

Discussion Regarding the Commission's Proposed Form CRS Relationship Summary, including Effective Disclosure and Design

Remarks by Joe Carberry, SVP, Head of Corporate Communications

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- Commissioners and members of the Committee: good morning and thank you for the opportunity to be here today and contribute our perspective on the Commission's proposed Form CRS Relationship Summary.
- My name is Joe Carberry, and I am SVP of corporate communications for the Charles Schwab Corporation.
- I'm honored to be here to share our company's perspective on effective investor communications, which reflects our insights from more than 45 years serving individual investors.
- As the nation's largest publicly traded investment services firm by assets, we regularly communicate with more than 11 million brokerage account holders who entrust us with more than \$3.3 trillion in assets as of Q1 2018.
 - Charles Schwab & Co, Inc. is a dually registered broker-dealer and investment advisor. This enables us to efficiently serve a wide range of retail investors – from “Mom and Pop” retirement savers, to more sophisticated clients who seek discretionary investment management services, either from Schwab or from one of the 8,000 independent RIAs who use our Advisor Services custody and trading platform to serve their individual clients.
 - Most of our retail clients are self-directed, while some seek occasional help and guidance from us, and still others want someone to manage their account and are willing to pay an ongoing asset-based fee to be in one of the many investment advisory programs we make available. Allowing an investor to make his or her choice is highly important.
 - Our communications include ongoing investor education, product and service marketing, and information and disclosures required by securities law and regulation.
- Chuck Schwab founded our firm with the goal of expanding access to the benefits of investing by lowering costs, improving investor literacy, and demystifying the investment experience through clear, transparent and accessible information. That remains our mission today.
- As such, we have long supported a common standard of care when investment professionals make investment recommendations – whether broker-dealers or RIAs. So we support the principles underlying proposed Regulation Best Interest
- This includes preservation of investor choice to receive investment advice when they want it (if they want it at all) and to pay for it how they want to.
- We also believe all investors have a right and need to understand the basis of their relationship with their investment professional, including how an individual representative and his or her firm get paid, and any resulting conflicts of interest.
- Of course, with that transparency comes a commitment to operating our business in ways that we are proud to discuss with our clients. As such, we actively encourage our clients to be involved in their account, hold us accountable, and compare our approach to our

competitors. That is why our long-time marketing tagline is “Ask Questions. Be Engaged. Own Your Tomorrow.”

- For us, the trust of our clients is everything. Key to earning and keeping that trust is helping our clients understand their relationship with us.
- That is why we also fully support the principles underlying proposed Form CRS.
- At the same time, given our experience, we are concerned with the potential for the proposed Form CRS format to unintentionally add to investor confusion rather than clarifying key points.

A Changing Environment

- Before discussing our point of view on the hypothetical Form CRS that SEC staff helpfully prepared as part of the proposals, we thought it would be useful to summarize what our experience has taught us in terms of key elements for effective communication.
- First, we believe any approach to communicate with clients must take into account an environment that is more saturated and more complex than ever before...
 - Today’s digitally connected consumers have, on average, 3.6 connected devices.
 - There are more than 800 TV channels, 500 digital properties, and 1.3 million mobile apps – all competing for their attention.
 - More than 400 hours of video are uploaded to YouTube every minute.
 - U.S. adults now spend almost 6 hours per day on digital media, more than half on mobile devices.
 - A Facebook executive recently estimated that a typical mobile device user scrolls through 300 feet of content per day – the equivalent of the Statue of Liberty.
- We believe this environment is fundamentally changing how people interact with information. We are seeing a drop in the willingness of the average person to spend even a modest amount of time on any one communication.
- This has significant implications for all of us – whether we are in business or in government.
- So it has never been more important to ensure that communications work hard to get the right amount of information to people at the right time, through the right channels.

Principles for Effective Communication

- To that end, at Schwab we try to adhere to a core set of principles to guide our communications with clients:
 - Stay Focused – In short, less is more. Strive to use the fewest words and fewest concepts needed to achieve the communications objective. Focus on the main takeaway and avoid the temptation to ask a single communication to do too many things.
 - Unfold Complexity in Stages – Always start at the beginning, explain the core concept, and offer the reader easy options to get additional information. This way, they can dive deeper into areas that are important to them, without having to wade through too much information – or worse, ignore it altogether.
 - Be Clear – Relentlessly aim for clarity and transparency. Use plain English and avoid jargon. Our job is to help people understand, and unnecessary complexity and extraneous language work against comprehension.

- Make it Visual – Think in shapes and pictures as well as words. Our work must be intuitive, visually appealing and easy to follow – with headers, white space, charts, and visuals augmenting the written word.
- Think Digitally – Design our communications to be consumed in the formats people prefer, and on the multiple devices they use. We should think “mobile first;” most of our clients do.

Feedback on Form CRS

- Based on these principles and our decades of client communications, we would like to offer the following feedback on the proposed Form CRS approach.
- First, we steadfastly support the intent and the core components of the proposal. This kind of summary information delivered at the start of a relationship – and at key milestones – can be extremely helpful to the average investor and will aid in building their knowledge of and trust in the investing process.
- That said, for individuals to benefit from the information we share, they first have to read it.
- While we believe the proposed Form CRS heads in the right direction, we are concerned it may not be brief or layered enough to overcome people’s overwhelming tendency to ignore or overlook information they think may be too complex or lengthy.
- For independent RIAs who only offer advisory relationships, it does not make sense to require a comparison to a brokerage relationship. We also think Form CRS on top of everything already in the Form ADV disclosure brochure is unnecessary.
- Our specific concerns fall in four main areas:
 - First, the Form CRS tries to do too much. For dual registrants like Schwab, who make available a full range of services and choices, following the proposed instructions would result in at least 40 different items packed together on 4 pages of text.
 - Second, it includes extraneous information, which is not about the relationship and type of account a client has selected. This has the potential to confuse a retail investor.
 - Third, it does not account for information an investor already has access to, so it may be duplicative.
 - And fourth, it is not a truly layered approach that takes advantage of technology and web-based solutions where far more additional information can be accessed based on the client’s interests or concerns.
- To help address those concerns, we challenged ourselves – in the time available – to develop an alternative disclosure that would accomplish many of the same goals of the proposal.
- We applied our principles of communication, while keeping in mind the need to clarify key points that are critical for a retail investor to understand.
- The result is a one-page prototype that you have in your handouts.
- This is by no means a final solution, but rather an effort to explore how we could accomplish the Commission’s intent in fewer words and pages, while enabling clients to learn more through easy-to-follow links to more fulsome information.
- Most investors have come to expect lengthy and dense disclosures in their financial communications, and we know many investors skim or simply ignore them.
- A well-designed, one-page form could actually stand out from the usual disclosures investors receive, making it more likely an investor would stop and read it.

- And with clear links to additional information, we believe the odds increase that clients will engage more deeply with content that can help them make informed decisions about their investments.

Client Feedback

- In the time we had, we were able to engage with a small focus group of investors to get initial reactions to the proposed four-page form for dual registrants, as well as our own one-pager. The initial feedback supported the direction we are recommending.
- Here is some of what we heard from them...
 - They prefer shorter summaries with the option to access more information.
 - They said too much detail all at once can be overwhelming, particularly if you are new to the subject.
 - They found the one-pager easier to read, understand and follow.
 - Ultimately, they said they were more likely to read the shorter document than the longer.
 - Based on our experience and this feedback, we recommend the commission explore a shorter Form CRS, with links to additional information.

Conclusion

- Let me conclude by re-stating our support for the aim of the Commission's CRS proposal.
- Our long-standing strategy at Schwab is to see our business "Through Clients' Eyes."
- We think a simple, informative summary of how we do business is good for clients and will help them better engage with their finances.
- It is also good for us, as it will ultimately help us build stronger relationships with our clients.
- We appreciate the opportunity to add our point of view here today. We also plan to add to today's preliminary perspective and submit our final viewpoints to the Commission in a written comment letter.
- Thank you.

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