Statement on Investor Roundtables Regarding Standards of Conduct for Investment Professionals Rulemaking

Chairman Jay Clayton

In April 2018, the Commission proposed for public comment a significant rulemaking package designed to serve our Main Street investors that would (1) require broker-dealers to act in the best interest of their retail customers, (2) reaffirm and in some cases clarify the fiduciary duty owed by investment advisers to their clients and (3) require both broker-dealers and investment advisers to clarify for all retail investors the type of investment professional they are, and disclose key facts about their relationship.

Shortly after we issued our proposal, we organized a series of roundtables to provide Main Street investors from around the country the opportunity to "Tell Us" about their experiences and their views of what they expect from their investment professionals.

I have had the privilege to attend many of these roundtables personally, including in Atlanta, Houston, Miami and Denver. These candid, experience-based conversations have been incredibly valuable. I would like to highlight several themes from these roundtables that have resonated with me.[1]

First, the right perspective on the regulation of personalized investment advice. It is clear to me that retail investors believe the right way to regulate investment professionals is to have the core obligations of investment professionals match reasonable investor expectations. For example, retail investors expect that, whether the relationship is more limited (e.g., recommending a stock or mutual fund) or more extensive (e.g., full financial planning), their investment professionals will exercise appropriate care in making recommendations and will not put their interests ahead of the interests of their customers. I believe we should move forward on this rulemaking with just that perspective.

Second, I believe that Main Street investors, particularly those who appreciate the distinctions between the broker-dealer relationship model and the investment adviser relationship model, want to maintain choice. They want to be able to select a brokerage account, an investment advisory relationship, or in some cases both.

Third, it is clear to me that the key differences between broker-dealers and investment advisers are not well understood by many of our Main Street investors. This is a problem: if you do not know (1) the scope of services your investment professional is providing and the related obligations, (2) the fees you are paying and (3) how the professional is compensated, your ability to ask good questions and make good choices is limited.

Our proposed rules are intended to address this confusion head-on by mandating a customer relationship summary that would highlight the services offered, the legal standards of conduct that apply, the fees a customer might pay and conflicts of interest that may exist.

Investors have expressed broad support for this concept, and have provided valuable feedback on how the sample customer relationship summary we developed can be improved. They have focused on simplifying, clarifying and tailoring the disclosure, including through the use of graphics, and have urged us to limit or eliminate legalese,

otherwise the summary will not be read. Investors have also noted that, in general, investor understanding and financial education are unfortunately far below where they should be, particularly in light of the increasing responsibility of individuals to plan for and fund their own retirement. We will consider these comments carefully as we develop final rules.

One suggestion that has been made at a number of the roundtables is that the SEC should prepare a short educational video geared toward Main Street investors that discusses the key aspects of a relationship with an investment professional. We intend to prepare this video.

Fourth, Main Street investors do not want jargon from their investment professional or from the SEC. They want clear questions and clear answers. There are certain questions that I believe every financial professional should be able to answer fully and in plain language. One of my favorite questions, which I have suggested at the roundtables that Main Street investors ask their financial professionals, is: "how much of my money is going to work for me?" This question highlights important considerations such as expenses, fees and commissions, and provides a basis for comparing investment professionals as well as specific investment recommendations.

Finally, Main Street investors have no tolerance for certain questionable sales practices such as high-pressure, product-based sales contests. In these circumstances, I do not believe it is possible for an investment professional to say with credibility that the investment professional is not putting his or her own interests ahead of the interests of the customer. I believe—and it is clear to me that Main Street investors believe—that these practices should be eliminated. Eliminating these practices would enhance investor protection but would not adversely affect investor choice and opportunity.[2]

Serving Main Street investors has been and will remain my primary focus as Chairman of the SEC, and speaking with Main Street investors at these roundtables has been incredibly helpful to me. Please join in with the investors we heard from across the country by visiting www.SEC.gov/Tell-Us and giving us your feedback on our proposed rules.

---

[1] My views are my own, and do not necessarily reflect the views of the Commission, my fellow Commissioners, or the staff. Transcripts of the prior roundtables are available in the comment file.

[2] I do believe that performance-based compensation (e.g., where the investment professional has been successful in increasing the firm's assets under management) may be an appropriate part of a firm's compensation structure. There is an important distinction between compensating individuals based on broad performance metrics—an important component of the compensation structure of many professional services firms that have served clients well—and incentivizing individuals to recommend a particular product through time-based quotas, bonuses, sales contests, etc. that experience shows us often are not in the best interests of the client.

Related Materials

- News Release: Clayton Announces Additional Investor Roundtable in Baltimore