

**Securities and Exchange Commission Investor Advisory Committee  
Minutes of the Meeting on March 8, 2018**

The Investor Advisory Committee (IAC) met on March 8, 2018, in a public meeting at the Securities and Exchange Commission's headquarters in Washington, D.C. The meeting convened shortly after 9:30 a.m. and was broadcast live by webcast.

The following persons participated in the meeting:

**Commissioners of the Securities and Exchange Commission**

Chairman Jay Clayton (morning only)  
Commissioner Kara Stein (morning only)  
Commissioner Michael Piwowar (morning only)  
Commissioner Robert Jackson Jr. (morning only)  
Commissioner Hester Peirce (morning only)

**Advisory Committee Members<sup>1</sup>**

Bennington, Allison  
Coates, John (by telephone, morning only)  
Fairfax, Lisa  
Fleming, Rick  
Furman, Matthew  
Goetsch, Craig  
Holmes, Stephen  
LeaMond, Nancy (afternoon only)  
Lee, William  
Marietta-Westberg, Jennifer  
Nguyen, Mina (morning only)  
Roper, Barbara (by telephone)  
Sheehan, Anne  
Sillers, Damon  
Simpson, Anne  
Solomon, Jerome (by telephone)  
Stam, Heidi  
Wyderko, Susan Ferris

**MORNING SESSION**

**Welcome Remarks and Approval of Minutes of Previous Meeting**

Chairman Anne Sheehan called the meeting to order shortly after 9:30 a.m. and welcomed two new Commissioners (Robert Jackson Jr. and Hester Peirce) and two new committee members (Heidi Stam and Jennifer Marietta-Westberg).

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<sup>1</sup> Joseph V. Carcello and Elisse Walter were absent.

Chairman Clayton and Commissioners Stein, Piwowar, Jackson, and Peirce welcomed the two new IAC members and commented on agenda items. Chairman Clayton also described Commission priorities.

Ms. Sheehan welcomed various law school professors and students in attendance.

### **Approval of the Minutes of the Meeting on Dec. 7, 2017**

Following a motion that was made and seconded, the Committee voted unanimously to approve the minutes of the previous meeting on Dec. 7, 2017.

### **Discussion of Regulatory Approaches to Combat Retail Investor Fraud**

Ms. Sheehan introduced the topic and panel members, who spoke in the following order:

- **R. Cromwell Coulson**, President, Chief Executive Officer and Director, OTC Markets Group
- **Thomas Drogan**, Senior Vice President and Deputy, Member Regulation's Office of Sales Practice, FINRA
- **Sara Hanks**, CEO CrowdCheck, Inc.
- **Melissa Hodgman**, Associate Director, Division of Enforcement, SEC
- **Lori J. Schock**, Director, Office of Investor Education and Advocacy, SEC
- **Christian Leuz**, Joseph Sondheimer Professor of International Economics, Finance and Accounting, Booth School of Business, University of Chicago

In his opening remarks, Mr. Coulson identified what he called the three biggest market risks for retail investors: manipulative pressure from fraudulent information and online promotion, dilution of shares, and fraudsters' profitability.

Mr. Drogan described FINRA's efforts to stop fraud against retail investors.

Ms. Hanks described three types of fraud in online capital formation: common types of misstatements, corporate law issues, and traditional fraud.

Ms. Hodgman described trends and themes in retail investment fraud as well as areas of focus for the SEC Enforcement Division. Her remarks touched on cybersecurity, cryptocurrencies and ICOs, fee and share class issues, and other topics.

Ms. Schock complemented Ms. Hodgman's remarks by speaking about military fraud. She concluded by showing a short Public Service video to educate investors to protect themselves from fraud.

Mr. Leuz described his research on retail investor behavior in response to security frauds such as pump and dump schemes. He concluded by advocating a two-pronged regulatory approach that distinguishes between vulnerable investors and others who are risk-seeking.

A discussion with Committee members followed.

### **Discussion of a Recommendation of the Investor as Owner Subcommittee Regarding Dual-Class Share Structures**

Mr. Coates, Chairman of the Investor as Owner Subcommittee, summarized the recommendation and a discussion ensued. Following a motion made by Mr. Lee and seconded by Ms. Simpson, the Committee voted unanimously 1) to approve the recommendation and 2) to recommend that the Investor as Owner Subcommittee return to the full Committee at a future meeting with a new potential recommendation regarding the concept of a sunset for dual-class shares, as recently proposed by Commissioner Jackson.

### **RECESS**

**The Committee went into non-public administrative session at 12:25 p.m.**

### **AFTERNOON SESSION**

**The public meeting resumed at 2:09 p.m.**

### **Discussion Regarding Financial Support for Law School Clinics that Support Investors**

Ms. Sheehan summarized the recommendation from the Committee of the Whole. Following discussion, a motion was made by Mr. Goettsch and seconded by Ms. Fairfax to approve the recommendation, subject to a forthcoming amendment that the Commission should work with NASAA, the legal community and others to identify any potential sources of funding for law school clinics that support investors. The motion was passed unanimously.

### **Discussion Regarding Efforts to Combat the Financial Exploitation of Vulnerable Adults**

Mr. Goettsch introduced the topic and panelists, who spoke in the following order:

- **Robert E. Roush, Jr.**, Professor of Geriatrics, Department of Medicine, and Director, Texas Consortium for Geriatrics Education and Care, Huffington Center on Aging, Baylor College of Medicine
- **Judith Shaw**, Maine Securities Administrator and Co-Chair of the Maine Council for Elder Abuse Prevention
- **Gregory J. Dean**, Senior Vice President of Government Affairs, FINRA

Mr. Roush described the work of the Elder Investment Fraud and Financial Exploitation program to train doctors and other health care professionals on elder financial exploitation.

Ms. Shaw described a Maine program to train financial professionals regarding suspected elder financial exploitation. She also described NASAA's Model Act and a bill (the Senior Safe Act) under consideration in U.S. Congress.

Mr. Dean described the multifaceted work of FINRA and the FINRA Foundation to engage in education and research involving elder financial exploitation. He spoke of two new FINRA rule changes and described FINRA's Senior Help Line.

A discussion followed.

### **Subcommittee Reports**

Ms. Fairfax reported that the Investor as Owner subcommittee, in its non-public administrative session, had discussed a range of topics, including dual-class stock recommendations, a potential recommendation on cybersecurity, Rules 14-a and 14-a-8, and passive investing. Mr. Furman reported that the Market Structure Subcommittee had discussed IPOs and small-cap liquidity, retail investor protections in corporate bonds and municipal bonds, and other topics.

Ms. Sheehan adjourned the meeting at 3:55 p.m.