

**Securities and Exchange Commission Investor Advisory Committee
Minutes of the Meeting on December 7, 2017**

The Investor Advisory Committee (IAC) met on December 7, 2017, 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 attended the meeting:

Commissioners of the Securities and Exchange Commission

Commissioner Kara Stein (morning only)
Commissioner Michael Piwowar (morning only)

Advisory Committee Members¹

Anne Sheehan, Chairman
Allison Bennington
John Coates
Lisa M. Fairfax
Rick Fleming
Matthew Furman
Craig Goettsch
Stephen Holmes
Nancy LeaMond (afternoon only)
William D. Lee (by phone)
Mina Nguyen
Barbara Roper
Damon Silvers
Anne Simpson
Jerome Solomon
Susan Wyderko

Opening Remarks

Chairman Anne Sheehan called the meeting to order shortly after 9:30 a.m. Commissioners Stein and Piwowar delivered opening remarks.

Approval of the Minutes of the Meeting on October 12, 2017

Following a motion that was made and seconded, the Committee voted unanimously to approve the minutes of the previous meeting on October 12, 2017.

Discussion of a Recommendation of the Investor as Purchaser Subcommittee Regarding Electronic Delivery of Information to Retail Investors

¹ Joseph V. Carcello, Hester Peirce, and Elisse Walter were absent.

Ms. Roper, Chairman of the Investor as Purchaser Subcommittee, summarized the recommendation. Following a discussion among members, a motion was made and seconded to vote on the proposed recommendation. The Committee voted unanimously to approve the recommendation.

Discussion Regarding Retail Investor Protections and Transparency in the Municipal and Corporate Bond Markets

Mr. Furman, Chairman of the Market Structure Subcommittee, introduced the topic and panelists, who spoke in the following order:

- **Lynnette Kelly**, Executive Director, Municipal Securities Rulemaking Board (MSRB)
- **William F. Maxwell**, Mary Jo Vaughn Rauscher Chair in Financial Investments, Edwin L. Cox School of Business, Southern Methodist University
- **Rebecca Olsen**, Acting Director, Office of Municipal Securities, U.S. Securities and Exchange Commission
- **Randy Snook**, Executive Vice President, Business Policies & Practices, Securities Industry and Financial Markets Association (SIFMA)

Ms. Kelly highlighted unique features of the municipal market and described the work of MSRB, including the information it provides on its EMMA website. She also discussed practices in the municipal bond market that the MSRB is actively pursuing because they could have adverse effects on investors.

Professor Maxwell emphasized the importance of well-functioning secondary markets for both corporate and municipal bonds, and the need for strong regulations to foster such markets. He also discussed impacts of the Dodd-Frank Act on fixed income markets, and he highlighted implications for retail investors of the differences between equity and fixed income investing.

Ms. Olsen described the work of the SEC Office of the Municipal Securities. She also discussed the Commission's proposal to amend Exchange Act Rule 15cs-12, which imposes certain requirements on broker-dealers in connection with the underwriting of municipal securities. In addition, she noted the formation of a new Fixed Income Market Structure Advisory Committee.

Mr. Snook expressed the view that rulemaking should be structured in ways to allow markets to evolve organically, to preserve investor choice, and to encourage capital formation. Mr. Snook highlighted the importance of municipal markets for investors, corporations, and governments alike. He also touched on a number of other topics involving fixed income markets, including pre-market and post-market transparency.

A discussion with Committee members followed.

RECESS

The Committee went into recess shortly after 12 noon.

AFTERNOON SESSION

The public meeting resumed at 1:40 p.m.

Discussion Regarding Cybersecurity Risk Disclosures

Mr. Coates, Chairman of the Investor as Owner Subcommittee, described a subcommittee draft recommendation calling for better disclosure by public companies of cyber-risks. He welcomed suggestions on the draft from Committee members.

A discussion followed, much of it centered on a provision of the recommendation calling on the Commission to require companies to disclose whether they had cyber expertise on the board, and if not, why not.

Discussion Regarding Dual-Class Share Structures

Mr. Coates described a draft recommendation of the Investor as Owner Subcommittee on dual-class share structures, which he said pose unique and extreme corporate governance risks. He commented that the recommendation was consistent with the SEC's traditional role of mandating disclosures, rather than specific forms of corporate governance. A discussion followed.

Discussion Regarding Retail Investor Disclosure: What Works, What Doesn't, and Best Practices

Chairman Sheehan introduced the panel who spoke in the following order:

- **Sunita Sah**, John and Norma Balen Sesquicentennial Fellow and Assistant Professor of Management and Organizations, Samuel Curtis Johnson Graduate School of Management, Cornell University
- **Lisa Lehmann**, Primary Care Physician and Bioethicist, Executive Director, U.S. Department of Veterans Affairs National Center for Ethics in Health Care, Acting Chief Medical Officer, VA New England Healthcare System
- **Jeremy Ko**, Senior Financial Economist, Division of Economic and Risk Analysis, SEC
Daylian Cain, Associate Professor of Management and Marketing, Yale School of Management

Ms. Leamond began the session by introducing a video made by AARP and Certified Financial Planning Board (CFB), in which a group of investors discussed their interactions with their financial professionals. Following the video, the panelists gave their opening remarks.

Ms. Sah explained why disclosure of conflicts of interest can sometimes have the perverse effect of making a person feel more pressure to comply with the advice. The ultimate goal of disclosure, she concluded, was to change the behavior of advisers to give better quality advice, rather than to burden consumers with decisions on how to make use of the information.

Ms. Lehmann² reviewed research on disclosures of conflicts of interest in healthcare, and she considered implications for retail investor disclosure. She concluded that disclosure was not a substitute for a healthcare provider's fiduciary duty to act in a patient's best interest, and she went on to make analogous recommendations on how to preserve trustworthiness in the financial industry.

Mr. Ko³ provided a review of studies on the barriers to disclosure effectiveness in the domain of securities investments, and he followed with several suggestions on how to reduce those barriers.

Mr. Cain argued that disclosure, while part of the solution, was not a panacea. Noting that even clear disclosures can sometimes fail to persuade people to change their behavior, he asked whether the goal was to warn consumers or to protect them.

A discussion followed.

CLOSING

Chairman Sheehan adjourned the meeting at 3:36 PM.

² She noted that she was speaking solely on her own behalf.

³ He noted that he was speaking solely on his own behalf.