-dealers, to the extent applicable, would be required to state:

> *We will provide you with an account for you to make investments in and may recommend specific investments for you.*
>
> *You will decide your overall investment strategy and make all final decisions about whether to buy or sell.*

Firms would also disclose, if applicable, that a limited selection of investments is available.

These statements could be followed by additional flexible disclosures regarding the nature of the principal services being offered by the firm. This disclosure item should be intended to provide retail investors with basic but meaningful information about the primary services they would receive from a firm.[6] However, given the broad spectrum of services a firm may offer, we would recommend that firms be permitted the flexibility to prepare a separate relationship summary for different business lines, programs, or the types of accounts and/or services that a broker-dealer or investment adviser offers.[7]

- ***What fees will I pay you?***

This disclosure item should include a description of the principal type of fees that the firm will charge. Firms would be required to state how they calculate fees (*e.g.*, based on assets under management or transaction-based), incentives associated with the fee structure, and any relevant factors that could cause the amount charged to change. Our recommendation here is generally consistent with the Commission's proposal, but our suggested specified language is clearer and more concise.

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[6] For investment advisers, this information would be derived from Item 4 of Part 2A of Form ADV.

[7] We also recommend that firms be permitted to prepare separate relationship summaries if they are in an affiliated group or firm complex.

- ***What else will I pay for?***

Our recommendation for this disclosure item is consistent with the Commission's proposal. Firms should be required to disclose expenses, such as commissions for transactions in advisory accounts and certain third-party fees. For example, investment advisers would be required to disclose, if applicable:

> *In addition to our fees, you will pay commissions and other charges to other companies in connection with buying and selling investments (e.g., broker commissions).*

Broker-Dealers would be required to disclose, if applicable:

> *In addition to our transaction-based fees, you will pay us other fees, such as custodian fees, account maintenance fees, and account inactivity fees.*

- ***What are your responsibilities to me when it comes to investment advice?***

We recommend that the firm be required to include a brief prescribed description of the standard of conduct applicable to its advice. Investment advisers would thus be required to state:

> *We are fiduciaries. That means we are required to act in your best interest for our entire advisory relationship with you.*

Broker-dealers would be required to include statements that would be required under Reg BI:

> *We must act in your best interest when we recommend a specific investment or an investment strategy. Unless we agree otherwise, we are not required to review or make recommendations for your account on an ongoing basis.*

We believe that our recommended language accurately and fairly describes the standard of conduct currently applicable to investment advisers and that would be applicable to broker-dealers under Reg BI.[8]

- ***What conflicts of interest do you have?***

It is critically important that investment advisers, broker-dealers, and dual-registrants be required to alert investors to the existence of conflicts of interests, by stating:

> *Our interests can conflict with your interests at times.*

They would also need to make brief and concise statements regarding the financial conflicts specified in the Commission's proposed disclosures to the extent applicable. For example, firms could state:

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[8] [Footnote deleted.]

We have business relationships with other firms that result in us getting paid additional money for buying or selling certain investments. In addition, our employees have financial incentives relating to the purchase or sale of certain investment products.

Firms engaging in principal trading could state:

We can buy investments from you, and sell investments to you, from our own account. We can earn a profit on these trades, so we have an incentive to encourage you to trade with us.

Investment advisers would add "*We must get your prior consent each time we do these trades.*"

We believe this language conveys in plain English the types of financial conflicts that the Commission proposes be addressed in Form CRS.[9] This disclosure item would also highlight the existence of other revenue streams for the firm and would direct retail investors to the exact location in the accompanying disclosures for more information.

For the reasons discussed above, however, the relationship summary should not single out a specific example of the types of investments or arrangements associated with each of these conflicts. Instead, it should be required to refer retail investors directly to more fulsome information regarding these and other conflicts in the adviser brochures and broker-dealer disclosures.

- ***Do you have any disciplinary history?***

Under this heading, firms would be required to state clearly "yes" or "no" to whether or not they have disciplinary history required to be reported and provide links to the relevant disclosure sections accompanying the relationship summary.

- ***What else should I consider?***

The relationship summary would end with specified language intended to encourage retail investors to read the accompanying disclosures and ask questions.[10] As discussed above, firms would be required to point retail investors directly to www.investor.gov to find information regarding other types of financial professionals and suggestions for additional questions.

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[9] We do not recommend specified language for this disclosure but suggest that firms be given flexibility to draft their own statement relating to the specified conflict, provided it is as concise as our suggested language.

[10] As proposed, Form CRS ends with the section "Additional Information" that in our view includes information that is unnecessary. If the Commission decides to retain this section, however, we recommend that the Commission, with regard to the website address of the Form ADV brochure, confirm that an embedded hyperlink would be permissible if the relationship summary is delivered electronically. We also suggest permitting firms to include a general link to their main website when Form CRS is delivered on paper. We note that the instructions regarding contact information would only permit disclosure of the primary address. We recommend permitting an email address or telephone number as an option for contact information.

We believe the modifications to the relationship summary that we recommend, integrated with the plain English fulsome disclosure in the adviser brochures and broker-dealer disclosures, would better achieve the Commission's goals of providing a short, accurate, readable, and understandable document that would serve retail investors well.

Appendix B
Mock-Up Relationship Summaries*

* This Appendix was included as Appendix A in the IAA's August 6, 2018 comment letter.

Appendix A
Mock-Up Relationship Summaries

Explanation

- ✓ Below are the following hypothetical relationship summaries:
  - Laysan Investment Management LLC (registered investment adviser)
  - Molokini Securities, Inc. (registered broker-dealer)
  - Kohala Wealth Management, Inc. (dual-registrant acting as adviser)
  - Kohala Wealth Management, Inc. (dual-registrant acting as broker-dealer)

- ✓ The mock-ups are presented as questions and answers in narrative and graphical format with no page limit. Each relationship summary would be required to include every question, exactly as specified and in the specified order. Certain items would include required language, as specified below. No additional topics would be permitted.

- ✓ Each item other than Item 4 would include a cross-reference to specific information in accompanying, attached, or linked disclosures.

- ✓ Dual-registrants would be required to prepare separate adviser and broker-dealer relationship summaries.

Content Requirements

Document Header

- Relationship Summary, name of firm, and date
- Registration status (make prominent)

Item 1: What services will you provide me?

<u>Investment Advisers</u>

- Briefly describe the principal advisory services offered by the firm to retail investors
- If applicable, and as shown in the Laysan and Kohala adviser mockups, state:
  - ***We will manage investments for you****. We will make investments on your behalf based on your goals and financial circumstances and will follow any investment restriction you request.*
  - *If you hire us, you will give us* ***discretionary authority*** *to buy and sell investments in your account without having to get your prior approval for each transaction. We will manage your investments on an* ***ongoing basis****.*
- If applicable, state that a limited selection of investments is available

<u>Broker-Dealers</u>

- For broker-dealers that offer recommendations to retail customers, briefly describe the services offered by the firm to retail investors

- If applicable, and as shown in the Molokini and Kohala broker-dealer mockups, state:
    - *We will provide you with an account for you to make investments in and* ***may recommend specific investments for you****.*
    - ***You will decide*** *your overall investment strategy and make all final decisions about whether to buy or sell.*
- If applicable, state that a limited selection of investments is available

<u>Dual-Registrants</u>

- Include an additional disclosure item intended to highlight the availability of both advisory and brokerage accounts and provide a cross-reference to additional information to allow the investor to compare the firm's offerings

Item 2: What fees will I pay you?

- Generally describe fees charged by the firm and how fees are calculated (*e.g.*, based on assets under management or transaction-based), incentives associated with the fee structure (*e.g.*, whether fees or charges vary), and any relevant factors that could cause the amount charged to change

Item 3: What else will I pay for?

- Describe other fees and expenses
- Investment advisers state, if applicable:
    - *In addition to our fees, you will pay commissions and other charges to other companies in connection with buying and selling investments (e.g., broker commissions).*
- Broker-dealers state, if applicable:
    - *In addition to our transaction-based fees, you will pay us other fees, such as custodian fees, account maintenance fees, and account inactivity fees.*

Item 4: What are your responsibilities to me when it comes to investment advice?

- Investment advisers state:
    - *We are fiduciaries. That means we are required to* ***act in your best interest*** *for our* ***entire advisory relationship*** *with you.*
- Broker-dealers state:
    - *We must act in your* ***best interest when we recommend*** *a specific investment or investment strategy. Unless we agree otherwise, we are* ***not required to review or make recommendations*** *for your account on an ongoing basis.*

Item 5: What conflicts of interest do you have?

- Investment advisers and broker-dealers state:
    - ***Our interests can conflict with your interests*** *at times.*

- Disclose, if applicable, the existence of conflicts relating to: (i) financial incentives relating to revenue sharing arrangements; (ii) financial incentives to recommend certain investments; or (iii) principal trading
- The mockups include the following descriptions of conflicts:
  - Revenue sharing: *We have business relationships with other firms that result in us getting paid additional money for buying or selling certain investments.*
  - Investment-related: *In addition, our employees have financial incentives relating to the purchase or sale of certain investment products.*
  - Principal trading: *We can buy investments from you, and sell investments to you, from our own account. We can earn a profit on these trades, so we have an* ***incentive to encourage you to trade with us****.*
    - Investment advisers to add**:**

      We must get your ***prior consent each time*** *we do these trades.*
- Link underlined language to more fulsome disclosure
- Other language may be used to describe conflicts, as long as it is as least as concise as the language used in the mockups

Item 6: Do you have any disciplinary history?

- Answer "yes" or "no" as to whether firm or relevant employees have disciplinary history

Item 7: What else should I consider?

- Advisers and broker-dealers state:
  - *Read the attached Brochure* [for advisers]/*Account Documentation* [or insert other name of document(s)][for broker-dealers] *before you invest with us. It contains* ***important information****.*
  - *There are other* ***types of financial services professionals*** *with differing legal obligations and types of services who can help you with financial and investment decisions. The SEC provides free information that allows you to* ***research and compare these financial professionals*** *and suggests the types of* ***questions you should be asking at*** www.investor.gov.

Relationship Summary

Laysan Investment Management, LLC

August 7, 2018

*Registered with the Securities and Exchange Commission as an **Investment Adviser***

HYPOTHETICAL RELATIONSHIP SUMMARY PREPARED BY THE INVESTMENT ADVISER ASSOCIATION. FOR ILLUSTRATIVE PURPOSES ONLY.

What services will you provide me?

- **We will manage investments for you.** We will make investments on your behalf based on your goals and financial circumstances and will follow any investment restrictions you request.
- If you hire us, you will give us **discretionary authority** to buy and sell investments in your account without having to get your prior approval for each transaction. We will manage your investments on an **ongoing basis**.

For more information regarding all of our services, read the attached Brochure starting on page 5.

What fees will I pay you?

- Our fees are based on a **percentage of your assets under management** with us. This means that if your assets grow we get paid more.
- Our fees will not change based on the type of investment we select for you or the number of times we buy or sell investments for you.

Read more about our fees on page 8 of the Brochure. Your specific fee schedule will be in your Advisory Agreement.

What else will I pay for?

- In addition to our fees, you will pay commissions and other charges to other companies in connection with buying and selling investments (*e.g.,* broker commissions).

Read more about other fees and expenses you will pay on page 9 of our Brochure.

What are your responsibilities to me when it comes to investment advice?

- We are fiduciaries. That means we are required to **act in your best interest** for our **entire advisory relationship** with you.

What conflicts of interest do you have?

- **Our interests can conflict with your interests** at times.
- We have **business relationships** with other firms that result in us getting paid additional money for buying or selling certain investments. In addition, our employees have **financial incentives** relating to the purchase or sale of certain investment products.
- We can buy investments from you, and sell investments to you, **from our own account**. We can earn a profit on these trades, so we have an **incentive to encourage you to trade with us**. We must get your **prior consent each time** we do these trades.

Read more about our conflicts of interest and how we manage them in our Brochure.

Do you have any disciplinary history?

- Yes. Read about our disciplinary history on page 17 of our Brochure.

What else should I consider?

- Read the attached Brochure before you invest with us. It contains **important information**.
- There are other **types of financial services professionals** with differing legal obligations and types of services who can help you with financial and investment decisions. The SEC provides free information that allows you to **research and compare these financial professionals** and suggests the types of **questions you should be asking at** www.investor.gov.

Relationship Summary

Molokini Securities, Inc.

August 7, 2018

*Registered with the Securities and Exchange Commission as a **Broker-Dealer***

HYPOTHETICAL RELATIONSHIP SUMMARY PREPARED BY THE INVESTMENT ADVISER ASSOCIATION. FOR ILLUSTRATIVE PURPOSES ONLY.

What services will you provide me?

- We will provide you with an account for you to make investments in and **may recommend specific investments for you**.
- **You will decide** your overall investment strategy and make all final decisions about whether to buy or sell.
- We offer a **limited selection** of investments.

Read about our other services and types of accounts in the attached Account Documentation on page 5.

What fees will I pay you?

- Our fees are **transaction-based**, which means that every time you buy or sell you pay us a commission.
- The **amount you pay us varies** based on the type of investment, how much of it you buy or sell, and what kind of account you have with us.

Read more about our fees on page 8 of the Account Documentation.

What else will I pay for?

- In addition to our transaction-based fees, you will pay us other fees, such as custodian fees, account maintenance fees, and account inactivity fees.

Read more about other fees and expenses you will pay on page 9 of the Account Documentation.

What are your responsibilities to me when it comes to investment advice?

- We must act in your **best interest when we recommend** a specific investment or investment strategy. Unless we agree otherwise, we are **not required to review or make recommendations** for your account on an ongoing basis.

What conflicts of interest do you have?

- **Our interests can conflict with your interests** at times.
- We have **business relationships** with other firms that result in us getting paid additional money for buying or selling certain investments. In addition, our employees have **financial incentives** relating to the purchase or sale of certain investment products.
- We can buy investments from you, and sell investments to you, **from our own account**. We can earn a profit on these trades, so we have an **incentive to encourage you to trade with us**.

Read more about our conflicts of interest and how we manage them in the Account Documentation.

Do you have any disciplinary history?

- Yes. Read about our disciplinary history on page 17 of the Account Documentation.

What else should I consider?

- Read the attached Account Documentation before you invest with us. It contains **important information**.
- There are other **types of financial services professionals** with differing legal obligations and types of services who can help you with financial and investment decisions. The SEC provides free information that allows you to **research and compare these financial professionals** and suggests the types of **questions you should be asking** at www.investor.gov.

Relationship Summary for Advisory Account

Kohala Wealth Management, Inc.

August 7, 2018

*Registered with the Securities and Exchange Commission as an **Investment Adviser** and a **Broker-Dealer***

HYPOTHETICAL RELATIONSHIP SUMMARY PREPARED BY THE INVESTMENT ADVISER ASSOCIATION. FOR ILLUSTRATIVE PURPOSES ONLY.

What services will you provide me?

- **We will manage your investments for you.** We will make investments on your behalf based on your goals and financial circumstances and will follow any investment restrictions you request.
- If you hire us, you will give us **discretionary authority** to buy and sell investments in your account without having to get your prior approval for each transaction. We will manage your investments on an **ongoing basis**.
- Depending on your needs and investment objectives, we can also provide you with services in a **brokerage** account. For more information, please go to www.kohala.com/brokerage to see a summary like this one for brokerage accounts.

For more information regarding all of our services, read the attached Brochure starting on page 5.

What fees will I pay you?

- Our advisory fees are based on a **percentage of your assets under management** with us. This means that if your assets grow we get paid more.
- Our fees will not change based on the type of investment we select for you or the number of times we buy or sell investments for you.

Read more about our fees on page 8 of the Brochure. Your specific fee schedule will be in your Advisory Agreement.

What else will I pay for?

- In addition to our fees, you will pay commissions and other charges to other companies in connection with buying and selling investments (*e.g.,* broker commissions).

Read more about other fees and expenses you will pay on page 9 of our Brochure.

What are your responsibilities to me when it comes to investment advice?

- When we act as your investment adviser, we are fiduciaries. That means we are required to **act in your best interest** for our **entire advisory relationship** with you.

What conflicts of interest do you have?

- **Our interests can conflict with your interests** at times.
- We have **business relationships** with other firms that result in us getting paid additional money for buying or selling certain investments. In addition, our employees have **financial incentives** relating to the purchase or sale of certain investment products.
- We can buy investments from you, and sell investments to you, **from our own account**. We can earn a profit on these trades, so we have an **incentive to encourage you to trade with us**. We must get your prior consent each time we do these trades.

Read more about our conflicts of interest and how we manage them in our Brochure.

Do you have any disciplinary history?

- Yes. Read about our disciplinary history on page 17 of our Brochure.

What else should I consider?

- Read the attached Brochure before you invest with us. It contains **important information**.
- There are other **types of financial services professionals** with differing legal obligations and types of services who can help you with financial and investment decisions. The SEC provides free information that allows you to **research and compare these financial professionals** and suggests the types of **questions you should be asking** at www.investor.gov.

Relationship Summary for Brokerage Account

Kohala Wealth Management, Inc.

August 7, 2018

*Registered with the Securities and Exchange Commission as a **Broker-Dealer** and an **Investment Adviser***

HYPOTHETICAL RELATIONSHIP SUMMARY PREPARED BY THE INVESTMENT ADVISER ASSOCIATION. FOR ILLUSTRATIVE PURPOSES ONLY.

What services will you provide me?

- We will provide you with an account for you to make investments in and **may recommend specific investments for you**.
- **You will decide** your overall investment strategy and make all final decisions about whether to buy or sell.
- We offer a **limited selection** of investments.
- Depending on your needs and investment objectives, we can also provide you with services in an **investment advisory** account. For more information, please go to www.kohala.com/investmentadvisory to see a summary like this one for advisory accounts.

Read about our other services and types of accounts in the attached Account Documentation on page 5.

What fees will I pay you?

- Our brokerage account fees are **transaction-based**, which means that every time you buy or sell you pay us a commission.
- The **amount you pay us varies** based on the type of investment, how much of it you buy or sell, and what kind of account you have with us.

Read more about our fees on page 8 of the Account Documentation.

What else will I pay for?

- In addition to our transaction-based fees, you will pay us other fees, such as custodian fees, account maintenance fees, and account inactivity fees.

Read more about other fees and expenses you will pay on page 9 of the Account Documentation.

What are your responsibilities to me when it comes to investment advice?

- When we act as your broker-dealer, we must act in your **best interest when we recommend** a specific investment or investment strategy. Unless we agree otherwise, we are **not required to review or make recommendations** for your account on an ongoing basis.

What conflicts of interest do you have?

- **Our interests can conflict with your interests** at times.
- We have **business relationships** with other firms that result in us getting paid additional money for buying or selling certain investments. In addition, our employees have **financial incentives** relating to the purchase or sale of certain investment products.
- We can buy investments from you, and sell investments to you, **from our own account**. We can earn a profit on these trades, so we have an **incentive to encourage you to trade with us**.

Read more about our conflicts of interest and how we manage them in the Account Documentation.

Do you have any disciplinary history?

- Yes. Read about our disciplinary history on page 17 of the Account Documentation.

What else should I consider?

- Read the attached Account Documentation before you invest with us. It contains **important information**.
- There are other **types of financial services professionals** with differing legal obligations and types of services who can help you with financial and investment decisions. The SEC provides free information that allows you to **research and compare these financial professionals** and suggests the types of **questions you should be asking** at www.investor.gov.