

Opening Statement at Investor Advisory Committee Meeting

Chair Mary Jo White

July 10, 2014

Good morning, and welcome to this year's third meeting of the Investor Advisory Committee.

At your last meeting, you elected Kurt Schacht to be your Chairman. Congratulations, Kurt. As you all know, Kurt is the Managing Director of the Centre for Financial Market Integrity of the CFA Institute. Prior to joining the CFA, Kurt has been involved in the investment management business since 1990. I am sure he will be a strong and very capable leader for the Committee.

I would also like to formally welcome Dr. Joseph Carcello as your newest member. Joe is the Ernst & Young and Business Alumni Professor in the Department of Accounting and Information Management at the University of Tennessee. He is also the co-founder and Executive Director at the University of Tennessee's Neel Corporate Governance Center and has published over 50 articles in academic and professional journals on audit committee performance, financial fraud, going-concern reporting, and audit quality. Thank you, Joe, for agreeing to serve on this Committee.

Since your last meeting, the Office of the Investor Advocate, led by Rick Fleming, issued its first report to Congress outlining his office's objectives for the next fiscal year for their work on behalf of investors, copies of which you have. Thank you, Rick, for all of your efforts and congratulations on your productive start. Thank you also for recommending to Congress additional funding for the SEC for the examination of investment advisers. As you know, that is a critical need that has also been the subject of a recommendation from this Committee and an important priority in our budget requests.

Recommendations

I want to briefly report to you on the status of the Committee's other outstanding recommendations.

At your last meeting, you made recommendations regarding the Commission's proposal to implement the crowdfunding provisions of the JOBS Act. The comment period for the crowdfunding proposal closed earlier this year and the staff is in the process of reviewing the comments and developing recommendations for final rules for the Commission's consideration. Your recommendations are being fully considered; the Commission's response to them will be reflected in the Commission's final rules.

The staff is continuing its work to address other important Committee recommendations, including those related to whether to make broker-dealers subject to fiduciary duties when providing investment advice, universal proxy ballots and data tagging. Commission briefings on both universal ballots and data tagging have now been completed and I suggested to your officers and subcommittee chairs yesterday that it might be useful for those interested to receive an update from the staff on our structured data initiatives.

Target Date Funds

In April, the Commission re-opened the comment period on the Commission's outstanding proposal regarding target date funds. In doing so, the Commission sought to obtain comment on the Committee's recommendation that the Commission develop a glide path illustration for target date funds that is based on a standardized measure of fund risk as a replacement for, or supplement to, the proposed asset allocation glide path illustration. The comment period closed in June, and we received 29 comment letters. Generally, commenters have favored appropriately tailored enhanced disclosure

requirements for target date fund marketing materials. A number of commenters expressed concerns that standardized risk measures could potentially confuse or mislead investors, while others supported the proposal citing the potential usefulness of a standardized risk measure.

The Department of Labor has also proposed to amend disclosures and require a glide path illustration for target date funds subject to ERISA. The comment period for that initiative closed earlier this month. The staff is carefully considering the comment letters we received and will coordinate with the Department of Labor on our respective initiatives, as appropriate.

Tick Size Pilot

As you know, in June the Commission issued an order directing the exchanges and FINRA to submit a national market system plan to implement a one-year tick size pilot that would widen the quoting and trading increments for certain smaller company securities. This is an area where the Committee has done extensive work. Your recommendation was considered by the staff and the Commission and has now been formally responded to through issuance of the order where you will see reflections of your recommendations.

The pilot is expected to yield significant data to help facilitate a meaningful review of the effect of tick size on liquidity, execution quality for investors, market maker participation, volatility, competition, transparency and institutional ownership. This short-term, targeted pilot should help inform our broader understanding of how to build more robust markets for smaller issuers while preserving the interests of investors and we will be carefully examining the data generated by the pilot to measure, among other things, any change in transaction costs that would impact investors.

As to next steps, the exchanges and FINRA are required to submit their national market system plan to the Commission by August 25th. Thereafter, the plan, along with the terms of the tick size pilot, will be published for public comment before the Commission decides to approve the pilot. I appreciate your continued interest and views and will be carefully considering any further comment you may have on the tick size pilot. Thank you for your efforts.

Conclusion

I know you have a full agenda ahead of you today, including important discussions on the definition of accredited investor and elder fraud. I was also glad to see that you will be having a briefing from the staff on our market structure initiatives and the proposed market structure advisory committee. These subjects are obviously very important for investors, the SEC and your Committee. Your efforts on these, and other, areas of interest and priority for investors are greatly appreciated.

Thank you.