
Study Regarding Financial Literacy Among Investors

**As Required by Section 917 of the
Dodd-Frank Wall Street Reform
and
Consumer Protection Act**



This is a Study by the Staff of the U.S. Securities and Exchange Commission.

August 2012

This is a Study by the Staff of the Office of Investor Education and Advocacy of the U.S. Securities and Exchange Commission. The Commission has expressed no view regarding the analysis, findings, or conclusions contained herein.

EXECUTIVE SUMMARY

On July 21, 2010, President Barack Obama signed the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (the “Dodd-Frank Act” or “Act”).¹ Section 917 of Title IX of the Act (“Dodd-Frank Act Section 917”) requires the Securities and Exchange Commission (the “Commission” or “SEC”) to conduct a study (the “Study”) to identify the existing level of financial literacy among retail investors as well as methods and efforts to increase the financial literacy of investors.

Specifically, Dodd-Frank Act Section 917 directs the Commission to conduct the Study to identify:

- (1) the existing level of financial literacy among retail investors, including subgroups of investors identified by the Commission;
- (2) methods to improve the timing, content, and format of disclosures to investors with respect to financial intermediaries, investment products, and investment services;
- (3) the most useful and understandable relevant information that retail investors need to make informed financial decisions before engaging a financial intermediary or purchasing an investment product or service that is typically sold to retail investors, including shares of open-end companies, as that term is defined in

¹ Pub. L. No. 111-203, 124 Stat. 1376 (2010).

Section 5 of the Investment Company Act of 1940² that are registered under Section 8 of that Act;³

- (4) methods to increase the transparency of expenses and conflicts of interests in transactions involving investment services and products, including shares of open-end companies described in paragraph (3);
- (5) the most effective existing private and public efforts to educate investors; and
- (6) in consultation with the Financial Literacy and Education Commission (“FLEC”), a strategy (including, to the extent practicable, measurable goals and objectives) to increase the financial literacy of investors in order to bring about a positive change in behavior.

The Act requires the Commission to complete the Study within two years after the date of enactment of the Act (*i.e.*, by July 21, 2012). The Study has been prepared by the Staff of the SEC. The Commission has expressed no views regarding the analysis, findings, or conclusions.

Background

The Commission’s Office of Investor Education and Advocacy (“OIEA”) had primary responsibility for preparing the Study. Given the array of issues to be considered in the Study, including issues related to, among other things, financial literacy, investor disclosures, financial intermediaries, investment products and services, transparency of expenses and conflicts of interest, and investor education, OIEA relied on a number of different resources, both within and without the Commission, to complete the Study. For example, the Commission contracted with the Federal Research Division of the Library of Congress to conduct a review of the quantitative

² 15 U.S.C. 80a-5.

³ 15 U.S.C. 80a-8.

studies on the financial literacy of retail investors in the United States. The Commission also sought public comment on several of the issues described above. In addition, the Commission engaged a consultant to conduct both qualitative and quantitative research designed to be responsive to certain requirements of Dodd-Frank Act Section 917, as discussed in greater detail below. Accordingly, the Study is based on a Library of Congress report on financial literacy among retail investors in the United States, public comments, qualitative research (focus groups) and quantitative research (online survey) (collectively, “empirical research”), and the expertise of a cross-Divisional task force consisting of staff from several Divisions and Offices within the Commission. The discussion below represents SEC staff’s distillation of the information gathered from the sources listed above as well as from consultations with FLEC.

Selected Findings

Highlights of the information gathered from the research include:

- ***Existing Level of Financial Literacy.*** Studies reviewed by the Library of Congress indicate that U.S. retail investors lack basic financial literacy. The studies demonstrate that investors have a weak grasp of elementary financial concepts and lack critical knowledge of ways to avoid investment fraud. Surveys also demonstrate that certain subgroups, including women, African-Americans, Hispanics, the oldest segment of the elderly population, and those who are poorly educated, have an even greater lack of investment knowledge than the average general population.
- Based on the feedback of commenters and the results of the quantitative and qualitative research, the staff has identified: (i) methods to improve the timing, content, and format of disclosures; (ii) useful and relevant information for investors to consider when either

selecting a financial intermediary or purchasing an investment product; and (iii) methods to improve the transparency of expenses and conflicts of interest.

- ***Timing of Disclosures.*** Generally, retail investors prefer to receive disclosures before making a decision on whether to engage a financial intermediary or purchase an investment product or service.
- ***Content of Disclosures.***
 - With respect to financial intermediaries, investors consider information about fees, disciplinary history, investment strategy, conflicts of interest to be absolutely essential.
 - With respect to investment product disclosures, investors favor summary documents containing key information about the investment product.
- ***Format of Disclosures.***
 - Investor preferences are mixed with respect to the method of delivery. Some investors prefer to receive certain documents in hard-copy, while others favor online disclosure.
 - With respect to the format of disclosure documents, investors prefer that disclosures be written in clear, concise, understandable language, using bullet points, tables, charts, and/or graphs.
 - Investors favor “layered” disclosure and, wherever possible, the use of a summary document containing key information about an investment product or service.⁴

⁴ Layered disclosure is an “approach to disclosure in which key information is sent or given to the investor and more detailed information is provided online and, upon request, is sent in paper or by e-mail.” Enhanced Disclosure and New Prospectus Delivery Option for Registered Open-End Management Investment Companies, Securities Act Release No. 8998 (Jan. 13, 2009), [74 FR 4546, 4560 (Jan. 26, 2009)]. This layered approach is “intended to provide investors with better ability to choose the amount and type of information to review, as well as the format in which to review it (online or paper).” Id.

- ***Useful and Understandable Relevant Information.*** Retail investors find the following information to be useful and relevant before engaging a financial intermediary:

- Fees/expenses/compensation;
- Investment performance/track record;
- Investment strategy;
- Disciplinary history;
- The identity of the firm and the scope of services offered; and
- Sources and amount of compensation to the financial intermediary.

Retail investors find the following information to be useful and relevant before purchasing an investment product:

- Fees/expenses;
- Investment performance;
- Principal risks; and
- Investment objective.

- ***Methods to Increase the Transparency of Expenses.*** Possible methods to increase the transparency of expenses in transactions involving investment services or products include the following:

- Provide *both* a narrative explanation of fees and compensation and a fee table;
- Present the fee and compensation information in table format only, in table format with examples, in a bulleted format with examples, or in bulleted format only;
- Simplify the wording of the expense disclosure and make the expense disclosure briefer and less detailed;

- For trade confirmations, disclose the composition of a financial intermediary’s total compensation, including types of compensation; and
 - For a potential point-of-sale disclosure, explain how the financial intermediary is paid in connection with the client’s account.
 - ***Methods to Increase the Transparency of Conflicts of Interest.*** Possible methods to increase the transparency of conflicts of interest in transactions involving investment services or products include the following:
 - Provide specific examples that demonstrate how a potential conflict of interest would operate in relation to the specific advice furnished to the client;
 - Present the conflicts of interest disclosure in a bulleted format or in a summary table format;
 - Make the conflicts of interest disclosure more specific, even if it results in a lengthier disclosure document;
 - Make the conflicts of interest disclosure brief and more general, with more specific information available upon request;
 - Disclose whether a financial intermediary (the individual representative) stands to profit if a client invests in certain types of products; whether the financial intermediary would earn more for selling certain specific products instead of other comparable products; and whether the financial intermediary might benefit from selling financial products issued by an affiliated company.
- ***The Most Effective Existing Private and Public Efforts to Educate Investors.*** Based on the feedback of commenters, the staff has identified the most effective existing public and private investor education efforts as including programs that are research-based, that are goal oriented and emphasize important investor education concepts, and that are easily accessible, delivered efficiently, and relevant to their target audience.

- ***Strategy to Increase the Financial Literacy of Investors.*** As a strategy to improve financial literacy, OIEA and other FLEC participants will work jointly and collaboratively to develop programs:
 - Targeting specific groups including young investors, lump sum payout recipients, investment trustees, the military, underserved populations, and the elderly;
 - Promoting the importance of checking the background of investment professionals;
 - Promoting Investor.gov as the primary federal government resource for investing information; and
 - Promoting awareness of the fees and costs of investing.

Discussion

1. The Existing Level of Financial Literacy Among Retail Investors

Dodd-Frank Act Section 917(a)(1) directs the Commission to conduct a Study to identify the existing level of financial literacy among investors, including subgroups of investors identified by the Commission. In response to that mandate, the Commission contracted with the Library of Congress to conduct a review of the quantitative studies on the financial literacy of U.S. retail investors published since 2006 and prepare a report summarizing the key research findings from these studies. The Library of Congress subsequently delivered to the Commission a report assessing relevant survey findings on the financial literacy of retail investors in the United States (the “Library of Congress Report”).⁵

According to the Library of Congress Report, studies show consistently that American investors lack basic financial literacy. For example, studies have found that investors do not

⁵ Federal Research Division, Library of Congress, Financial Literacy Among Retail Investors in the United States (Dec. 30, 2011). The Library of Congress Report is incorporated by reference herein and attached hereto as Appendix 1.

understand the most elementary financial concepts, such as compound interest and inflation. Studies have also found that many investors do not understand other key financial concepts, such as diversification or the differences between stocks and bonds, and are not fully aware of investment costs and their impact on investment returns. Moreover, based on studies cited in the Library of Congress Report, investors lack critical knowledge about investment fraud. In addition, surveys demonstrate that certain subgroups, including women, African-Americans, Hispanics, the oldest segment of the elderly population, and those who are poorly educated, have an even greater lack of investment knowledge than the average general population. The Library of Congress Report concludes that “low levels of investor literacy have serious implications for the ability of broad segments of the population to retire comfortably, particularly in an age dominated by defined-contribution retirement plans.” Furthermore, it states that “intensifying efforts to educate investors is essential,” and that investor education programs should be tailored to specific subgroups “to maximize their effectiveness.”

2. Public Comment and Empirical Research Pursuant to Dodd-Frank Act Sections 917(a)(2) – (4)

Dodd-Frank Act Section 917(a)(2) directs the Commission to conduct the Study to identify methods to improve the timing, content, and format of disclosures to investors with respect to financial intermediaries, investment products, and investment services. Dodd-Frank Act Section 917(a)(3) directs the Commission to conduct the Study to identify the most useful and understandable relevant information that retail investors need to make informed financial decisions before engaging a financial intermediary or purchasing an investment product or service that is typically sold to retail investors, including shares of open-end companies. Dodd-Frank Act Section 917(a)(4) directs the Commission to conduct the Study to identify methods to

increase the transparency of expenses and conflicts of interests in transactions involving investment services and products, including shares of open-end companies.

In response to these mandates, the Commission published a request for public comment and data to inform the Study with respect to Dodd-Frank Act Sections 917(a)(2) – (4).⁶ The Commission received 45 unique comments from, among others, investors, financial professionals, industry groups, consumer advocates, academics, and other regulators.⁷

The Commission also engaged a consultant to conduct investor testing designed to be responsive to the requirements of Dodd-Frank Act Sections 917(a)(2), (3), and (4). The consultant conducted both qualitative and quantitative research. The qualitative research involved focus group interviews regarding the process of selecting a financial intermediary and the experience of purchasing investment products and services through a financial intermediary. The quantitative research consisted of an online survey that examined investor understanding of the usefulness and effectiveness of specific disclosure documents, including: (a) the Form ADV Part 2A brochure required to be delivered by registered investment advisers (the “Brochure”); (b) account statements and confirmations; (c) the mutual fund summary prospectus; and (d) a hypothetical point-of-sale disclosure document. The online testing involved four research panels corresponding to each of the disclosure documents enumerated above. Each panel consisted of approximately 1,200 online survey respondents, for a total sample size of approximately 4,800

⁶ See Securities Exchange Act Release No. 66164 (January 17, 2012), 77 FR 3294 (January 23, 2012).

⁷ Copies of comments received are available on the Commission’s website at <http://www.sec.gov/comments/4-645/4-645.shtml>.

online survey respondents. The online testing was designed to generate statistically significant data.

The findings discussed below with respect to Dodd-Frank Act Sections 917(a)(2) – (4) are based on public comment and empirical research. We discuss the public comment and the empirical research in turn.

a. Public Comment Pursuant to Dodd-Frank Act Sections 917(a)(2) – (4)

The Commission received 45 comment letters that provided a variety of views and suggestions regarding Dodd-Frank Act Sections 917(a)(2)–(4). Some of the common views and suggestions presented in the comment letters are highlighted below.

Methods to Improve the Timing, Content, and Format of Disclosures to Investors with Respect to Financial Intermediaries, Investment Products, and Investment Services

Commenters offered several suggestions for improving the timing, content and format of disclosures provided to retail investors. Generally, commenters suggested providing disclosure to retail investors either “before” or “at the time” they make a decision on whether to engage a financial intermediary or purchase an investment product or service. Commenters also encouraged the use of “layered disclosure” and summary documents to improve the content of disclosure.⁸ In addition, commenters advocated improving the format of disclosures through the use of concise, plain language documents that incorporate some use of electronic delivery methods.

Timing

Generally, commenters indicated that retail investors should receive disclosure information either “before” or “at the time” they make a decision on whether to engage a

⁸ See *supra* note 4.

financial intermediary or purchase an investment product or service. Commenters acknowledged that the timing of the delivery of disclosure may vary, depending on the nature of the information and the transaction being contemplated. Some commenters indicated that retail investors should receive disclosure information related to investment products or services at the point-of-sale. However, several commenters indicated that retail investors should receive disclosure information related to investment products or services prior to the point-of-sale, at the time the products or services are recommended, so that the investor would have time to consider the disclosure information in making their investment decision. For similar reasons, some commenters also suggested that retail investors should receive disclosure information regarding a financial intermediary prior to establishing a business relationship.

Content

Several commenters provided suggestions for improving the content of disclosure information related to financial intermediaries and investment products and services. Suggestions in many of the comment letters focused on: (i) the use of a “layered disclosure” framework for providing disclosure documents to investors; and (ii) the use of summary disclosure documents for providing concise information to investors.

Several commenters advocated establishing a “layered disclosure” framework for some or all of the disclosure information related to financial intermediaries and investment products and services. Generally, in a “layered disclosure” framework, investors would receive an initial disclosure document that summarizes key disclosure information and provides references to another disclosure document or set of documents that contain additional, more detailed,

disclosure information.⁹ For example, one commenter described a hypothetical “layered disclosure” framework for financial intermediaries involving two-tiers of disclosure information. The first tier disclosure consisted of a concise summary disclosure document describing: (i) the standard of care the financial intermediary owed to the investor; (ii) the nature and scope of the business relationship between the parties, the services and/or products that the financial intermediary would provide, and the duration of the engagement; (iii) the nature and form of the financial intermediary’s compensation; (iv) any material conflicts of interest; (v) the investor’s obligation to provide, and update if necessary, certain background information such as the investor’s financial situation, investment objectives and goals, investment experience, and risk tolerance; and (vi) how the investor can obtain more detailed disclosure information. The second tier of disclosure information consisted of: (i) a detailed schedule of typical fees and services charges; (ii) specific details of all arrangements in which the firm receives an economic benefit for providing a particular product, investment strategy or service to a customer; and (iii) any other information necessary to disclose material conflicts of interest.

Commenters also expressed support for providing investors with summary disclosure documents. Summary disclosure documents generally provide investors with concise, plain language descriptions of important information about a financial intermediary or an investment product or service. Some examples of information that commenters indicated should be included in such a summary disclosure document include descriptions of: (i) the investment product or service’s objectives, strategies and risks; (ii) any fees and expenses; (iii) any eligibility requirements; (iv) any conflicts of interest; and (v) where investors can access additional

⁹ See supra note 4.

information on the investment product or service. Some examples of information that commenters indicated should be included in a summary disclosure document for a financial intermediary include descriptions of: (i) the financial intermediary's professional background; (ii) the scope of the business relationship between the investor and the financial intermediary, including a description of the legal obligations the financial intermediary owes to investors; (iii) the products and services offered by the financial intermediary; (iv) the financial intermediary's fees and compensation arrangements; (v) any conflicts of interest; (vi) an investor's rights to redress and any limitation on those rights (e.g., mandatory arbitration agreements); and (vii) the disciplinary record of the financial intermediary. Some commenters also advocated using the existing content requirements of Form ADV Part 2 and the mutual fund summary prospectus as models for creating summary disclosure documents.

Format

Commenters generally suggested providing retail investors with disclosures that are concise, use plain language and common terminology, and incorporate some use of electronic delivery. Some of the specific methods suggested by commenters to improve the format of disclosures include the following:

- Disclosures should be concise, written in plain language and printed in a readable font-size
- Disclosures should use common terminology or standardized forms that allow easy comparisons of investment products, services, and financial intermediaries
- Expanding the use of electronic delivery methods (*i.e.*, e-mail, hyperlinks, and website postings) for providing disclosures to retail investors, while still making hard-copy versions of disclosures available to investors who wish to receive them.

The Most Useful and Understandable Relevant Information that Retail Investors Need to Make Informed Financial Decisions before Engaging a Financial Intermediary or Purchasing an Investment Product or Service

Generally, commenters indicated that information about fees, investment performance, and investment strategy is among the most useful and understandable relevant information that retail investors need to make informed financial decisions – regardless of whether they are seeking to engage a financial intermediary or purchase an investment product or service.

Commenters also identified information specifically relevant to either selecting a financial intermediary or purchasing an investment product or service. Generally, commenters indicated that the most useful and understandable relevant information that retail investors need to make informed financial decisions before engaging a financial intermediary includes information about:

- The financial intermediary’s background information (*e.g.*, education, professional experience, and licenses) and disciplinary history;¹⁰
- The investment products and services offered by the financial intermediary;
- The standard of care provided by the financial intermediary to investors;
- The financial intermediary’s fees and compensation (including the amount of money clients would have to pay to maintain the advisory relationship and the amount of money that the financial intermediary would receive for providing advice);
- The financial intermediary’s investment strategy and past investment performance; and
- A plain language description of the financial intermediary’s conflicts of interest.

¹⁰ Commenters also indicated that investors should be made familiar with various resources, including the Investment Adviser Public Disclosure database and FINRA’s BrokerCheck, that they can use to research and verify the professional background of a financial intermediary.

Additionally, commenters indicated that the most useful and understandable relevant information that retail investors need to make informed financial decisions before purchasing an investment product or service includes information about:

- Investment objectives and strategy such as growth, income or capital preservation;
- Past investment performance;
- Fees and expenses such as sales charges, management fees, and operating expenses; and
- Principal risks or risk factors such as credit risk, liquidity, and inflation.

In lieu of identifying specific information that investors need to make informed financial decisions, some commenters advocated focusing on establishing educational programs that would help retail investors determine what information is most relevant and useful to their specific investing needs.

Methods to Increase the Transparency of Expenses and Conflicts of Interest in Transactions Involving Investment Services and Products

Commenters generally agreed that it is important for retail investors to understand expenses and conflicts of interest related to investment services or products. Several commenters noted that while retail investors generally understand the importance of information concerning expenses and conflicts of interest, they need assistance identifying this information in disclosure documents and understanding how it can impact their investments. Accordingly, commenters provided several suggestions for increasing the transparency of expenses and conflict of interest information.

Methods to Increase Transparency of Expenses

Commenters' suggestions to increase the transparency of expenses in disclosure for transactions involving investment services or products include:

- Prominently displaying fees and expenses in disclosure information and advertising materials;
- Consolidating all fee and expense information for an investment product or service in a central, easily accessible location;
- Expressing fees and expenses as a percentage of investment return rather than asset value;
- Expressing fees and expenses in dollar amounts; and
- Providing case studies and illustrations to demonstrate the impact of fees and expenses on investment returns.

Methods to Increase Transparency of Conflicts of Interest

Commenters' suggestions to increase the transparency of conflicts of interest in transactions involving investment services or products include:

- Providing investors with a list of frequently asked questions and answers to illustrate various conflicts of interest;
- Providing investors with narrative examples of various conflicts of interest; and
- Requiring financial intermediaries to draft their conflicts policies in plain language and make them easily accessible to investors.

Other suggestions for increasing the transparency of both expenses and conflicts of interest include:

- Clearly describing all sources and amounts of compensation, such as commissions, fees, and third-party payment arrangements; and
- Using standardized disclosure forms or common terminology to enable investors to more easily compare fees, expenses and conflicts of interest between different investment products, services, and financial intermediaries.

These suggestions from commenters to increase the transparency of expenses and conflicts of interest provide several ways to make disclosures for investment products and services more useful and effective for retail investors.

b. Empirical Research Pursuant to Dodd-Frank Act Sections 917(a)(2) – (4)

The findings from the empirical research are based primarily on the results of the quantitative research which, unlike the results of the qualitative research, are statistically significant and can be extrapolated to a larger population of retail investors. When we refer to “retail investors” in discussing the quantitative research results, we are extrapolating those results to the general population of retail investors in the United States. To the extent that we cite examples from the qualitative research, we do so for illustrative purposes only. The following discussion highlights some of the findings and suggestions that emerged from the empirical research.

Methods to Improve the Timing, Content, and Format of Disclosures to Investors with Respect to Financial Intermediaries, Investment Products, and Investment Services

Timing

Generally, retail investors prefer to receive disclosure information before making a decision on whether to engage a financial intermediary or purchase an investment product or service. For example, most of the online survey respondents on the mutual fund summary prospectus panel agreed that it was important to read a summary prospectus prior to investing in a mutual fund. Consistent with that finding, they expressed a preference for receiving a summary prospectus before purchasing mutual fund shares or, for those who use a financial intermediary, when their broker or financial advisor first discusses or recommends a mutual fund. Indeed, many of the online survey respondents who use a financial intermediary indicated

that they prefer to receive information about the investment services offered by the financial intermediary before engaging a financial services firm or an individual financial advisor.

In some contexts, the timing of this information is pre-determined. For example, an investment adviser registered with the SEC is required to provide prospective clients with a current Brochure before or at the time that the adviser enters into an advisory contract with them. Similarly, broker-dealers are required to provide trade confirmations to their customers at or before the completion of a securities transaction. In addition, financial intermediaries furnish their clients with account statements on a periodic basis, for example, monthly or quarterly.

Content

Retail investors value certain kinds of disclosures more highly than others. For example, a majority of the online survey respondents on the Brochure panel indicated that they consider information about an investment adviser's fees, disciplinary history, investment strategy, conflicts of interest, and the adviser's methodology in providing advice to be absolutely essential. By contrast, relatively few of those online survey respondents considered information about an adviser's business and types of clients to be absolutely essential. Many of the online survey respondents on the confirmations panel indicated that they consider information about the price at which a security was bought or sold, the number of shares or units involved, and whether the security was bought or sold to be absolutely essential. By contrast, relatively few of those online survey respondents considered trade confirmation information about whether their financial intermediary received compensation from a third party for sending the order to them, the capacity in which their financial intermediary acted, and whether a debt security is rated by a ratings agency to be absolutely essential. Those online survey respondents also indicated that they consider certain account statement information, such as whether they can sell their securities

at any time or whether they can sell their securities at market value, to be absolutely essential. On the other hand, relatively few of those online survey respondents considered information regarding the identity of the person or entity that calculates the total market value of their securities to be absolutely essential.

Retail investors' perceptions of the mutual fund summary prospectus tend to improve after they view a summary prospectus. The quantitative research examined, among other things, retail investors' perceptions of summary prospectuses both before and after they reviewed an actual summary prospectus. For example, the perceptions of the online survey respondents on the summary prospectus panel generally improved after reviewing an actual summary prospectus. Similarly, before reviewing an actual summary prospectus, some of the online survey respondents on the summary prospectus panel perceived that summary prospectuses contain a great deal of legal jargon. After reviewing an actual summary prospectus, however, many of those online survey respondents acknowledged that the extent of legal jargon in the summary prospectus was less than they had anticipated. Overall, a majority of the online survey respondents on the mutual fund summary prospectus panel agreed that summary prospectuses contain the "right amount" of information. A majority also agreed that the actual summary prospectus they reviewed highlighted important information, was well-organized, was written in a language that they understood, was clear and concise, and was user friendly.

Format

The term "format" as used here refers both to delivery format (*i.e.*, method of delivery) and the format of the disclosure document itself. In terms of delivery format, a majority of the online survey respondents on the Brochure panel indicated that they preferred to receive the Brochure in hard-copy format, while a minority favored a link to an electronic copy of the

Brochure (provided that they had agreed to receive the Brochure in that manner), and another minority favored an electronic copy of the Brochure. Most of the online survey respondents on the Brochure panel also indicated that they preferred that an investment adviser discuss with them orally the information contained in the Brochure. Similarly, several of the online survey respondents on the point-of-sale panel indicated that they would prefer to receive financial product disclosures in writing before discussing the product with their financial advisor. Moreover, some of these online survey respondents expressed a preference for receiving disclosure information about investment products and services orally, and most of them would also favor a written summary of the oral disclosure. A number of the online survey respondents on the point-of-sale panel indicated that they would prefer to receive disclosures about investment products or services electronically, such as on the Internet or in an email, while others would prefer to receive an email or letter directing them to a website or that provides a specific hyperlink to the information. By comparison, a majority of the online survey respondents on the summary prospectus panel who indicated that they had received a prospectus (either statutory or summary) admitted that they had never looked at one online.

Quantitative research regarding the format of disclosure documents was limited, arising in the context of the mutual fund summary prospectus and point-of-sale. Generally, retail investors favor the use of graphics, such as tables and charts. For example, a majority of the online survey respondents on the summary prospectus panel agreed that the tables and charts included in a summary prospectus are easy to understand. Only a minority of the online survey respondents on the point-of-sale panel indicated a preference for an “eye-catching warning” indicating that information contained within certain disclosure information for financial products and services was critical or important.

The question of the preferred format of disclosure documents was explored more fully in the focus groups. While the focus group data are not statistically significant and therefore not representative of the general population of retail investors, many of the participants across several different focus groups expressed a preference for visuals, such as charts and graphs, and for bullet points in disclosure documents.

The Most Useful and Understandable Relevant Information that Retail Investors Need to Make Informed Financial Decisions before Engaging a Financial Intermediary or Purchasing an Investment Product or Service

Unless otherwise specified, the list below consolidates the suggestions of online survey respondents from all of the panels involved in the quantitative research. The most useful and relevant information that the online survey respondents indicated that they favored to make informed financial decisions before engaging a financial intermediary includes information about:

- Fees of the financial intermediary;
- With respect to investment advisory clients specifically, the amount of money an investment advisory client would pay to maintain an advisory relationship with an investment adviser;
- Disciplinary history of the financial intermediary;
- Professional background of the financial intermediary;
- Investment performance/past performance/track record of the financial intermediary;
- Investment strategy of the financial intermediary;
- Scope of services offered by the financial intermediary;
- The severity or number of a financial intermediary's conflicts of interest;
- With respect to investment advisory clients specifically, the amount of money that the investment adviser would receive for providing advice to the client;

- The advisory firm;
- Sources and amount of compensation that a financial intermediary may receive from third parties in connection with and investment transaction; and
- Availability of the financial intermediary.

The most useful and relevant information that the online survey respondents indicated that they favored to make informed financial decisions before purchasing an investment product includes information about:

- Fees/expenses;
- Investment performance;
- Principal risks; and
- Investment objective.

Methods to Increase the Transparency of Expenses and Conflicts of Interest in Transactions Involving Investment Services and Products

Retail investors generally agree that it is important to increase the transparency of expenses and conflicts of interest in transactions involving investment services or products. We discuss some of the issues surrounding these issues below.

Methods to Increase the Transparency of Expenses

While many of the online survey respondents indicated that they understand existing fee and compensation information, for example, as disclosed in a typical Brochure, the quantitative research data suggest otherwise. Many of the online survey respondents on the Brochure panel who claimed to understand fee and compensation disclosure in the Brochure, in fact, did not. For instance, they had difficulty calculating hourly fees and fees based on the value of their assets under management. They also had difficulty answering comprehension questions about

investment adviser compensation involving the purchase of a mutual fund and identifying and computing different layers of fees based on the amount of assets under management. Moreover, many of the online survey respondents on the point-of-sale panel had similar difficulties identifying and understanding fee and compensation information described in a hypothetical point-of-sale disclosure and account statement that would be provided to them by broker-dealers.

There appears to be no consensus among retail investors regarding the optimal method to increase the transparency of expenses in transactions involving investment services or products. Based on the quantitative research, possible methods to increase the transparency of expenses in transactions involving investment services or products include the following:

- Provide *both* a narrative explanation of fees and compensation and a fee table;
- Present the fee and compensation information in table format with examples;
- Present the fee and compensation information in a bulleted format with examples;
- Present the fee and compensation information in a bulleted format only;
- Present the fee and compensation information in a table format only;
- Simplify the language or wording of the expense disclosure;
- Make the expense disclosure less detailed;
- Make the expense disclosure briefer;
- For trade confirmations, disclose the composition of a financial intermediary's total compensation, including types of compensation; and
- For a potential point-of-sale disclosure, explain how the financial intermediary is paid in connection with the client's account.

In addition, some retail investors are satisfied with the existing level of disclosure and believe that no changes are warranted.

Methods to Increase the Transparency of Conflicts of Interest

Retail investors have a range of reactions toward conflicts of interest issues. Some investors are not familiar with many of the potential conflicts of interest that a financial intermediary could have. Indeed, some of the online survey respondents on the Brochure panel did not believe that their investment advisers had conflicts of interest. At the same time, many of these online survey respondents reported being satisfied with the disclosure provided to them about potential conflicts of interest of investment advisers. Moreover, those online survey respondents whose decision to hire an investment adviser was based solely on personal referrals conceded that conflicts of interest were not among their primary concerns.

Based on the quantitative research, possible methods to increase the transparency of conflicts of interest in transactions involving investment services or products include the following:

- Provide specific examples that demonstrate how a potential conflict of interest would operate in relation to the specific advice furnished to the client;
- Present the conflicts of interest disclosure in a bulleted format;
- Present the conflicts of interest disclosure in a summary table format;
- For trade confirmations, disclose whether a financial intermediary is registered both as a broker-dealer and investment adviser;
- For trade confirmations, disclose whether a financial intermediary suggested or recommended a particular investment;
- For account statements specifically, disclose the sources and amounts of compensation received by the financial intermediary;
- Make the conflicts of interest disclosure more specific, even if it results in a lengthier disclosure document;

- Make the conflicts of interest disclosure brief and more general, with more specific information available upon request;
- Disclose whether a financial intermediary (the individual representative) stands to profit if a client invests in certain types of products; whether the financial intermediary would earn more for selling certain specific products instead of other comparable products; and whether the financial intermediary might benefit from selling financial products issued by an affiliated company; and
- Disclose whether the financial intermediary (the individual representative) providing advice would receive a portion of annual asset fees paid by the client.

In addition, some retail investors are satisfied with the existing level of disclosure and believe that no changes to the existing disclosure regime are warranted.

3. The Most Effective Existing Private and Public Efforts to Educate Investors

The Commission published a request for public comment and data to identify, among other things, the most effective private and public efforts to educate investors.¹¹ The Commission received more than 80 unique comments, including comments from investors, financial professionals, industry groups, academics, not-for-profit organizations, and other regulators.¹² Based on the feedback of commenters, the Staff has identified the following characteristics of effective investor education programs:

- ***Based on research and evaluation.*** Effective investor education programs should use research and evaluation to improve current educational materials and guide the development of new educational materials. Additionally, organizations that develop investor education programs should conduct evaluations to measure the efficacy of these programs.

¹¹ See Exchange Act Release No. 64306 (April 19, 2011) [76 FR 22740 (April 22, 2011)].

¹² Copies of comments received are available on the Commission's website at <http://www.sec.gov/comments/4-626/4-626.shtml>.

- ***Focused on clear goals.*** Effective investor education programs have clearly-defined and measurable goals.
- ***Timely and relevant.*** Effective investor education programs should have relevant and timely content. This content should be tailored to a specific target audience and presented in a manner that is engaging and interactive.
- ***Include important investor education concepts.*** Effective investor education programs should: (i) teach basic financial concepts, including risk, diversification, and compound interest; (ii) explain specific investment products and strategies; and (iii) educate individuals about investor protection, including how securities regulators protect investors and what steps individuals can take to avoid investment fraud.
- ***Be easily accessible.*** Effective investor education programs should be accessible to their target audiences, by being easy to use, easy to find, and easy to understand through the use of plain language.
- ***Promoted with strategic partnerships.*** Effective investor education programs utilize strategic partnerships by leveraging the support of public, private, and not-for-profit organizations.
- ***Delivered efficiently.*** Effective investor education programs should efficiently deliver information to the public based on the needs of their target audience. Some examples of efficient delivery methods include: (i) in-person methods (*e.g.*, classroom settings and presentations to large groups); (ii) online delivery channels (*e.g.*, websites, webinars, podcasts, and videos); or (iii) a combination of online and in-person methods.

- **Scalable.** Effective investor education programs should be designed in a way so as to reach a high volume of investors.

4. **Strategy to Increase the Financial Literacy of Investors**

OIEA staff consulted with FLEC representatives (collectively, “FLEC Participants”) to identify a strategy to increase financial literacy among investors.¹³ FLEC Participants identified key themes and goals for the strategy during three in-person meetings.¹⁴ FLEC Participants discussed using the National Strategy for Financial Literacy 2011 and FLEC’s financial education core competencies for saving and investing to help implement the strategy.

Key Content Areas for Improving the Financial Literacy of Investors

FLEC Participants identified four content areas that they believe should be promoted through the strategy’s goals in order to improve the financial literacy of investors and to have a positive impact on investing behavior. The four content areas are: (i) different types of risk; (ii) the fees and costs associated with investing; (iii) proactive steps for avoiding fraud; and (iv) general investment knowledge, including topics such as compound interest. FLEC Participants

¹³ FLEC, which consists of 22 federal entities and is chaired by the U.S. Department of the Treasury, was established under Title V of the Fair and Accurate Credit Transactions Act of 2003 to improve financial literacy in the United States. In 2006, FLEC developed its first national strategy. More recently, FLEC released *Promoting Financial Success in the United States: National Strategy for Financial Literacy 2011* (the “National Strategy for Financial Literacy 2011”), a strategic framework focused on increasing awareness of and access to effective financial education, determining and integrating core financial competencies, improving financial education infrastructure, and identifying, enhancing, and sharing effective practices.

¹⁴ OIEA staff hosted meetings with FLEC Participants on November 17, 2011, January 18, 2012, and March 28, 2012. While these meetings were open to all FLEC Participants, not all of them were able to attend. FLEC Participants represented at the meetings included the Department of the Treasury, the Department of Education, the Department of Labor, the Consumer Financial Protection Bureau, the Commodity Futures Trading Commission, the Social Security Administration, the Office of the Comptroller of the Currency, and the Federal Deposit Insurance Corporation.

also agreed that these content areas should be highlighted in financial education and capability efforts generally, especially at schools, in the workplace, within communities, and by families.

Goals for Improving the Financial Literacy of Investors

FLEC Participants identified four goals for the strategy:

- ***Develop joint investor education programs that target specific groups***

FLEC Participants discussed the possibility of working together to create, support, or augment joint investor education programs focusing on the following groups: young investors; lump sum payout recipients; investment trustees; members of the military; underserved populations; and older investors.

- ***Increase the number of investors who research investments and investment professionals before investing***

FLEC Participants agreed to work together on an “ask and check” campaign that would encourage individuals to check the background of investment professionals before investing with them. The campaign would also encourage individuals to verify that a potential investment is legitimate before choosing to invest.

- ***Promote Investor.gov as the primary federal government resource for investing information***

FLEC Participants agreed to work together to add relevant content to the SEC’s Investor.gov website and promote Investor.gov as the “first stop” for investing information. FLEC Participants also agreed to promote Investor.gov as an initial point of contact for questions and complaints relating to investing.

- ***Promote awareness of the fees and costs of investing***

FLEC Participants agreed to work together on a campaign to help individuals understand the fees and costs associated with buying, owning, and selling investments and working with investment professionals. A component of the campaign would encourage individuals to consider available investment options and make informed decisions.

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I. Introduction

A. The Congressional Mandate

On July 21, 2010, President Barack Obama signed the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (the “Dodd-Frank Act” or “Act”).¹⁵ Section 917 of Title IX of the Act (“Dodd-Frank Act Section 917”) requires the Securities and Exchange Commission (the “Commission” or “SEC”) to conduct a study (the “Study”) to identify the existing level of financial literacy among retail investors as well as methods and efforts to increase the financial literacy of investors.

Specifically, Dodd-Frank Act Section 917 directs the Commission to conduct the Study to identify:

- (1) the existing level of financial literacy among retail investors, including subgroups of investors identified by the Commission;
- (2) methods to improve the timing, content, and format of disclosures to investors with respect to financial intermediaries, investment products, and investment services;
- (3) the most useful and understandable relevant information that retail investors need to make informed financial decisions before engaging a financial intermediary or purchasing an investment product or service that is typically sold to retail investors, including shares of open-end companies, as that term is defined in

¹⁵ Pub. L. No. 111-203, 124 Stat. 1376 (2010).

Section 5 of the Investment Company Act of 1940¹⁶ that are registered under Section 8 of that Act;¹⁷

- (4) methods to increase the transparency of expenses and conflicts of interests in transactions involving investment services and products, including shares of open-end companies described in paragraph (3);
- (5) the most effective existing private and public efforts to educate investors; and
- (6) in consultation with the Financial Literacy and Education Commission (“FLEC”), a strategy (including, to the extent practicable, measurable goals and objectives) to increase the financial literacy of investors in order to bring about a positive change in behavior.

The Act requires the Commission to complete the Study within two years after the date of enactment of the Act (*i.e.*, by July 21, 2012). The Study has been prepared by the Staff of the SEC. The Commission has expressed no views regarding the analysis, findings, or conclusions. The Study was approved for release by the Commission.

B. The Scope of the Study

The Commission’s Office of Investor Education and Advocacy (“OIEA”) had primary responsibility for preparing the Study. Given the array of issues to be considered in the Study, including issues related to, among other things, financial literacy, investor disclosures, financial intermediaries, investment products and services, transparency of expenses and conflicts of interest, and investor education, OIEA relied on a number of different resources, both within and

¹⁶ 15 U.S.C. 80a-5.

¹⁷ 15 U.S.C. 80a-8.

without the Commission, in order to complete the Study. For example, the Commission contracted with the Federal Research Division of the Library of Congress to conduct a review of the quantitative studies on the financial literacy of retail investors in the United States. The Commission also sought public comment on several of the issues described above. In addition, the Commission engaged a consultant to conduct both qualitative and quantitative research designed to be responsive to certain requirements of Dodd-Frank Act Section 917, as discussed in greater detail below. Accordingly, the Study is based on a Library of Congress report on financial literacy among retail investors in the United States, public comments, qualitative research (focus groups), quantitative research (online survey), and the expertise of a cross-Divisional task force consisting of staff from several Divisions and Offices within the Commission. These resources are described in greater detail below.

1. Library of Congress Report on Financial Literacy Among Retail Investors in the United States

Dodd-Frank Act Section 917(a)(1) directs the Commission to conduct a Study to identify the existing level of financial literacy among investors, including subgroups of investors identified by the Commission. On June 22, 2011, the Commission contracted with the Federal Research Division of the Library of Congress to conduct a review of the quantitative studies on the financial literacy of retail investors in the United States published since 2006, and to prepare a report summarizing the key research findings from these studies, including any findings focused on retail investor subgroups (the “Library of Congress Report”).¹⁸

¹⁸ See Federal Research Division, Library of Congress, Financial Literacy Among Retail Investors in the United States (Dec. 30, 2011). The Library of Congress Report is incorporated by reference herein and attached hereto as Appendix 1.

2. Public Comment

a. Public Comment Regarding Dodd-Frank Act Sections 917(a)(2) – (4)

Dodd-Frank Act Section 917(a)(2) directs the Commission to conduct the Study to identify methods to improve the timing, content, and format of disclosures to investors with respect to financial intermediaries, investment products, and investment services. Dodd-Frank Act Section 917(a)(3) directs the Commission to conduct the Study to identify the most useful and understandable relevant information that retail investors need to make informed financial decisions before engaging a financial intermediary or purchasing an investment product or service that is typically sold to retail investors, including shares of open-end companies. Dodd-Frank Act Section 917(a)(4) directs the Commission to conduct the Study to identify methods to increase the transparency of expenses and conflicts of interests in transactions involving investment services and products, including shares of open-end companies.

On January 23, 2012, the Commission published a request for public comment and data to inform the Study with respect to Dodd-Frank Act Sections 917(a)(2)–(4). The comment period closed on March 23, 2012. The Commission received 45 unique comments, including comments from investors, financial professionals, industry groups, consumer advocates, academics, and other regulators.¹⁹

b. Public Comment Regarding Dodd-Frank Act Section 917(a)(5)

Dodd-Frank Act Section 917(a)(5) directs the Commission to conduct the Study to identify the most effective existing private and public efforts to educate investors. On April 19,

¹⁹ Copies of comments received are available on the Commission’s website at <http://www.sec.gov/comments/4-645/4-645.shtml>.

2011, the Commission published a request for public comment and data to inform the Study with respect to Dodd-Frank Act Section 917(a)(5). The comment period closed on June 21, 2011.

The Commission received more than 80 unique comments, including comments from investors, financial professionals, industry groups, academics, and other regulators.²⁰

3. Qualitative Research (Focus Groups)

The Commission engaged a consultant to conduct investor testing designed to be responsive to the requirements of Dodd-Frank Act Sections 917(a)(2), (3), and (4).²¹ The qualitative research involved focus group interviews concerning investors' views and opinions regarding the process of selecting a financial intermediary and the experience of purchasing investment products and services through a financial intermediary. During this process, investors participating in focus groups were asked questions about, among other things, the importance of the timing of information, content related to commissions, fees, and risk factors in the transaction process, and the format of the information. The focus group phase of the investor testing is described in greater detail below in the section on the methodology of the qualitative research.

4. Quantitative Research (Online Survey)

The quantitative research conducted by the consultant consisted of online testing that examined investor understanding of the usefulness and effectiveness of specific disclosure documents, including: (a) the Brochure; (b) account statements and confirmations; (c) the

²⁰ Copies of comments received are available on the Commission's website at <http://www.sec.gov/comments/4-626/4-626.shtml>.

²¹ The consultant was Siegel & Gale LLC ("S+G"), a strategic branding firm. The consultant prepared a report summarizing the investor testing data, attached as Appendix 2 ("S+G Report").

mutual fund summary prospectus; and (d) a hypothetical point-of-sale disclosure document. The online testing involved four research panels corresponding to each of the disclosure documents enumerated above. Each panel consisted of approximately 1,200 online survey respondents, for a total sample size of approximately 4,800 online survey respondents. The online testing was designed to generate statistically significant data.²²

Form ADV. Investment advisers use Form ADV to apply for registration with the Commission (Part 1A) or with state securities authorities (Part 1B).²³ Part 1 and Part 2A of Form ADV are filed electronically through the Investment Adviser Registration Depository (“IARD”)²⁴ and are available to investors on the Investment Adviser Public Disclosure website (“IAPD”).²⁵

Part 1 (A and B) of Form ADV provides federal and state regulators with information to process registrations and to manage their regulatory and examination programs. It requires applicants to disclose information about their disciplinary history, type of services provided and

²² The quantitative research yielded more data than was required for purposes of the Study. As a result, the Study does not integrate every single data point collected through the quantitative research. However, the quantitative research data is included in its entirety at the end of the Study as Appendix 4.

²³ See Rules 203-1 and 204-1 under the Investment Advisers Act of 1940 [15 U.S.C. 80b] (“Advisers Act”). See also Instructions to Form ADV, available at <http://www.sec.gov/about/forms/formadv-instructions.pdf>.

Unless otherwise noted, when we refer to rules 203-1, 204-1, 204-2, or 204-3 under the Advisers Act, or any paragraph of these rules, we are referring to 17 CFR 275.203-1, 275.204-1, 275.204-2, or 275.204-3, respectively, of the Code of Federal Regulations in which these rules are published.

²⁴ The IARD is operated by the Financial Industry Regulatory Authority (“FINRA”). In 1996, Congress enacted the National Securities Markets Improvements Act (“NSMIA”), which, among other things, led to a joint agreement among the Commission, state regulators, and NASD to develop the IARD.

²⁵ IAPD is available on the Commission’s website, at <http://www.adviserinfo.sec.gov>.

other aspects of their advisory business. An investment adviser must update Part 1 of its Form ADV at least annually (within 90 days of their fiscal year end), or more frequently if required by the Instructions to Form ADV.²⁶

The Commission recently amended Part 2 substantially.²⁷ Part 2 contains two sub-parts, Part 2A (the “Brochure”) and Part 2B (the “Brochure Supplement”). The Brochure contains information that investment advisers must provide to prospective clients initially and to existing clients annually, and the Brochure Supplement contains information about the advisory personnel providing clients with investment advice. An investment adviser’s Brochure must contain, at a minimum, 18 disclosure items about the advisory firm, much of which addresses an investment adviser’s conflicts of interest with its clients,²⁸ and is disclosure that the adviser, as a fiduciary, must make to clients in some manner regardless of the form requirements.²⁹ Examples of information required in the Brochure include:

- Fees;
- Methods of analysis;
- Investment strategies and risk of loss;

²⁶ See Advisers Act Rule 204-1.

²⁷ See Amendments to Form ADV, Investment Advisers Act Release No. 3060 (July 28, 2010), [79 FR 49234 (Aug. 12, 2010)] (“Release 3060”).

²⁸ See Release 3060, supra note 27, at 49235.

²⁹ See, e.g., Study on Investment Advisers and Broker-Dealers (Jan. 21, 2011), pursuant to Section 913 of the Dodd-Frank Act, available at <http://www.sec.gov/news/studies/2011/913studyfinal.pdf>, for a staff discussion of fiduciary duty as it relates to conflicts of interest. See also Release 3060, supra note 27, at 49236 (“We have drawn the items in Part 2A largely from disclosure advisers have long been required to make in response to the previous Part 2, and have added items to address new concerns or developments. Much of the disclosure required in Part 2A addresses an adviser’s conflicts of interest with its clients, and is disclosure that the adviser, as a fiduciary, must make to clients in some manner regardless of the form requirements.”).

- Brokerage, including trade aggregation policies and directed brokerage practices, as well as use of soft dollars;
- Process for reviewing client accounts;
- Client referrals and other compensation;
- Disciplinary history; and
- Financial information, among other things.³⁰

The Brochure Supplement, which was not part of the Study, includes information about certain advisory personnel on whom clients may rely for investment advice, including their educational background, disciplinary history, and the adviser's supervision of the advisory activities of its personnel.³¹

A Commission-registered investment adviser must provide its prospective clients with a current Brochure before or at the time it enters into an advisory contract with them.³² Advisers

³⁰ See Part 2A of Form ADV.

³¹ See Instruction 5 of General Instructions for Form ADV. Registrants are not required to file the Brochure Supplement electronically, but must preserve a copy of the Brochure Supplement(s) and make them available upon request. The Brochure Supplement was not part of the Study because investment advisers were not required to begin delivering Brochure Supplements to clients until shortly before the research segments of the Study were conducted.

³² See Advisers Act Rule 204-3. The rule does not require advisers to deliver Brochures to certain advisory clients receiving only impersonal investment advice for which the adviser charges less than \$500 per year, or to clients that are investment companies registered under the Investment Company Act of 1940 (the "Investment Company Act") or business development companies provided that the advisory contract with such a company meets the requirements of Investment Company Act Section 15(c), which requires a board of directors to request, and the adviser to furnish, information to enable the board to evaluate the terms of the proposed advisory contract. Finally, an adviser does not have to prepare (or file with the Commission) a Brochure if it does not have any clients to whom a Brochure must be delivered. See Instruction 7 for Part 2A of Form ADV.

As a fiduciary, the adviser also must seek to avoid conflicts of interest with its clients, and, at a minimum, make full disclosure of all material conflicts of interest between it and its clients that could affect the advisory relationship. This obligation requires that the adviser provide the client with sufficiently specific facts so that the client is able to understand the conflicts of interest the

must provide to each client to whom they must deliver a Brochure either: (i) a copy of the current (updated) Brochure that includes or is accompanied by the summary of material changes that have occurred since their last Brochure was delivered to clients; or (ii) a summary of material changes that have occurred since their last Brochure was delivered to clients that includes an offer to provide a copy of the current Brochure.³³ Each adviser must make this annual delivery no later than 120 days after the end of its fiscal year.³⁴ Advisers may deliver: (i) the Brochure and a summary of material changes; or (ii) a summary of material changes, along with an offer to provide the Brochure to clients electronically in accordance with the Commission's guidelines regarding electronic delivery of information.³⁵

adviser has and the business practices in which it engages, and can give informed consent to such conflicts or practices or reject them. To satisfy this obligation, the adviser therefore may have to disclose to clients information not specifically required by Part 2 of Form ADV or in more detail than the Brochure items might otherwise require. See Instruction 3 in General Instructions for Part 2 of Form ADV, available at <http://www.sec.gov/about/forms/formadv-part2.pdf>.

³³ See Advisers Act Rule 204-3(b) and Instruction 2 of Part 2A of Form ADV. The offer also must be accompanied by a website address (if available) and a telephone number and e-mail address (if available) for obtaining the complete Brochure pursuant to the Instructions for Part 2, as well as the website address for obtaining information about the adviser through the IAPD. Advisers Act Rule 204-2 also requires the adviser choosing this approach to preserve a copy of the summary of material changes, so that the Commission's examination staff has access to such separately provided summaries. See Advisers Act Rule 204-2(a)(14)(i).

³⁴ See Advisers Act Rule 204-3(b) and Instruction 2 for Part 2A of Form ADV.

³⁵ See Release 3060, supra note 27, at 49247. See also Use of Electronic Media by Broker-Dealers, Transfer Agents, and Investment Advisers for Delivery of Information, Investment Advisers Act Release No. 1562 (May 9, 1996). An adviser that does not include, and therefore file, its summary of material changes as part of its firm Brochure (on the cover page or the page immediately following the cover) must file its summary as an exhibit, included with its firm Brochure when it files its annual updating amendment with the Commission, so that the summary of material changes is available to the public through the IAPD website. See Instruction 6 for Part 2A of Form ADV. The adviser must upload its firm Brochure and the summary (as an exhibit) together in a single, text-searchable file in Adobe Portable Document Format (PDF) on IARD. See Instruction 6 for Part 2A of Form ADV.

Trade Confirmations and Account Statements. Account statements provide investors with a detailed “snapshot” of the value of, and the transactions that have occurred in, their accounts during the statement period. Financial intermediaries may provide account statements to their customers monthly or quarterly. Many financial intermediaries also provide their customers with online access to information in their account statements. Account statements generally contain the following information: (a) basic account information, such as the names of the account owners, the time period covered, and the account number; (b) an account summary, which summarizes the total value of all investments in the account, and describes how these investments performed over the statement period by displaying any unrealized and realized gains and/or losses; (c) portfolio detail, which identifies the name, quantity and value of each of the assets in the account; (d) an income summary, which summarizes any income and dividends earned by investments in the account during the statement period; (e) a list of daily activity detailing all account activity (e.g., transactions, withdrawals, deposits, etc...); and (f) disclosures, which include legal and administrative explanations related to the account.

Trade confirmations are written notifications providing the details of a securities transaction that broker-dealers are required to provide to their customers at or before completion of a securities transaction pursuant to Rule 10b-10³⁶ of the Securities Exchange Act of 1934 (the “Exchange Act”).³⁷ Trade confirmations require, among other things, the disclosure of: (a) the

³⁶ See 17 CFR 240.10b-10. U.S. savings bonds and municipal securities are not subject to the requirements of Rule 10b-10, although municipal securities are subject to the trade confirmation requirements Municipal Securities Rulemaking Board Rule G-15.

³⁷ 15 U.S.C. 78a et seq.

date, time, and identity of the security that was purchased or sold;³⁸ (b) the capacity in which a broker-dealer acted when effecting the transaction (*i.e.*, agent for the customer, agent for the customer and another, principal);³⁹ (c) the net dollar price and yield of a debt security⁴⁰; and (d) under specific circumstances, the amount of remuneration that the broker-dealer receives for the transaction, whether from the customer or from a third-party.⁴¹ Some broker-dealers provide more information on a trade confirmation than is otherwise required by Rule 10b-10, such as: (a) whether the order was solicited by the customer; (b) the credit ratings assigned to debt securities; and (c) the market or venue where the transaction was executed.⁴²

Summary Prospectus. The Securities Act of 1933 (the “Securities Act”) makes it unlawful to deliver a security for purposes of sale or for delivery after sale “unless accompanied or preceded” by a statutory prospectus.⁴³ In 2009, the Commission adopted rule amendments that would permit a mutual fund to satisfy its prospectus delivery obligations under the Securities Act by sending or giving to investors key information about a mutual fund in the form of a “summary prospectus,” so long as the mutual fund provides the statutory prospectus on an

³⁸ See Rule 10b-10(a)(1).

³⁹ See Rule 10b-10(a)(2).

⁴⁰ See Rule 10b-10(a)(5).

⁴¹ See, e.g., Rule 10b-10(a)(2)(i)(B)-(D) and (a)(2)(ii)(A) and (B).

⁴² Broker-dealers must make a variety of disclosures to their customers. For an overview of broker-dealer disclosure obligations, see Study on Investment Advisers and Broker-Dealers (Jan. 21, 2011), pursuant to Section 913 of the Dodd-Frank Act, available at www.sec.gov/news/studies/2011/913studyfinal.pdf.

⁴³ See Section 5(b)(2) of the Securities Act of 1933 (the “Securities Act”), 15 U.S.C. 77e(b)(2).

Internet website and satisfies certain other conditions.⁴⁴ As a result, delivery of the statutory prospectus for purposes of the federal securities laws can be satisfied by sending or giving a summary prospectus and by providing the statutory prospectus and other required information online.⁴⁵ The federal securities laws do *not* require the statutory prospectus to be provided to investors *prior to* delivery of the security or a confirmation of the transaction.⁴⁶ As a result, mutual fund investors too often receive the statutory prospectus *after* the purchase transaction when the investment decision is complete.⁴⁷ The 2009 rule amendments address that shortcoming by requiring any mutual fund that is relying on the summary prospectus to meet its prospectus delivery obligations under the federal securities laws to post *both* its summary prospectus and statutory prospectus on the Internet at all times.⁴⁸ At the time of adopting the rule amendments, the Commission believed that the Internet availability would enhance investors' access to information about a mutual fund prior to the time of making an investment decision.⁴⁹

A summary prospectus is a document containing key information about a fund in plain Language in a clear and concise format.⁵⁰ A summary prospectus contains, among other things,

⁴⁴ See Enhanced Disclosure and New Prospectus Delivery Option for Registered Open-End Management Investment Companies, Securities Act Release No. 8998 (Jan. 13, 2009), [74 FR 4546 (Jan. 26, 2009)].

⁴⁵ 17 CFR 230.498(c). See also Enhanced Disclosure and New Prospectus Delivery Option for Registered Open-End Management Investment Companies, *supra* note 44, at 4561.

⁴⁶ 15 U.S.C. 77e(b)(2).

⁴⁷ See Enhanced Disclosure and New Prospectus Delivery Option for Registered Open-End Management Investment Companies, *supra* note 44, at 4561.

⁴⁸ Id.

⁴⁹ Id.

⁵⁰ Id. at 4548 and 4549.

key information about a fund’s investment objectives, costs, and risks.⁵¹ A summary prospectus is not a self-contained document, but rather one element in a layered disclosure regime that is intended to provide investors with better, more useable access to the information in the statutory prospectus, the statement of additional information, and shareholder reports.⁵²

Point-of-Sale Disclosure. A “point-of-sale” disclosure typically refers to a document that provides investors with a summary of key information regarding an investment product or service at the time a recommendation is made or just before a sale is made. While the information contained in a point-of-sale disclosure would likely vary depending on the investment product or service, such disclosure could include descriptions of: (a) the investment product or service; (b) the risks associated with the investment product or service; (b) fees and expenses related to the investment product or service; and (d) conflicts of interest related to the purchase or sale of the investment product or service.

II. Discussion of Dodd-Frank Act Section 917(a)(1): The Existing Level of Financial Literacy Among Retail Investors

As discussed, Dodd-Frank Act Section 917(a)(1) directs the Commission to conduct a Study to identify the existing level of financial literacy among investors, including subgroups of investors identified by the Commission. On June 22, 2011, the Commission contracted with the Federal Research Division of the Library of Congress to conduct a review of the quantitative studies on the financial literacy of retail investors in the United States published since 2006, and to prepare a report summarizing the key research findings from these studies, including any findings focused on retail investor subgroups. On December 30, 2011, the Federal Research

⁵¹ Id. at 4563.

⁵² Id. at 4572.

Division of the Library of Congress delivered to the Commission a report assessing the financial literacy of U.S. retail investors, which includes subgroup findings relating to age, race, and gender.⁵³

According to the Library of Congress report, studies consistently show that American investors lack basic financial literacy.⁵⁴ For example, studies have found that investors do not understand the most elementary financial concepts, such as compound interest and inflation.⁵⁵ Moreover, many investors do not understand other key financial concepts, such as diversification or the differences between stocks and bonds, and are not fully aware of investment costs and their impact on investment returns.⁵⁶ According to the Library of Congress report, studies show that investors lack critical knowledge that would help them protect themselves from investment fraud.⁵⁷ In particular, surveys demonstrate that certain subgroups, including women, African-Americans, Hispanics, the oldest segment of the elderly population, and those who are poorly educated, have an even greater lack of investment knowledge than the average general population.⁵⁸ The Library of Congress Report concludes that “low levels of investor literacy have serious implications for the ability of broad segments of the population to retire

⁵³ See Library of Congress Report, supra note 18.

⁵⁴ Id. at 5.

⁵⁵ Id.

⁵⁶ Id. at 5-6.

⁵⁷ Id. at 6.

⁵⁸ Id. at 1.

comfortably, particularly in an age dominated by defined-contribution retirement plans.”⁵⁹ Furthermore, it states that “intensifying efforts to educate investors is essential,” and that investor education programs should be tailored to specific subgroups “to maximize their effectiveness.”⁶⁰

III. Public Comment Summary of Dodd-Frank Act Sections 917(a)(2) – (4)

On January 23, 2012, the Commission published a request for public comment and data to inform the Study with respect to Dodd-Frank Act Sections 917(a)(2) – (4).⁶¹ The comment period closed on March 23, 2012. The Commission received 45 unique comments, including comments from investors, financial professionals, industry groups, academics, and other regulators.⁶² As described in more detail below, a number of these commenters offered several recommendations for improving the disclosure information provided to investors in connection with the selection of a financial intermediary or the purchase or sale of an investment product or service.

A. Methods to Improve the Timing, Content, and Format of Disclosures to Investors with Respect to Financial Intermediaries, Investment Products, and Investment Services

The Commission requested public comment regarding methods to improve the timing, content, and format of disclosures to investors with respect to financial intermediaries,

⁵⁹ Id. at 26.

⁶⁰ Id.

⁶¹ See Securities Exchange Act Release No. 66164 (January 17, 2012), 77 FR 3294 (January 23, 2012).

⁶² Copies of comments received are available on the Commission’s website at <http://www.sec.gov/comments/4-645/4-645.shtml>.

investment products, and investment services. The views of the commenters are summarized below.

1. **Timing**

Several commenters provided recommendations for improving the timing of disclosure information related to financial intermediaries and investment products and services.⁶³

Generally, commenters supported providing investors with disclosure information either “prior to” an investment decision or “at or prior to” an investment decision. Several commenters also provided recommendations on general factors the Commission should consider to improve the timing of disclosure information.

a. Disclosures “prior to” an investor’s decision

Some commenters supported providing investors with disclosure information prior to either opening an account with a financial intermediary or purchasing an investment product or service.⁶⁴ Commenters indicated that disclosure “needs to be separated from the marketing interaction where other factors play too influential a role,”⁶⁵ and that providing disclosure “at the point-of-sale of an investment product is not ideal given the potential for conflict.”⁶⁶ One

⁶³ See Letters from Leslie Kramerich (“Kramerich Letter”) at 8; Certified Financial Planner Board of Standards, Inc. (“CFP Letter”) at 3; Investor Education Collaborative (“IEC Letter”) at 1; Peridrome Corporation (“Peridrome Letter”) at 1; BetterInvesting (“BetterInvesting Letter”) at 3; Investment Company Institute (“ICI Letter”) at 3; Securities Industry and Financial Markets Association (“SIFMA Letter”) at 3; Wells Fargo Advisors, LLC, (“WFA Letter”) at 3; National Endowment for Financial Education (“NEFE Letter”) at 1; Independent Directors Council (“IDC Letter”) at 2; Fi360, Inc. (“Fi360 Letter”) at 5; AARP (“AARP Letter”) at 3; and Consumer Federation of America (“Consumer Federation Letter”) at 8.

⁶⁴ See Kramerich Letter at 8, CFP Letter at 3, IEC Letter at 1, Peridrome Letter at 1, and BetterInvesting Letter at 3.

⁶⁵ See IEC Letter at 3.

⁶⁶ See Peridrome Letter at 1

commenter indicated that “the best disclosures in the world will do little good if they are delivered too late to be incorporated into an investor’s decision-making process.”⁶⁷ Another commenter stated that investors need information regarding financial intermediaries “prior to a financial engagement” in order “to make a well-informed choice of a financial advisor.”⁶⁸ This commenter further noted that “once an investor has chosen an adviser, the investor typically engages in less independent research and analysis of subsequent decisions related to recommended products and services, and often defers to the judgment and recommendations of the adviser.”⁶⁹

One commenter recommended a specific schedule for providing disclosure information based on the type of disclosure.⁷⁰ This commenter suggested that the timing of financial intermediary disclosures should be considered in two contexts – pre-engagement (before establishing a business relationship) and post-engagement (after establishing a business relationship).⁷¹ According to this commenter, pre-engagement disclosures should be provided “at or as soon as possible after the first contact and before a business relationship is commenced.”⁷² This pre-engagement disclosure information would include: information on the services offered by the financial intermediary; limitations on those services and how the financial intermediary is compensated; conflicts of interest; legal obligations of the financial intermediary; the financial intermediary’s disciplinary record; and any other information the Commission may

⁶⁷ See Consumer Federation Letter at 8.

⁶⁸ See CFP Letter at 4.

⁶⁹ Id.

⁷⁰ See Consumer Federation Letter at 8.

⁷¹ Id.

⁷² Id. See also AARP Letter at 3.

deem essential to make an informed selection of a service provider.⁷³ This commenter indicated that post-engagement disclosure information should be provided “at or immediately after the point of the recommendation [from the financial intermediary].” This post-engagement disclosure information, or information provided with a specific investment recommendation, would include “any information about fees a [financial intermediary] expects to earn or conflicts of interest the [financial intermediary] may have that could create bias with regard to the particular product or service being recommended.”⁷⁴

Two commenters indicated that the “ideal” time to provide disclosure information related to investment services and products would be when the investment product or service is recommended.⁷⁵ According to one commenter, disclosures related to investment products and services should be provided “far enough in advance of the sale to be incorporated into the investor’s decision-making process.”⁷⁶ This commenter further noted that point-of-sale disclosure for investment products and services “will typically be too late to maximize their usefulness.”⁷⁷

b. Other Timing Preferences

Two commenters supported other timing preferences for the delivery of disclosure information to investors. One of these commenters asserted that investors should receive certain “key [disclosure] information . . . at the outset of their relationship with a financial intermediary”

⁷³ Id.

⁷⁴ See Consumer Federation Letter at 8.

⁷⁵ See Consumer Federation Letter at 8 and AARP Letter at 3.

⁷⁶ See Consumer Federation Letter at 8.

⁷⁷ Id.

and that other “disclosures may be beneficial at other stages in the securities process.”⁷⁸

Similarly, the other commenter suggested that investors would benefit from “receiving disclosure at the time the information is most relevant to a particular decision about a financial service or product, which is not necessarily at account opening.”⁷⁹

c. Additional Comments

Several commenters also recommended factors for the Commission to consider in determining methods to improve the timing of disclosure delivery to investors. One commenter indicated that in determining the timing of disclosure the “primary focus should be on the needs of the investor, not the convenience of the provider.”⁸⁰ Another commenter noted that the “timing of disclosure requirements varies widely” and recommended that the timing of disclosure requirements be standardized for all financial intermediaries and across all investment products.⁸¹

Another commenter indicated that any disclosures for investment products and services delivered to investors at the point-of-sale “must be designed to minimize disruptions to the sales process.”⁸² This commenter noted that “most investment sales typically occur over the Internet or by telephone, rather than through face-to-face meetings, so requiring physical transfer of a disclosure document is not realistic.”⁸³

⁷⁸ See WFA Letter at 3.

⁷⁹ See SIFMA Letter at 7.

⁸⁰ See Consumer Federation Letter at 8.

⁸¹ See AARP Letter at 3.

⁸² See ICI Letter at 3.

⁸³ Id.

2. Content

Several commenters provided a number of recommendations for improving the content of disclosure information related to financial intermediaries and investment products and services. Recommendations in many of the comment letters focused on: (i) the use of a “layered disclosure” framework for providing disclosure documents to investors;⁸⁴ and (ii) the use of summary disclosure documents for providing concise information to investors. Commenters also suggested factors to consider for improving content in all disclosure documents.

a. Layered Disclosure

Several commenters advocated establishing a “layered disclosure” framework for some or all of the disclosure information related to financial intermediaries and investment products and services.⁸⁵ One commenter stated that disclosure information is “most effectively provided to investors in layers, with the most pertinent information provided to an investor when the investor is making a decision about a particular financial service or product.”⁸⁶ Generally, in a “layered disclosure” framework, investors would receive an initial disclosure document that

⁸⁴ Layered disclosure is an “approach to disclosure in which key information is sent or given to the investor and more detailed information is provided online and, upon request, is sent in paper or by e-mail.” Enhanced Disclosure and New Prospectus Delivery Option for Registered Open-End Management Investment Companies, Securities Act Release No. 8998 (Jan. 13, 2009), [74 FR 4546, 4560 (Jan. 26, 2009)]. This layered approach is “intended to provide investors with better ability to choose the amount and type of information to review, as well as the format in which to review it (online or paper).” Id.

⁸⁵ See Letters from Association for Advanced Life Underwriting (“AALU Letter”) at 5; American Council of Life Insurers (“ACLI Letter”) at 2; Committee of Annuity Insurers (“CAI Letter”) at 5; Financial Services Institute (“FSI Letter”) at 3-4; WFA Letter at 2; ICI Letter at 4; SIFMA Letter at 3-4; Consumer Federation Letter at 4; and AARP Letter at 3.

⁸⁶ See SIFMA Letter at 3.

summarizes key disclosure information and provides references to another disclosure document or set of documents which contain additional, more detailed, disclosure information.⁸⁷

For example, one commenter described a “layered disclosure” framework for financial intermediaries involving two-tiers of disclosure information.⁸⁸ The first tier disclosure consisted of a concise summary disclosure document that focused on describing: (i) the standard of care the financial intermediary owed to the investor; (ii) the nature and scope of the business relationship between the parties, the services and/or products that the financial intermediary would provide, and the duration of the engagement; (iii) the nature and form of the financial intermediary’s compensation; (iv) any material conflicts of interest; (v) the investor’s obligation to provide, and update if necessary, certain background information such as the investor’s financial situation, investment objectives and goals, investment experience, and risk tolerance; and (vi) how the investor can obtain more detailed disclosure information.⁸⁹ The second tier of disclosure information consisted of: (i) a detailed schedule of typical fees and services charges; (ii) specific details of all arrangements in which the firm receives an economic benefit for providing a particular product, investment strategy or service to a customer; and (iii) any other information necessary to disclose material conflicts of interest.⁹⁰

b. Summary Disclosure Documents – General

⁸⁷ Several commenters also suggested the Commission consider the benefits of allowing financial intermediaries and issuers of investment products and services to “incorporate by reference” disclosure information that is made available, but not automatically provided, to an investor. See FSI Letter at 4, SIFMA Letter at 6, and CAI Letter at 6.

⁸⁸ See FSI Letter at 3-4.

⁸⁹ Id.

⁹⁰ Id.

Many commenters advocated for the creation of summary disclosure documents to provide investors concise information on a financial intermediary or an investment product or service.⁹¹ According to survey results provided by one commenter, approximately 95% of respondents supported “a requirement that large financial documents include a one-page summary of key terms.”⁹² Another commenter stated that “providing investors with information that would be contained in a summary prospectus” would be a “positive step” towards “foster[ing] a method that streamlines the salient points [of disclosure] in a prominent clear manner.”⁹³ Similarly, for disclosures about financial intermediaries, one commenter stated that “retail investors are likely to prefer and find more useful, shorter and more targeted financial intermediary disclosures with an opportunity for investors to obtain additional information through the financial intermediaries’ website or to request such information via written disclosure.”⁹⁴

Summary disclosure documents can provide investors with concise key information about a financial intermediary or a potential investment product or service. One commenter highlighted three important qualities of summary disclosure documents: (1) summary disclosure documents have the potential to be effective in allowing investors to make a quick comparison among a number of options before narrowing down their selection for more careful review; (2)

⁹¹ See Letter from Chris Barnard (“Barnard Letter”) at 2-4; Letter from Pathfinder Planning LLC (“Pathfinder Letter”); Letter from Jonathan Phelan (“Phelan Letter”); Letter from Financial Industry Regulatory Authority (“FINRA Letter”) at 2-4; Letter from CFA Institute (“CFA Letter”) at 5; CFP Letter at 3-4; CAI Letter at 6; IDC Letter at 2; ICI Letter at 2-5; WFA Letter at 3; SIFMA Letter at 7-8; BetterInvesting Letter at 3-4; FSI Letter at 3-4; Consumer Federation Letter at 3-5 and 11-13; and AARP Letter at 3.

⁹² See BetterInvesting Letter at 3-4.

⁹³ See CFA Letter at 5.

⁹⁴ Id. at 6.

investors turned off by lengthier disclosure documents may be drawn in by the summary and encouraged to explore further in certain key areas; and (3) even investors who do not look beyond the summary may benefit if, absent the summary, they would not have looked at any disclosure document.⁹⁵ This commenter also emphasized that summary disclosure documents should focus on “the issues most important” to making an informed investment decision.⁹⁶

Some examples of information that commenters indicated should be included in a summary disclosure document for an investment product or service include descriptions of: (i) the investment product or service’s objectives, strategies and risks; (ii) any fees and expenses; (iii) any eligibility requirements; (iv) any conflicts of interest; and (v) where investors can access additional information on the investment product or service.⁹⁷ Some examples of the information that commenters indicated should be included in a summary disclosure document for a financial intermediary include descriptions of: (i) the financial intermediary’s professional background; (ii) the scope of the business relationship between the investor and the financial intermediary, including a description of the legal obligations the financial intermediary owes to investors; (iii) the products and services offered by the financial intermediary; (iv) the financial intermediary’s fees and compensation arrangements; (v) any conflicts of interest; (vi) an investor’s rights to redress and any limitation on those rights (e.g., mandatory arbitration agreements); and (vii) the disciplinary record of the financial intermediary.⁹⁸

⁹⁵ See Consumer Federation Letter at 4.

⁹⁶ Id.

⁹⁷ See ICI Letter at 2-5; Barnard Letter at 2-4; FINRA Letter at 2-4; and Pathfinder Letter.

⁹⁸ See SIFMA Letter at 7-8; CFA Letter at 5; CFP Letter at 3-4; BetterInvesting Letter at 3-4; FSI Letter at 3-4, Phelan Letter; IDC Letter at 2; and Consumer Federation Letter at 11.

Several commenters advocated using the existing content requirements from Form ADV Part 2 and the mutual fund summary prospectus as models for creating summary disclosure documents.⁹⁹ However, one commenter noted that the Commission should test the effectiveness of the Form ADV Part 2 to “ensure that is fulfilling its intended function” before using it as a guide for other summary disclosure documents.¹⁰⁰

While most commenters generally supported the creation of summary disclosure documents, a few commenters expressed concerns regarding the adoption of any summary disclosure requirement for investment products that would not apply to all types of investment products.¹⁰¹ These commenters believe that failure to apply a summary disclosure requirement to all investment products “could create strong incentives for [financial intermediaries] to recommend investment products not subject to the same regulatory burdens, ... even when those products do not offer the same level of regulatory protection and other benefits for investors.”¹⁰² Accordingly, these commenters recommended that “any [summary] disclosure obligation should be product neutral.”¹⁰³

c. Summary Disclosure Documents/Layered Disclosure – Annuity Products

Several commenters, generally representing the insurance industry, specifically advocated for establishing a layered disclosure system for annuity products.¹⁰⁴ One commenter

⁹⁹ See CFP Letter at 3-4; SIFMA Letter at 7-8; ICI Letter at 2-5; Consumer Federation Letter at 11-12.

¹⁰⁰ See Consumer Federation Letter at 11-12.

¹⁰¹ See ICI Letter at 3 and IDC Letter at 2. See also Consumer Federation Letter at 5.

¹⁰² See ICI Letter at 3.

¹⁰³ Id.

¹⁰⁴ See CALSTRS Letter at 1-2; CAI Letter at 3-6; AALU Letter at 6; ACLI Letter at 2-3.

recommended that the Commission consider reforming the current disclosure framework for annuity products into a “simplified and unified system of relevant disclosure” with “a goal being to increase the likelihood that investors will read and learn from at least some of the material.”¹⁰⁵

This commenter supported using “an integrated system of summary documents delivered in paper and/or electronic format that are linked to more comprehensive web-based documents.”¹⁰⁶

This commenter indicated that summary disclosures would communicate the “most important information in a format that annuity investors would be more likely to read and understand, while the layered disclosure platform would give investors continuous and instantaneous access to a broader wealth of information.”¹⁰⁷

According to another commenter, a prospectus for annuity products ranges from 100 to 300 pages of complex legal language that investors find difficult to understand.¹⁰⁸ This commenter believes annuity products should have a summary disclosure document similar to a mutual fund summary prospectus.¹⁰⁹ This commenter suggested that the “ideal summary prospectus” for an annuity product would be 10 pages or less; written in plain Language; and cover contract basics, investment choices, death benefits, costs, risks, adviser compensation, and taxation.¹¹⁰ Additionally, the commenter recommended developing a one-page document for retail investors that covers an annuity product’s fees, historical performance, and investment

¹⁰⁵ See CAI Letter at 3.

¹⁰⁶ Id. at 5.

¹⁰⁷ Id. Commenter also supported a “summary update prospectus” for annuity products that would provide the contract owner with a “short, clear roadmap to what is new or updated in the statutory prospectus.” See CAI Letter at 6.

¹⁰⁸ See CALSTRS Letter at 1-2.

¹⁰⁹ Id.

¹¹⁰ Id.

strategy.¹¹¹ Another commenter provided sample summary disclosure documents for fixed, index, and variable annuity products.¹¹²

d. Summary Disclosure Documents – Options

One commenter recommended the Commission amend Rule 9b-1(d) of the Exchange Act to modify the content requirements of an Options Disclosure Document (“ODD”).¹¹³ Currently, Rule 9b1-(d) prohibits a broker-dealer from accepting an investor’s order to purchase or sell an options contract unless the broker-dealer “furnishes or has furnished” to the investor a copy of the ODD. The commenter believed, among other things, that the current ODD:

- (i) “is lengthy and complex, and thus highly unlikely to be fully read and understood by most investors (the current version of the ODD, including various supplements thereto, is over 150 pages in length);”
- (ii) “becomes even more unreadable because of the need for multiple supplements that cannot be incorporated into the document because reprinting the entire document each time an amendment is required would be prohibitively expensive;” and
- (iii) “is technologically outmoded, in that a printed document cannot take advantage of ‘links’ and other techniques that make online reference information more accessible and efficient.”¹¹⁴

¹¹¹ Id.

¹¹² See ACLI Letter at Appendix A.

¹¹³ See Letter from Jean M. Crawley, Senior Vice President, The Options Clearing Corporation, to Elizabeth M. Murphy, Secretary, Commission, dated March 22, 2012 (“OCC Letter”).

¹¹⁴ See OCC Letter at 2-3.

The commenter proposed modifying the ODD to conform to the Risk Disclosure Statement (“RDS”) mandated by Rule 1.55 under the Commodity Exchange Act.¹¹⁵ According to the commenter, the RDS is a “simple, generic document that sets forth general risks of trading futures and options” and “can be delivered electronically.”¹¹⁶ The commenter recommended streamlining the ODD “to provide for a significantly simplified, truncated versions, written in plain Language” that would provide investors “with a simple, useful document” they “may read in its entirety and comprehend.”¹¹⁷

e. Summary Mutual Fund Shareholder Reports

Two commenters expressed support for the creation of summary disclosure document for mutual fund shareholder reports.¹¹⁸ One of these commenters described current mutual fund shareholder reports as “lengthy” and “difficult to understand.”¹¹⁹ This commenter indicated that providing investors with a summary disclosure document that coupled “summary financial information” with “access to other, more detailed information... on the Internet” would improve the efficacy and usefulness of shareholder reports.¹²⁰

¹¹⁵ Id. at 3-4.

¹¹⁶ Id.

¹¹⁷ Id. The commenter also recommended the Commission consider amending Rule 9b-1 of the Exchange Act to apply an “access equals delivery” standard to the ODD that would be fulfilled by posting the revised ODD on the websites of the options exchanges and the Options Clearing Corporation. See OCC Letter at 4.

¹¹⁸ See Letter from Capital Research and Management (“CRM Letter”) at 3-4; and IDC Letter at 2.

¹¹⁹ See IDC Letter at 2 (citing Investment Company Institute, Understanding Investor Preferences for Mutual Fund Information, Research Report, August 2006, available at http://www.ici.org/pdf/rpt_06_inv_prefs_full.pdf).

¹²⁰ See IDC Letter at 2.

The other commenter also supported a summary shareholder report that would provide investors “with key information in plain English in a clear concise format, while permitting a more relevant and cost-effective means of delivering detailed information to interested investors.”¹²¹ This commenter indicated that the essential information in a summary shareholder report would include, among other things, “the letter describing factors that influenced fund investment results, the condensed financial information of the fund, graphical representation of holdings, and the expense example.”¹²²

f. Investment Products and Services Disclosure

One commenter provided a specific framework for enhancing the content of disclosure information related to investment products.¹²³ This commenter indicated that the “Commission should identify key questions that investors should be able to answer to determine: (i) whether the type of investment product or service being recommended is generally appropriate given their investment needs, risk tolerance, and other factors; and (ii) whether the particular product or service being recommended is an attractive option.”¹²⁴ The commenter indicated that the following disclosure information represented critical factors for investors to consider when evaluating an investment option: (i) the types of investment goals for which a particular

¹²¹ See CRM Letter at 3.

¹²² Id. The following sections of the statutory shareholder report would be made available to investors online or in hard-copy upon request: (i) financial statements, schedules and footnotes (except those included in the summary); (ii) information on the fund’s officers and directors; and (iii) the statement regarding the basis for approval of the fund’s investment advisory contract. Id.

¹²³ See Consumer Federation Letter at 12.

¹²⁴ Id.

investment product is appropriate; (ii) the risks associated with the investment; (iii) the costs of the investment; and (iv) the past performance of the investment.¹²⁵

g. Additional Comments

Some commenters provided general suggestions for the Commission to consider when exploring ways to improve disclosure content. One suggestion echoed by several commenters emphasizes “tailoring” disclosure content to a specific purpose, such as designing disclosure to educate investors about a financial intermediary or an investment product service.¹²⁶ These commenters believe that tailoring disclosure content to a specific purpose often provides investors with clear, simple disclosure content that they are both interested in, and can easily read and understand.¹²⁷ One commenter provided an example of tailoring disclosure regarding a financial intermediary’s disciplinary history.¹²⁸ This commenter noted that disciplinary disclosure often provides investors with a long, undifferentiated list of disciplinary events.¹²⁹ Instead, this commenter suggested that investors should receive a focused list of disciplinary events that concentrates only “on more serious [disciplinary] issues, particularly sales abuse violations like churning or unsuitable recommendations.”¹³⁰

¹²⁵ Id. at 13-14.

¹²⁶ See Letter from Fidelity Investments (“Fidelity Letter”) at 2-3; SIFMA Letter at 3-4; ICI Letter at 4; CAI Letter at 5; and Consumer Federation Letter at 4.

¹²⁷ See generally Fidelity Letter at 2-3; SIFMA Letter at 3-4; ICI Letter at 4; CAI Letter at 5; and Consumer Federation Letter at 4.

¹²⁸ See Consumer Federation Letter at 4.

¹²⁹ Id.

¹³⁰ Id.

Another commenter encouraged the Commission to take a “holistic approach” to enhancing disclosure content.¹³¹ This commenter believed that the Commission should not consider changes to disclosure information for each separate disclosure document.¹³² Instead, the Commission should consider the aggregate set of information for a specific purpose (e.g., for mutual funds) provided in all disclosure documents together in determining “whether disclosure is relevant, useful and streamlined.”¹³³

Another commenter acknowledged the importance of providing investors with effective disclosure content, but cautioned that “today’s disclosures have become so confusing that they often complicate rather than enlighten [investors].”¹³⁴ Instead of the current methods used to describe content in disclosures, another commenter believed that content is “best taught [to investors] using case studies, simple charts, and a quiz format.”¹³⁵ Two commenters expressed a similar position and even argued that investors should be prohibited from purchasing an investment product or service until they can pass a short test demonstrating that they understand its risks.¹³⁶

¹³¹ See CRM Letter at 3-4.

¹³² Id.

¹³³ Id.

¹³⁴ See Letter from Muriel F. Siebert, CEO and Chairwoman, Muriel Siebert & Co., Inc., to Elizabeth M. Murphy, Secretary, Commission, dated February 9, 2012 (“Siebert Letter”) at 3.

¹³⁵ See IEC Letter at 1.

¹³⁶ See Letter from Max H. Herr, Investor, to Elizabeth M. Murphy, Chairman, Commission, dated February 28, 2012 (“Herr Letter”) at 2; and Siebert Letter at 4.

3. Format

Several commenters provided recommendations for improving the format of disclosure information. Recommendations in the comment letters focused primarily on: (i) the presentation and appearance of disclosure documents; and (ii) the use of electronic disclosure documents.

a. Appearance and Presentation

Comments on the presentation and appearance of disclosures generally indicated that disclosure documents should be concise, written in plain language, and use common terminology that allows investors to easily compare different investment products and services or financial intermediaries.¹³⁷ One commenter suggested that investors' comprehension of disclosure documents would increase by: (i) use of a "readable font size;" (ii) eliminating fine print and footnotes; and (iii) reducing legal terminology.¹³⁸ Another commenter indicated that disclosures should be in writing "whenever possible."¹³⁹ This commenter argued that written disclosures allow investors to study and carefully consider the information presented, are less susceptible to manipulative presentation and pose less risk of misrepresentation, are verifiable in a way that oral disclosures are not, and with electronic disclosure it is possible to provide them essentially instantaneously at very little cost.¹⁴⁰

¹³⁷ See Letter from Richard M. Whiting, Executive Director and General Counsel, The Financial Services Roundtable, to Elizabeth M. Murphy, Secretary, Commission, dated March 23, 2012 ("FSR Letter") at 5; Phelan Letter; CFP Letter at 5-6; Pathfinder Letter; CFA Letter at 5; BetterInvesting Letter at 3-4; IDC Letter at 2; ICI Letter at 5; AALU Letter at 5; FSI Letter at 3; AARP Letter at 3; and Consumer Federation Letter at 5.

¹³⁸ See BetterInvesting at 4.

¹³⁹ See Consumer Federation Letter at 7.

¹⁴⁰ Id.

Several commenters expanded upon the use of common terminology in disclosure document and suggested establishing a disclosure system that uses standardized disclosure forms designed to promote comparability.¹⁴¹ Two of these commenters’ proposed that a “central regulator” develop standardized disclosure forms for various investment products and services that would be used throughout the financial industry. These commenters believed that use of a standardized set of disclosure forms would: (i) simplify comparisons between various investment products and services; (ii) improve the level of financial literacy among investors; (iii) reduce the burden of financial intermediaries to draft their own disclosures; and (iv) simplify the Commission and other securities regulators’ oversight by reducing the number of disclosure documents they would need to review.¹⁴²

Two commenters also provided general design concepts for disclosure information. One of these commenters encouraged the Commission to use “information design professionals” to develop disclosure documents.¹⁴³ According to this commenter, “information design professionals” know “how to solicit information from investors, securities lawyers, accountants, investment professionals and others” to “create, test and design disclosures that work for retail investors.”¹⁴⁴

The other commenter encouraged the Commission to “incorporate lessons from behavioral economics, graphic design, and disclosure design” into its approach for reform

¹⁴¹ See Siebert Letter at 3-4; Herr Letter at 2 (endorsing recommendations in Siebert Letter); AARP Letter at 3; and Consumer Federation Letter at 5.

¹⁴² See Siebert Letter at 3-4; Herr Letter at 2.

¹⁴³ See AARP Letter at 3-4.

¹⁴⁴ Id.

disclosure practices.¹⁴⁵ This commenter also encouraged the Commission to coordinate with other financial regulatory agencies on disclosure design in order to conserve resources and promote a more uniform approach to disclosure across jurisdictions.¹⁴⁶ Additionally, this commenter suggested that, to the extent “the Commission seeks to make greater use of the Internet and more layered disclosures... serious thought should be given to how different design approaches can make the disclosures more appealing and the information more accessible.”¹⁴⁷

b. Electronic Disclosure Documents

Several commenters generally supported the use of electronic disclosure documents to provide disclosure information to investors.¹⁴⁸ Many commenters noted that investors are increasingly using the Internet to access disclosure information about financial intermediaries and investment products and services. Commenters discussed several advantages of using electronic disclosure delivery methods over paper methods, including: (i) easier and faster updates to content; (ii) faster distribution of content to investors through website posting or e-mail; (iii) allowing investors to more easily seek out the information that is most relevant and useful to them through the use of hyperlinks and online drop-down menus; (iv) increasing the likelihood that investors will read disclosure information because of the enhanced ability to tailor

¹⁴⁵ See Consumer Federation Letter at 6.

¹⁴⁶ Id.

¹⁴⁷ Id.

¹⁴⁸ See ICI Letter at 5; FSR Letter at 6-7; SIFMA Letter at 4-6; CAI Letter at 4-5; FSI Letter at 3; OCC Letter 2-3; AALU Letter at 5; WFA Letter at 2-3; ACLI Letter at 2; CRM Letter at 4; Consumer Federation Letter at 7; and Fidelity Letter at 3.

the presentation of disclosure in electronic media; and (v) easier archiving of disclosure content for both content providers and investors.¹⁴⁹

While most commenters generally supported the use of electronic disclosure documents to provide disclosure information to investors, some commenters expressed caution regarding its use.¹⁵⁰ Generally, these commenters indicated that even if disclosure information is provided electronically, investors should still be able to access paper copies of disclosure documents upon request.¹⁵¹ One of these commenters emphasized that electronic disclosure requires “appropriate safeguards to insure notice, access, and delivery” and that investors must consent to receiving disclosures electronically.¹⁵² Another commenter expressed additional caution, indicating that “investors of all ages, not just older investors, have been resistant to using electronic disclosures.”¹⁵³

Illustrating uses for electronic disclosure, one commenter provided findings from a recent research study that addresses the use of visual cues to improve investor comprehension and retention of web-based disclosure information.¹⁵⁴ The study consisted of a series of experiments that compared three types of visual cues aimed at making important disclosure information more noticeable: (i) semantic (using words to signal importance); (ii) categorical (using drop-down

¹⁴⁹ See FSR Letter at 6-7; SIFMA Letter at 4-6; CAI Letter at 4-5; FSI Letter at 3; and Fidelity Letter at 3.

¹⁵⁰ See CFP Letter at 6; FSI Letter at 3-4; and AARP Letter at 4.

¹⁵¹ See generally CFP Letter at 6; FSI Letter at 3-4; and AARP Letter at 4.

¹⁵² See CFP Letter at 6. See also Consumer Federation Letter at 7 (indicating that even electronic delivery must include “some direct outreach to investors to ensure they receive the [disclosure information]”).

¹⁵³ See AARP at 4.

¹⁵⁴ See FINRA Letter at 6 n.9 citing A. Wang & T. Downing, Effect of Visual Primes on Improving Web Disclosure to Investors, (2007).

menus to guide readers to key topics); and (iii) feature (using icons, such as a “Caution” sign).¹⁵⁵

The study also examined how these visual cues affected investors with various levels of investing knowledge.

A key finding of this study determined that visual cues can positively affect investors’ processing of disclosure information since visual cues can attract their attention and make disclosure information more noticeable – especially for less experienced investors.¹⁵⁶ Additional findings from this study include the following:

- i. Semantic cues provided the “best condition to increase attention of and help process, understand and recall disclosure information, regardless of knowledge level.”
- ii. Categorical cues provided “the most helpful condition for participants to understand and process disclosure information, regardless of knowledge level.”
- iii. Feature and semantic cues were the “most visually attention getting” cues.
- iv. An investor’s level of investing knowledge rather than visual cues was the predominant factor for comprehension and recall of the disclosure information. Nevertheless, semantic cues were the best “leveler” of the knowledge gap.¹⁵⁷

c. Additional Comments

One commenter also encouraged the Commission to test the effectiveness of both existing disclosures and any possible approaches to improve disclosures.¹⁵⁸ This commenter indicated that the key criterion in these tests should be whether disclosures effectively convey “the relevant information in a way that promotes understanding and encourages investors to act

¹⁵⁵ Id.

¹⁵⁶ Id.

¹⁵⁷ Id.

¹⁵⁸ See Consumer Federation Letter at 7.

on information.”¹⁵⁹ Additionally, these tests should be used to “identify areas where disclosure alone is inadequate to address a particular issue and further policy changes are needed.”¹⁶⁰

B. The Most Useful and Understandable Relevant Information that Retail Investors Need to Make Informed Financial Decisions before Engaging a Financial Intermediary or Purchasing an Investment Product or Service

The Commission requested public comment regarding the most useful and understandable relevant information that retail investors need to make informed financial decisions before engaging a financial intermediary or purchasing an investment product or service. The sections below summarize the views and recommendations of the commenters on this subject.

1. Information for Selecting a Financial Intermediary

Commenters recommended that investors be provided with several types of disclosure information before selecting a financial intermediary, including: (i) the financial intermediary’s background information; (ii) a description of the products and services offered by the financial intermediary; (iii) the standard of care provided by the financial intermediary to investors; (iv) the financial intermediary’s fees and compensation; and (v) any conflicts of interest.¹⁶¹ Some examples of financial intermediary background information include educational background, business experience, and any disciplinary history.¹⁶² Several commenters also suggested that

¹⁵⁹ Id.

¹⁶⁰ Id.

¹⁶¹ See Letter from Jennifer Micieli, Assistant Financial Planner, Yeske Buie, to Elizabeth M. Murphy, Secretary, Commission, dated February 3, 2012 (“Micieli Letter”); CFP Letter at 8-10; ICI Letter at 6-7; Fi360 Letter at 9-12; SIFMA Letter at 7; AALU Letter at 5; CFA Letter at 5; WFA Letter at 2-3; and Consumer Federation Letter at 11.

¹⁶² See CFP Letter at 9; Micieli Letter; and FINRA Letter at 4-5.

investors seek additional background information on financial intermediaries through FINRA’s BrokerCheck website and the Commission’s Investment Adviser Public Disclosure website.¹⁶³

Commenters emphasized that financial intermediaries should provide information that will allow investors to clearly understand what types of investment products and services a financial intermediary provides, to insure that they select a financial intermediary who can meet their specific investment needs. In particular, commenters indicated that financial intermediaries should provide investors with a description of the types of investment accounts they offer and clearly explain the scope of services they provide for each type of account.¹⁶⁴ Commenters also recommended that financial intermediaries provide investors with a list of the types of investment products and services they may offer to their customers.¹⁶⁵

Several commenters stressed the importance of financial intermediaries clearly disclosing the standard of care they are obligated to provide an investor when offering advice or making recommendations regarding products or services. One commenter asked that financial intermediaries be required to “explain [their] duties and obligations to the investor in terms that can be easily understood.”¹⁶⁶ Another commenter suggested that financial intermediaries provide a disclosure statement with a “yes” or “no” response indicating whether the financial intermediary will act as a fiduciary and provide “the SEC definition of a fiduciary.”¹⁶⁷ Another

¹⁶³ See Letter from Jaimie A. Davis, Investor, to Elizabeth M. Murphy, Secretary, Commission, dated January 29, 2012 (“Davis I Letter”); CFA Letter at 5; FINRA Letter at 4-5; and BetterInvesting Letter at 4.

¹⁶⁴ See CFP Letter at 10; ICI Letter at 7; SIFMA Letter at 7; AALU Letter at 5; and CFA Letter at 5.

¹⁶⁵ See generally CFP Letter at 10; ICI Letter at 7; SIFMA Letter at 7; AALU Letter at 5; and CFA Letter at 5.

¹⁶⁶ See CFP Letter at 8.

¹⁶⁷ See Phelan Letter.

commenter recommended that the Commission increase its efforts to better educate investors regarding the different standards of care that may govern financial intermediaries.¹⁶⁸

Commenters also indicated that financial intermediaries should clearly describe their fees and compensation, including: commissions; account maintenance fees; asset based or flat fees; and any non-commission ‘revenue sharing’ or similar payment arrangements.¹⁶⁹ Additionally, commenters emphasized that financial intermediaries should clearly describe any conflicts of interest that may affect their recommendations of investment products or services, including conflicts arising from compensation arrangements with third parties, the sale of proprietary investment products, the sale of investment products underwritten by the financial intermediary, and principal transactions.¹⁷⁰

2. Information for Purchasing an Investment Product or Service

Commenters recommended that several types of disclosure information be provided to investors before purchasing an investment product or service, including: (i) investment objectives; (ii) a description of fees and expenses; and (iii) a description of risk factors.

Investment objectives are the financial goals that investors use to determine the appropriate kind of investments for their portfolios. For example, investors interested in capital growth may select a growth oriented investment product for their investment portfolio, such as a growth-oriented mutual fund or individual stock. One commenter noted that information regarding investment objectives should be presented “in a way that is directly understandable by average

¹⁶⁸ See Fi360 Letter at 9-11.

¹⁶⁹ See CFP Letter at 8-9; ICI Letter at 7; SIFMA Letter at 7; Micieli Letter; and CFA Letter at 5.

¹⁷⁰ See CFP Letter at 7; SIFMA Letter at 7; and CFA Letter at 5.

investors,” and in some cases it may be appropriate “to include information on the types of investors or uses for which an investment is not appropriate.”¹⁷¹

Several commenters stressed the importance of providing investors with disclosure information that will allow them to understand the fees and expenses associated with any investment product or service, including management fees, operating expenses, built-in sales charges, purchase and redemption fees, exchange fees or a mark-up or mark-down.¹⁷² One commenter noted that it is important for disclosures related to fees and expenses to distinguish between product costs and the costs of services of the financial intermediary selling the investment product or service.¹⁷³

Several commenters also emphasized the importance of providing investors with disclosure information that describes the risk factors associated with investment products and services. Risk factors for investments products and services vary depending upon the type of investment product or service. Some examples of risk factors associated with investment products and services highlighted by commenters include: (i) market risk (risk that an investor’s investment (e.g. a stock) will decline in value); (ii) liquidity risk (risk of being unable to sell an investment at a certain time and price); (iii) inflationary risk (risk that the value of the investment will not grow enough to keep up with inflation); (iv) credit risk (risk that the issuer of an investment may not fulfill its financial obligations); and (v) economic risk (risk that the economy will suffer a downturn as a whole, affecting the value of all financial markets). One commenter

¹⁷¹ See Consumer Federation Letter at 13.

¹⁷² See Letter from Mary O. Bradley (“Bradley Letter”); ICI Letter at 8; Fi360 Letter at 7-8; SIFMA Letter at 8; CFA Letter at 5; Pathfinder Letter; and Barnard Letter at 2.

¹⁷³ See Consumer Federation Letter at 13.

also noted that risk disclosure should generally describe: what would cause an investor to lose money; what would cause the investment to fail to serve its intended purpose; and where the investment falls within a risk spectrum of investment products designed to serve a similar purpose.¹⁷⁴

3. Additional Comments

Commenters advised the Commission to consider certain factors when determining the most useful and relevant disclosure information for investors. Some commenters cautioned that a “one-size fits all” approach should not apply to determining the information needed to make informed investment decisions.¹⁷⁵ These commenters believed that each investor has unique informational needs regarding investment decisions. Some of the factors which may influence an investor’s informational needs include: (i) the investor’s level of financial and investment knowledge; (ii) an investor’s individual financial needs and circumstances; and (iii) the method of investing (e.g., self-directed, through a financial planner or adviser, through a retirement plan).¹⁷⁶ One commenter stated that the “[f]inancial institutions with which investors work know their customers and can convey information that is tailored to the needs of the customer’s interest and the customer’s relationship.”¹⁷⁷ This commenter further indicated that it would be “detrimental ... to pinpoint a single data element that may or may not be relevant across all

¹⁷⁴ Id.

¹⁷⁵ See Letter from California State teachers’ Retirement System (“CALSTRS Letter”) at 2; and Fidelity Letter at 5.

¹⁷⁶ See Fidelity Letter at 5.

¹⁷⁷ Id.

investors and relationship models and to elevate that single data element into required and highlighted disclosure.”¹⁷⁸

Other commenters noting the “unique” informational needs of different investors recommended focusing on helping investors determine for themselves what information is most relevant and useful to their specific situation. One of these commenters indicated that investors should be able to answer “some fundamental questions” such as:

1. How much money do I have to invest?
2. What is my investment horizon? How many years before I can retire?
3. What am I planning on using the money for?
4. Do I need income from this investment for normal living expenses?
5. Do I have any special personal circumstances (e.g., pre-existing health concerns, housing needs, dependents which could include parents, children or grandchildren)?
6. How do my personal and financial situations affect my investment strategy?
7. How can I direct my investments in a way that supports my values (i.e. socially responsible fund, supporting new technologies, etc...)
8. What is my risk tolerance level?
9. Do I need these assets to be liquid? Do I need the ability to access a portion of my assets without restriction or waiting period?¹⁷⁹

Similarly, another commenter recommended that every investor complete a “before you invest” assessment that would ascertain the investor’s financial goals and “investor personality.”¹⁸⁰

¹⁷⁸ Id.

¹⁷⁹ See CALSTRS Letter at 2-3.

According to this commenter, this assessment would help investors determine the appropriate types of investments for them and “the optimum delivery method” (type of financial intermediary) for obtaining these investments.¹⁸¹ This commenter also suggested that investors complete this assessment survey “at different points in their lives to capture changing needs and goals.”¹⁸²

C. Methods to Increase the Transparency of Expenses and Conflicts of Interests in Transactions Involving Investment Services and Products

The Commission requested public comment regarding methods to increase the transparency of expenses and conflicts of interests in transactions involving investment products and services. The sections below summarize the views and recommendations of the commenters on this subject.

1. Methods to Increase Transparency of Expenses

Some commenters noted that investors have difficulty understanding all of the fees and expenses associated with investment products and services. One commenter noted that “a variety of fees and expenses” may be embedded within an investment product or service and these “embedded” fees “may be unseen by or unknown to the investor unless expressly disclosed.”¹⁸³ Similarly, another commenter noted that certain complex investment products and services are “laden with fees and various opportunities for firms to profit beyond the fees

¹⁸⁰ See IEC Letter at 1-2.

¹⁸¹ Id.

¹⁸² Id.

¹⁸³ See ICI Letter at 8.

charged to the [investor].”¹⁸⁴ This commenter further indicated that these “internal profit points are rarely if ever disclosed,” and in the case of fees for certain complex investments, “investors are not advised whether fees would be substantially less if they purchased the individual components of the product separately.”¹⁸⁵

Several commenters made specific recommendations to increase the transparency of fees and expenses. Some recommendations focused on methods to improve the visual presentation of fees and expenses. For example, several commenters recommended that disclosure information and advertising material for investment products and services contain prominent displays of fees and expenses.¹⁸⁶ Another commenter noted that fees and expenses for certain investment products are “scattered across” multiple disclosure documents.¹⁸⁷ This commenter recommended consolidating all fee and expense information into a central, easily accessible location on a website.¹⁸⁸

Some commenters’ recommendations focused on methods to enhance the descriptions of fees and expenses to potentially increase their efficacy for investors. For example, several commenters advocated expressing fees and expenses as a percentage of investment return rather than asset value to provide investors with a better understanding of how fees and expenses affect

¹⁸⁴ See Letter from Ryan K. Bakhtiari, Public Investors Arbitration Bar Association, to Elizabeth M. Murphy, Secretary, Commission, dated March 21, 2012 (“PIABA Letter”) at 2-3.

¹⁸⁵ Id.

¹⁸⁶ See Letter from American Federation of Labor and Congress of Industrial Organizations (“AFL-CIO Letter”) at 2; Bradley Letter; and PIABA Letter at 2.

¹⁸⁷ See Fi360 Letter at 7-8.

¹⁸⁸ Id. See also BetterInvesting Letter at 3-4 suggesting consolidation of all fee and expense information into a single document.

investment returns.¹⁸⁹ One of these commenters noted, “providing investors with an accurate accounting of fees and expenses and boiling that information down to a useful, easy to understand data points will arm investors with the information they need to make good investment decision.”¹⁹⁰ Some of these commenters also recommended that disclosure information for financial intermediaries, and investment products and services include an annual accounting, in dollar amounts, of all fees and expenses an investor incurs.¹⁹¹ Another commenter proposed enhancing the transparency of disclosure information for fees and expenses by providing investors with case studies and illustrations that demonstrate the impact of fees and expenses have on investment returns.¹⁹²

2. Methods to Increase Transparency of Conflicts of Interest

Several comment letters emphasized the importance of disclosing conflicts of interest to investors. One commenter acknowledged that investors appear to understand the importance of receiving disclosure related to conflicts of interest.¹⁹³ However, many commenters indicated that investors still need assistance recognizing what conflicts of interest are, and how they impact investment decisions and transactions.

¹⁸⁹ See Letter from Association of Independent Investors (“AII Letter”) at 2-3; Herr Letter at 3, PIABA Letter at 2; and AFL-CIO Letter at 2.

¹⁹⁰ See AII Letter at 2.

¹⁹¹ See AII Letter at 2-3 and AFL-CIO Letter at 2.

¹⁹² See Barnard Letter at 4.

¹⁹³ Commenter provided survey results indicating approximately 91% of respondents thought that information about conflicts of interest is “extremely important or very important” when choosing a financial intermediary, and approximately 87% of respondents thought that information about conflicts of interest is “extremely important or very important” when deciding to purchase an investment product or service. See BetterInvesting Letter at 2-3.

One commenter indicated that effective conflicts of interest disclosure must “inform the investor whether a financial intermediary has business relationships, partnerships or compensation arrangements that could potentially affect the intermediary’s professional judgment or prevent the intermediary from acting in the investor’s best interest.”¹⁹⁴ Several commenters suggested specific methods to improve the transparency of conflicts of interest disclosure, such as: (i) providing investors with a list of frequently asked questions and answers that illustrate various conflicts of interest;¹⁹⁵ (ii) providing investors with narrative examples of various conflicts of interest;¹⁹⁶ and (iii) requiring that a financial intermediary’s conflicts policy be drafted in “layman’s terms”, readily available, and provided to an investor prior to any investment purchase.¹⁹⁷

3. Additional Comments

Commenters provided several recommendations for increasing the transparency of expenses and conflicts of interest. As noted above, several commenters indicated that providing disclosure information, including information related to expenses and conflicts of interest, in a simple, concise, plain Language format would improve its efficacy for investors.¹⁹⁸ Additionally, some commenters recommended developing standardized disclosure forms that use common terminology to help investors easily compare common characteristics of different investment

¹⁹⁴ See CFP Letter at 7-8.

¹⁹⁵ See IEC Letter at 2.

¹⁹⁶ See ACLI Letter at 3.

¹⁹⁷ See Letter Lisa A. Catalano, Esq., Director, Associate Professor of Clinical Education, Christine Lazaro, Esq., Supervising Attorney, Lauren Prunty, Joshua Eisenson, Thomas Greene, Student Interns, St. John’s University School of Law Securities Arbitration Clinic, to Elizabeth M. Murphy, Secretary, Commission, dated March 28, 2012 (“SJU Law Letter”) at 2.

¹⁹⁸ See supra Section III(A)(3) herein.

products and services, such as expenses and conflicts of interest.¹⁹⁹ Other commenters suggested general principles for increasing the transparency of expenses and conflicts of interest. For example, one commenter claimed that “to increase the transparency and clarity of disclosure regarding expenses and conflicts of interest, we recommend that the Commission carefully consider the appropriate source of disclosure for each of these elements,” and that “failure to do so may result in practical problems and less effective disclosure.”²⁰⁰

D. Comments on Financial Literacy Education

Several commenters indicated that improving financial literacy among investors would help improve the overall effectiveness of disclosure information. Many comment letters advocated for the creation of a comprehensive financial literacy program in the United States that starts in elementary school and continues through high school and college.²⁰¹ One commenter proposed that the Commission “develop a definition of financial literacy based on skills necessary to save and invest for retirement, college, and in meeting other investment-related individual and household goals.”²⁰² This commenter suggested using Jump\$tart Coalition’s “Savings and Investments” standards to assist in developing this definition.²⁰³ These standards focus on:

- How saving contributes to financial well-being
- How investing builds wealth and helps meet financial goals

¹⁹⁹

Id.

²⁰⁰

See ICI Letter at 8-9.

²⁰¹

See PIABA Letter at 2, Pathfinder Letter, CFA Letter at 1-2, IEC Letter at 1, Barnard Letter at 5, Phelan Letter, Siebert Letter at 5, and Herr Letter at 3.

²⁰²

See Fi360 Letter at 2-4.

²⁰³

Id.

- Evaluating investment alternatives
- Buying and selling investments
- How taxes affect the rate of return on investments; and
- How agencies regulate financial markets to protect investors²⁰⁴

Another commenter stated that investors need access to an investor education program that “identifies and makes readily available information that forms basic building blocks that broaden their understanding of investing fundamentals.”²⁰⁵ Additionally, this commenter believed investors need to better understand investment concepts such as diversification and asset allocation, the advantages and disadvantages of active versus passive investing, and the differences between various investment products.²⁰⁶

Another commenter suggested considering the use of social networks to educate investors. This commenter believed social media can “provide a platform for investors to take ownership of their financial plans, and to share them with family, friends, and financial advisers. Additionally, this commenter suggested that social networks could also provide planning tools, educational content, and an “exchange of information within a circle of trust” that can “offer a level of investor engagement that is free of conflict and more effectively promotes financial literacy.”²⁰⁷

Commenters also provided recommendations for online tools and websites that investors could use to increase their financial and investment knowledge. These online tools and websites:

²⁰⁴

Id.

²⁰⁵

See CFA Letter at 2.

²⁰⁶

Id.

²⁰⁷

See Peridrome Letter.

(i) allow investors to observe the impact of fees and expenses on the performance of mutual funds, (ii) provide detailed market information on various investment products and services; and (iii) provide educational information on a variety of investment products and services.²⁰⁸

E. Additional Comments

Commenters also provided recommendations on other regulatory topics indirectly affecting financial literacy. Several commenters encouraged the Commission to work with federal and state regulators and self-regulatory organizations to develop a uniform disclosure framework.²⁰⁹ One commenter believed that a uniform disclosure framework would reduce costs for industry participants and benefit investors by providing simple, clear disclosure documents.²¹⁰ Another commenter recommended that regulatory agencies coordinate pending regulatory measures aimed at amending disclosure requirements to ensure that disclosures do not become less effective and that investor confusion does not increase.²¹¹ Similarly, another commenter indicated that “well intentioned regulatory efforts have resulted in overlapping disclosure requirements on specific products and have led to disconnected investor warning and advisories instead of clear, simple financial education.”²¹²

²⁰⁸ See CFA Letter at 3-4 and FINRA Letter at 4-5.

²⁰⁹ See FSR Letter at 5-6; FSI Letter at 5; Fidelity Letter at 2; and Consumer Federation Letter at 12.

²¹⁰ See FSR Letter at 5. Commenter notes that if a uniform disclosure framework cannot be created that financial regulatory agencies should consider establishing a “mutual recognition” framework in which substantially similar disclosure information satisfies the disclosure requirement for multiple regulatory regimes. Id. at 6.

²¹¹ See FSI Letter at 5.

²¹² See Fidelity Letter at 2.

One commenter cautiously noted that “there are limits to what disclosure and investor education can accomplish.”²¹³ This commenter argued that disclosure and education cannot “get investors to understand concepts that either make no sense or are so complex that they require the knowledge and sophistication of a highly trained financial professional to understand them.”²¹⁴ Thus, according to this commenter, “efforts to improve disclosure must be accompanied by policies that protect investors.”²¹⁵

Several commenters also advocated for changes in the regulatory standard of care that govern financial intermediaries conduct with their customers. These commenters argued that the regulatory boundaries between broker-dealers and investment advisers has “blurred” and “has frustrated investors for well over a decade.” Most of these commenters recommended that the Commission either (i) end dual registration of financial intermediaries; or (ii) have a single fiduciary standard of care governing all financial intermediaries that provide any investment advice.²¹⁶

IV. Investor Testing Methodology: Qualitative (Focus Group) and Quantitative (Online Survey) Research Involving Dodd-Frank Act Sections 917(a)(2) – (4)

A. Methodology of Qualitative Research (Focus Groups)

The consultant developed a research protocol and methodology to explore the application of disclosure principles and formats with respect to financial intermediaries and certain investment products. For purposes of the focus group interviews, “financial intermediaries”

²¹³ See Consumer Federation Letter at 9-10.

²¹⁴ Id.

²¹⁵ Id.

²¹⁶ See Herr Letter at 1; AII Letter at 2; PIABA Letter at 3; CFP Letter at 1-2; and AARP Letter at 4-6.

included broker-dealers and investment advisers (including financial planners), and “investment products” included mutual funds and exchange-traded funds (“ETFs”), variable annuities, municipal bonds, and publicly traded stocks. The table below contains general descriptions of the primary topics discussed, and dates and locations, of the focus groups:

Primary Topic	Baltimore	Atlanta	San Diego
Selecting a financial intermediary (Total of 6 groups)	Nov 1: Users of investment advisory services	Nov 9: Users of investment advisory services	Nov 15: Users of investment advisory services
	Nov 1: Users of broker-dealer services	Nov 9: Users of broker-dealer services	Nov 15: Users of broker-dealer services
Purchasing investment products/services (Total of 6 groups)	Nov 3: Owners of stocks and/or municipal bonds	Nov 10: Owners of mutual funds and/or variable annuities	Nov 16: Owners of mutual funds and/or variable annuities
	Nov 3: Owners of mutual funds and/or ETFs	Nov 10: Owners of stocks and/or ETFs	Nov 16: Owners of stocks and/or municipal bonds

The focus group participants were screened to include an approximately equal number of males and females who were the sole financial decision-maker, or shared primary financial decision-making responsibility, in their household; ranged in age from 21 to 64 years; met certain educational levels; and had not participated in a financial-related focus group in the past 12 months. In addition, the screening criteria were designed to exclude individuals who had household members or who themselves had worked (or currently worked) in the insurance, financial services, public relations, media, marketing or market research industries or for a federal or state financial regulator or any other federal or state regulator of banks, insurance companies, or money managers.

B. Methodology of Quantitative Research (Online Survey)

Following the completion of the qualitative research, the consultant designed an online survey of retail investors to collect data regarding four types of disclosure documents: (i) the Brochure; (ii) account statements and confirmations; (iii) the mutual fund summary prospectus; and (iv) a hypothetical point-of-sale disclosure concept.²¹⁷ For purposes of this online survey, the consultant recruited a total of approximately 4,800 online survey respondents from a larger pool of potential candidates who were screened according to certain criteria, as discussed below:²¹⁸

- Neither the candidate, nor any person in the candidate's household works (or had worked) in the financial services industry, federal or state financial regulation, media, marketing/market research, or public relations;

²¹⁷ See S+G Report at 40.

²¹⁸ See S+G Report at 40-41.

- Must be at least 21 years old;
- Must be the sole/primary decision-maker for personal financial decisions or share in those decisions with somebody else;
- Have money currently invested (excluding real estate properties).²¹⁹

The sample also included approximately an equal number of male and female online survey respondents.²²⁰ The approximately 4,800 online survey respondents underwent further screening in order to allocate them into four separate groups or branches, each consisting of approximately 1,200 online survey respondents, that corresponded to each of the four disclosure documents for testing.²²¹ These additional screening criteria are described below.

Form ADV Brochure – Additional Criteria for Quantitative Research Sample

A total of 1,200 online survey respondents who had investment advisory relationships completed the Form ADV Brochure branch of the quantitative research.²²² In addition to meeting the overall screening criteria for the online survey, these online survey respondents had to satisfy additional criteria in order to qualify for the Form ADV Brochure branch. Specifically, the online survey respondents were required to meet minimum investment criteria across

²¹⁹ See S+G Report at 41.

²²⁰ See S+G Report at 41.

²²¹ The Form ADV Brochure panel consisted of 1,200 online survey respondents; the account statements and confirmations panel consisted of 1,201 online survey respondents; the summary prospectus panel consisted of 1,201 online survey respondents; and the point-of-sale panel consisted of 1,200 online survey respondents. At the conclusion of the online surveys, the consultant found that 1,201 individuals in the account statements and confirmations panel and the summary prospectus panel had completed the survey. Instead of discarding the extra completed surveys, the consultant decided to retain them based on the rationale that each additional online survey respondent increased marginally the statistical validity of the results.

²²² See S+G Report at 42.

investments excluding employer-sponsored retirement accounts (*i.e.*, \$50,000 or more in investments other than in employer-sponsored retirement accounts).²²³ The online survey respondents were screened further to include those who were working with a financial professional (*e.g.*, a broker, investment adviser, financial planner, *etc.*) with respect to investment decisions *and* who were paying for the financial services in one of the following ways:

- A flat fee that covers all transactions;
- A percentage of the total value of his or her assets;
- A flat fee for a financial plan;
- A combination of commissions (*i.e.*, per transaction) and fees (*i.e.*, flat fees or fees based on the value of one's assets); or
- A type of fee not listed above.²²⁴

Confirmations/Account Statements – Additional Criteria for Quantitative Research Sample

A total of 1,201 online survey respondents completed the Confirmations/Account Statements branch.²²⁵ In addition to meeting the overall screening criteria for the online survey, these online survey respondents had to satisfy additional criteria in order to qualify for the Confirmations/Account Statements branch of the quantitative research. Specifically, the online survey respondents were required to meet the following minimum investment criteria across

²²³ See S+G Report at 42.

²²⁴ See S+G Report at 42.

²²⁵ See S+G Report at 43.

investments excluding individual or employer-sponsored retirement accounts, other than in individual or employer-sponsored retirement accounts:

- If under the age of 35, at least \$5,000 in investments; or
- If 35 or older, at least \$10,000 in investments.²²⁶

Mutual Fund Summary Prospectus – Additional Criteria for Quantitative Research Sample

A total of 1,201 online survey respondents completed the mutual fund summary prospectus branch.²²⁷ In addition to meeting the overall screening criteria for the online survey, these online survey respondents had to satisfy additional criteria in order to qualify for and complete the summary prospectus branch of the quantitative research. Specifically, the online survey respondents were required to meet the minimum investment criteria across investment products (*i.e.*, more than \$5,000 invested if under the age of 35 and more than \$10,000 invested if age 35 or over).²²⁸ The investment products or investments held by the online survey respondents had to include mutual funds, exchange-traded funds (“ETFs”), or money market funds.²²⁹ The testing sample included at least 400 online survey respondents who held these investment products in employer-based retirement accounts, and at least 800 online survey respondents who held these investment products outside of employer-based retirement accounts.²³⁰

Point-of-Sale – Additional Criteria for Quantitative Research Sample

²²⁶ See S+G Report at 43.

²²⁷ See S+G Report at 44.

²²⁸ See S+G Report at 44.

²²⁹ See S+G Report at 44.

²³⁰ See S+G Report at 44.

A total of 1,200 online survey respondents who had brokerage accounts completed the Point-of-Sale branch of the quantitative research.²³¹ In addition to meeting the overall screening criteria for the online survey, these online survey respondents had to satisfy additional criteria in order to qualify for the Point-of-Sale branch of the quantitative research. Specifically, the online survey respondents were required to meet the following minimum investment criteria across investments excluding individual or employer-sponsored retirement accounts:

- If under the age of 35, at least \$5,000 in investments; or
- If 35 or older, at least \$10,000 in investments.²³²

Additionally, the online survey respondents were screened further to include those who were working with a financial professional (*e.g.*, a broker, investment adviser, financial planner, *etc.*) with respect to investment decisions *and* who were paying for the financial services in one of the following ways:

- A commission for each transaction; or
- A combination of commissions (*i.e.*, per transactions) and fees (*i.e.*, flat fees or fees based on the value of one's assets).²³³

V. Discussion of Dodd-Frank Act Section 917(a)(2): Methods to Improve the Timing, Content, and Format of Disclosures to Investors with Respect to Financial Intermediaries, Investment Products, and Investment Services

A. Qualitative Research (Focus Groups)

During the qualitative research phase of the Study, the consultant interviewed investors who participated in the focus groups (“focus group participants”) about their views and opinions

²³¹ See S+G Report at 44.

²³² See S+G Report at 45.

²³³ See S+G Report at 45.

regarding, among other things, the timing, content, and format of disclosures to investors with respect to financial intermediaries, investment products, and investment services. The questions asked during the focus group sessions may have varied depending on the composition and dynamics of each focus group. In addition, some focus groups were more responsive than others, and not all focus group participants displayed the same degree of involvement in the interviews. Accordingly, the views and opinions summarized below are not intended to be comprehensive, but rather, are meant to capture some of the more relevant discussions of certain themes that emerged during the various focus group interviews.

Timing

Generally, focus group participants expressed a preference for receiving disclosures prior to making a commitment to engage a financial intermediary or to purchase an investment product or service. For example, one focus group participant stated that he would want disclosure “at the beginning that you have a dialogue with that person, and then right at the time when you’re about to buy something.”²³⁴

While the consultant questioned focus group participants about their preferred timing for disclosure of investment information in general, the consultant distributed to at least two of the focus groups (which included investment advisory clients) a sample Brochure as an example of an investment disclosure document.²³⁵ These focus group participants stated that they would prefer to receive the Brochure “[p]rior to making a commitment,” “before engaging [the]

²³⁴ See S+G Report at 17 (San Diego focus group 3 (mislabeled 1) transcript at 59 (Nov. 16, 2011)).

²³⁵ See, e.g., S+G Report at 18 (Atlanta focus group 1 transcript at 46-47 (Nov. 9, 2011); San Diego focus group 1 transcript at 34-38 and 56 (Nov. 15, 2011)).

services” of a financial intermediary, or “before any monies are handled.”²³⁶ Similarly, other focus group participants who reviewed the Brochure stated that they would prefer to receive the Brochure “[u]pfront” or “[b]efore the transactions even take place.”²³⁷ Generally, the focus group participants who reviewed the Brochure that was circulated expressed a preference for receiving the Brochure annually. For example, several of these focus group participants asserted that “[o]nce a year” or “[n]o more than once a year” was sufficient enough frequency for receipt of the Brochure,²³⁸ although at least one of these focus group participants stated that “once every two years is probably enough.”²³⁹

Opinion was divided regarding the timing of conflicts of interest disclosures. Some focus group participants wished to be notified about these conflicts before engaging a financial intermediary, while others wished to be told at the time that a financial intermediary recommended a transaction. For example, one focus group participant stated that “I think that before you start with them that they should be able to disclose what their conflicts are before you even start. I think requiring them to initially tell you what the conflicts are would be an easy way to solve it and have it noted.”²⁴⁰ Other focus group participants stated that they would prefer to receive disclosure regarding conflicts of interest “[a]t the time of the recommendation” of a transaction.²⁴¹

²³⁶ See S+G Report at 18 (San Diego focus group 1 transcript at 38 (Nov. 15, 2011)).

²³⁷ See S+G Report at 19 (San Diego focus group 1 transcript at 56 (Nov. 15, 2011)).

²³⁸ See S+G Report at 18 (Atlanta focus group 1 transcript at 47 (Nov. 9, 2011)).

²³⁹ See S+G Report at 18 (Atlanta focus group 1 transcript at 47 (Nov. 9, 2011)).

²⁴⁰ See S+G Report at 37 (San Diego focus group 2 transcript at 51 (Nov. 15, 2011)).

²⁴¹ See S+G Report at 36 (Atlanta focus group 1 transcript at 72 (Nov. 9, 2011); San Diego focus group 2 transcript at 46 (Nov. 15, 2011)).

Content

By design, several of the focus groups consisted primarily of mutual fund, ETF, and variable annuities investors. These focus group participants discussed both the summary prospectus and the statutory prospectus.²⁴² Generally, these focus group participants fell into three categories with respect to their preferences for the content of the prospectus: (i) participants who were satisfied with the content of the current disclosure; (ii) participants who identified specific items that they wanted to have disclosed; and (iii) participants who were not interested in disclosure.

The first category of focus group participants – those who supported the *status quo* – generally expressed satisfaction with the content of the disclosures received. For example, several focus group participants credited a certain firm with performing “an excellent job of telling you what’s in a fund and the prospectus, what’s in the fund, the makeup of the fund and the fees and the whole thing. They did a great job of that.”²⁴³ One focus group participant elaborated that that particular firm “has great information on all of these tons of funds that they have. And they’ll have graphs and charts and pies and they’ll show you what the funds made up of and they’re very easy to read.”²⁴⁴ Separately, another focus group participant indicated that he “learned a few things in” a prospectus (without indicating whether he had reviewed a summary

²⁴² Commission rules currently permit the use of a summary prospectus for mutual funds and ETFs, but not for variable annuities. These focus group participants did not necessarily distinguish between the summary prospectus and the statutory prospectus. Sometimes they referred to the summary prospectus, and at other times the context made it clear that they were discussing the statutory prospectus. One of the purposes of the focus groups consisting primarily of mutual fund, ETF, and variable annuities investors was to gauge their reactions to a prospectus (whether summary or statutory), but not necessarily to compare the two types of prospectuses.

²⁴³ See S+G Report at 20 (Atlanta focus group 4 transcript at 8 (Nov. 10, 2011)).

²⁴⁴ See S+G Report at 20 (Atlanta focus group 4 transcript at 14 (Nov. 10, 2011)).

prospectus or a statutory prospectus) “that was actually very interesting that no rep would talk about . . . [a]nd then I found out there are management fees, which are deducted from the actual growth of the portfolio, which to me at first was bothersome because again nobody would mention it.”²⁴⁵ A further focus group participant stated that “the statutory prospectus will have the pie, they’ll show you the industries or the companies that are in there and it’s all just very easy to determine if this is the kind of program you want to get into or not.”²⁴⁶ This category of focus group participants generally agreed with the consultant’s assertion that “in terms of the relationships of them [the financial intermediaries] buying and selling these products and informing you about them, it has been working acceptably for you then.”²⁴⁷

The second category of focus group participants had comments about specific disclosures such as the mutual fund prospectus. For example, one focus group participant stated that he “would like to know everything – you know, everything that I could know, every fee, every commission you’re going to get.”²⁴⁸ Another focus group participant stated that “when you get a prospectus from your mutual funds – you know, it is like a booklet, but there are only a couple of pages that I really care about where they show what the return rates and returns are. I mean the rest of it I don’t know.”²⁴⁹ Other focus group participants indicated a preference for information

²⁴⁵ See S+G Report at 22 (San Diego focus group 3 (misabeled 1) transcript at 19 (Nov. 16, 2011)).

²⁴⁶ See S+G Report at 26 (Atlanta focus group 4 transcript at 14 (Nov. 10, 2011)).

²⁴⁷ See S+G Report at 21 (San Diego focus group 4 transcript at 57 (Nov. 16, 2011)).

²⁴⁸ See S+G Report at 22 (San Diego focus group 3 (misabeled 1) transcript at 62 (Nov. 16, 2011)).

²⁴⁹ See S+G Report at 21 (San Diego focus group 2 transcript at 26 (Nov. 15, 2011)).

about “[p]erformance in the last year. Performance over five years,”²⁵⁰ or “background information on my broker himself.”²⁵¹

The third category of focus group participants was not as interested in the content of disclosures to investors. As one focus group participant stated, “there’s a bit of a diminishing value because the more that is disclosed to us, we may be less likely to pay attention to it.”²⁵²

Format

Generally, the preferred format of disclosures to investors revolved around visuals such as charts and graphs and, to a certain extent, bullet points. The majority of focus group participants expressed their preference for “graphs and charts.”²⁵³ Typical assertions about the format of disclosures included “I like charts and graphs the best,”²⁵⁴ “[w]ell I tend to be visual and so the graphs and the charts were the most useful to me,”²⁵⁵ “a graph tells you everything you want to know,”²⁵⁶ and “I mean sometimes they even have a graph or a chart – you know, that is the key to quick understandings [sic] of the whole thing.”²⁵⁷ Variations on this theme included “[s]preadsheets and charts and graphs. I mean I just want to see a full breakdown of

²⁵⁰ See S+G Report at 21 (San Diego focus group 3 (misabeled 1) transcript at 5 (Nov. 16, 2011)).

²⁵¹ See S+G Report at 21 (Atlanta focus group 4 transcript at 27 (Nov. 10, 2011)).

²⁵² See S+G Report at 35 (Baltimore focus group 2 transcript at 55 (Nov. 1, 2011)).

²⁵³ See, e.g., S+G Report at 24(Baltimore focus group 4 transcript at 31 (Nov. 3, 2011); at 26 (Atlanta focus group 4 transcript at 20 (Nov. 10, 2011));at 24 (San Diego focus group 4 transcript at 16 (Nov. 16, 2011)); and at 26 (San Diego focus group 4 transcript at 27 (Nov. 16, 2011)).

²⁵⁴ See S+G Report at 29 (San Diego focus group 3 (misabeled 1) transcript at 34 (Nov. 16, 2011)).

²⁵⁵ See S+G Report at 25 (Atlanta focus group 3 transcript at 21 (Nov. 10, 2011)).

²⁵⁶ See S+G Report at 24 (Baltimore focus group 4 transcript at 33 (Nov. 3, 2011)).

²⁵⁷ See S+G Report at 23 (Baltimore focus group 3 transcript at 16 (Nov. 3, 2011)).

costs and fees as well as the charts and graphs”²⁵⁸ and “I like comparison charts. It doesn’t matter whether it’s a line diagram or a bar chart, a pie chart. I like to be able to see: How did this compare to others within its category over time? And I like a lot of time. A minimum of 15, 20 years is what I consider to be worthwhile.”²⁵⁹

Bullet points were another preferred format identified by multiple focus group participants.²⁶⁰ In addition, one focus group participant suggested using “graphs and maybe bullet points.”²⁶¹

Other focus group participants identified a range of possible formats for disclosures to investors. Some suggested embedding links in disclosure documents to facilitate document navigation or searches. For example, one focus group participant described “links up on top here, then you can click on a button and go right down to the answer. So something along those lines, kind of an instant table-of-contents tab. What are the commission fee[d] [sic] breakdowns? Click on that and then go down there and it shows you.”²⁶² Similarly, another focus group participant stated that he “would rather get his [sic] online as an attachment to my email and open it up into an Adobe format where you can just go to the top index and you can click on any one area of the document and go right there.”²⁶³ Another envisioned “a two-page executive

²⁵⁸ See S+G Report at 29 (San Diego focus group 4 transcript at 27 (Nov. 16, 2011)).

²⁵⁹ See S+G Report at 28 (San Diego focus group 3 (mislabeled 1) transcript at 15 (Nov. 16, 2011)).

²⁶⁰ See, e.g., S+G Report at 24 (Baltimore focus group 4 transcript at 31 (Nov. 3, 2011)); at 26 (Atlanta focus group 4 transcript at 20 (Nov. 10, 2011); and at 24 (San Diego focus group 1 transcript at 42 (Nov. 15, 2011)).

²⁶¹ See S+G Report at 24 (Baltimore focus group 3 transcript at 24 (Nov. 3, 2011)).

²⁶² See S+G Report at 23 (Baltimore focus group 1 transcript at 37 (Nov. 1, 2011)).

²⁶³ See S+G Report at 28 (San Diego focus group 2 transcript at 29 (Nov. 15, 2011)).

summary and then to your point they have certain things bolded, you click on it, and it goes there because you want to expand it, you want to see the full table.”²⁶⁴

Some focus group participants expressed a preference for searchable disclosure documents. For example, one focus group participant favored “[a]n email or a PDF so that I can scroll through it, or even search for keywords. If you want to give me a packet of 50 papers, it’s like, ‘I don’t want it.’ I’ll scroll through it and I’ll pick out what I want in a document on my computer.”²⁶⁵ Another focus group participant stated that he or she did not want to “have to search around, like, ‘Item #1 is here, but I’ve got to go through a bunch of other stuff before I could find Item #2.’”²⁶⁶ Others preferred links to a website through which they would be able to access the document. For example, one focus group participant stated that he or she would be satisfied with “the opportunity to have access to” the Brochure, but warned “[d]on’t send it to me”²⁶⁷ Similarly, another focus group participant would prefer receiving notification that “[f]or more information about the company and recent changes, go to this website.”²⁶⁸

Several focus group participants endorsed the use of “fact sheets.” They described fact sheets as being “simple and to the point,”²⁶⁹ with one focus group participant asserting that “there’s no need to look at the prospectus because that’s the highlights of it. That’s the way I look at the fact sheet.”²⁷⁰ Another focus group participant agreed, stating that the disclosures

²⁶⁴ See S+G Report at 23 (Baltimore focus group 1 transcript at 37 (Nov. 1, 2011)).

²⁶⁵ See S+G Report at 27 (San Diego focus group 1 transcript at 16 (Nov. 15, 2011)).

²⁶⁶ See S+G Report at 27 (San Diego focus group 1 transcript at 44 (Nov. 15, 2011)).

²⁶⁷ See S+G Report at 25 (Atlanta focus group 1 transcript at 48 (Nov. 9, 2011)).

²⁶⁸ See S+G Report at 25 (Atlanta focus group 1 transcript at 50 (Nov. 9, 2011)).

²⁶⁹ See S+G Report at 26 (Atlanta focus group 4 transcript at 18 (Nov. 10, 2011)).

²⁷⁰ See S+G Report at 26 (Atlanta focus group 4 transcript at 18 (Nov. 10, 2011)).

“that I’ve found the most helpful have had . . . these one sheet tip sheets or fact sheets and something like questions to ask . . . Easy, short, and sweet, but the really key points,”²⁷¹ a viewpoint echoed by other participants.²⁷²

Brevity – or simplicity – was also a virtue for several focus group participants. For example, one focus group participant stated that, “[i]f you can’t put it on a 4X5 card then I don’t want to deal with it.”²⁷³ Another suggested requiring “the planners and financial professionals that are feeding us this information to put it in plain common ordinary language so that we understand it.”²⁷⁴ Some focus group participants suggested the use of summaries, for example, “I think when you get the annual reports it would be nice to have a summary page that summarizes everything out, because it’s like reading another language when you get those pamphlets”²⁷⁵ or “I know that I get my car insurance every six months all broken down in one page – you know, it is really simple to read.”²⁷⁶

Some of the focus group participants who had reviewed a sample Brochure, as discussed above, indicated the manner in which they would prefer to receive such disclosure. For example, one of these focus group participants suggested that “[i]f you receive your statements on a quarterly basis I would like to see it attached with the statement . . . [which] means you’re going to get it four times a years [sic].”²⁷⁷ Others indicated a preference for receiving the Brochure in

²⁷¹ See S+G Report at 27 (San Diego focus group 1 transcript at 26 (Nov. 15, 2011)).

²⁷² See S+G Report at 27 (San Diego focus group 1 transcript at 43 (Nov. 15, 2011)).

²⁷³ See S+G Report at 27 (San Diego focus group 2 transcript at 16 (Nov. 15, 2011)).

²⁷⁴ See S+G Report at 25 (Baltimore focus group 4 transcript at 34 (Nov. 3, 2011)).

²⁷⁵ See S+G Report at 24 (Baltimore focus group 4 transcript at 31 (Nov. 3, 2011)).

²⁷⁶ See S+G Report at 28 (San Diego focus group 2 transcript at 31 (Nov. 15, 2011)).

²⁷⁷ See S+G Report at 23 (San Diego focus group 1 transcript at 59 (Nov. 15, 2011)).

the same manner that they received their account statements. As one of these focus group participants stated, “[i]f you receive your statements by mail you get this by mail. If you receive it by email you get it by email. However you receive your statement.”²⁷⁸ Many in that focus group expressed agreement with that assertion.²⁷⁹

Finally, a few of the focus group participants – several in the group consisting mainly of mutual fund and variable annuity investors and some in the group consisting of investment advisory clients – expressed an interest in paper disclosure. The moderator of the focus group consisting mainly of mutual fund and variable annuity investors asked “What is your preference for getting information on investment materials? Do you want it in hardcopy? Do you want it just told to you? Would you rather view it online?” Those focus group participants responded, “I’d like to have it in print,” “I like it in print too,” “[i]n print, but I like it online too,” and “both.”²⁸⁰ When the moderator asked the group consisting of investment advisory clients how they would like to receive information about their financial intermediary, one stated “either way . . . give me some paper or the website,” while one indicated “I want the paper on their letterhead.”²⁸¹

B. Quantitative Research (Online Survey)

1. The Brochure

Quantitative research relating to the Brochure involved, among other things, investor testing concerning the content and format of the Brochure, as described below. The quantitative

²⁷⁸ See S+G Report at 19 (San Diego focus group 1 transcript at 59 (Nov. 15, 2011)).

²⁷⁹ See S+G Report at 19 (San Diego focus group 1 transcript at 59 (Nov. 15, 2011)).

²⁸⁰ See S+G Report at 29 (San Diego focus group 3 (mislabelled 1) transcript at 33 (Nov. 16, 2011)).

²⁸¹ See S+G Report at 27 (San Diego focus group 1 transcript at 16 (Nov. 15, 2011)).

research results show that approximately 68.5% of the online survey respondents recalled receiving a Brochure from their investment adviser, while approximately 19.4% were unsure or did not know whether they had received such a document.²⁸² Approximately 58.1% of the online survey respondents recalled reading a Brochure or similar document, while the rest had no such recollection or were unsure or did not know whether they had read such a document.²⁸³

Content

The online survey responses regarding the content of the Brochure generally fell into three categories, ranging from the most important to the least important information. First, a majority of online survey respondents indicated that information about an investment adviser's fees, disciplinary history, and investment strategy was absolutely essential to them, as described in greater detail below. Second, many of the online survey respondents indicated that information about an adviser's conflicts of interest, as well as information about an adviser's methodology in providing advice, was absolutely essential. Third, a few of the online survey respondents deemed information about an adviser's business and types of clients important but not essential. Finally, the online survey respondents were divided as to whether information about an adviser's affiliations with other entities and process for selecting broker-dealers to buy and sell securities for clients was absolutely essential, important but not essential, or nice to know.

Specifically, the online survey respondents were asked to rate the importance of the following information regarding their investment adviser: (a) the adviser's fees; (b) the adviser's

²⁸² See S+G Report at 57 (question A1).

²⁸³ See S+G Report at 57 (question A2).

disciplinary history (*e.g.*, criminal or regulatory proceedings); (c) the adviser’s conflicts of interest (*e.g.*, affiliations with other financial services providers, personal investments); (d) the adviser’s methodology in providing advice; (e) the adviser’s business and types of clients; (f) the adviser’s investment strategy(s); (g) the adviser’s affiliations with other entities (*e.g.*, broker-dealer); and (h) the adviser’s process for selecting broker-dealers to buy and sell securities for clients.²⁸⁴ The question instructed the online survey respondents to rate the foregoing items on a four-factor scale ranging in descending order from “Absolutely essential,” to “Important, but not essential,” to “Nice to know,” to “Completely unimportant.”²⁸⁵

Approximately 76.4% of the online survey respondents identified information about their adviser’s fees as absolutely essential.²⁸⁶ Approximately 67.4% considered information about their adviser’s disciplinary history to be absolutely essential, while approximately 18.5% deemed it important, but not essential.²⁸⁷ About 52.3% of the online survey respondents identified information about the adviser’s conflicts of interest as absolutely essential and approximately 27.8% reported that such information was important, but not essential.²⁸⁸ Similarly, about 51% of the online survey respondents identified information about the adviser’s methodology in providing advice as absolutely essential, while approximately 34.0% deemed it important, but not essential.²⁸⁹ Notably, only about 26.2% of the online survey respondents indicated that information about the adviser’s business and types of clients was absolutely essential;

²⁸⁴ See S+G Report at 58 (questions A4r1-8).

²⁸⁵ See S+G Report at 58 (questions A4r1-8).

²⁸⁶ See S+G Report at 58 (question A4r1).

²⁸⁷ See S+G Report at 58 (question A4r2).

²⁸⁸ See S+G Report at 58 (question A4r3).

²⁸⁹ See S+G Report at 58 (question A4r4).

approximately 40.0% deemed such information important, but not essential and about 27.6% considered it nice to know.²⁹⁰ On the other hand, approximately 69.5% of the online survey respondents identified information about the adviser's investment strategy(s) as absolutely essential and approximately 22.5% identified it as important, but not essential.²⁹¹ The online survey respondents were divided as to the importance of information about the adviser's affiliations with other entities, with approximately 38.9% classifying it as absolutely essential, approximately 34.6% identifying it as important, but not essential, and about 23.1% determining that it would be nice to know.²⁹² Similarly, approximately 38.4% of the online survey respondents identified information about the adviser's process for selecting broker-dealers to buy and sell securities for clients as absolutely essential, about 36.7% deemed it important, but not essential, and 20.0% reported that it would be nice to know.²⁹³

Format

Many of the online survey respondents indicated that they would prefer to receive the Brochure in hard-copy format. Several online survey respondents reported that they would prefer to receive the Brochure through a link to an electronic copy and a few expressed a preference for receiving an electronic copy of the Brochure.

Specifically, approximately 57.5% of the online survey respondents indicated a preference for a hard-copy of the Brochure.²⁹⁴ About 19.3% of the online survey respondents

²⁹⁰ See S+G Report at 58 (question A4r5).

²⁹¹ See S+G Report at 58 (question A4r6).

²⁹² See S+G Report at 58 (question A4r7).

²⁹³ See S+G Report at 58 (question A4r8).

²⁹⁴ See S+G Report at 69 (question A15).

reported a preference for receiving the Brochure through a link to an electronic copy, provided, however, that they agreed to receive it in that manner.²⁹⁵ Approximately 19.3% of the online survey respondents indicated that they would want to receive an electronic copy of the Brochure (e.g., on a compact disk or a flash drive).²⁹⁶ Approximately 12.3% of the online survey respondents expressed no preference at all.²⁹⁷

Most of the online survey respondents also indicated that, in addition to receiving the Brochure, they would prefer an investment adviser to discuss with them orally the information contained in the Brochure. Specifically, approximately 82.3% of the online survey respondents reported that they would prefer an oral explanation of the Brochure.²⁹⁸

Additional Areas of Research

In addition to questions regarding the Brochure, the online survey included questions relating to: (a) the concept of a hypothetical “summary” of an investment adviser’s answers to the disclosure items required in the Brochure (“Brochure summary”); (b) comparative investment adviser information, and (c) IAPD.

a) Hypothetical Brochure Summary

As stated above, investment advisory clients currently do not receive a “summary” of an investment adviser’s answers to the items required to be disclosed in the Brochure. The online survey included hypothetical questions relating to the concept of a Brochure summary and the timing and format of such a document.

²⁹⁵ See S+G Report at 69 (question A15).

²⁹⁶ See S+G Report at 69 (question A15).

²⁹⁷ See S+G Report at 69 (question A15).

²⁹⁸ See S+G Report at 70 (question A16).

The online survey respondents answered a series of questions relating to whether they would find it helpful to receive a summary of an adviser’s answers to the disclosure items required in the Brochure. Approximately 79.6% of the online survey respondents indicated that they would find a Brochure summary helpful.²⁹⁹ However, the online survey respondents were divided as to whether they would prefer to receive this Brochure summary instead of, or in addition to, the full Brochure.

Of those who indicated that a Brochure summary would be helpful, approximately 50.1% reported that they would prefer to receive a Brochure summary *instead of* the full Brochure, while approximately 47.2% indicated that they would like to receive the Brochure summary *in addition* to the full Brochure.³⁰⁰ Again, of the subset that previously indicated that they would find a Brochure summary helpful, approximately 52.7% also indicated that they would “definitely” read the Brochure summary, while approximately 37.2% reported that they “probably” would read the Brochure summary.³⁰¹

A majority of those online survey respondents who indicated that they would like to receive a Brochure summary *in addition to* the full Brochure reported that they would like to receive the Brochure summary at the same time that they received the full Brochure. There was no agreement among those who previously expressed an interest in receiving a Brochure summary as to when they would like to receive this summary: in response to a multiple response question (*i.e.*, check all that apply), about half reported that they would like to receive this summary at the beginning of the advisory relationship; approximately a third of them indicated

²⁹⁹ See S+G Report at 59 (question A5).

³⁰⁰ See S+G Report at 61 (question A7).

³⁰¹ See S+G Report at 63 (question A9).

that they would prefer to receive it only when there was a material change in the information; approximately one-quarter expressed a preference for annually; and nearly a fifth of them indicated quarterly.

Specifically, approximately 88.6% of the online survey respondents who previously indicated that they would like to receive a Brochure summary *in addition to* the full Brochure (*i.e.*, a subset) also indicated that they would like to receive the Brochure summary at the same time that they received the full Brochure.³⁰² When those who previously expressed an interest in receiving a Brochure summary were asked to select the times at which they would like to receive the Brochure summary (permitting multiple responses), approximately 51.1% of them indicated that they would like to receive the Brochure summary at the “beginning of the advisory relationship;” approximately 30.7% expressed a preference for receiving the Brochure summary only “when the information has materially changed;” approximately 26.1% reported that they would want to receive it annually; and approximately 20.3% indicated a preference for quarterly receipt.³⁰³

b) Comparative Investment Adviser Information

The online survey respondents were asked questions regarding receiving comparative information regarding multiple investment advisers before selecting an adviser. Many of the online survey respondents indicated that it would have been helpful to have information – in addition to the Brochure – that would have allowed them to compare investment advisers before selecting their current adviser. Of that subset—those who thought such information would be

³⁰² See S+G Report at 62 (question A8).

³⁰³ See S+G Report at 60 (question A6).

helpful—most also reported that it would be helpful to compare adviser information disclosed in the Brochure. On the other hand, a significant bloc of the total online survey respondents reported that it would *not* have been helpful to have information concerning multiple advisers available to them before selecting an adviser mainly because they had selected their current adviser based on a referral.

Specifically, approximately 54.4% of the online survey respondents indicated that it would have been helpful to have information concerning multiple advisers available to them before they made their decision to select their investment adviser, while approximately 30.0% reported that such information would not have been helpful.³⁰⁴ Of the subset of those who thought such information would be helpful, approximately 88.4% indicated that it would have been helpful had they been able to compare information about multiple advisers in the Brochure before they selected their current adviser.³⁰⁵ On the other hand, the primary reason that approximately 63.5% of those online survey respondents who reported that receiving such information before selecting an adviser would *not* have been helpful was that they had selected their adviser “based on a referral.”³⁰⁶ Approximately 17% of the online survey respondents provided a variety of other reasons for their response that receiving such information before selecting an adviser would *not* have been helpful, for example, because their adviser was a family member or somebody known to them personally, or had been appointed or selected for them by a third party (*e.g.*, employer, bank), or because the client had specific criteria in mind in

³⁰⁴ See S+G Report at 75-76 (question A23).

³⁰⁵ See S+G Report at 75 (question A24).

³⁰⁶ See S+G Report at 76 (question A25).

selecting their adviser (such as a fee-only adviser, a particular firm, or an adviser with access to certain funds or potential investments).³⁰⁷

When asked how important certain factors would be to them if they were to search for comparative information on investment advisers, the majority of online survey respondents identified the fees charged and the adviser's disciplinary history as the most important factors. Less important were the types of services offered by the adviser, the size of the adviser's business, and the geographic location of the adviser. Specifically, the online survey respondents were asked to indicate how highly they valued the following information about their investment adviser: (a) the geographic location of the adviser; (b) the fees charged; (c) the type of services offered; (d) the size of the adviser's business; (e) the adviser's disciplinary history (*e.g.*, criminal or regulatory proceedings); or (f) other.³⁰⁸ The question instructed the online survey respondents to rate the foregoing items on a four-factor scale ranging in descending order from "Absolutely essential," to "Important, but not essential," to "Nice to know," to "Completely unimportant."³⁰⁹

Approximately 79.4% of the online survey respondents identified "fees charged" as absolutely essential to their search for comparative information on investment advisers.³¹⁰

Approximately 68.8% of the online survey respondents indicated that the adviser's disciplinary history was absolutely essential, while about 18.5% reported that it was important, but not essential.³¹¹ Approximately 62.2% of the online survey respondents deemed the types of

³⁰⁷ See S+G Report at 76 (question A25).

³⁰⁸ See S+G Report at 83 (questions A31r1-6).

³⁰⁹ See S+G Report at 83 (questions A31r1-6).

³¹⁰ See S+G Report at 83 (question A31r2).

³¹¹ See S+G Report at 83 (question A31r5).

services offered absolutely essential and about 30.6% considered them important, but not essential.³¹² Approximately 49.1% of the online survey respondents indicated that the size of the adviser's business was important but not essential, approximately 24.5% deemed it nice to know, and about 21.6% identified it as absolutely essential.³¹³ Approximately 42.9% of the online survey respondents indicated that the geographic location of the adviser was important but not essential, while only about 29.6% deemed it absolutely essential and approximately 21.0% considered it nice to know.³¹⁴ In the "Other" category, some online survey respondents identified as important information, among other things, the adviser's history and background, the adviser's investment strategies and performance history, their personal impressions of the adviser, the adviser's availability, referrals from other clients, and the adviser's ethics.³¹⁵

c) IAPD

The online survey also included questions relating to IAPD in order to research some of the issues identified in a related study.³¹⁶ During the quantitative testing, the online survey respondents viewed a "screen shot" of IAPD, which is an SEC-sponsored website that provides information about investment adviser firms and representatives. Many of the online survey respondents reportedly did not use an SEC-sponsored website to find information about their adviser largely because they were unaware of its existence. However, they claimed that if they

³¹² See S+G Report at 83 (question A31r3).

³¹³ See S+G Report at 83 (question A31r4).

³¹⁴ See S+G Report at 83 (question A31r1).

³¹⁵ See S+G Report at 84(question A31r6).

³¹⁶ See generally Study and Recommendations on Improved Investor Access to Registration Information About Investment Advisers and Broker-Dealers (the "Section 919B Study"), available at <http://www.sec.gov/news/studies/2011/919bstudy.pdf>.

had known about the SEC-sponsored website, they would have reviewed information about their adviser. Moreover, they indicated that if they were selecting a new adviser, such a website would be helpful in their search for comparative information about advisers. While IAPD currently does not present investment adviser information in a comparative format, a significant number of the online survey respondents expressed a preference for such information to be presented in a comparative format (for example, comparison of assets under management for advisers in a particular region). They also mostly agreed that they would be likely to use hyperlinks to terms on the website that were unfamiliar to them or that were defined terms.

Specifically, about 76.5% of the online survey respondents reported that, in selecting their current adviser, they did not use an SEC-sponsored website to find information about the adviser.³¹⁷ Of that subset—those who reported not using an SEC-sponsored website—approximately 85.2% indicated that they did not know that such a website was available for that purpose.³¹⁸ Of that majority (*i.e.*, a further subset) – those who were unaware of such a website – approximately 73.5% reported that they would review information about their adviser on an SEC-sponsored website *if they knew it were available*.³¹⁹ Approximately 81.7% of the total number of online survey respondents indicated that, if they were selecting a new investment adviser, they would find an SEC-sponsored website helpful in their search for comparative information about advisers.³²⁰ Of that majority (*i.e.*, a subset), approximately 61.5% reported

³¹⁷ See S+G Report at 77 (question A26).

³¹⁸ See S+G Report at 78 (question A27).

³¹⁹ See S+G Report at 79 (question A28).

³²⁰ See S+G Report at 81 (question A29).

that it mattered to them whether such information would be presented in comparable format (for example, comparison of assets under management for advisers in a particular region).³²¹

While IAPD currently does not include hyperlinks to explanatory or educational content, the online survey attempted to gauge client interest in that functionality. Approximately 60.5% of the total number of the Form ADV online survey respondents indicated that they would use hyperlinks to look up terms that might be unfamiliar to them or that were defined terms on the website, and approximately 25.0% reported that they did not know whether or not they would use such hyperlinks.³²²

2. Confirmations/Account Statements

Quantitative research relating to confirmations and account statements information involved, among other things, investor testing concerning methods to improve the timing, content, and format of these disclosures to investors with respect to financial intermediaries, investment products, and investment services. In particular, this quantitative research focused on assessing the online survey respondents' current understanding of three specific disclosure documents – trade confirmations, account statements, and sweep account disclosures. Online survey respondents generally reported having some level of understanding of the disclosure documents provided to them in the survey. However, many of the online survey respondents failed to correctly answer some of the comprehension questions related to the disclosure items they reviewed.

Confirmations

³²¹ See S+G Report at 82 (question A30).

³²² See S+G Report at 85 (question A32).

Online survey respondents were provided with sample trade confirmations for three different investment products – a stock, a mutual fund, and a mortgage-backed security. After reviewing these confirmations, online survey respondents were given multiple choice questions asking them to identify the following information for each trade confirmation: (a) the type of investment product involved in the trade confirmation (e.g., stock, bond, mutual fund, etc...); (b) the capacity in which the financial intermediary facilitating the trade acted (e.g., principal, agent, dual agent, etc...); and (c) how the financial intermediary was compensated (e.g., sales commission, mark-up or mark-down, sales load, etc...).³²³

For the trade confirmation involving a stock: approximately 53.5% of the online survey respondents correctly identified that the trade confirmation involved a stock;³²⁴ about 55.9% of the online survey respondents correctly identified that the financial intermediary acted as an agent for the transaction;³²⁵ and 64.8% of online survey respondents correctly identified a sales commission as the compensation that the financial intermediary received for the transaction.³²⁶

For the stock trade confirmation, online survey respondents were also given a multiple choice question asking them to indicate why it matters “whether your [financial intermediary] acts as a principal or as an agent when selling you a security.”³²⁷ This multiple choice question consisted of two correct answers: (a) if my broker acts in a principal capacity, it may have a conflict of interest because it is selling me a security out of its inventory; and (b) if my broker acts as an

³²³ See S+G Report at 131-138 (questions C1-10).

³²⁴ See S+G Report at 131 (question C1).

³²⁵ See S+G Report at 131 (question C2).

³²⁶ See S+G Report at 132 (question C3).

³²⁷ See S+G Report at 132 (question C4).

agent, my broker is entering the marketplace to buy or sell a security for me.³²⁸ Approximately 60.5% of the online survey respondents provided one of the correct responses to this question.³²⁹

For the trade confirmation involving a mutual fund, approximately 57.9% of the online survey respondents correctly identified that the trade confirmation involved a mutual fund.³³⁰ However, only 12.7% of the online survey respondents correctly identified that the financial intermediary acted as a dual agent for the transaction,³³¹ and only 34.3% of the online survey respondents correctly indicated that they could not determine the financial intermediary's compensation for the transaction from the information provided in the trade confirmation.³³²

For the trade confirmation involving a mortgage-backed security: approximately 17.1% of the online survey respondents correctly identified that the trade confirmation involved a mortgage-backed security;³³³ approximately 36% of the online survey respondents correctly indicated that they could not determine what capacity the financial intermediary acted in for the transaction from the information provided in the trade confirmation;³³⁴ and approximately 24.1% of the online survey respondents correctly indicated that they could not determine the financial

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Id.

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Id.

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See S+G Report at 134 (question C5).

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See S+G Report at 134 (question C6).

332

See S+G Report at 135 (question C7). The correct response to this question was "I can't tell/I don't know) because the trade confirmation does not provide sufficient information to determine the financial intermediary's compensation for the transaction.

333

See S+G Report at 134 (question C5).

334

See S+G Report at 135 (question C7). The correct response to this question was "I can't tell/I don't know) because the trade confirmation does not provide sufficient information to determine the financial intermediary's compensation for the transaction.

intermediary's compensation for the transaction from the information provided in the trade confirmation.³³⁵

Online survey respondents also provided their opinions on the format of the sample trade confirmations. Using a scale, the online survey respondents were asked to agree or disagree with the following statements regarding the format of each of trade confirmations: (a) the type size of this document is easy to read; and (b) the document is organized in a way that helps me find the information I want and need.³³⁶ For each trade confirmation, online survey respondents rated each of the foregoing statements using a five-tier scale ranging from "Completely agree," to "Somewhat agree," to "Neither agree nor disagree," to "Somewhat disagree," to "Completely disagree." For the stock's trade confirmation, approximately (34.6%³³⁷ of the online survey respondents indicated that the type size of the confirmation is easy to read, and approximately 49.2%³³⁸ of respondents indicated that the confirmation is well organized. For the mutual fund's trade confirmation, about 55.9%³³⁹ of the online survey respondents indicated that the type size

³³⁵ See S+G Report at 135 (question C7). The correct response to this question was "I can't tell/I don't know) because the trade confirmation does not provide sufficient information to determine the financial intermediary's compensation for the transaction.

³³⁶ See S+G Report at 139 (question C14-15).

³³⁷ Approximately 8.2% of respondents indicated that they strongly agree that type size of the stock's trade confirmation is easy to read, and an additional 26.4% of respondents indicated they somewhat agree that the type size of the confirmation is easy to read. Approximately 49.2% of respondents indicated they either strongly or somewhat disagree that the type size of the stock's trade confirmation is easy to read. See S+G Report at 139 (question C14).

³³⁸ Approximately 8.9% of respondents indicated that they strongly agree that the stock's trade confirmation is well organized, and an additional 39.5% of respondents indicated they somewhat agree that the confirmation is well organized. Approximately 26.9% of respondents indicated they either strongly or somewhat disagree that the stock's trade confirmation is well organized. See S+G Report at 139 (question C15).

³³⁹ Approximately 19.6% of respondents indicated that they strongly agree that type size of the mutual fund trade confirmation is easy to read, and an additional 36.3% of respondents indicated

of the confirmation is easy to read, and approximately 60.2%³⁴⁰ of respondents indicated that the confirmation is well organized. Lastly, for the mortgage-backed security's trade confirmation, about 47.6%³⁴¹ of the online survey respondents indicated that the type size of the confirmation is easy to read, and approximately 49.1%³⁴² of respondents indicated that the confirmation is well organized.

Online survey respondents also evaluated the importance of several pieces of information currently required in a trade confirmation. Specifically, the online survey respondents were asked to rate the importance of the following pieces of information contained in a trade confirmation: (a) the name of the security; (b) whether I bought or sold the security; (c) the price at which I bought or sold the security; (d) the number of shares or units of the security that I bought or sold; (e) the date of the transaction; (g) the settlement date of the transaction (if that date differs from the transaction date); (h) the capacity in which the financial intermediary

they somewhat agree that the type size of the confirmation is easy to read. Approximately 27.9% of respondents indicated they either strongly or somewhat disagree that the type size of the mutual fund trade confirmation is easy to read. See S+G Report at 139 (question C14).

³⁴⁰ Approximately 16.3% of respondents indicated that they strongly agree that the mutual fund's trade confirmation is well organized, and an additional 43.9% of respondents indicated they somewhat agree that the confirmation is well organized. Approximately 17.9% of respondents indicated they either strongly or somewhat disagree that the mutual fund's trade confirmation is well organized. See S+G Report at 139 (question C15).

³⁴¹ Approximately 13.9% of respondents indicated that they strongly agree that type size of the mortgage-backed security's trade confirmation is easy to read, and an additional 33.7% of respondents indicated they somewhat agree that the type size of the confirmation is easy to read. Approximately 31.6% of respondents indicated they either strongly or somewhat disagree that the type size of the mortgage-backed security's trade confirmation is easy to read. See S+G Report at 139 (question C14).

³⁴² Approximately 10.8% of respondents indicated that they strongly agree that the mortgage-backed security's trade confirmation is well organized, and an additional 38.3% of respondents indicated they somewhat agree that the confirmation is well organized. Approximately 24.8% of respondents indicated they either strongly or somewhat disagree that the mortgage-backed security's trade confirmation is well organized. See S+G Report at 139 (question C15).

facilitating the transaction acted; (i) the amount of compensation that the financial intermediary receives from me for the transaction; (j) whether the financial intermediary receives compensation from someone else, like a securities exchange, a mutual fund, or another financial firm, for sending my order to that other person or entity; (k) whether the financial intermediary is a member of the Securities Investor Protection Corporation (“SIPC”)³⁴³; (l) if the trade involves a debt security, the yield and dollar amount on the purchase of the debt security; (m) if the trade involves a debt security, whether the security is callable (i.e., if the issuer has the right to buy back the security from me even if I do not want to sell it); (n) if the trade involves a debt security, whether the security is rated by a company like Standard & Poors, Moody’s or Fitch; and (o) if the trade involves a mutual fund, whether a fee (i.e., a sales load) was deducted from my purchase or sale price and the dollar amount of such fee.³⁴⁴ The question instructed online survey respondents to rate the foregoing items on a four-factor scale ranging in descending order from “Absolutely essential,” to “Important, but not essential,” to “Nice to know,” to “Completely unimportant.”³⁴⁵

At least three-fourths of the online survey respondents indicated that the following trade confirmation information was absolutely essential: the price at which the security was bought or

³⁴³ SIPC was created by Congress under the Securities Investor Protection Act of 1970 to restore investors’ funds and securities in the hands of financially troubled brokerage firms and to insulate the securities markets from disruption following the failure of broker-dealers. It is a nonprofit, membership corporation, of which, with limited exceptions, all registered broker-dealers are members.

³⁴⁴ See S+G Report at 146-147 (question C11).

³⁴⁵ See S+G Report at 146-147 (question C11).

sold; the number of shares or units involved and whether the security was bought or sold.³⁴⁶ At least one-half of respondents indicated that the following trade confirmation information was absolutely essential in a trade confirmation: the name of the security; the transaction date; the amount of financial compensation they paid to the financial intermediary for the transaction; a sales load (for mutual funds); the transaction's settlement date; the yield and dollar amount of the purchase (for debt securities); and whether a security is callable (for debt securities).³⁴⁷

Additionally, less than one-half of respondents indicated that the following trade confirmation information was absolutely essential: whether their financial intermediary was a SIPC member; whether their financial intermediary received compensation from a third party for sending the order to them; the capacity in which their financial intermediary acted; and if the security is rated by a ratings agency (for debt securities).³⁴⁸

³⁴⁶ See S+G Report at 146-147 (question C11). Approximately 82.5% of respondents indicated that price was absolutely essential. Approximately 79.3% of respondents indicated that the number of shares or units involved was absolutely essential. Approximately 75.8% of respondents indicated that whether the security was bought or sold was absolutely essential.

³⁴⁷ See S+G Report at 146-147 (question C11). Approximately 68.4% of respondents indicated that the name of the security was absolutely essential. Approximately 66.6% of respondents indicated that the transaction date was absolutely essential. Approximately 64.1% of respondents indicated that the amount of compensation they paid to their financial intermediary for the transaction was absolutely essential. Approximately 62.7% of respondents indicated that the sales load for mutual fund transactions was absolutely essential. Approximately 60.6% of respondents indicated that the transaction's settlement date was absolutely essential. Approximately 50.9% of respondents indicated that the yield and dollar amount of the purchase for debt transactions was absolutely essential. Approximately 50% of respondents indicated that indicating whether a security is callable for debt transactions was absolutely essential.

³⁴⁸ See S+G Report at 146-147 (question C11). Approximately 34.7% of respondents indicated that knowing whether their financial intermediary is a SIPC member was absolutely essential. Approximately 32.4% of respondents indicated that knowing whether their financial intermediary received third-party compensation for routing the order to that third-party was absolutely essential. Approximately 31.7% of respondents indicated that knowing the capacity their financial intermediary acted in for the transaction was absolutely essential. Approximately 27.2% of respondents indicated that knowing whether a security was rated for debt transactions was absolutely essential.

Online survey respondents also evaluated the importance of additional disclosures not currently required in a trade confirmation. Specifically, the online survey respondents were asked to rate the importance of the following pieces of disclosure information: (a) whether I sold the security short; (b) whether the financial intermediary is registered as both a broker-dealer and an investment adviser; (c) whether the financial intermediary suggested, or recommended a particular investment (i.e., whether the order was ‘solicited’ or ‘unsolicited’); and (d) whether the financial intermediary sent the order to an affiliate for processing.³⁴⁹ The question instructed online survey respondents to rate the foregoing items on a four-factor scale ranging in descending order from “Absolutely essential,” to “Important, but not essential,” to “Nice to know,” to “Completely unimportant.”³⁵⁰

Approximately 56.6% of online survey respondents reported that indicating whether they sold a security ‘short’ was absolutely essential information in a trade confirmation.³⁵¹ About 32.2% of the online survey respondents reported that indicating whether their financial intermediary is registered both as a broker-dealer and an investment adviser is absolutely essential information in a trade confirmation.³⁵² In addition, approximately 25.8% of online survey respondents reported that indicating whether their financial intermediary recommended a security transaction was absolutely essential information in a trade confirmation.³⁵³

³⁴⁹ See S+G Report at 148 (question C12).

³⁵⁰ See S+G Report at 148 (question C12).

³⁵¹ See S+G Report at 148 (question C12).

³⁵² See S+G Report at 148 (question C12).

³⁵³ See S+G Report at 148 (question C12).

Account Statements³⁵⁴

The quantitative research also addressed online survey respondents' understanding of disclosure information related to account statements. Survey respondents were asked to review exhibits containing disclosure information related to account statements and answer several comprehension questions related to the information in the exhibits. Respondents generally indicated that they believed they understood the disclosure information provided in these exhibits; however, testing of their comprehension of the information through exhibits indicated they did not fully understand the information.

Total Market Value Exhibit

Online survey respondents were provided with an account statement exhibit that contained descriptions of: (i) how certain pricing information for securities is calculated on an account statement; (ii) various methods for calculating the total market value of securities on the account statement; and (iii) various methods for calculating estimated annual income from securities on an account statement. Approximately 64.3% of the online survey respondents indicated that they understood the information in the exhibit "somewhat," with the remaining respondents split almost equally between understanding the information fully (18.9%) or not at all (16.7%).³⁵⁵ Online survey respondents received comprehension questions that consisted of eight statements regarding the information in the exhibit and were asked to indicate whether the statements were "true", "false", or "I can't tell/I don't know." These questions focused on

³⁵⁴ Only one-half of the 1201 online survey respondents (600) were asked questions regarding account statements. The survey results related to account statements are based on responses from this subset of 600 online survey respondents.

³⁵⁵ See S+G Report at 152 (question C16).

general characteristics of the price, valuation and income information contained in the exhibit as well as methods of calculating the price, valuation and income information on an account statement.³⁵⁶ An average of approximately one-half (51.9%) of the online survey respondents correctly answered each of the comprehension questions regarding this account statement exhibit.³⁵⁷

Online survey respondents also evaluated the importance of including certain pieces of information in an account statement. Specifically, the online survey respondents were asked to rate the importance of the following pieces of information: (a) “whether I can sell the securities whenever I want to”; (b) “whether I can sell the securities at their market value; (c) how the total market value of my securities was actually calculated, or what it is based on”; (d) “whether the total market value is only available on the date of my statements, and how I can obtain a value between statements”; and (e) “who estimates the total market value of my securities.”³⁵⁸ The question instructed online survey respondents to rate the foregoing items on a four-factor scale ranging in descending order from “Absolutely essential,” to “Important, but not essential,” to “Nice to know,” to “Completely unimportant.”³⁵⁹

Approximately 70.9% of the online survey respondents indicated that knowing whether they can sell their securities at anytime is absolutely essential.³⁶⁰ A similar percentage (68.9%)

³⁵⁶ See S+G Report at 153-156 (question C17).

³⁵⁷ See S+G Report at 157 (question C17). This finding represents the average percentage of respondents correctly answering each comprehension question. The actual percentage of online survey respondents correctly answering each comprehension question related to this account statement exhibit ranged from 41.2% to 67%.

³⁵⁸ See S+G Report at 158 (question C18).

³⁵⁹ See S+G Report at 158 (question C18).

³⁶⁰ See S+G Report at 158 (question C18).

of respondents indicated that knowing whether they can sell their securities at market value is absolutely essential.³⁶¹ Online survey respondents reported mixed preferences for information related to total market value: approximately 51.7% of the online survey respondents indicated that understanding how the total market value was calculated is absolutely essential; approximately 44.8% of the online survey participants indicated that knowing whether total market value is only available on the account statement date is absolutely essential; and approximately 33.8% of online survey respondents indicated that knowing who calculates total market value is absolutely essential.³⁶²

SIPC Exhibit

Online survey respondents were provided with an account statement exhibit that provided a general description of account protections provided through SIPC. More than 90 percent of the online survey respondents indicated that they understood the information in the exhibit either “fully” (44.3%) or “somewhat” (49%).³⁶³ However, when answering a multiple choice comprehension question regarding the information contained in this SIPC exhibit, approximately 66.7% of the online survey respondents answered the question correctly.³⁶⁴

Online survey respondents also evaluated the importance of including certain SIPC information in an account statement. Specifically, the online survey respondents were asked to rate the importance of the following pieces of information: (a) what I would need to do to get paid by SIPC; (b) under what circumstances would I receive a payment from SIPC; and (c) how

³⁶¹ See S+G Report at 158 (question C18).

³⁶² See S+G Report at 158 (question C18).

³⁶³ See S+G Report at 160 (question C19).

³⁶⁴ See S+G Report at 161 (question C20).

can I get information about my financial intermediary’s supplemental protection.³⁶⁵ The question instructed online survey respondents to rate the foregoing items on a four-factor scale ranging in descending order from “Absolutely essential,” to “Important, but not essential,” to “Nice to know,” to “Completely unimportant.”³⁶⁶ More than one-half of online survey respondents reported that it is “absolutely essential” to have the account statement indicate what they would have to do to get paid by SIPC and under what circumstances they would receive a payment.³⁶⁷ Additionally, about 42.6% of online survey respondents indicated that is absolutely essential for the account statement to include information on the financial intermediary’s supplemental protection.³⁶⁸

Statement Inaccuracies Exhibit

Online survey respondents were provided with an account statement exhibit that described the procedures for addressing inaccuracies on account statements. Online survey respondents were asked to indicate how often they checked their account statements: approximately 42% of respondents indicated they “always” checked their account statements; approximately 26.8% of respondents indicated they “usually” check their account statements; approximately 16.4% of respondents indicated they “sometimes” check their account statements; and approximately 14.9% indicated they “rarely or never” check their account statements.

Custodial Information Exhibit

³⁶⁵ See S+G Report at 163 (question C22).

³⁶⁶ See S+G Report at 163 (question C22).

³⁶⁷ See S+G Report at 163 (question C22). Approximately 59.1% of online survey respondents reported that is “absolutely essential” to have an account statement indicate what they would have to get paid by SIPC, while 56.2% of online survey respondents reported that is “absolutely essential” to indicate under what circumstances they would receive a payment.

³⁶⁸ See S+G Report at 163 (question C22).

Online survey respondents were provided with an account statement exhibit that described the custody of securities on the account statements.³⁶⁹ Online survey respondents received three multiple choice comprehension questions regarding the custodial information contained in this exhibit.³⁷⁰ An average of approximately 24% of the online survey respondents correctly answered each of the comprehension questions regarding this account statement exhibit.³⁷¹

Compensation Exhibit

Online survey respondents were provided with an account statement exhibit that generally indicated that a financial intermediary may receive compensation in connection “with the purchase and/or the on-going maintenance of positions in certain mutual fund shares and other investment products” in an investment account. Approximately 57.5% of the online survey respondents indicated that they “somewhat” understood the information in the exhibit, with the remaining respondents split between understanding the information fully (25.9%) or not at all (16.6%).³⁷² Online survey respondents received comprehension questions that consisted of four statements related to information in the exhibit and were asked to indicate whether the statements were true, false, or “I can’t tell/I don’t know.” These questions focused on how and when a financial intermediary receives compensation for sales of investment products and where

³⁶⁹ See S+G Report at 166 (question C24-26).

³⁷⁰ See S+G Report at 166-167 (question C24-26).

³⁷¹ See S+G Report at 168 (question C24-26). This finding represents the average percentage of respondents correctly answering each comprehension question. The actual percentage of online survey respondents correctly answering each comprehension question related to this account statement exhibit ranged from 20.9% to 24.9%.

³⁷² See S+G Report at 171 (question C28).

information regarding this compensation can be found.³⁷³ An average of approximately 51% of the online survey respondents correctly answered each of the comprehension questions regarding this account statement exhibit.³⁷⁴

Online survey respondents also indicated their interest in obtaining additional information “about the sources and amounts of compensation” received by their financial intermediary.³⁷⁵ Approximately 87.5% of online survey respondents were “very” or “somewhat” interested in receiving this compensation information.³⁷⁶ Those online survey respondents expressing interest in information “about the sources and amounts of compensation” received by their financial intermediary were also asked to indicate when they would like to receive this information. These survey respondents were asked to select one or more (i.e., multiple responses acceptable) of the following time frames for receiving this compensation information: (a) before I begin my relationship with a [financial intermediary]; (b) at the time I consider each transaction; (c) when I get a confirmation or account statement, which is at some point after a transaction; (d) some other time; or (e) I do not know.³⁷⁷ Approximately 58.9% of this subset of online survey respondents want to receive this compensation information before beginning their relationship with a financial intermediary, while about 43.8% of these respondents want to receive this

³⁷³ See S+G Report at 172-173 (question C29).

³⁷⁴ See S+G Report at 174 (question C29). This finding represents the average of the percent correct for each comprehension question asked. The actual percentage of online survey respondents that correctly answered each comprehension question related to this account statement exhibit ranged from 33.3% to 63.6%.

³⁷⁵ See S+G Report at 175 (question C30).

³⁷⁶ See S+G Report at 175 (question C30). Approximately 39.9% of online survey respondents were “very interested” in the sources and amounts of compensation received by their financial intermediary, and another 47.6% of respondents were “somewhat” interested in this information.

³⁷⁷ See S+G Report at 176 (question C31).

compensation information at the time of they consider a transaction.³⁷⁸ Approximately 20.6% of this subset of online survey respondents want to receive this compensation information with a trade confirmation or account statement, while about 10.7% of these respondents either do not know when they want this information or want it at “some other time.”³⁷⁹

Sweep Accounts³⁸⁰

The quantitative research also addressed online survey respondents’ understanding of disclosure about sweep accounts. Survey respondents were asked to review exhibits containing disclosure about sweep accounts and answer several related comprehension questions. Respondents generally indicated that they understood the disclosure information provided in these exhibits; however, as described below, many of the respondents failed to correctly answer some of the comprehension questions associated with each of the exhibits.

General Information Exhibit

Online survey respondents were provided with an exhibit that explained the general operation of a sweep account and how Federal Deposit Insurance Corporation (“FDIC”) protections apply to these accounts. After reviewing the exhibit, online survey respondents were asked how well they understood the following: (a) what a sweep account is; (b) what a sweep account is used for; and (c) how a sweep account works in conjunction with your other accounts at a financial firm.³⁸¹ Approximately one-half of all the online survey respondents indicated they

³⁷⁸ See S+G Report at 176 (question C31).

³⁷⁹ See S+G Report at 176 (question C31).

³⁸⁰ Only one-half of the 1201 online survey respondents (601) were asked questions regarding sweep accounts. The survey results related to sweep accounts are based on responses from this subset of 601 online survey respondents.

³⁸¹ See S+G Report at 180 (question C34).

“understand the basics” of each the foregoing questions related to sweep accounts, with the remaining respondents split almost equally between understanding the information fully or not at all.³⁸²

Online survey respondents received two types of comprehension questions regarding this general information exhibit for sweep accounts: two multiple-choice questions and four statements they were asked to indicate were true, false, or “I can’t tell/I don’t know.” These questions focused on basic operation, account transfers, and FDIC coverage and terms of a sweep account. An average of approximately 50.2% of the online survey respondents correctly answered each of the comprehension questions regarding this sweep account exhibit.³⁸³

Statements, Interest and Fees Exhibit

Online survey respondents were provided with an exhibit that described sweep account statements, sweep account fees, and how interest applied to funds in a sweep accounts. Approximately 70.7% of the online survey respondents indicated that they “somewhat” understood the information in the exhibit, with the remaining respondents split between

³⁸² See S+G Report at 180 (question C34). Approximately 49.8% of online survey respondents indicated they “understand the basics” of what a bank sweep account is, while approximately 29.3% of respondents indicated they understand this information fully and 20.9% of respondents indicated they did not understand this information at all. Approximately 49.3% of online survey respondents indicated they “understand the basics” of what a bank sweep account is used for, while approximately 27.5% of respondents indicated they understand this information fully and 23.2% of respondents indicated they did not understand this information at all. Approximately 52.6% of online survey respondents indicated they “understand the basics” of how a bank sweep account work with other account at a financial firm, while approximately 22.2% of respondents indicated they understand this information fully and 25.2% of respondents indicated they did not understand this information at all

³⁸³ See S+G Report at 181-184 (questions C35-36 and C38). This finding represents the average percentage of respondents correctly answering each comprehension question. The actual percentage of online survey respondents correctly answering each comprehension question related to this sweep account exhibit ranged from 24.3% to 80%.

understanding the information fully (15.6%) or not at all (13.7%).³⁸⁴ Online survey respondents received comprehension questions that consisted of eight statements related to information in the exhibit and were asked to indicate whether the statements were “true”, “false”, or “I can’t tell/I don’t know.” These questions focused on sweep account statements and interest calculations.³⁸⁵ An average of approximately 37.4% of the online survey respondents correctly answered each of the comprehension questions regarding this sweep account exhibit.³⁸⁶

Withdrawals Exhibit

Online survey respondents were provided with an exhibit that explained sweep account withdrawals. About 66.4% of the online survey respondents indicated that they “somewhat” understood the information in the exhibit, with the remaining respondents split between understanding the information fully (20%) or not at all (13.6%).³⁸⁷ Online survey respondents received comprehension questions that consisted of five statements related to information in the exhibit and were asked to indicate whether the statements were true, false, or “I can’t tell/I don’t know.” These questions focused on the rights to, and procedures associated with, withdrawing funds from a sweep account.³⁸⁸ An average of approximately 56% of the online survey

³⁸⁴ See S+G Report at 187 (question C39).

³⁸⁵ See S+G Report at 188-191 (questions C40-41).

³⁸⁶ See S+G Report at 192 (questions C40-41). This finding represents the average percentage of respondents correctly answering each comprehension question. The actual percentage of online survey respondents correctly answering each comprehension question related to this sweep account exhibit ranged from 13.1% to 66.1%.

³⁸⁷ See S+G Report at 194 (question C42).

³⁸⁸ See S+G Report at 195-197 (questions C43).

respondents correctly answered each of the comprehension questions regarding this sweep account exhibit.³⁸⁹

3. Mutual Fund Summary Prospectus

Quantitative research relating to the mutual fund summary prospectus involved, among other things, investor testing concerning one of three examples of a summary prospectus, as described below. Before describing those testing results, however, we turn first to a discussion of general findings based on data collected from introductory questions in the summary prospectus branch of the online survey.

In response to several introductory questions, the online survey respondents identified as their main sources of information in deciding whether to invest in mutual funds their financial advisor or broker, the Internet, and friends and family. Specifically, in response to a multiple response question (*i.e.*, check all that apply) regarding such sources, approximately 51.4% of the online survey respondents cited a financial advisor or broker as their main sources of information in deciding whether to invest in mutual funds, about 48.7% identified the Internet or a computer, approximately 35.7% indicated friends and family, and about 26.6% reported that they relied on magazines or newspapers.³⁹⁰ In addition, approximately 24.6% of the online survey respondents cited a mutual fund prospectus as their primary source of information in deciding whether to invest in mutual funds.³⁹¹ When asked to identify the most important source of information for

³⁸⁹ See S+G Report at 198 (questions C43). This finding represents the average percentage of respondents correctly answering each comprehension question. The actual percentage of online survey respondents correctly answering each comprehension question related to this sweep account exhibit ranged from 50% to 60.4%.

³⁹⁰ See S+G Report at 202 (question S1).

³⁹¹ See S+G Report at 202 (question S1).

mutual fund investment decision-making, approximately 41.3% online survey respondents cited a financial advisor or broker, about 21.4% indicated the Internet, while only 6.2% identified a mutual fund prospectus.³⁹²

Perceptions of Statutory Prospectuses and Summary Prospectuses

A statutory prospectus is a prospectus that meets the requirements of Section 10(a) of the Securities Act.³⁹³ A statutory prospectus contains information about a mutual fund, such as its investment objectives, risks, and expenses. Statutory prospectuses are often lengthy, both because they contain a wealth of information required by Commission rules and because statutory prospectuses for multiple funds are often combined in a single document. In 2009, the Commission adopted rule amendments that would permit a mutual fund to satisfy its prospectus delivery obligations, so long as certain conditions are satisfied, by sending or giving a summary prospectus to the investor and providing the statutory prospectus online.³⁹⁴ The summary prospectus was intended to be a concise summary (on the order of three or four pages) that would provide key information about the mutual fund. The summary prospectus rule provides for a layered approach to disclosure in which key information is sent or given to the investor and more detailed information is provided online and, upon request, is sent in paper or by email.³⁹⁵

The online survey tested online survey respondents' perceptions regarding their receipt of statutory and summary prospectuses. Approximately 78.2% of the online survey respondents

³⁹² See S+G Report at 204 (question S2).

³⁹³ 15 U.S.C. 77j(a).

³⁹⁴ 17 C.F.R. 230.498.

³⁹⁵ See Enhanced Disclosure and New Prospectus Delivery Option for Registered Open-End Management Investment Companies, supra note 4.

recalled receiving a statutory prospectus, and about 48.7% recalled receiving a summary prospectus.³⁹⁶ When the approximately 51.3% of the online survey respondents who indicated that they had not or were unsure whether they had received a summary prospectus (*i.e.*, a subset) were shown a sample summary prospectus for reference, approximately 56.3% of them maintained that they had not received one, while 33.0% recalled having received a summary prospectus.³⁹⁷ Approximately 73.2% of those online survey respondents who recalled receiving a statutory prospectus (*i.e.*, a subset) and approximately 72.5% of those online survey respondents who recalled receiving a summary prospectus (*i.e.*, a subset) reported receiving one within the past year.³⁹⁸

While readership of prospectuses varied, a majority of online survey respondents indicated that they either read them always, very frequently, or frequently. The results show that a greater proportion of those online survey respondents who recalled receiving a summary prospectus reported reading them than those who recalled receiving a statutory prospectus. Specifically, of those who recalled receiving a statutory prospectus or a summary prospectus, approximately 55.7% reported that they always, very frequently, or frequently read statutory prospectuses, and approximately 61.9% reported that they always, very frequently, or frequently read summary prospectuses, when they received them.³⁹⁹ Conversely, approximately 44.3% of those who recalled receiving a statutory prospectus admitted that they rarely, very rarely, or

³⁹⁶ See S+G Report at 205 (questions S3 and S11).

³⁹⁷ See S+G Report at 206 (question S12).

³⁹⁸ See S+G Report at 207 (questions S4 and S13).

³⁹⁹ See S+G Report at 208 (questions S5 and S14).

never read them, while approximately 38.1% of those who recalled receiving a summary prospectus indicated that they rarely, very rarely, or never read them.⁴⁰⁰

Reasons given for *not* reading statutory prospectuses or summary prospectuses also varied. The online survey respondents who reported generally not reading a statutory prospectus mostly indicated that the documents were “too complicated,” “too long,” or “too boring,” or that they relied “on a broker or other financial advisor.”⁴⁰¹ Specifically, in response to a multiple response question (*i.e.*, check all that apply), approximately 57.3% of the online survey respondents who reported not reading a statutory prospectus indicated that they did not read statutory prospectuses more frequently because they were too complicated, about 51.4% reported that they were too long, and approximately 44.0% declared that they were too boring.⁴⁰² Approximately 33.4% of these online survey respondents reported their reliance on a broker or other financial adviser as a reason for not reading the statutory prospectus. By comparison, fewer of the online survey respondents who reported generally not reading a summary prospectus indicated that they did not read summary prospectuses more often because they were too complicated (43.7%) or reported that they were too long (32.8%) or too boring (30.7%); however, approximately 34.5% of these online survey respondents identified their reliance on a broker or other financial adviser as a reason for not reading the summary prospectus more often.⁴⁰³

⁴⁰⁰ See S+G Report at 208 (questions S5 and S14).

⁴⁰¹ See S+G Report at 210 (questions S7 and S16).

⁴⁰² See S+G Report at 210 (question S7).

⁴⁰³ See S+G Report at 210 (question S16).

Moreover, the online survey respondents who indicated that they rarely, very rarely, or never read a summary prospectus reportedly were more likely to retain them for future use than those who indicated that they rarely, very rarely, or never read a statutory prospectus.⁴⁰⁴ Specifically, about 75.7% of the online survey respondents who indicated that they generally do not read a statutory prospectus reported typically “disposing of them” after receiving them, while approximately 21.7% reported that they retain them for future use.⁴⁰⁵ In contrast, about 66.7% of the online survey respondents who indicated that they generally do not read a summary prospectus reported typically “disposing of them” after receiving them, while approximately 31.3% indicated that they retain them for future use.⁴⁰⁶

The time reportedly spent reading a statutory prospectus as compared to a summary prospectus varied as well. On average, about 52.8% of the subset of online survey respondents who recalled receiving a statutory prospectus indicated that they spent ten minutes or more reading a statutory prospectus.⁴⁰⁷ By comparison, on average, approximately 45.9% of the subset of online survey respondents who recalled receiving a summary prospectus indicated that they spent ten minutes or more reading a summary prospectus.⁴⁰⁸

⁴⁰⁴ See S+G Report at 213 (questions S8 and S17).

⁴⁰⁵ See S+G Report at 213 (question S8).

⁴⁰⁶ See S+G Report at 213 (question S17).

⁴⁰⁷ See S+G Report at 214 (question S9). According to the S+G Report, this sample was comprised of 849 online survey respondents who recalled receiving a prospectus and who did not select “Never” in response to the question asking them how often they read a prospectus.

⁴⁰⁸ See S+G Report at 214 (question S18). According to the S+G Report, this sample was comprised of 728 online survey respondents who recalled receiving a summary prospectus and who did not select “Never” in response to the question asking them how often they read a summary prospectus.

The online survey respondents were not very likely to view statutory prospectuses or summary prospectuses online. Most of the online survey respondents who recalled receiving a statutory prospectus or a summary prospectus reported not ever having looked at one online. Specifically, about 65.3% of the online survey respondents who recalled receiving a statutory prospectus indicated that they had not ever looked at a statutory prospectus online, while approximately 32.9% reported having done so.⁴⁰⁹ By comparison, approximately 69.8% of the online survey respondents who recalled receiving a summary prospectus indicated that they had not ever looked at a summary prospectus online, while only 28.7% reported having done so.⁴¹⁰

For purposes of this exercise, the online survey respondents reviewed one of three examples of an actual summary prospectus that was modified to remove the identity of the applicable mutual fund.⁴¹¹ One of the summary prospectus examples was for a core equity fund, another was for an asset allocation portfolio, and the third was for a government bond fund. The total number of online survey respondents was divided into three separate groups, each consisting of approximately 400 individuals. One group was shown the four-page “Petunia Core Equity” Summary Prospectus (the “Petunia Summary Prospectus”) as an example.⁴¹² Another group was shown the eight-page “Gardenia Asset Allocation Portfolio” Summary Prospectus

⁴⁰⁹ See S+G Report at 215 (question S10) (n=933).

⁴¹⁰ See S+G Report at 215 (question S19) (n=787, including those online survey respondents who recalled receiving a summary prospectus per question S11 (“Have you ever received or obtained a Summary Prospectus for a [m]utual [f]und?”) or after seeing an example for reference in question S12 (“Now that you have seen a sample Summary Prospectus, do you recall ever having received or obtained a Summary Prospectus for a mutual fund?”)).

⁴¹¹ See S+G Report at 219-21. These exhibits consisted of authentic summary prospectuses of actual mutual funds; however, the names of those funds, as reflected in these exhibits, were changed to fictitious names for purposes of this exercise.

⁴¹² See S+G Report at 219.

(the “Gardenia Summary Prospectus”) as an example.⁴¹³ A third group was shown the four-page “Hydrangea Bush Government Bond Fund” Summary Prospectus (the “Hydrangea Bush Summary Prospectus”) as an example.⁴¹⁴

Timing

The online survey respondents across all three summary prospectus examples indicated that it would be important to read the summary prospectus prior to investing in the mutual fund described in each example.⁴¹⁵ Specifically, approximately 84.3% of the online respondents who reviewed the Petunia Summary Prospectus,⁴¹⁶ approximately 84.0% of the online respondents who reviewed the Gardenia Summary Prospectus,⁴¹⁷ and approximately 86.6% of the online survey respondents who reviewed the Hydrangea Bush Summary Prospectus,⁴¹⁸ considered it important to read the summary prospectus before investing in the applicable mutual fund.

When asked when they would like to receive the summary prospectus if they were considering investing in the applicable mutual fund, the online survey respondents generally preferred before purchasing fund shares and when the broker or financial advisor first discusses or recommends the fund.⁴¹⁹ Specifically, approximately 58.6% of the online survey respondents who reviewed the Petunia Summary Prospectus expressed a preference for receiving it before purchasing fund shares, while approximately 42.4% favored receiving it when their broker or

⁴¹³ See S+G Report at 220.

⁴¹⁴ See S+G Report at 221.

⁴¹⁵ See S+G Report at 237 (question S37).

⁴¹⁶ See S+G Report at 237 (question S37).

⁴¹⁷ See S+G Report at 237 (question S37).

⁴¹⁸ See S+G Report at 237 (question S37).

⁴¹⁹ See S+G Report at 238 (question S38).

financial advisor discusses or recommends the fund.⁴²⁰ Similarly, about 55.6% of the online survey respondents who reviewed the Gardenia Summary Prospectus expressed a preference for receiving it before purchasing fund shares, while approximately 40.0% favored receiving it when their broker or financial advisor discusses or recommends the fund.⁴²¹ Approximately 64.0% of the online survey respondents who reviewed the Hydrangea Bush Summary Prospectus indicated a preference for receiving the summary prospectus before purchasing fund shares, with approximately 36.0% preferring to receive it when their broker or financial advisor discusses or recommends the fund.⁴²²

Content

A higher proportion of the online survey respondents reported difficulty with finding information in summary prospectuses when asked as part of the introductory questions than when they were asked about finding information in one of the three examples of summary prospectuses that they reviewed.⁴²³ Before reviewing an example of a summary prospectus, approximately 50.1% of the online survey respondents expected it to be “[s]omewhat difficult” to find the information they needed in a summary prospectus and approximately 43.1% anticipated that it would be “[n]ot at all difficult.” In actuality, approximately 61.0% of the online survey respondents who reviewed the Petunia Summary Prospectus indicated that they found it “[n]ot at all difficult” to find the information they needed and about 33.8% reportedly

⁴²⁰ See S+G Report at 238 (question S38).

⁴²¹ See S+G Report at 238 (question S38).

⁴²² See S+G Report at 238 (question S38).

⁴²³ See S+G Report at 224 (question S21 vs. S29).

found it “[s]omewhat difficult.”⁴²⁴ Similarly, about 61.1% of the online survey respondents who reviewed the Hydrangea Bush Summary Prospectus indicated that they found it “[n]ot at all difficult” to find the information they needed and approximately 30.6% reportedly found it “[s]omewhat difficult.”⁴²⁵ However, the Gardenia Summary Prospectus somewhat differed here. Approximately 47.4% of the online survey respondents who reviewed the Gardenia Summary Prospectus indicated that they found it “[n]ot at all difficult” to find the information they needed, but about 42.7% reportedly found it “[s]omewhat difficult.”⁴²⁶

Generally, the online survey respondents who reviewed the summary prospectus examples did not find it difficult to locate the information they needed. However, a larger proportion of online survey respondents who reviewed the Gardenia Summary Prospectus (8.2%) indicated that it was “[v]ery difficult” to find the information they needed than those who reviewed the Petunia Summary Prospectus (4.0%) or the Hydrangea Bush Summary Prospectus (5.1%).⁴²⁷ The online survey respondents who found it very difficult to locate information in the Gardenia Summary Prospectus (8.2%) exceeded the proportion of those who, before reviewing an example of a summary prospectus, expected it to be very difficult to find the information they needed in a summary prospectus (5.8%).⁴²⁸

The disparity in perception of the content of a summary prospectus as compared to the experience of reviewing an actual summary prospectus was also apparent in the degree of

⁴²⁴ See S+G Report at 224 (question S21 vs. S29).

⁴²⁵ See S+G Report at 224 (question S21 vs. S29).

⁴²⁶ See S+G Report at 224 (question S21 vs. S29).

⁴²⁷ See S+G Report at 224 (question S21 vs. S29).

⁴²⁸ See S+G Report at 224 (question S21 vs. S29).

difficulty in understanding the language of a summary prospectus. Specifically, before reviewing an example of a summary prospectus, approximately 57.1% of the online survey respondents expected it to be “[s]omewhat difficult” to understand the language used in a summary prospectus, with about 34.1% anticipating it to be “[n]ot at all difficult.”⁴²⁹ By comparison, approximately 50.1% of the online survey respondents who reviewed the Petunia Summary Prospectus indicated that they found it “[n]ot at all difficult” to understand the language used in the summary prospectus and about 40.1% reportedly found it “[s]omewhat difficult.”⁴³⁰ Similarly, about 51.4% of the online survey respondents who reviewed the Hydrangea Bush Summary Prospectus indicated that they found it “[n]ot at all difficult” to understand the language used in the summary prospectus and about 39.8% reportedly found it “[s]omewhat difficult.”⁴³¹ The Gardenia Summary Prospectus was the exception here. Approximately 49.6% of the online survey respondents who reviewed the Gardenia Summary Prospectus indicated that they found it “[s]omewhat difficult” to understand the language used in the summary prospectus, while about 36.7% reportedly found it “[n]ot at all difficult,”⁴³² a proportion comparable to the pre-example results discussed above (34.1%). In fact, the proportion of online survey respondents who found it very difficult to understand the language in the Gardenia Summary Prospectus (11.9%) exceeded the proportion of those who, before reviewing an example of a summary prospectus, expected to find it very difficult (8.8%).⁴³³

⁴²⁹ See S+G Report at 225 (question S22 vs. S30).

⁴³⁰ See S+G Report at 224 (question S21 vs. S29).

⁴³¹ See S+G Report at 224 (question S21 vs. S29).

⁴³² See S+G Report at 225 (question S22 vs. S30).

⁴³³ See S+G Report at 225 (question S22 vs. S30).

Moreover, the proportion of online survey respondents who found it very difficult to understand the language in the Gardenia Summary Prospectus (11.9%) exceeded the proportion of those who reviewed the Petunia Summary Prospectus (7.8%) and the Hydrangea Bush Summary Prospectus (7.1%).⁴³⁴

Nonetheless, the majority of online survey respondents across all the summary prospectus examples agreed that the examples they reviewed contained the “right amount” of information. This number represented a significant increase over the pre-example results.⁴³⁵ Before reviewing an example of a summary prospectus, about 54.4% of the online survey respondents reported that the amount of information contained in a summary prospectus was the right amount.⁴³⁶ By comparison, approximately 71.3% of the online survey respondents who reviewed the Petunia Summary Prospectus and approximately 71.5% of the online survey respondents who reviewed the Hydrangea Bush Summary Prospectus, and approximately 62.4% of those who reviewed the Gardenia Summary Prospectus, indicated that the amount of information contained in the summary prospectus was the right amount.⁴³⁷ However, a higher proportion of those online survey respondents who reviewed the Gardenia Summary Prospectus indicated that there was “[t]oo much” information contained in that summary prospectus.⁴³⁸ Specifically, about 24.5% of the online survey respondents who reviewed the Gardenia Summary Prospectus reported that

⁴³⁴ See S+G Report at 225 (question S22 vs. S30).

⁴³⁵ See S+G Report at 226 (question S23 vs. S31).

⁴³⁶ See S+G Report at 226 (question S23 vs. S31). This sample comprised those online survey respondents who recalled receiving a summary prospectus (without being shown an example) in question S11 (n=539).

⁴³⁷ See S+G Report at 226 (question S23 vs. S31).

⁴³⁸ See S+G Report at 226 (question S23 vs. S31).

it contained too much information, a proportion comparable to the pre-example results (26.5%).⁴³⁹ In contrast, a lower number of the online survey respondents who reviewed the Petunia Summary Prospectus (14.3%) or the Hydrangea Bush Summary Prospectus (13.1%) indicated that those examples contained too much information.⁴⁴⁰

The contrast between the perceptions of the online survey respondents with respect to the summary prospectus *before* reviewing the summary prospectus examples and *after* they had done so came into sharper relief when they were asked to agree or disagree with a series of statements regarding the summary prospectuses. Generally, the online survey respondents' perceptions of the summary prospectus were more negative prior to viewing an example of a summary prospectus, but became more positive after reviewing an example of a summary prospectus, as discussed below.

Specifically, the online survey respondents were asked to indicate, both before and after reviewing an example of a summary prospectus, the extent to which they agreed or disagreed with a series of statements regarding a summary prospectus.⁴⁴¹ Before viewing an example of a summary prospectus, the online survey respondents were asked to indicate their level of agreement with the following statements on a five-factor scale ranging from "Strongly agree" to "Somewhat agree" to "Neither agree nor disagree" to "Somewhat disagree" to "Strongly disagree": (a) summary prospectuses are user friendly; (b) summary prospectuses highlight important information; (c) summary prospectuses are well organized; (d) summary prospectuses

⁴³⁹ See S+G Report at 226 (question S23 vs. S31).

⁴⁴⁰ See S+G Report at 226 (question S23 vs. S31).

⁴⁴¹ See S+G Report at 227 (question S24). According to the S+G Report, this sample comprised those 539 online survey respondents who recalled receiving a summary prospectus (without first being shown an example) in question S11.

contain too much legal jargon; (e) summary prospectuses are clear and concise; (f) summary prospectuses are missing key information; and (g) summary prospectuses are written in language I understand.⁴⁴² The “before” and “after” questions were very similar, with a couple of additional questions added to the “after” set of questions. After reviewing an example of a summary prospectus, the online survey respondents were asked to indicate their level of agreement with the following statements according to the scale described above: (a) the summary prospectus is visually appealing; (b) the summary prospectus is easy to read; (c) the summary prospectus is user friendly; (d) the summary prospectus highlights important information; (e) the summary prospectus is well organized; (f) the summary prospectus contains too much legal jargon; (g) the summary prospectus is clear and concise; (h) the summary prospectus is missing key information; and (i) the summary prospectus is written in language I understand.⁴⁴³

This exercise generated some stark contrasts between the “before” and “after” perceptions of the summary prospectus. For ease of comparison, the results of the “before”⁴⁴⁴ and the consolidated “after”⁴⁴⁵ responses, as well as the net differences between the two, are shown in the tables below:

⁴⁴² See S+G Report at 227 (question S24).

⁴⁴³ See S+G Report at 228 (question S32).

⁴⁴⁴ See S+G Report at 227 (question S24).

⁴⁴⁵ See S+G Report at 228 (question S32).

“Before”⁴⁴⁶

S24. Summary Prospectuses...	Strongly disagree	Some-what disagree	Neither agree nor disagree	Some-what agree	Strongly agree	Don't know
are user friendly	11.6%	24.2%	24.0%	29.0%	10.9%	.4%
highlight important information	2.7%	7.1%	19.5%	49.4%	20.5%	.8%
are well organized	1.2%	11.1%	26.9%	46.6%	13.5%	.7%
contain too much legal jargon*	6.1%	15.6%	20.2%	36.5%	20.4%	1.2%
are clear and concise	7.8%	21.7%	28.1%	31.8%	10.2%	.4%
are missing key information*	10.9%	30.1%	33.4%	16.5%	5.4%	3.6%
are written in language I understand	6.9%	24.2%	20.9%	32.8%	14.8%	.3%

“After”⁴⁴⁷

S32. The Summary Prospectus...	Strongly disagree	Some-what disagree	Neither agree nor disagree	Some-what agree	Strongly agree	Don't know
is visually appealing	5.1%	12.4%	33.4%	34.4%	13.2%	1.6%
is easy to read	5.8%	18.1%	20.2%	37.6%	16.7%	1.6%
is user friendly	5.2%	13.2%	24.2%	39.9%	15.2%	2.3%
highlights important information	1.8%	4.8%	18.3%	50.8%	21.3%	2.9%
is well organized	1.5%	3.7%	17.6%	52.0%	23.0%	2.2%
contains too much legal jargon*	11.0%	21.9%	26.9%	28.2%	9.7%	2.3%
is clear and concise	5.2%	12.4%	23.2%	41.9%	15.6%	1.8%
is missing key information*	16.1%	27.5%	30.4%	9.9%	4.8%	11.3%
is written in language I understand	6.2%	16.0%	19.8%	38.8%	17.5%	1.7%

Net disagree ⁴⁴⁸	Net agree
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⁴⁴⁶ The “Before” table shows the results of a series of questions asked about summary prospectuses of a subset of 539 online survey respondents who recalled receiving a summary prospectus in question S11 of the online survey and who indicated that they read summary prospectuses “Very rarely” or more frequently in question S14 of the online survey. At this point in the survey, this subset of respondents had not been shown any of the summary prospectus examples.

⁴⁴⁷ The “After” table shows the average results of a series of questions asked about the three summary prospectus examples. The percentages shown are the average of the individual percentages calculated for the three summary prospectus example exhibits.

S24/S32. The Summary Prospectus(es)...	Before	After	Before	After
are/is visually appealing	N/A	17.5%	N/A	47.5%
are/is easy to read	N/A	23.9%	N/A	54.3%
are/is user friendly	35.8%	18.4%	39.9%	55.1%
highlight(s) important information	9.8%	6.6%	69.9%	72.2%
are/is well organized	12.3%	5.2%	60.1%	75.0%
contain(s) too much legal jargon*	21.7%	32.9%	56.9%	37.9%
are/is clear and concise	29.6%	17.6%	42.0%	57.5%
are/is missing key information*	41.0%	43.5%	22.0%	14.7%
are/is written in language I understand	31.1%	22.2%	47.7%	56.3%

As the results of the “Before” responses tabulated above show, the online survey respondents who answered the series of questions before reviewing an example of a summary prospectus agreed that summary prospectuses highlight important information (69.9%), are well organized (60.1%), but contain too much legal jargon (56.9%), while a minority thought that they are written in a language that they understand (47.7%), are clear and concise (42.0%), and are user friendly (39.9%).⁴⁴⁹

The “After” table above shows the consolidated results for the three summary prospectus examples. In contrast to the “before” results, the consolidated results for the “after” table show that, after reviewing one of the summary prospectus examples, more of the online survey respondents agreed that the summary prospectus highlights important information (72.1%) and is well-organized (75.0%). Substantially fewer of the online survey respondents agreed that the summary prospectus contains too much legal jargon (37.9%) compared to their expectations

⁴⁴⁸ The term “Net disagree” refers to the sum of the percentages of the “Strongly disagree” and “Somewhat disagree” responses, while the term “Net agree” refers to the sum of the percentages of the “Strongly agree” and “Somewhat agree” responses.

⁴⁴⁹ See S+G Report at 227 (question S24).

about summary prospectuses before they reviewed a summary prospectus example (56.9%). Moreover, a majority, as compared to a minority previously, agreed that the summary prospectus is written in a language that they understand (56.3%), is clear and concise (57.5%), and is user friendly (55.1%).⁴⁵⁰

The differences in the results between the “Before” and consolidated “After” tables are summarized in the table showing the net differences between the two. Contrasts between the two are evident. For example, the net differences relating to legal jargon (20.0% increase in net agree), user-friendliness (15.2% increase in net agree and 17.4% decrease in net disagree), clear and concise (15.5% increase in net agree), and well-organized (14.9% increase in net agree).

Although not shown in the tables above, the consolidated results in the “after” table can be broken down further into the constituent parts of each summary prospectus example. Doing so reveals that many of the online survey respondents who reviewed the Petunia Summary Prospectus agreed that it was well organized (75.3%), highlighted important information (69.8%), was clear and concise (62.3%), was written in a language that they understood (58.3%), was easy to read (57.3%), and was user friendly (55.9%).⁴⁵¹ A smaller number of these online survey respondents thought that the Petunia Summary Prospectus contained too much legal jargon (34.1%), a significant departure from the “before” responses (56.9%). Similarly, many of the online survey respondents who reviewed the Hydrangea Bush Summary Prospectus agreed that it was well organized (78.6%), highlighted important information (74.3%), was user friendly (60.5%), was clear and concise (60.4%), was written in a language that they understood (60.4%),

⁴⁵⁰ See S+G Report at 227 (question S24).

⁴⁵¹ See S+G Report at 228 (question S32).

and was easy to read (60.0%).⁴⁵² A smaller number of these online survey respondents indicated that the Hydrangea Bush Summary Prospectus contained too much legal jargon (34.7%), also a significant departure from the “before” responses (56.9%).⁴⁵³ Even though reactions to the Gardenia Summary Prospectus may not have been as positive as for the other two examples, they generally exceeded the “before” responses. For example, many of the online survey respondents who reviewed the Gardenia Summary Prospectus agreed that it highlighted important information (72.4%) and was well organized (71.0%), while fewer of them reported that it was written in a language that they understood (50.4%), was clear and concise (49.9%), and was user friendly (48.9%).⁴⁵⁴ A smaller number of the online survey respondents thought that the Gardenia Summary Prospectus contained too much legal jargon (44.9%), a departure from the “before” responses (56.9%).⁴⁵⁵

The majority of online survey respondents across all the summary prospectus examples agreed that the summary prospectus example that they reviewed contained most or all of the information that they would need to make investment decisions concerning the applicable mutual fund.⁴⁵⁶ Specifically, approximately 70.4% of the online survey respondents who reviewed the Petunia Summary Prospectus, approximately 73.4% of the online survey respondents who reviewed the Gardenia Summary Prospectus, and approximately 71.5% of the online survey

⁴⁵² See S+G Report at 230 (question S32).

⁴⁵³ See S+G Report at 230 (question S32).

⁴⁵⁴ See S+G Report at 229 (question S32).

⁴⁵⁵ See S+G Report at 229 (question S32).

⁴⁵⁶ See S+G Report at 233 (question S33).

respondents who reviewed the Hydrangea Bush Summary Prospectus indicated that their summary prospectus example contained most or all of the necessary information.⁴⁵⁷

The online survey respondents reported being significantly more satisfied with the summary prospectus example that they reviewed as a guide to making investment decisions than when they were asked about summary prospectuses before reviewing an example. Specifically, before reviewing an example of a summary prospectus, about 32.3% of the online survey respondents indicated that they were completely or very satisfied with summary prospectuses as a guide to making investment decisions.⁴⁵⁸ By comparison, approximately 52.2% of the online survey respondents who reviewed the Hydrangea Bush Summary Prospectus, approximately 48.9% of those who reviewed the Petunia Summary Prospectus, and approximately 44.2% of those who reviewed the Gardenia Summary Prospectus, reported being completely or very satisfied with the summary prospectus example that they reviewed as a guide to making investment decisions.⁴⁵⁹

Moreover, a majority of the online survey respondents across all the summary prospectus examples indicated that the applicable mutual fund's principal investment strategy and principal risks were "easy to understand."⁴⁶⁰ Specifically, about 65.0% of the online survey respondents who reviewed the Petunia Summary Prospectus, approximately 65.1% of those who reviewed the Hydrangea Bush Summary Prospectus, and approximately 60.1% of those who reviewed the

⁴⁵⁷ See S+G Report at 233 (question S33).

⁴⁵⁸ See S+G Report at 236 (question S25).

⁴⁵⁹ See S+G Report at 236 (question S25 vs. S36).

⁴⁶⁰ See S+G Report at 244 (question S43).

Gardenia Summary Prospectus, agreed that the discussion of principal investment strategy and principal risks contained in their summary prospectus example was easy to understand.⁴⁶¹

Format

A majority of the online survey respondents across the summary prospectus examples strongly or somewhat agreed that the tables and charts included in the summary prospectus examples were easy to understand.⁴⁶² Specifically, about 72.4% of the online survey respondents who reviewed the Hydrangea Bush Summary Prospectus, approximately 63.9% of the online survey respondents who reviewed the Gardenia Summary Prospectus, and approximately 63.3% the online survey respondents who reviewed the Petunia Summary Prospectus, indicated that it was easy to understand the tables and charts included in the summary prospectus.⁴⁶³

The online survey respondents were divided as to which particular tables or charts in the summary prospectus example that they reviewed were difficult to understand.⁴⁶⁴ The responses to the question regarding which particular tables or charts the online survey respondents found difficult to understand are tabulated below with respect to each summary prospectus example:

⁴⁶¹ See S+G Report at 244 (question S43).

⁴⁶² See S+G Report at 242 (question S41).

⁴⁶³ See S+G Report at 242 (question S41).

⁴⁶⁴ See S+G Report at 243 (question S42). This sample of online survey respondents excluded those who strongly agreed that the tables and charts in the summary prospectus example that they reviewed were easy to understand.

S42: Which particular tables and charts did you find difficult to understand in the Petunia Core Equity Summary Prospectus?

	Base	Percent
Table listing fees and expenses		30.8
Table providing an example of expenses over time		25.7
Bar chart showing performance returns		18.5
Table showing average annual total returns		24.3
None of the above		29.8
I don't know		9.6
Total	292	100.0

S42: Which particular tables and charts did you find difficult to understand in the Gardenia Summary Prospectus?

	Base	Percent
Table listing fees and expenses		27.6
Table providing an example of expenses over time		31.2
Bar chart showing performance returns		20.1
Table showing average annual total returns		18.5
None of the above		30.5
I don't know		8.8
Total	306	100.0

S42: Which particular tables and charts did you find difficult to understand in the Hydrangea Bush Summary Prospectus?

	Base	Percent
Table listing fees and expenses		26.0
Table providing an example of expenses over time		22.1
Bar chart showing performance returns		17.8
Table showing average annual total returns		19.6
None of the above		39.5
I don't know		9.6
Total	286	100.0

For example, approximately 39.5% of the online survey respondents who reviewed the Hydrangea Bush Summary Prospectus reported that they did not find any table or chart difficult to understand, while approximately 26.0% indicated that they found the table listing fees and expenses difficult to understand and approximately 22.1% considered the table providing an

example of expenses over time difficult to understand.⁴⁶⁵ By comparison, approximately 31.2% of the online survey respondents who reviewed the Gardenia Summary Prospectus considered the table providing an example of expenses over time difficult to understand, while approximately 30.5% reportedly did not find any table or chart difficult to understand and about 27.6% found the table listing fees and expenses difficult to understand.⁴⁶⁶ Finally, approximately 30.8% of the online survey respondents who reviewed the Petunia Summary Prospectus expressed difficulty understanding the table listing fees and expenses, about 29.8% reportedly did not find any table or chart difficult to understand, and approximately 25.7% indicated that the table providing an example of expenses over time was difficult to understand.⁴⁶⁷

4. Point-of-Sale Disclosure

Quantitative research relating to point-of-sale disclosures involved, among other things, investor testing concerning methods to improve the timing, content, and format of disclosures to investors with respect to financial intermediaries, investment products, and investment services. Online survey respondents generally indicated that they would like to receive disclosure information regarding either financial intermediaries or investment products and services prior to having to make a decision. Specifically, approximately 71.4% of online survey respondents indicated they would like to receive information “about how [they] will pay for the financial services provided by their financial firm or the individual who advises [them]” before they begin

⁴⁶⁵ See S+G Report at 243 (question S42) (n=286).

⁴⁶⁶ See S+G Report at 243 (question S42) (n=306).

⁴⁶⁷ See S+G Report at 243 (question S42) (n=292).

their relationship with the financial services firm or individual adviser.⁴⁶⁸ Similarly, about 60.3% of online survey respondents indicated they would like to receive information “about how the individual advising [them] is paid for providing [them] with financial service” before they begin their relationship with the financial services firm or individual adviser, along with periodic updates.⁴⁶⁹ Of those online survey respondents that indicated a preference of receiving a financial intermediary’s payment disclosure information in advance (i.e., a subset), approximately 73.5% indicated that they wanted to receive this information at least a few days to a week before entering into an agreement with a financial intermediary.⁴⁷⁰ Approximately 86.8% of a subset of online survey respondents also indicated they preferred receiving information about the scope of services provided by their financial intermediary at the beginning of their relationship.⁴⁷¹

Online survey respondents were also asked about their preferences for receiving disclosure information related to investment products. Specifically, respondents were asked to indicate when they would like to receive information “about the potential benefits, risks and

⁴⁶⁸ See S+G Report at 252 (question P5).

⁴⁶⁹ See S+G Report at 254 (question P7).

⁴⁷⁰ See S+G Report at 253 (question P6). Approximately 856 online survey respondents (or 71.3% of the total 1200 online survey respondents) indicated they preferred receiving payment disclosure information before entering into an agreement with a financial intermediary. Of this subset of online survey respondents, approximately 32.7% of respondents indicated that they preferred to receive a financial intermediary’s payment disclosure information at least one or two days before entering into an agreement, while another 40.2% of respondents indicated that they preferred to receive this disclosure information at least a week before entering into the agreement.

⁴⁷¹ See S+G Report at 256 (question P9). Approximately 1131 online survey respondents (or 95.1% of the total 1200 online survey respondents) indicated that knowing the scope of services provided by a financial intermediary is important. Of this subset of online survey respondents, approximately 86.8% of respondents indicated that they preferred to receive information regarding the scope of services available from a financial intermediary at the beginning of their relationship.

costs associated with a financial product you are considering.”⁴⁷² The survey respondents were asked to select their top timing preference from the following: (a) “In writing before I discuss the product in more detail with the individual who advises me”; (b) “at the time I buy or sell a financial product or investment”; (c) “I only want this information available to me upon request”; (d) “I count on the individual advising me to consider this information for me, so I am not particularly concerned about receiving it”; and (e) “I don’t want to receive this information in writing.”⁴⁷³ Approximately 47.7% of the online survey respondents preferred receiving financial product disclosures in writing before discussing the product with their financial intermediary, and about 31.5% of the respondents preferred receiving this information at the time they buy or sell the financial product.⁴⁷⁴

Online survey respondents were also asked to express their preferences regarding the delivery methods for disclosure information related to financial product and services. Survey respondents were asked to select one or more (i.e., multiple responses acceptable) of the following delivery methods for providing information about financial services and products: (a) orally, directly from the individual who advises me – whether on the phone or in person; (b) in writing that is mailed to me (in the post); (c) in writing that is e-mailed or mailed to me, providing me with a general website address where I can find the information (i.e., I receive the address for the homepage, but not the specific webpage where the information can be found); (d) in writing that is e-mailed or mailed to me, giving me with the specific hyperlink or exact webpage where information can be found on the Internet; (e) in an e-mail (in the body of the e-

⁴⁷² See S+G Report at 255 (question P8).

⁴⁷³ See S+G Report at 255 (question P8).

⁴⁷⁴ See S+G Report at 255 (question P8).

mail or attached to the e-mail); (f) none of the above; or (g) I have no preference/I do not know.⁴⁷⁵ Approximately 45.4% of online survey respondents indicated that they preferred to receive disclosure information related to financial products and services, either orally or in writing through the mail.⁴⁷⁶ Additionally, of those respondents indicating a preference to receive this disclosure information orally, approximately 76.2% indicated that wanted “some kind of written summary” of the oral disclosure.⁴⁷⁷ Approximately one-third of respondents also indicated preferences for some form of electronic delivery of disclosure information related to financial services and products: approximately 35.6% of online respondents indicated a preference to receive this disclosure information through an e-mail or letter that provided a general website address; approximately 34.9% of online respondents indicated a preference to receive this disclosure information through an e-mail or letter that provided a specific hyperlink to the information; approximately 32.6% of online respondents preferred having the information made available on the Internet to review; and approximately 27.6% of online survey respondents preferred receiving the information itself in an e-mail.⁴⁷⁸

Online survey respondents also reported their preferences on methods to verify their receipt and review of disclosure information related to financial products and services. Survey respondents were asked to select one or more (i.e., multiple responses acceptable) of the following methods to verify their receipt of disclosure information related to financial products and services: (a) requiring a signature to verify that the documents have been read (i.e., I need to

⁴⁷⁵ See S+G Report at 260 (question P13).

⁴⁷⁶ See S+G Report at 260 (question P13).

⁴⁷⁷ See S+G Report at 261 (question P14).

⁴⁷⁸ See S+G Report at 260 (question P13).

send back my signature); (b) requiring an oral verification that the documents have been read (i.e., I can confirm to the individual that advises me over the phone); (c) having an eye-catching warning in the documents that the information contained within the documents is critical/important (i.e., there is nothing more I need to do after reading the documents); and (d) I have no opinion/I do not know.⁴⁷⁹ Approximately 49% of online respondents indicated they preferred being required to sign a confirmation to verify they have received and read this disclosure information.⁴⁸⁰ Approximately 33.4% of online respondents indicated they preferred requiring oral verification of their receipt and review of this disclosure information, and about 26.6% of respondents indicated a preference for having only an “eye-catching warning” on the disclosure information.⁴⁸¹

Online survey respondents were also asked to provide their opinion regarding the disclosure information they receive regarding their investment accounts. Using a scale, the online survey respondents were asked to agree or disagree with the following statements regarding the disclosure information they receive related to their investment accounts: (a) the information is useful; (b) the information is understandable; (c) the information is too long for me to bother with; and (d) the information is written in language that most people cannot understand.⁴⁸² The question instructed online survey respondents to rate the foregoing items using a five-tier scale ranging from “Completely agree,” to “Somewhat agree,” to “Neither agree nor disagree,” to “Somewhat disagree,” to “Completely disagree.” Approximately 84.7% of

⁴⁷⁹ See S+G Report at 262 (question P15).

⁴⁸⁰ See S+G Report at 262 (question P15).

⁴⁸¹ See S+G Report at 262 (question P15).

⁴⁸² See S+G Report at 264 (question P17).

online survey respondents either completely or somewhat agree that their investment account disclosures are useful.⁴⁸³ Similarly, about 78.5% of respondents either completely or somewhat agree that their investment account disclosure information is understandable.⁴⁸⁴ However, approximately 58.6% also completely or somewhat agree that their investment account disclosure information uses language that most cannot understand.⁴⁸⁵ Online survey respondents indicated no clear preference regarding the length of their investment account disclosure information. Almost equal numbers of respondents agreed (38%) and disagreed (36.6%) with the length of this disclosure information, with approximately 25.4% expressing no opinion on this disclosure's length.⁴⁸⁶

VI. Discussion of Dodd-Frank Act Section 917(a)(3): The Most Useful and Understandable Relevant Information that Retail Investors Need to Make Informed Financial Decisions Before Engaging a Financial Intermediary or Purchasing an Investment Product or Service

A. Qualitative Research (Focus Groups)

During the qualitative research phase of the Study, the consultant interviewed focus group participants about their views and opinions regarding, among other things, the most useful and understandable relevant information that retail investors need to make informed financial

⁴⁸³ See S+G Report at 264 (question P17). Approximately 46% of respondents completely agree that investment account disclosure information is useful, while an additional 38% of respondents somewhat agree it is useful.

⁴⁸⁴ See S+G Report at 264 (question P17). Approximately 42.9% of respondents completely agree that investment account disclosure information is understandable, while an additional 35.6% of respondents somewhat agree it is understandable.

⁴⁸⁵ See S+G Report at 264 (question P17). Approximately 25.8% of respondents completely agree that investment account disclosure information is written in difficult language, while an additional 32.8% of respondents somewhat agree it is written in difficult language.

⁴⁸⁶ See S+G Report at 264 (question P17).

decisions before engaging a financial intermediary or purchasing an investment product or service that is typically sold to investors.

Several focus group participants identified a summary description of the investment product or service as the most useful and understandable information that they would need to make informed financial decisions. For example, some focus group participants identified “the investment factsheets that went into detail on each of the mutual funds.”⁴⁸⁷ One focus group participant expressed his preference for the “summary prospectus,”⁴⁸⁸ while another preferred a “checklist kind of thing, something in writing.”⁴⁸⁹

Some focus group participants identified the financial intermediary’s disciplinary history or background as the most useful and understandable relevant information. For example, some participants stated that they would “want to know the background information on my broker himself”⁴⁹⁰ and “what he’s been doing. Is he pretty clean? Has he got something that’s been cited for before? Has he gone according to regulations?”⁴⁹¹ Another focus group participant explained that “what we’re looking for is the SEC to be able to go to their website and look up John Smith and find out what’s going on with John Smith. Just like you could go to the medical board and find out about a doctor.”⁴⁹²

A number of focus group participants were concerned about expenses. One focus group participant complained about his or her financial intermediary that “it may have been nice to

⁴⁸⁷ See S+G Report at 30 (Atlanta focus group 3 transcript at 23 (Nov. 10, 2011)).

⁴⁸⁸ See S+G Report at 31 (San Diego focus group 4 transcript at 16 (Nov. 16, 2011)).

⁴⁸⁹ See S+G Report at 31 (San Diego focus group 4 transcript at 51 (Nov. 16, 2011)).

⁴⁹⁰ See S+G Report at 30 (Atlanta focus group 4 transcript at 27 (Nov. 10, 2011)).

⁴⁹¹ See S+G Report at 30 (Atlanta focus group 4 transcript at 28 (Nov. 10, 2011)).

⁴⁹² See S+G Report at 31 (Atlanta focus group 4 transcript at 28 (Nov. 10, 2011)).

know exactly what their fee was going to be.”⁴⁹³ When asked how they would like to see information presented, one focus group participant stated that “I just want to see a full breakdown of costs and fees as well as the charts and graphs.”⁴⁹⁴

B. Quantitative Research (Online Survey)

1. The Brochure

Quantitative research relating to the Brochure involved, among other things, investor testing concerning the most useful and understandable relevant information that retail investors need to make informed financial decisions before engaging a financial intermediary, as described below. Generally, the online survey respondents indicated that the most useful and understandable relevant information would include information about the amount of money that they would pay to maintain an advisory relationship with the adviser, the adviser’s disciplinary history, the adviser’s past performance, the severity or number of the adviser’s conflicts of interest, and the amount of money that the adviser would receive for providing advice to them.

Specifically, the online survey respondents were asked to rate the importance of the following factors when choosing an investment adviser: (a) the amount of money they would pay to maintain an advisory relationship with the adviser; (b) the amount of money the adviser would receive for providing advice to the online survey respondent, including getting paid by others (*e.g.*, receiving payment from mutual fund companies when a client purchased a mutual fund); (c) the severity or number of the adviser’s conflicts of interest; (d) the adviser’s past performance; and (e) the adviser’s disciplinary history (*e.g.*, criminal or regulatory

⁴⁹³ See S+G Report at 30 (Atlanta focus group 3 transcript at 26 (Nov. 10, 2011)).

⁴⁹⁴ See S+G Report at 31 (San Diego focus group 4 transcript at 27 (Nov. 16, 2011)).

proceedings).⁴⁹⁵ The question instructed the online survey respondents to rate the foregoing items on a four-factor scale ranging in descending order from “Absolutely essential,” to “Important, but not essential,” to “Nice to know,” to “Completely unimportant.”⁴⁹⁶

Approximately 77.1% of the online survey respondents indicated that information about the amount of money they would pay to maintain an advisory relationship with the adviser would be absolutely essential when choosing an investment adviser, with about 17.3% deeming it important, but not essential.⁴⁹⁷ Approximately 67.5% of the online survey respondents considered information about an adviser’s disciplinary history to be absolutely essential, and about 20.0% deemed it important, but not essential.⁴⁹⁸ Approximately 64.5% of the online survey respondents indicated that information about an adviser’s past performance was absolutely essential, while approximately 27.5% considered it important, but not essential.⁴⁹⁹ Approximately 52.1% of the online survey respondents indicated that information about the severity or number of an adviser’s conflicts of interest was absolutely essential, and about 30.7% considered it important, but not essential.⁵⁰⁰ Similarly, about 51.6% of the online survey respondents reported that information about the amount of money that the adviser would receive for providing advice to them, while approximately 33.9% deemed it important, but not essential.⁵⁰¹

⁴⁹⁵ See S+G Report at 71 (questions A17r1-5).

⁴⁹⁶ See S+G Report at 71 (questions A17r1-5).

⁴⁹⁷ See S+G Report at 71 (question A17r1).

⁴⁹⁸ See S+G Report at 71 (questions A17r5).

⁴⁹⁹ See S+G Report at 71 (questions A17r4).

⁵⁰⁰ See S+G Report at 71 (questions A17r3).

⁵⁰¹ See S+G Report at 71 (questions A17r2).

When questioned about the factors they actually considered in choosing their current investment adviser, the online survey respondents reported somewhat different information. Based on their responses to that question, the adviser's investment performance was the most important factor in the online survey respondents' choice of an adviser. The next most important factor was the adviser's fees, followed by the adviser's disciplinary history, the advisory firm, and the adviser's conflicts of interest.

Specifically, the online survey respondents were asked to rate the importance of the following factors in choosing their current investment adviser: (a) the adviser's fees; (b) the firm with which the adviser works or is affiliated; (c) whether the adviser has any conflicts of interest; (d) the adviser's disciplinary history; and (e) the adviser's investment performance.⁵⁰² The question instructed the online survey respondents to rate the foregoing items on a four-factor scale ranging in descending order from "Absolutely essential," to "Important, but not essential," to "Nice to know," to "Completely unimportant."⁵⁰³

Nearly all – 93.5% – of the online survey respondents indicated that the adviser's investment performance was an important factor in choosing their current adviser: approximately 68.1% indicated that it was an absolutely essential factor and about 25.4% reported that it was important, but not essential.⁵⁰⁴ Similarly, about 67.8% of the online survey respondents indicated that the adviser's fees were an absolutely essential factor in choosing their current adviser, while approximately 25.1% reported that they were important, but not

⁵⁰² See S+G Report at 74 (questions A19r1-5).

⁵⁰³ See S+G Report at 74 (questions A19r1-5).

⁵⁰⁴ See S+G Report at 74 (question A19r5).

essential.⁵⁰⁵ Approximately 54.6% of the online survey respondents considered the adviser’s disciplinary history absolutely essential, and about 25.8% deemed it important, but not essential.⁵⁰⁶ About 50.1% of the online survey respondents indicated that the firm with which the adviser worked or was affiliated was an absolutely essential factor, while approximately 36.4% considered it important, but not essential.⁵⁰⁷ Approximately 45.7% of the online survey respondents indicated that whether the adviser had any conflicts of interest was an absolutely essential factor, and about 35.9% considered it important, but not essential.⁵⁰⁸

2. Account Statements and Confirmations

Most of the results of the quantitative research relating to trade confirmations, account statements and sweep accounts did not directly identify any “information that retail investors need to make informed financial decisions before engaging a financial intermediary, or purchasing or selling an investment product or service.” The quantitative research regarding account statements solicited online survey respondents’ opinions regarding the importance of knowing about the “sources and amount” of compensation that financial intermediaries may receive from third parties in connection with an investment transaction.⁵⁰⁹ Approximately 87.5% of online survey respondents were “very” or “somewhat” interested in receiving this

⁵⁰⁵ See S+G Report at 74 (question A19r1).

⁵⁰⁶ See S+G Report at 74 (question A19r4).

⁵⁰⁷ See S+G Report at 74 (question A19r2).

⁵⁰⁸ See S+G Report at 74 (question A19r3).

⁵⁰⁹ See S+G Report at 176 (question C31).

compensation information.⁵¹⁰ Among these online survey respondents' that expressed some form of interest in this compensation information, approximately 58.9% of them indicated they wanted to know this information before beginning a relationship with a financial intermediary.

3. Mutual Fund Summary Prospectus

According to the online survey respondents, by far the most important pieces of information in a summary prospectus are the fees/expenses of the fund and fund performance.⁵¹¹ These are followed by information about the fund's principal risks, investment objective, investment strategies, and taxes. Less important to the online survey respondents is information about the purchase and sale of fund shares, payments to broker/dealers and other financial intermediaries, portfolio turnover, and the fund's portfolio management.⁵¹²

A large majority of the online survey respondents indicated that information about the fees and expenses of the fund and the performance of the fund would be important to them if they were considering investing in the fund described in the summary prospectus example that they reviewed. Specifically, approximately 80.6% of the online survey respondents who reviewed the Hydrangea Bush Summary Prospectus, approximately 80.4% of the online survey respondents who reviewed the Gardenia Summary Prospectus, and approximately 81.8% of the online survey respondents who reviewed the Petunia Summary Prospectus agreed that fee and expense information was important.⁵¹³ Similarly, approximately 76.8% of the online survey

⁵¹⁰ See S+G Report at 175 (question C30). Approximately 39.9% of online survey respondents were "very interested" in the sources and amounts of compensation received by their financial intermediary, and another 47.6% of respondents were "somewhat" interested in this information.

⁵¹¹ See S+G Report at 222 (question S28).

⁵¹² See S+G Report at 223 (question S28).

⁵¹³ See S+G Report at 222 (question S28).

respondents who reviewed the Hydrangea Bush Summary Prospectus, approximately 77.4% of the online survey respondents who reviewed the Gardenia Summary Prospectus, and approximately 76.3% of the online survey respondents who reviewed the Petunia Summary Prospectus agreed that fund performance information was important.⁵¹⁴

A majority of the online survey respondents also indicated that a fund's principal risks and investment objective would be important to them if they were considering investing in the fund described in the summary prospectus example that they reviewed.⁵¹⁵ Specifically, approximately 62.6% of the online survey respondents who reviewed the Hydrangea Bush Summary Prospectus, approximately 61.0% of the online survey respondents who reviewed the Gardenia Summary Prospectus, and approximately 59.1% of the online survey respondents who reviewed the Petunia Summary Prospectus, agreed that information about the fund's principal risks was important.⁵¹⁶ Similarly, approximately 56.6% of the online survey respondents who reviewed the Hydrangea Bush Summary Prospectus, approximately 52.9% of the online survey respondents who reviewed the Gardenia Summary Prospectus, and approximately 54.1% of the online survey respondents who reviewed the Petunia Summary Prospectus agreed that information about the fund's investment objective was important.⁵¹⁷

Somewhat fewer of the online survey respondents indicated that a fund's investment strategies and tax information would be important to them if they were considering investing in

⁵¹⁴ See S+G Report at 222 (question S28).

⁵¹⁵ See S+G Report at 222 (question S28).

⁵¹⁶ See S+G Report at 222 (question S28).

⁵¹⁷ See S+G Report at 222 (question S28).

the fund described in the summary prospectus example that they reviewed.⁵¹⁸ Specifically, less than half of the online survey respondents who reviewed the Hydrangea Bush Summary Prospectus (48.7%), the Gardenia Summary Prospectus (48.1%), and the Petunia Summary Prospectus (45.1%) reported that information about the fund’s investment strategies was important.⁵¹⁹ Similarly, less than half of the online survey respondents who reviewed the Hydrangea Bush Summary Prospectus (47.0%), the Gardenia Summary Prospectus (44.9%), and the Petunia Summary Prospectus (45.1%) considered tax information about the fund to be important.⁵²⁰

Otherwise, fewer online survey respondents found information about the purchase and sale of fund shares, payments to broker/dealers and other financial intermediaries, portfolio turnover, and the fund’s portfolio management to be important.⁵²¹ Specifically, approximately 42.6% of the online survey respondents who reviewed the Hydrangea Bush Summary Prospectus, approximately 38.0% of the online survey respondents who reviewed the Gardenia Summary Prospectus and approximately 37.7% of the online survey respondents who reviewed the Petunia Summary Prospectus considered information about the purchase and sale of fund shares to be important.⁵²² Similarly, approximately 34.1% of the online survey respondents who reviewed the Hydrangea Bush Summary Prospectus, approximately 37.5% of the online survey respondents who reviewed the Gardenia Summary Prospectus, and approximately 35.4% of the

⁵¹⁸ See S+G Report at 222 (question S28).

⁵¹⁹ See S+G Report at 222 (question S28).

⁵²⁰ See S+G Report at 222 (question S28).

⁵²¹ See S+G Report at 223 (question S28).

⁵²² See S+G Report at 223 (question S28).

online survey respondents who reviewed the Petunia Summary Prospectus indicated that information about the fund’s payment to broker/dealers and other financial intermediaries was important.⁵²³ The proportion of online survey respondents who found portfolio turnover information important was also comparable. Approximately 34.3% of the online survey respondents who reviewed the Hydrangea Bush Summary Prospectus, approximately 28.8% of the online survey respondents who reviewed the Gardenia Summary Prospectus, and approximately 35.2% of the online survey respondents who reviewed the Petunia Summary Prospectus indicated that information about the fund’s portfolio turnover was important.⁵²⁴ Finally, approximately 28.0% of the online survey respondents who reviewed the Hydrangea Bush Summary Prospectus, approximately 25.6% of the online survey respondents who reviewed the Gardenia Summary Prospectus, and approximately 27.4% of the online survey respondents who reviewed the Petunia Summary Prospectus reported that information about the fund’s portfolio management was important.⁵²⁵

Most of the online survey respondents across all the summary prospectus examples agreed that they would keep all of the information in the summary prospectus.⁵²⁶ Specifically, approximately 71.7% of the online survey respondents who reviewed the Hydrangea Bush Summary Prospectus, approximately 65.5% of the online survey respondents who reviewed the Gardenia Summary Prospectus, and approximately 67.8% of the online survey respondents who reviewed the Petunia Summary Prospectus indicated that they would “keep all of the information

⁵²³ See S+G Report at 223 (question S28).

⁵²⁴ See S+G Report at 223 (question S28).

⁵²⁵ See S+G Report at 223 (question S28).

⁵²⁶ See S+G Report at 239 (question S39).

in” when asked whether any of the information in the summary prospectus was *not* useful to them.⁵²⁷ At most, only 12.9% of the online survey respondents who reviewed the Gardenia Summary Prospectus would not include information about payments to broker/dealers and other financial intermediaries in a summary prospectus.⁵²⁸ Less than 10% of the online survey respondents across all the summary prospectus examples would exclude information about principal risks, fees and expenses, investment objective, investment strategies, fund performance, or the purchase and sale of fund shares from the summary prospectus example that they reviewed.⁵²⁹

Nonetheless, a few online survey respondents, when provided with an opportunity to submit an open-ended response to a particular question regarding potentially missing information, commented on what information they felt was missing from the summary prospectus example they reviewed.⁵³⁰ Comments relating to missing fund holding information included, among other things, information about a fund’s underlying investments, greater detail regarding fund investments, and specific portfolio holdings.⁵³¹ Comments regarding missing comparison or rating information included a comparison across similar funds, “Morningstar”-

⁵²⁷ See S+G Report at 239 (question S39).

⁵²⁸ See S+G Report at 239 (question S39). The results were 10.1% for the Hydrangea Bush Summary Prospectus and 8.5% for the Petunia Summary Prospectus.

⁵²⁹ See S+G Report at 240 (question S39).

⁵³⁰ See S+G Report at 234 (question S34). This sample was comprised of online survey respondents who reported that most, some, or none of the information needed to make investment decisions was included in the summary prospectus example that they reviewed (question S33) and who entered an open-ended response to that question, as opposed to selecting “Nothing” or “I don’t know” as a response. For purposes of this question, there were 240 online survey respondents across all three summary prospectus examples.

⁵³¹ See S+G Report at 234 (question S34).

type ratings, and comparison to other benchmark segments or funds.⁵³² Comments relating to missing investment strategy information included past, present, and future “investment mix” strategy and the mechanics behind the selection of portfolio holdings.⁵³³ Comments regarding missing expense information included information about tax penalties associated with certain withdrawals and information about fees and expenses not displayed in the charts.⁵³⁴

4. Point-of-Sale Disclosure

Quantitative research relating to point-of-sale disclosure involved, among other things, investor testing concerning the most useful and understandable relevant information that retail investors need to make informed financial decisions before engaging a financial intermediary. Generally, the online survey respondents indicated that the most useful and understandable relevant information would include a financial intermediary’s: disciplinary history; investment strategy; past performance; fees; availability to clients; conflicts of interest;⁵³⁵ and scope of services.

Specifically, the online survey respondents were asked to rate the importance of the following factors when choosing a financial intermediary: (a) the fees charged by a financial intermediary; (b) a financial intermediary’s track record; (c) a financial intermediary’s professional background and/or their disciplinary and complaint history; (d) the ease of contacting a financial intermediary; (e) the investment products available from a financial

⁵³² See S+G Report at 234 (question S34).

⁵³³ See S+G Report at 234 (question S34).

⁵³⁴ See S+G Report at 234 (question S34).

⁵³⁵ See e.g., S+G Report at 263, 270-271, 273-275 (questions P16, 24, 25, and 27-29).

intermediary; and (f) a financial intermediary's investment strategy.⁵³⁶ The question instructed online survey respondents to rate the foregoing items on a four-factor scale ranging in descending order from "Absolutely essential," to "Important, but not essential," to "Nice to know," to "Completely unimportant."⁵³⁷

Approximately 53.8% of the online survey respondents indicated that information about a financial intermediary's professional background and/or their disciplinary and complaint history would be absolutely essential when selecting a financial intermediary, while approximately 30.2% of online survey respondents deemed it important, but not essential.⁵³⁸ Approximately 53.7% of the online survey respondents indicated that information about a financial intermediary's investment strategy was absolutely essential, while about 32.2% of online survey respondents deemed it important, but not essential.⁵³⁹ Similarly, approximately 53% of online survey respondents indicated that information about a financial intermediary's track record was absolutely essential, while about 33.2% of online survey respondents deemed it important, but not essential.⁵⁴⁰

Approximately 51.8% of online survey respondents indicated that the ease of contacting a financial intermediary was absolutely essential, and about 37% of respondents deemed it

⁵³⁶ See S+G Report at 248 (questions P2).

⁵³⁷ See S+G Report at 248 (questions P2).

⁵³⁸ See S+G Report at 248 (question P2). See also S+G Report at 258 (question P11) (89.5% of online survey respondents indicated that it is important to know background information about the person that advises them, such as current licenses, and any complaints, judgments or disciplinary actions).

⁵³⁹ See S+G Report at 248 (question P2).

⁵⁴⁰ See S+G Report at 248 (question P2).

important, but not essential.⁵⁴¹ Similarly, approximately 50.5% of online survey respondents reported that information about the fees charged by a financial intermediary was absolutely essential, while about 35.9% considered it important, but not essential.⁵⁴² Lastly, approximately 45.2% of online survey respondents indicated that information regarding which investment products are available from a financial intermediary was absolutely essential, while about 40.9% considered it important, but not essential.⁵⁴³

Approximately 95.1% of online survey respondents indicated that it was important for them to know the scope of services a financial intermediary can provide.⁵⁴⁴ In addition, approximately 89.5% of online survey respondents indicated that it was important for them to know background information on the individual who provides them with investment advice.⁵⁴⁵ The subset of online survey respondents that considered background information important were asked to identify (*i.e.*, check all that apply) whether the following types of background information were important: (a) licenses currently held; (b) history of any licenses revoked or suspended; (c) any allegations or findings of serious misconduct; (d) any allegations or findings of minor misconduct; (e) customer complaints; (f) disciplinary history going back five years; (g) disciplinary history going back ten years; and (h) disciplinary history going back more than ten years.⁵⁴⁶ Over three-fourths of these online survey respondents indicated that disclosure regarding the following regarding was important: licenses currently held (78.9%); any

⁵⁴¹ See S+G Report at 248 (question P2).

⁵⁴² See S+G Report at 248 (question P2).

⁵⁴³ See S+G Report at 248 (questions P2).

⁵⁴⁴ See S+G Report at 256 (question P9).

⁵⁴⁵ See S+G Report at 258 (question P11).

⁵⁴⁶ See S+G Report at 259 (question P12).

allegations or findings of serious misconduct (78.8%); and the revocation or suspension history of any licenses (75.5%).⁵⁴⁷ Approximately 70.7% of the online survey respondents indicated that customer complaints were important.⁵⁴⁸ Approximately 52.4% of online survey respondents indicated that any allegations of minor misconduct were important.⁵⁴⁹ Similarly, about 46.2% of the online survey respondents indicated that disciplinary history going back five years was important.⁵⁵⁰ Approximately 41% of the online survey respondents indicated that disciplinary history going back ten years was important, while about 30.6% of these respondents indicated that disciplinary history going back more than ten years was important.⁵⁵¹

The quantitative research also provided data on investors' methods of selecting financial intermediaries. Approximately 50.6% of online survey respondents indicated that they found their current financial intermediary through a referral from a friend, family member or colleague, and approximately 22.7% of the respondents found their financial intermediary through a referral from another financial professional (or person of similar capacity).⁵⁵² Online survey respondents were also asked whether they used one or more of the following resources to select a financial intermediary: (i) BrokerCheck; (ii) the SEC's website; (iii) FINRA's website; (iv) the website of my state, local securities regulator; (v) "Other"; (vi) "None of the Above"; or (vii) "I don't remember – I don't know." Approximately one-half of online survey respondents reported that they had used some form of online-resource provided by the Commission, FINRA, or state and

⁵⁴⁷ See S+G Report at 259 (question P12).

⁵⁴⁸ See S+G Report at 259 (question P12).

⁵⁴⁹ See S+G Report at 259 (question P12).

⁵⁵⁰ See S+G Report at 259 (question P12).

⁵⁵¹ See S+G Report at 259 (question P12).

⁵⁵² See S+G Report at 249-250 (question P3).

local securities regulators to investigate their current financial intermediary before selecting them.⁵⁵³

VII. Discussion of Dodd-Frank Act Section 917(a)(4): Methods to Increase the Transparency of Expenses and Conflicts of Interests in Transactions Involving Investment Services and Products

A. Qualitative Research (Focus Groups)

During the qualitative research phase of the Study, the consultant interviewed focus group participants about their views and opinions regarding, among other things, methods to increase the transparency of expenses and conflicts of interests in transactions involving investment services and products. Selected views and opinions are summarized below. As discussed, the views and opinions summarized below are not intended to be comprehensive, but rather, are meant to capture some of the more relevant discussions of certain themes that emerged during the various focus group interviews.

Methods to Increase Transparency of Expenses

Multiple focus group participants across different focus groups called for increased transparency of expenses in transactions involving investment services and products. For example, some participants from a focus group consisting of mutual fund and variable annuity investors agreed that “the biggest issue is full disclosure of fees”⁵⁵⁴ and demanded “[m]ore transparency early on” with respect to expenses.⁵⁵⁵ Some expressed frustration with existing disclosure of certain expense information. One focus group participant from a focus group consisting of users of broker-dealer services elaborated that, “[i]f I were fixing up my house, I’d

⁵⁵³ See S+G Report at 251 (question P4).

⁵⁵⁴ See S+G Report at 32 (Atlanta focus group 3 transcript at 31 (Nov. 10, 2011)).

⁵⁵⁵ See S+G Report at 33 (San Diego focus group 3 (misabeled 1) transcript at 49 (Nov. 16, 2011)).

get three proposals and I'd review every single line of the contract, front and back and everything else before I'd let him in my house. But when it comes to this, I just don't get it. I don't know if that's a failing with me, at least in part it is. Or a failing with just that it's not transparent or just complex."⁵⁵⁶ A focus group participant from a focus group consisting of mutual fund and variable annuity investors expressed concern that expense disclosure was an area "where most people get defrauded or misled. I wouldn't say defrauded, but misled."⁵⁵⁷

Several focus group participants offered suggestions on how to increase the transparency of expenses in transactions involving investment services and products. For example, one focus group participant from a focus group consisting of stock and ETF investors suggested that investment product expenses should be disclosed on a fact sheet that would include "graphs and charts also, the whole breakdown, every area where your fees are going. If they're charging you \$22.95, I need to know where every dollar of that is going. That would be a good visual to look at."⁵⁵⁸ A fellow focus group participant in the same focus group suggested including expense disclosure on account statements, for example, "a graph or a chart on your statement also where the fees are going."⁵⁵⁹ One focus group participant from a focus group consisting of users of investment advisory services specified that he would "want to be able to go on the SEC's website and all the fee structures . . . I want it to be a require [sic] that those companies have to report their fee structures to the SEC, it goes into the SEC database, all of the companies, and then I can go on there and I can compare their rates for different services . . . So I would like to have one

⁵⁵⁶ See S+G Report at 32 (Baltimore focus group 2 transcript at 39 (Nov. 1, 2011)).

⁵⁵⁷ See S+G Report at 32 (Atlanta focus group 3 transcript at 31 (Nov. 10, 2011)).

⁵⁵⁸ See S+G Report at 34 (Atlanta focus group 4 transcript at 46 (Nov. 10, 2011)).

⁵⁵⁹ See S+G Report at 33 (Atlanta focus group 4 transcript at 47 (Nov. 10, 2011)).

place where I can go and get that information in the event that I want to be able to do a comparison.”⁵⁶⁰ Another focus group participant from a focus group consisting of mutual fund and variable annuity investors thought that “[i]t would be interesting to ask them why the fee is what it is. Is the fact that this fee is higher than this product, what is the justification for that? Why? Why are they charging such a high fee? Is there any benefit that you are going to see?”⁵⁶¹ Some focus group participants from a focus group consisting of mutual fund and variable annuity investors suggested presenting expense disclosure on “a standard form.”⁵⁶² One focus group participant from another focus group consisting of mutual fund and variable annuity investors volunteered that “maybe this is radical thinking, but I would love to see the SEC as an unbiased regulatory party. I mean they could establish some sort of educational department . . . [t]hey could educate people on what this stuff is, and how it works, and what it means, *et cetera*.”⁵⁶³

Methods to Increase Transparency of Conflicts of Interest

While many focus group participants agreed that the transparency of existing disclosures on conflicts of interest could be improved, nearly all of their suggestions for increasing such transparency revolved around the timing of such disclosures. Several focus group participants wanted the disclosure upfront, some favored disclosure at the time they received a recommendation regarding a transaction, some preferred disclosure on a regular basis, and others proposed less disclosure.

⁵⁶⁰ See S+G Report at 32 (Atlanta focus group 1 transcript at 59 (Nov. 9, 2011)).

⁵⁶¹ See S+G Report at 33 (Atlanta focus group 3 transcript at 52 (Nov. 10, 2011)).

⁵⁶² See S+G Report at 34 (San Diego focus group 3 (mislabeled 1) transcript at 66 (Nov. 16, 2011)).

⁵⁶³ See S+G Report at 33 (Atlanta focus group 3 transcript at 38 (Nov. 10, 2011)).

Several focus group participants expressed their preference for receiving conflicts of interest disclosures “upfront.”⁵⁶⁴ In the words of a focus group participant from a focus group consisting of users of broker-dealer services, “I think that before you start with them that they should be able to disclose what their conflicts are before you even start. I think requiring them to initially tell you what the conflicts are would be an easy way to solve it and have it noted.”⁵⁶⁵ Similarly, another focus group participant from a focus group consisting of stock and ETF investors stated that “I personally think they should disclose it upfront. They should go over it with you, have you sign it, keep it on file. But I don’t think they should disclose it every time.”⁵⁶⁶ A focus group participant from that same focus group cited the mortgage application process as a model – “I mean when you get a mortgage you sign disclosure after disclosure after disclosure. So when you’re doing this, they should be regulated just like the mortgage business in signing these disclosures and they should be given to you upfront.”⁵⁶⁷

Some focus group participants sought disclosure at the time that a particular transaction was recommended. For example, some focus group participants from a focus group consisting of users of investment advisory services agreed that disclosure regarding conflicts of interest should be made “[a]t the time of the recommendation.”⁵⁶⁸ Similarly, another focus group

⁵⁶⁴ See S+G Report at 36 (Atlanta focus group 4 transcript at 59 (Nov. 10, 2011)).

⁵⁶⁵ See S+G Report at 37 (San Diego focus group 2 transcript at 51 (Nov. 15, 2011)).

⁵⁶⁶ See S+G Report at 37 (Atlanta focus group 4 transcript at 67 (Nov. 10, 2011)).

⁵⁶⁷ See S+G Report at 36 (Atlanta focus group 4 transcript at 59 (Nov. 10, 2011)).

⁵⁶⁸ See S+G Report at 36 (Atlanta focus group 1 transcript at 72 (Nov. 9, 2011)).

participant from that focus group asserted, “[r]ight where I sign [the contract], I want to see, ‘I am getting an extra 20%, because this is a house account.’”⁵⁶⁹

Some focus group participants favored receiving notification of potential conflicts of interest on a regular basis. For example, some focus group participants from a focus group consisting of stock and ETF investors agreed that notification of such conflicts should be given “[e]very time” or “[e]very time I call.”⁵⁷⁰ Similarly, one focus group participant from a focus group consisting of users of broker-dealer services asserted, “[m]aybe on a regular basis that kind of thing should be brought out.”⁵⁷¹ Another focus group participant from a focus group consisting of stock and ETF investors suggested having “the option where you can go to the website and see it [conflicts of interest information] posted there . . . It’s their responsibility to make you aware of it and not your responsibility to hope you find it somewhere buried in the literature.”⁵⁷²

A number of focus group participants, however, questioned the purported benefits of increasing the transparency of conflicts of interest. One focus group participant from a focus group consisting of users of investment advisory services stated, “I don’t think it needs to be regulated so much, but I think that they need to emphasize that in offering you this fund I am receiving extra compensation or a different type of compensation or something. Just let us know that, yes, they have a little bit more incentive in giving you this as opposed to something else, so

⁵⁶⁹ See S+G Report at 36 (Atlanta focus group 1 transcript at 76 (Nov. 9, 2011)).

⁵⁷⁰ See S+G Report at 37 (Atlanta focus group 4 transcript at 62 (Nov. 10, 2011)).

⁵⁷¹ See S+G Report at 37 (San Diego focus group 2 transcript at 44 (Nov. 15, 2011)).

⁵⁷² See S+G Report at 36 (Atlanta focus group 4 transcript at 60 (Nov. 10, 2011)).

maybe you'd think twice, but I don't think it needs to be regulated totally."⁵⁷³ Similarly, another focus group participant from a focus group consisting of users of broker-dealer services asserted, "I recognize the value in informing us of these conflicts. On the other hand, there's a bit of a diminishing value because the more that is disclosed to us, we may be less likely to pay attention to it . . . So somewhere they've got to decide the tipping point when people are just going to tune it out, because it looks like it's just too onerous."⁵⁷⁴

B. Quantitative Research (Online Survey)

1. The Brochure

Generally, most of the online survey respondents (74.3%) reported that their current adviser provided them with a document detailing the fees that would be charged to their account.⁵⁷⁵ There was no consensus as to the format of that document among those who recalled receiving it (*i.e.*, a subset). Based on the responses of this subset of online survey respondents, the documents came in a variety of styles, including a bulleted format, a narrative format, a table format, and a combination of one or more of these various formats.⁵⁷⁶

Nor was there any consensus among the online survey respondents as to whether or not their current adviser provided them with a document detailing the adviser's potential conflicts of interest.⁵⁷⁷ Specifically, approximately 32.3% of the online survey respondents answered affirmatively, approximately 34.7% responded in the negative, and approximately 33.1% did not

⁵⁷³ See S+G Report at 35 (Baltimore focus group 1 transcript at 63 (Nov. 1, 2011)).

⁵⁷⁴ See S+G Report at 35 (Baltimore focus group 2 transcript at 55 (Nov. 1, 2011)).

⁵⁷⁵ See S+G Report at 64 (question A10).

⁵⁷⁶ See S+G Report at 65 (question A11).

⁵⁷⁷ See S+G Report at 66 (question A12).

recall or did not know.⁵⁷⁸ Nonetheless, nearly all of the subset of online survey respondents (97.7%) who recalled receiving a document detailing their adviser’s potential conflicts of interest indicated that they understood either “somewhat” or “fully” their adviser’s conflicts of interest and the potential impact that such conflicts might have on their adviser’s relationship with them.⁵⁷⁹ Of that majority (*i.e.*, a further subset), approximately 55.2% reported that they took, or tried to take, actions to protect their interests in light of those conflicts, while approximately 39.7% indicated that they took no such actions.⁵⁸⁰

For purposes of online survey testing regarding methods to increase the transparency of expenses and conflicts of interest in transactions involving investment services and products, the total number of 1,200 online survey respondents was divided into two separate groups of 600 online survey respondents. One group was shown examples or “mock-ups” of investment adviser fee and compensation disclosures, while the other group was shown examples or “mock-ups” of conflicts of interest disclosures, as described below.⁵⁸¹

Methods to Increase the Transparency of Expenses⁵⁸²

For purposes of this exercise, the online survey respondents first reviewed an example of the fee and compensation disclosure of a hypothetical investment adviser as might be disclosed

⁵⁷⁸ See S+G Report at 66 (question A12).

⁵⁷⁹ See S+G Report at 67 (question A13).

⁵⁸⁰ See S+G Report at 68 (question A14).

⁵⁸¹ See S+G Report, Appendix 3 at A22-27.

⁵⁸² As discussed above, one group of 600 online survey respondents participated in this exercise. Hence, references to the online survey respondents in this discussion regarding methods to improve the transparency of expenses are to that group of 600 who participated in this exercise.

in an actual investment adviser's Brochure.⁵⁸³ The one-page example consisted of a narrative explanation of the adviser's fees and compensation.⁵⁸⁴ It also included a sample fee table (reproduced below) to facilitate computation of an annual investment advisory fee based upon a percentage of the market value and type of assets placed under the adviser's management:

Market Value of Portfolio	% of Assets
\$1 - \$200,000	2.00%
on next \$200,001 - \$400,000	1.75%
on next \$400,001 - \$500,000	1.50%
on next \$500,001 - \$5 million	1.25%
Over \$5 million	1.00%

Nearly all of the online survey respondents who reviewed the example indicated that they understood the information either somewhat or fully. Those who were unable to fully understand the description of the adviser's fee structure were divided as to the reasons. Most of them reported that the section was too detailed, while nearly as many indicated that the wording was too difficult to understand, and a smaller number of them reported that the section was too long. Despite their claims that they understood the information either somewhat or fully, the majority of the online survey respondents were unable to answer correctly a series of comprehension questions about the fee structure. Moreover, there was no consensus on the format in which they would prefer to see information on fees and compensation.

Specifically, approximately 50.9% of the online survey respondents reported that they understood the information in the example "somewhat," while approximately 46.0% indicated

⁵⁸³ See S+G Report at 88.

⁵⁸⁴ See S+G Report at 88.

that they “fully” understood the information.⁵⁸⁵ Those who reported that they were unable to fully understand the information or understood the information somewhat (*i.e.*, a subset) provided a variety of reasons for this when asked to check all the applicable responses: approximately 39.4% indicated that the “wording [was] too difficult to understand,” approximately 39.0% indicated that the section was “too detailed,” and approximately 25.1% claimed that the section was “too long.”⁵⁸⁶

Generally, the online survey respondents performed poorly on a series of comprehension questions involving the example described above. Only about a quarter of the online survey respondents answered correctly a comprehension question involving the calculation of fees based on a hypothetical value of their assets under management; the rest of them either answered incorrectly or did not know the answer. Less than half of the online survey respondents answered correctly a comprehension question regarding hourly fees. About a third of the online survey respondents answered correctly a comprehension question regarding adviser compensation involving the purchase of a mutual fund.

Specifically, approximately 58.6% of the online survey respondents answered incorrectly a comprehension question requiring the identification and computation of different layers of fees based on a hypothetical amount of assets under management; approximately 28.9% answered the question correctly, while the remainder indicated that they did not know the answer.⁵⁸⁷ Approximately 42.1% of the online survey respondents answered correctly a comprehension

⁵⁸⁵ See S+G Report at 89 (question A34).

⁵⁸⁶ See S+G Report at 90 (question A35).

⁵⁸⁷ See S+G Report at 91 (question A36).

question that required them to calculate total hourly fees.⁵⁸⁸ Approximately 29.9% of the online survey respondents responded that they did not know the answer to that question, while a approximately 28.0% answered the question incorrectly.⁵⁸⁹ Again, only about 33.6% of the online survey respondents answered correctly a comprehension question regarding adviser compensation involving the purchase of a mutual fund, while approximately 41.9% answered the question incorrectly and about 24.5% responded that they did not know the answer to that question.⁵⁹⁰

There was no consensus regarding the format in which the online survey respondents would prefer to see information on adviser fees and compensation. Approximately 23.0% of the online survey respondents indicated a preference for a “table format with examples.”⁵⁹¹ Approximately 22.9% of the online survey respondents opted for the *status quo* – preferring “the way it was presented” in the example.⁵⁹² Approximately 20.9% of the online survey respondents reported a preference for a “bulleted format with examples.”⁵⁹³ Approximately 19.8% of the online survey respondents indicated a preference for a “bulleted format.”⁵⁹⁴ Approximately 11.7% of the online survey respondents expressed a preference for a “table format.”⁵⁹⁵

⁵⁸⁸ See S+G Report at 92 (question A37).

⁵⁸⁹ See S+G Report at 92 (question A37).

⁵⁹⁰ See S+G Report at 93 (question A38).

⁵⁹¹ See S+G Report at 94 (question A39).

⁵⁹² See S+G Report at 94 (question A39).

⁵⁹³ See S+G Report at 94 (question A39).

⁵⁹⁴ See S+G Report at 94 (question A39).

⁵⁹⁵ See S+G Report at 94 (question A39).

The next exercise involved two examples or “mock-ups” of fee and compensation sections as might be disclosed in an actual Form ADV Brochure. One example purported to belong to hypothetical “Adviser ABC” and the other to hypothetical “Adviser XYZ.”⁵⁹⁶ The Adviser ABC example consisted of a one-and-a-half page narrative explanation of the adviser’s fees and compensation and included a fee schedule in table format indicating fees charged as a percentage of a client’s account balance (*e.g.*, 1.0 – 2.0% for an account balance between \$50,000 and \$500,000, and 2.0% for an account balance of \$500,001 and up).⁵⁹⁷ The Adviser XYZ example consisted of a one-and-a-half page narrative explanation of the adviser’s various fee arrangements and included some bulleted information toward the end of the narrative but no table.⁵⁹⁸ Half of the respondents were shown the Adviser ABC example first, while the other half were shown the Adviser XYZ sample first.

There was no real consensus on which of the two examples the online survey respondents found more difficult to understand, although the results suggest that the Adviser XYZ example may have been the more challenging of the two. A significant bloc of the online survey respondents reported difficulty understanding the Adviser XYZ example.⁵⁹⁹ However, nearly the same number of online survey respondents claimed to find both examples “equally hard to understand.”⁶⁰⁰ In response to a multiple response question (*i.e.*, check all that apply), the reasons provided for these difficulties ranged from the examples being “too long,” to not

⁵⁹⁶ See S+G Report at 95-96.

⁵⁹⁷ See S+G Report at 95-96.

⁵⁹⁸ See S+G Report at 95-96.

⁵⁹⁹ See S+G Report at 98 (question A41).

⁶⁰⁰ See S+G Report at 98 (question A41).

understanding the wording or terms used in the examples, to requiring “more information” to fully understand them.⁶⁰¹ A large majority of online survey respondents indicated that, if they were provided with either of the example documents, they would take the time to read the fee compensation section before selecting an adviser.⁶⁰² Similarly, a large majority of the subset of the online survey respondents (who previously responded that either Adviser ABC or Adviser XYZ was more difficult to understand, or that both were difficult to understand) agreed that a different presentation of fees – one that highlighted or outlined each fee charged – would provide an easier way to understand the fees charged.⁶⁰³ A large contingent of the online survey respondents was equally divided as to whether either adviser or Adviser ABC provided enough detail to help them comprehend fully what fees they would be charged.⁶⁰⁴ The most divisive question – a multiple response question (*i.e.*, check all that apply) – concerned which type of fee was likely to be charged if their adviser were Adviser ABC but not Adviser XYZ.⁶⁰⁵ The answers to that question were fairly evenly divided across nearly all of the possible responses. There was no consensus as to which of the two advisers would have more serious conflicts of interest in providing advice.⁶⁰⁶

Specifically, approximately 38.1% of the online survey respondents reported difficulty understanding the Adviser XYZ example.⁶⁰⁷ Approximately 31.6% of the online survey

⁶⁰¹ See S+G Report at 99 (question A42).

⁶⁰² See S+G Report at 102 (question A44).

⁶⁰³ See S+G Report at 101 (question A43).

⁶⁰⁴ See S+G Report at 103 (question A45).

⁶⁰⁵ See S+G Report at 104 (question A46).

⁶⁰⁶ See S+G Report at 105 (question A47).

⁶⁰⁷ See S+G Report at 98 (question A41).

respondents, however, indicated that they found both examples equally hard to understand.⁶⁰⁸ Approximately 16.4% of the online survey respondents declared that neither example was difficult to understand, while approximately 13.9% indicated that they found the Adviser ABC example more difficult to understand.⁶⁰⁹ Of those who found one example more difficult to understand than the other (*i.e.*, a subset), the main reasons identified in response to a multiple response question (*i.e.*, select all that apply) were that “[i]t was too long” (41.3%), “I did not understand the wording – terms used” (40.4%), or “I need more information to fully understand it” (37.8%).⁶¹⁰ Approximately 77.7% of the 600 online survey respondents, however, claimed that if they were provided with either of the two documents they would take the time to read the fee compensation section before selecting an adviser.⁶¹¹ Similarly, approximately 76.9% of that majority (*i.e.*, a subset of the online survey respondents who previously responded that either Adviser ABC or Adviser XYZ was more difficult to understand, or that both were difficult to understand) agreed that a different presentation of fees – one that highlighted or outlined each fee charged – would provide an easier way to understand the fees charged.⁶¹² Nonetheless, about 34.2% of the online survey respondents reported that both advisers provided sufficient detail to help them fully comprehend the fees that they would be charged, and another approximately 33.4% indicated that Adviser ABC provided more helpful detail.⁶¹³

⁶⁰⁸ See S+G Report at 98 (question A41).

⁶⁰⁹ See S+G Report at 98 (question A41).

⁶¹⁰ See S+G Report at 99 (question A42).

⁶¹¹ See S+G Report at 102 (question A44).

⁶¹² See S+G Report at 101 (question A43).

⁶¹³ See S+G Report at 103 (question A45).

Responses to a question that invited multiple responses (*i.e.*, select all that apply) concerning which types of fees the online survey respondents were likely to be charged if their adviser were Adviser ABC but not Adviser XYZ were scattered across multiple alternatives.⁶¹⁴ Approximately 32.1% of the online survey respondents selected “[b]rokerage commission fee.”⁶¹⁵ The second most popular choice – approximately 31.8% – was “[p]erformance fee” (which would be the correct answer only if the two sections of Form ADV were viewed in a “vacuum,” with all else being equal).⁶¹⁶ Approximately 29.7% identified “[q]uarterly asset based fee” as most likely, while approximately 27.2% chose “[m]anagement fees.”⁶¹⁷ Approximately 24.9% responded “I can’t tell – I don’t know” and approximately 19.9% identified “[f]ees imposed by third parties.”⁶¹⁸

While the results were comparable, a few more of the online survey respondents identified Adviser XYZ as having more serious conflicts of interest than Adviser ABC. Specifically, when the online survey respondents were asked, based on their reading of the two examples, which (if either) of the two advisers they believed had more serious conflicts of interest in providing advice, approximately 42.0% indicated that neither adviser had serious conflicts of interest.⁶¹⁹ However, approximately 22.6% identified Adviser XYZ as having more serious conflicts of interest, while approximately 18.6% determined that Adviser ABC had more

⁶¹⁴ See S+G Report at 104 (question A46).

⁶¹⁵ See S+G Report at 104 (question A46).

⁶¹⁶ See S+G Report at 104 (question A46).

⁶¹⁷ See S+G Report at 104 (question A46).

⁶¹⁸ See S+G Report at 104 (question A46).

⁶¹⁹ See S+G Report at 104 (question A47).

serious conflicts.⁶²⁰ Approximately 16.8% considered both advisers to have serious conflicts of interest.⁶²¹

Methods to Increase the Transparency of Conflicts of Interest⁶²²

For purposes of this exercise, the online survey respondents reviewed two examples or “mock-ups” of conflicts of interest sections as might be disclosed in an actual investment adviser’s Brochure. One example purported to belong to hypothetical “Adviser ABC” and the other to hypothetical “Adviser XYZ.”⁶²³ The Adviser ABC example consisted of a one-page narrative explanation of the adviser’s brokerage practices.⁶²⁴ The Adviser XYZ example consisted of a four page narrative explanation of the adviser’s potential conflicts of interest, including its brokerage practices, order aggregation policies, restrictions on certain transactions, direct investments, relationship with other investment advisers, research and soft dollar benefits, research reports from various entities, and trading systems.⁶²⁵ Half of the respondents were shown the Adviser ABC example first, while the other half were shown the Adviser XYZ sample first.

⁶²⁰ See S+G Report at 104 (question A47).

⁶²¹ See S+G Report at 104 (question A47).

⁶²² As discussed above, one group of 600 online survey respondents participated in this exercise. Hence, references to the online survey respondents in this discussion regarding methods to improve the transparency of conflicts of interest are to that group of 600 who participated in this exercise.

⁶²³ See S+G Report at 107-108.

⁶²⁴ See S+G Report at 107.

⁶²⁵ See S+G Report at 108.

Generally, the online survey respondents seemed to have mixed reactions toward conflicts of interest issues.⁶²⁶ Moreover, a subset of the total pool of respondents, consisting of those who did not recall receiving a document disclosing conflicts of interest from their adviser (42.1%), either did not believe that their adviser currently had some of the conflicts disclosed by Adviser ABC and Adviser XYZ (42.5%) or was not sure or did not know (48.1%).⁶²⁷

Specifically, approximately 75.8% of the online survey respondents indicated that, after reviewing both examples, they were satisfied with the disclosure provided to them about each adviser's potential conflicts of interest and only 7.0% of the online survey respondents (or 43 individuals) reported that they were not satisfied with the disclosure.⁶²⁸ Of that small minority (*i.e.*, of that 7.0%), approximately 45.2% conceded that there was *not* something that they would like to see disclosed in either document that was not currently provided, while approximately 35.9% indicated that they did not know.⁶²⁹ Of the approximately 18.9% of that small minority that reported that they would like to see something disclosed in either document that was not currently provided, open-ended responses included, among other things, a list of the outside brokers or entities used by either investment adviser and fees associated with their use; fees charged in percentage terms, the network of brokerages used, discount information, and performance track record; the identity of affiliates that compensate the investment adviser for use of their services; brief, relevant, and easily understandable information, as opposed to

⁶²⁶ See S+G Report at 110 (question A50).

⁶²⁷ See S+G Report at 110 (question A50).

⁶²⁸ See S+G Report at 111 (question A51).

⁶²⁹ See S+G Report at 112 (question A52).

lengthy documents; the history of the relationship between the adviser and the third party and the frequency of transactions between them; a shortened narrative and a list of the companies used and the relationships between them and the adviser.

When the online survey respondents were asked to rate, on a scale of one to five, their level of concern (where one meant “not at all concerned” and five meant “extremely concerned”) regarding the conflicts of interest disclosed in the two examples vis-à-vis their personal investment interests, approximately 40.8% - 43.7% of the responses tended toward the middle (*i.e.*, a three-out-of-five rating), with approximately 17.1% - 19.6% trending toward less concern (a two-out-of-five rating) and approximately 20.3% - 26.5% tilting toward more concern (a four-out-of-five rating).⁶³⁰

The online survey respondents were divided as to which hypothetical adviser they felt would be more likely to provide them with “unbiased” advice, selecting Adviser ABC as marginally more likely to do so.⁶³¹ While approximately 22.5% of the online survey respondents concluded that both hypothetical advisers would provide them with unbiased advice, about the same number – approximately 22.7% – indicated that Adviser ABC would be more likely than Adviser XYZ – approximately 16.8% – to do so, while another approximately 21.8% indicated that they could not tell or did not know.⁶³² However, approximately 41.5% of the online survey respondents indicated that the information in the examples concerning the potential conflicts of interest would affect their decision to hire an adviser, although approximately 28.0% reported that it would not affect their decision and approximately 30.5%

⁶³⁰ See S+G Report at 113 (question A54).

⁶³¹ See S+G Report at 114 (question A55).

⁶³² See S+G Report at 114 (question A55).

did not know.⁶³³ Of those who responded that the information would affect their decision to hire either adviser (*i.e.*, a subset), approximately 33.9% reported that they would choose Adviser ABC as their adviser, while about 25.7% expressed a preference for Adviser XYZ.⁶³⁴ Of those who responded that the information would *not* affect their decision to hire either adviser (*i.e.*, a subset), in response to a multiple response question (*i.e.*, select all that apply), approximately 42.1% indicated that their decision would not be affected because their “decision to hire an adviser [was] based on a number of factors, none of which [were] conflicts of interest,” approximately 27.9% reported that their decision to hire an adviser was “based solely on recommendations,” and approximately 24.6% admitted that “conflicts of interest [were] not a primary concern to” them.⁶³⁵

When the online survey respondents were presented with a series of potential conflicts of interest and asked to rate their level of concern with each, their responses were clustered around the middle to high end of the five-factor scale.⁶³⁶ In particular, the online survey respondents were asked to rate, on a scale of one to five, their level of concern (where one meant “not at all concerned” and five meant “extremely concerned”) regarding the following conflicts of interest: (a) the adviser may recommend that clients buy or sell securities through a broker from which it receives certain benefits that it does not pay for (*e.g.*, research materials, products, or services) and which could cause the client to pay a higher commission; (b) the adviser may recommend investments in products for which its affiliate receives a fee or other

⁶³³ See S+G Report at 115 (question A56).

⁶³⁴ See S+G Report at 116 (question A57).

⁶³⁵ See S+G Report at 117 (question A58).

⁶³⁶ See S+G Report at 119 (question A59).

compensation; (c) the adviser may recommend investments in products for which it gets paid by other sources (*e.g.*, service fees for the sale of mutual funds); (d) the adviser may buy or sell the same securities for its own account at the same time it buys, sells, or recommends the same securities to its clients; and (e) the adviser may buy or sell securities from or to its clients from the adviser's own account or from the account of the adviser's affiliate.⁶³⁷ Approximately 32.3% of the online survey respondents were more concerned that their adviser might recommend that clients buy or sell securities through a broker from which it receives certain benefits that it does not pay for (a four-out-of-five rating), while another approximately 31.0% were not as concerned (a three-out-of-five rating).⁶³⁸ Similarly, approximately 35.6% of the online survey respondents were more concerned that their adviser might recommend investments in products for which its affiliate receives a fee or other compensation (a four-out-of-five rating), while approximately 30.6% were not as concerned (a three-out-of-five rating).⁶³⁹ Many of the online survey respondents registered greater concern about the possibility of their adviser recommending investments in products for which it gets paid by other sources, with about 22.2% extremely concerned (a five-out-of-five rating) and approximately 34.6% very concerned (a four-out-of-five rating).⁶⁴⁰ Only about 25.8% of the online survey respondents were very concerned about the adviser buying or selling the same securities for its own account at the same time that it bought, sold, or recommended the same securities to its clients (a four-out-of-five rating), while approximately 30.7% were not as

⁶³⁷ See S+G Report at 119 (question A59).

⁶³⁸ See S+G Report at 119 (question A59r1).

⁶³⁹ See S+G Report at 119 (question A59r2).

⁶⁴⁰ See S+G Report at 119 (question A59r3).

concerned (*i.e.*, a three-out-of-five rating).⁶⁴¹ Many of the online survey respondents also expressed greater concern about the possibility that their adviser might buy or sell securities from or to its clients from the adviser's own account for from the account of the adviser's affiliate, with about 22.9% extremely concerned (a five-out-of-five rating), approximately 31.8% very concerned (a four-out-of-five rating), and approximately 30.9% were not as concerned (a three-out-of-five rating).⁶⁴²

Over half of the online survey respondents (69.3%) indicated that, if they were provided with either of the conflicts of interest examples, they would take the time to read the information before selecting one of the two hypothetical advisers.⁶⁴³ Of those who reported that they would take the time to read the conflicts of interest information (*i.e.*, a subset), in response to a multiple response question (*i.e.*, check all that apply) asking what actions they would be likely to take if they were looking for an adviser, about 48.3% indicated that they would be likely to request additional information, approximately 40.7% reported that they would closely monitor the adviser's activities, approximately 35.7% declared that they would hire the adviser if he or she met the respondent's other criteria, and approximately 33.2% indicated that they would attempt to limit their exposure to those specific conflicts disclosed in the two examples.⁶⁴⁴ Of those who reported that they would *not* take the time to read the conflicts of interest information or did not know (*i.e.*, a subset), approximately 51.4% indicated that they

⁶⁴¹ See S+G Report at 119 (question A59r4).

⁶⁴² See S+G Report at 119 (question A59r5).

⁶⁴³ See S+G Report at 120 (question A60).

⁶⁴⁴ See S+G Report at 121 (question A61).

would be unlikely to read the information because it was too difficult to understand, while approximately 23.3% admitted that conflicts of interest were not a primary concern to them.⁶⁴⁵

There was no consensus regarding the preferred format for conflicts of interest disclosure. Approximately 31.0% of the online survey respondents expressed a preference for a bulleted format, approximately 25.4% favored a summary table format, and approximately 19.8% chose the *status quo*, preferring “the way it was presented.”⁶⁴⁶ However, approximately 71.2% of the online survey respondents indicated that they would like to see specific examples that demonstrate how potential conflicts of interest operate in relation to investment advice provided to them.⁶⁴⁷ A large majority of the online survey respondents (88.5%) agreed that, in comparing the two hypothetical advisers, it would be very (46.2%) or somewhat (42.3%) helpful to require advisers to provide more specific headings or titles to the conflicts of interest disclosure paragraphs, or provide more divided sections to facilitate an easier comparison.⁶⁴⁸

The online survey respondents were divided on their reaction to a hypothetical question which presented a scenario in which both advisers disclosed a conflict of interest in that they buy or sell in client accounts with brokers from whom they receive certain benefits (*e.g.*, receiving research reports or publications analyzing a company’s performance, attending seminars and conferences, *etc.*).⁶⁴⁹ Approximately 39.4% of the online survey respondents indicated that they understood the conflict of interest and found it very important, but did not

⁶⁴⁵ See S+G Report at 122 (question A62).

⁶⁴⁶ See S+G Report at 123 (question A63).

⁶⁴⁷ See S+G Report at 124 (question A64).

⁶⁴⁸ See S+G Report at 125 (question A65).

⁶⁴⁹ See S+G Report at 126 (question A66).

have sufficient information to fully assess the impact of the conflict on their account. Conversely, approximately 36.6% of the online survey respondents reported that they understood the conflict of interest, found it very important, and had sufficient information to fully assess the impact of the conflict on their account.⁶⁵⁰

2. Confirmations/Account Statements

Most of the quantitative research results relating to trade confirmations, account statements and sweep accounts did not directly reveal support for any particular “methods to increase the transparency of expenses and conflicts of interest in transactions involving investment services and products.” However, some of the quantitative research results provided data regarding the online survey respondents’ general understanding of expenses and conflicts of interest.

Trade Confirmations

The quantitative research regarding trade confirmations solicited opinions from online survey respondents regarding the importance of various pieces of information currently required in a trade confirmation. Approximately 64.1% of the online survey respondents indicated that it is “absolutely essential” that trade confirmations contain information regarding any compensation they have to pay to a financial intermediary for a transaction, and about 22% of respondents indicated that this information was “important, but not essential.”⁶⁵¹ Similarly, approximately 62.7% of the online survey respondents indicated that it is “absolutely essential” that trade confirmations contain information regarding fees deducted from their purchase or sale

⁶⁵⁰ See S+G Report at 126 (question A66).

⁶⁵¹ See S+G Report at 146-147 (question C11).

price in mutual fund transactions, and about 24% of respondents indicated that this information was “important, but not essential.”⁶⁵² Additionally, approximately 32.4% of the online survey respondents reported that it is “absolutely essential” that trade confirmations indicate whether their financial intermediary receives third-party compensation for routing orders to that third-party, and about 39.1% of respondents indicated that this information was “important, but not essential.”⁶⁵³

The quantitative research regarding trade confirmations also solicited online survey respondents’ opinions regarding the importance of various pieces of information not currently required in a trade confirmation. Approximately 32.2% of the online survey respondents reported that it is “absolutely essential” that trade confirmations indicate whether a financial intermediary is registered as both a broker-dealer and investment adviser, and about 37.4% of respondents indicated that this information was “important, but not essential.”⁶⁵⁴ Approximately 25.8% of the online survey respondents reported that it is “absolutely essential” that trade confirmations indicate whether a financial intermediary suggested, or recommended a particular investment, and about 38.8% of respondents indicated that this information was “important, but not essential.”⁶⁵⁵

Online survey respondents were also asked to provide their opinion on the amount of detail that should be included in trade confirmation regarding their financial intermediary’s compensation. Approximately 25.2% of online survey respondents indicated they only wanted

⁶⁵² See S+G Report at 146-147 (question C11).

⁶⁵³ See S+G Report at 146-147 (question C11).

⁶⁵⁴ See S+G Report at 148 (question C12).

⁶⁵⁵ See S+G Report at 148 (question C12).

to know the total compensation received by their financial intermediary, with no specific details regarding composition of that compensation.⁶⁵⁶ However, approximately 69.6% of online survey respondents indicated that in addition to their financial intermediary's total compensation, they would like to know the composition of this compensation, including types of compensation.⁶⁵⁷

Account Statements

Online survey respondents were provided with an account statement exhibit that generally indicated that a financial intermediary may receive compensation in connection “with the purchase and/or the on-going maintenance of positions in certain mutual fund shares and other investment products.” Approximately 57.5% of the online survey respondents indicated that they “somewhat” understood the information in the exhibit, with the remaining respondents split between understanding the information fully (25.9%) or not at all (16.6%).⁶⁵⁸ Online survey respondents received comprehension questions that consisted of four statements related to information in the exhibit and were asked to indicate whether the statements were true, false, or “I can't tell/I don't know.” These questions focused on how and when a financial intermediary receives compensation for sales of investment products and where information regarding this compensation can be found.⁶⁵⁹ An average of approximately 51% of the online survey respondents correctly answered each of the comprehension questions regarding this account statement exhibit.⁶⁶⁰

⁶⁵⁶ See S+G Report at 149 (question C13).

⁶⁵⁷ See S+G Report at 149 (question C13).

⁶⁵⁸ See S+G Report at 171 (question C28).

⁶⁵⁹ See S+G Report at 172-173 (question C29).

⁶⁶⁰ See S+G Report at 174 (question C29). This finding represents the average of the percent correct for each comprehension question asked. The actual percentage of online survey respondents that

Online survey respondents also indicated their interest in obtaining additional information “about the sources and amounts of compensation” received by their financial intermediary.⁶⁶¹ Most (87.5%) of online survey respondents were “very” or “somewhat” interested in receiving this compensation information.⁶⁶² Those online survey respondents expressing interest in information “about the sources and amounts of compensation” received by their financial intermediary were also asked to indicate when they would like to receive this information. These survey respondents were asked to select one or more (i.e., multiple responses acceptable) of the following time frames for receiving this compensation information: (a) before I begin my relationship with a [financial intermediary]; (b) at the time I consider each transaction; (c) when I get a confirmation or account statement, which is at some point after a transaction; (d) some other time; or (e) I do not know.⁶⁶³ Approximately 58.9% of this subset of online survey respondents want to receive this compensation information before beginning their relationship with a financial intermediary, while about 43.8% of these respondents want to receive this compensation information at the time of they consider a transaction.⁶⁶⁴ Approximately 20.6% of this subset of online survey respondents want to receive this compensation information with a

correctly answered each comprehension question related to this account statement exhibit ranged from 33.3% to 63.6%.

⁶⁶¹ See S+G Report at 175 (question C30).

⁶⁶² See S+G Report at 175 (question C30). Approximately 39.9% of online survey respondents were “very interested” in the sources and amounts of compensation received by their financial intermediary, and another 47.6% of respondents were “somewhat” interested in this information.

⁶⁶³ See S+G Report at 176 (question C31).

⁶⁶⁴ See S+G Report at 176 (question C31).

trade confirmation or account statement, while about 10.7% of these respondents indicated they either do not know when they want this information or want it at “some other time.”⁶⁶⁵

3. Mutual Fund Summary Prospectus

While the quantitative research did not address directly “methods to increase the transparency of expenses and conflicts of interest in transactions involving investment services and products” with respect to the summary prospectus, the data collected provide some insight into the online survey respondents’ opinions about expenses and conflicts of interest.

Methods to Increase the Transparency of Expenses

Generally, before having reviewed one of the summary prospectus examples, a significant proportion of the online survey respondents indicated that they typically look for information about costs when reading a summary prospectus.⁶⁶⁶ Information about costs was the second most common piece of information that the online survey respondents reported looking for after performance information.⁶⁶⁷ While approximately 83.0% of the online survey respondents indicated that they typically look for performance information, the second highest proportion of online survey respondents -- approximately 65.5% -- reported that they typically look for cost information (in response to a multiple response question, *i.e.*, check all that apply).⁶⁶⁸

⁶⁶⁵ See S+G Report at 176 (question C31).

⁶⁶⁶ See S+G Report at 216 (question S20).

⁶⁶⁷ See S+G Report at 216 (question S20).

⁶⁶⁸ See S+G Report at 216 (question S20).

However, after reviewing one of the summary prospectus examples, the largest proportion of the online survey respondents identified information about the “[f]ees and expenses of the fund” as an important factor to them if they were considering investing in the applicable mutual fund (in response to a multiple response question, *i.e.*, check all that apply). Specifically, approximately 81.8% of the online survey respondents who reviewed the Petunia Summary Prospectus, approximately 80.4% of the online survey respondents who reviewed the Gardenia Summary Prospectus, and approximately 80.6% of the online survey respondents who reviewed the Hydrangea Bush Summary Prospectus indicated that information about the fees and expenses of the fund would be important to them if they were considering investing in the fund.⁶⁶⁹

Conversely, when asked whether any of the summary prospectus information was not useful and should not be included in the summary prospectus, few online survey respondents indicated that information about the fees and expenses of the fund was not useful and should not be included (in response to a multiple response question, *i.e.*, check all that apply). Specifically, only about 8.7% of the online survey respondents who reviewed the Petunia Summary Prospectus, approximately 4.2% of the online survey respondents who reviewed the Gardenia Summary Prospectus, and approximately 5.8% of the online survey respondents who reviewed the Hydrangea Bush Summary Prospectus indicated that information about the fees and expenses of the fund would *not* be useful to them and should *not* be included in the summary prospectus.⁶⁷⁰

⁶⁶⁹ See S+G Report at 222 (question S28).

⁶⁷⁰ See S+G Report at 240 (question S39).

Generally, most of the online survey respondents agreed that it was easy to understand the tables and charts included in the summary prospectus they reviewed (including the tables listing fees and expenses and the table providing an example of expenses over time). Specifically, approximately 63.3% of the online survey respondents who reviewed the Petunia Summary Prospectus, approximately 63.9% of the online survey respondents who reviewed the Gardenia Summary Prospectus, and approximately 72.4% of the online survey respondents who reviewed the Hydrangea Bush Summary Prospectus either strongly or somewhat agreed that it was easy to understand the tables and charts in the summary prospectus.⁶⁷¹

However, some of the online survey respondents indicated that they found the table listing fees and expenses and the table providing an example of expenses over time difficult to understand. Specifically, approximately 30.8% of the online survey respondents who reviewed the Petunia Summary Prospectus, approximately 27.6% of the online survey respondents who reviewed the Gardenia Summary Prospectus, and approximately 26.0% of the online survey respondents who reviewed the Hydrangea Bush Summary Prospectus reported that the table listing fees and expenses was difficult to understand.⁶⁷² Similarly, approximately 25.7% of the online survey respondents who reviewed the Petunia Summary Prospectus, approximately 31.2% of the online survey respondents who reviewed the Gardenia Summary Prospectus, and approximately 22.1% of the online survey respondents who reviewed the Hydrangea Bush

⁶⁷¹ See S+G Report at 242 (question S41).

⁶⁷² See S+G Report at 243 (question S42).

Summary Prospectus reported that the table providing an example of expenses over time was difficult to understand.⁶⁷³

Methods to Increase the Transparency of Conflicts of Interest

Before having reviewed one of the summary prospectus examples, relatively few of the online survey respondents indicated that they typically look for information about payments to broker-dealers or other financial professionals when reading a summary prospectus.

Specifically, before reviewing a summary prospectus example, approximately 28.9% of the online survey respondents reported that they typically look for information about payments to broker-dealers or other financial professionals when reading a summary prospectus (in response to a multiple response question, *i.e.*, check all that apply).⁶⁷⁴

However, after reviewing one of the summary prospectus examples, a higher proportion of the online survey respondents identified information about the “[p]ayments to broker-dealers and other financial intermediaries” as an important factor to them if they were considering investing in the applicable mutual fund (in response to a multiple response question, *i.e.*, check all that apply). Specifically, approximately 35.4% of the online survey respondents who reviewed the Petunia Summary Prospectus, approximately 37.5% of the online survey respondents who reviewed the Gardenia Summary Prospectus, and approximately 34.1% of the online survey respondents who reviewed the Hydrangea Bush Summary Prospectus indicated

⁶⁷³ See S+G Report at 243 (question S42).

⁶⁷⁴ See S+G Report at 216 (question S20). In comparison, the online survey respondents reported that they typically look for performance (83.0%), costs (65.5%), and risks (62.0%) when reading a summary prospectus.

that information about payments to broker-dealers and other financial intermediaries would be important to them if they were considering investing in the fund.⁶⁷⁵

Conversely, when asked whether any of the summary prospectus information was not useful, few online survey respondents indicated that information about payments to broker-dealers and other financial intermediaries was not useful (in response to a multiple response question, *i.e.*, check all that apply). Specifically, only about 8.5% of the online survey respondents who reviewed the Petunia Summary Prospectus, approximately 12.9 % of the online survey respondents who reviewed the Gardenia Summary Prospectus, and approximately 10.1% of the online survey respondents who reviewed the Hydrangea Bush Summary Prospectus indicated that information about payments to broker-dealers and other financial intermediaries would *not* be useful to them and should *not* be included in the summary prospectus.⁶⁷⁶

4. Point-of-Sale Disclosure

Quantitative research relating to point-of-sale information involved, among other things, investor testing concerning methods to increase the transparency of expenses and conflicts of interest in transactions involving investment services and products. Approximately 75.7% of online survey respondents indicated that they had received information about fees or other charges from their financial intermediary.⁶⁷⁷ Additionally, approximately 87.2% of online survey respondents indicated that understanding how their financial intermediary is paid in

⁶⁷⁵ See S+G Report at 223 (question S28).

⁶⁷⁶ See S+G Report at 239 (question S39).

⁶⁷⁷ See S+G Report at 265 (question P18). Of the online survey respondents that indicated they had received information about fees, approximately 86.6% of these respondents reported that this fee information was provided to them, while 10.6% of these respondents indicated they had to “seek out” this fee information.

connection with their account was either absolutely essential or important.⁶⁷⁸ A majority of online survey respondents (51.6%) also indicated that they had “a good, but not complete understanding” of how their financial intermediary is paid, while approximately 32.3% of respondents indicated they completely understand how their financial intermediary is paid.⁶⁷⁹

Online survey respondents were generally evenly split regarding their general opinion on how financial intermediaries are paid. Online survey respondents were asked to indicate which of the following statements reflect their opinion on how financial intermediaries are paid: (a) they have to make a living and I’m not interested in how they are paid; (b) I’m not interested unless it may cause them to make a recommendation that may not be right for me; then I want to know about it; (c) I want to know generally how they get paid before I sign up to use their services; (d) I want to know how they get paid for each purchase or sale of a financial product/investment that I make; or (e) no opinion. Approximately 36.1% of online survey respondents indicated that they wanted to know generally how a financial intermediary is paid before they sign up to use the intermediary’s services.⁶⁸⁰ Approximately 26.1% of the online survey respondents indicated that they were not interested in how a financial intermediary is paid unless it affects the intermediary’s investment recommendations, and about 24.3% of respondents reported wanting to know how much a financial intermediary is paid for each

⁶⁷⁸ See S+G Report at 266 (question P20). 87.2% is the combined percentage of online survey respondents indicating that fee information is either absolutely essential or important. Approximately 51.1% of online survey respondents indicated that understanding how their financial intermediary is paid in connection with their account is absolutely essential, while an additional 36.1% of online survey respondents considered this information important, but not essential. Id.

⁶⁷⁹ See S+G Report at 267 (question P21).

⁶⁸⁰ See S+G Report at 268 (question P22).

investment transaction.⁶⁸¹ In a complementary set of analysis, approximately 65.1% of online survey respondents indicated they believe that how a financial intermediary is paid is either the primary factor, or one of many factors that influence a financial intermediary's investment recommendations.⁶⁸²

Online survey respondents also indicated their preferences regarding when they would like to receive conflicts of interest disclosure. A subset⁶⁸³ of online survey respondents were asked to select one or more (i.e. multiple responses allowed) of the following time periods: (a) before I begin my relationship with a financial firm or person who advises me; (b) at the time I consider each purchase or sale of a financial product/investment; (c) on a monthly or quarterly basis; (d) after I complete the purchase or sale of those financial products; (e) once a year; (f) whenever I request it; or (g) none of the above.⁶⁸⁴ Approximately 51.5% of online survey respondents indicated they would like conflicts of interest disclosure before beginning a relationship with a financial intermediary, and about 46.5% of this subset of respondents indicated they would like conflicts of interest disclosure at the time they consider each purchase

⁶⁸¹ See S+G Report at 268 (question P22).

⁶⁸² See S+G Report at 269 (question P23). Approximately 49.8% of online survey respondents indicated that how their financial intermediary is paid is one of many factors influencing their investment recommendations, while an additional 15.3% of respondents considered this information to be the primary factor influencing a financial intermediary's investment recommendations. Id.

⁶⁸³ Only 1125 of the 1200 online survey respondents answered this question because its responses were limited to only respondents that provided certain answers to question P23 of the survey (regarding the importance of information related to certain types of conflicts of interest). See S+G Report at 273 (question P27).

⁶⁸⁴ See S+G Report at 273 (question P27).

or sale of an investment product.⁶⁸⁵ Each of the other time periods only received support from approximately 15.9% or less of this subset of online survey respondents.⁶⁸⁶

Survey respondents also provided opinions regarding the general format of conflicts of interest disclosure. Using a scale, the online survey respondents were asked to agree or disagree with the following statements regarding conflicts of interest disclosure: (a) The more specific the disclosure the better – even if it may result in longer disclosure; (b) I like a disclosure that is short and more general, with more specific information available if I want it; and (c) I don’t read disclosures on conflicts of interest.⁶⁸⁷ The question instructed online survey respondents to rate the foregoing items using a five-tier scale ranging from “Completely agree,” to “Somewhat agree,” to “Neither agree nor disagree,” to “Somewhat disagree,” to “Completely disagree.” Approximately 31.3% of online survey respondents completely agree that a financial intermediary’s disclosure of potential conflicts of interest should be more specific, even if it results in a longer disclosure document, while about 36.3% of respondents somewhat agree with this statement.⁶⁸⁸ Approximately 37.2% of online survey respondents completely agree that conflicts of interest disclosure should be short and more general, with more specific information available upon request, while a similar percentage (37.6%) of respondents somewhat agree with

⁶⁸⁵ See S+G Report at 273 (question P27).

⁶⁸⁶ See S+G Report at 273 (question P27).

⁶⁸⁷ See S+G Report at 263 (questions P16r1-3).

⁶⁸⁸ See S+G Report at 263 (question P16r1).

this statement.⁶⁸⁹ In addition, approximately 19% of online respondents indicated that they did not read conflicts of interest disclosures.⁶⁹⁰

The survey also solicited opinions on various types of potential conflicts of interest. Specifically, the online survey respondents were asked to rate the importance of the following information regarding their financial intermediary: (a) how does the individual advising you get paid in connection with your account; (b) whether the individual advising you (not the financial services firm itself) earns more money for selling certain specific products (e.g., mutual fund X) as to other products (e.g., mutual fund Y); (c) whether your financial services firm (not the person advising you) earns more money for selling certain specific products (e.g., mutual fund X) as to other products (e.g., mutual fund Y); (d) whether the person advising you may attend marketing or educational events sponsored by an issuer of financial products; (e) whether your financial services firm may benefit from the sale of financial products issued by a related company; and (f) whether your financial services firm or the person advising you stands to profit more if you invest in certain types of products (e.g., mutual funds) as opposed to other types of products (e.g., certificates of deposit).⁶⁹¹ The question instructed online survey respondents to rate the foregoing items on a four-factor scale ranging in descending order from “Absolutely essential,” to “Important, but not essential,” to “Nice to know,” to “Completely unimportant.”⁶⁹²

⁶⁸⁹ See S+G Report at 263 (question P16r2).

⁶⁹⁰ See S+G Report at 263 (question P16r3). Approximately 5.9% of online survey respondents indicated they completely agree with statement “I don’t read disclosures of conflicts of interest,” while 13.1% of respondents somewhat agree with this statement. Id.

⁶⁹¹ See S+G Report at 270 (questions P24r1-6).

⁶⁹² See S+G Report at 270 (questions P24r1-6).

Most of the online survey respondents (totals ranged from 80.5% to 84.2% of respondents) indicated that information related to: (a) whether your financial services firm or the person advising you stands to profit more if you invest in certain types of products (e.g., mutual funds) as opposed to other types of products (e.g., certificates of deposit); (b) whether the individual advising you (not the financial services firm itself) earns more money for selling certain specific products (e.g., mutual fund X) as to other products (e.g., mutual fund Y); (c) whether your financial services firm (not the person advising you) earns more money for selling certain specific products (e.g., mutual fund X) as to other products (e.g., mutual fund Y); and (d) whether your financial services firm may benefit from the sale of financial products issued by a related company, was either absolutely essential, or important, but not essential.⁶⁹³

Approximately 78.5% of online survey respondents indicated that information related to how the person advising them gets paid was either absolutely essential, or important, but not essential.⁶⁹⁴

Online survey respondents were also asked to expand upon their opinion regarding a financial intermediary's sale of investment products issued by an affiliated company. Specifically, online survey respondents were told that if their financial intermediary sells investment products that are issued by an affiliated company, their financial intermediary may benefit (for example, get some of the profit) from those sales in a way that it would not if it sold investment products issued by unaffiliated companies. Using a scale, the online survey respondents were asked to agree or disagree with the following statements regarding the conflicts of interest described above: (a) I want to know all about how my firm gets paid (or earns

⁶⁹³ See S+G Report at 270 (questions P24r2, 3, 5 and 6).

⁶⁹⁴ See S+G Report at 270 (questions P24r1).

money); (b) I want to know about how my firm gets paid (or earns money), but only if it makes a difference to the recommendations that the person advising me makes; (c) even though this information may be important, it's more information than I personally want to deal with; (d) I expect my financial services firm to have some kind of incentive for any sale that it makes; and (e) this information is unimportant as long as the recommendation I get from my firm or the individual advising me meets my needs.⁶⁹⁵ The question instructed online survey respondents to rate the foregoing items using a five-tier scale ranging from "Completely agree," to "Somewhat agree," to "Neither agree nor disagree," to "Somewhat disagree," to "Completely disagree."

Most of the online survey respondents indicated they either completely or somewhat agree with two of the foregoing statements: "I want to know all about how my firm gets paid (or earns money)" (83.5%) and "I expect my financial services firm to have some kind of incentive for any sale that it makes" (73.7%).⁶⁹⁶ Approximately 55.1% of the online survey respondents either completely or somewhat agree "this information is unimportant as long as the recommendation I get from my firm or the individual advising me meets my needs."⁶⁹⁷

However, there was no consensus among online survey respondents regarding the statements: "I want to know about how my firm gets paid (or earns money), but only if it makes a difference to the recommendations that the person advising me makes" and "even though this information may be important, it's more information than I personally want to deal with." For both of these statements approximately 41.1% of online respondents either completely or somewhat agree with

⁶⁹⁵ See S+G Report at 275 (questions P29r1-5).

⁶⁹⁶ See S+G Report at 275 (questions P29r1, 4).

⁶⁹⁷ See S+G Report at 275 (questions P29r5).

them, while approximately 36.7% of respondents either completely or somewhat disagree with them.⁶⁹⁸

Online survey respondents were also provided with a sample disclosure document to assess their responses to various questions related to expenses and conflicts of interest. Online survey respondents were told that a financial services firm receives additional payments from the mutual fund companies for selling shares of their mutual funds to their clients. The exhibit provided to online survey respondents included a chart for three different mutual funds containing: (a) the maximum annual asset fee the financial services firm receives from each mutual fund for every \$10,000 of mutual fund assets the financial services firm owns, and (b) the total amount paid to the financial services firm from each mutual fund for the previous year.

Online survey respondents were asked whether they understood the meaning of the term “annual asset fees.” Approximately 31.8% of the survey respondents indicated they understand the term, while about 46.2% of respondents indicated they thought they knew what the term means.⁶⁹⁹ When asked to determine which mutual funds provided the greatest and least financial incentive to sell their shares, less than one-seventh of online survey respondents correctly determined that additional information would be needed to make this determination.⁷⁰⁰

Slightly more than one-half (55.1%) of online survey respondents also indicated they would want to know whether the individual advising them (as opposed to the financial services firm itself) would receive some of the portion of these annual asset payments. Furthermore, even if only the financial services firm received the annual asset fee, slightly more than one-half

⁶⁹⁸ See S+G Report at 275 (questions P29r2-3).

⁶⁹⁹ See S+G Report at 277 (questions P30).

⁷⁰⁰ See S+G Report at 278 (questions P31-32).

(52.8%) of online survey respondents correctly still believed that the individual advising them (as opposed to the financial services firm itself) may still have conflicts or incentives if their firm receives an annual asset fee, while only one-third (32.2%) of respondents indicated an inaccurate belief that their individual adviser would have no conflicts or incentives.⁷⁰¹

VIII. Discussion of Dodd-Frank Act Section 917(a)(5): The Most Effective Existing Private and Public Efforts to Educate Investors

Dodd-Frank Act Section 917(a)(5) directs the Commission to conduct a study to identify, among other things, the most effective private and public efforts to educate investors. On April 19, 2011, the Commission published a request for public comment and data to inform the Study with respect to Dodd-Frank Act Section 917(a)(5).⁷⁰² The comment period closed on June 21, 2011. The Commission received more than 80 individualized comments, including comments from investors, financial professionals, industry groups, academics, not-for-profit organizations, and other regulators.⁷⁰³

Many commenters indicated that they provide resources or run programs focused on educating investors. A number of commenters stated that their investor education efforts included initiatives targeting specific audiences, such as seniors,⁷⁰⁴ members of the military,⁷⁰⁵

⁷⁰¹ See S+G Report at 279-280 (questions P33-34).

⁷⁰² See Exchange Act Release No. 64306 (April 19, 2011) [76 FR 22740 (April 22, 2011)].

⁷⁰³ Copies of comments received are available on the Commission's website at <http://www.sec.gov/comments/4-626/4-626.shtml>.

⁷⁰⁴ See, e.g., letter from David Certner, Legislative Counsel and Legislative Policy Director, Government Affairs, AARP, dated June 23, 2011 ("AARP Letter II"); letter from David Massey, President, North American Securities Administrators Association, dated June 21, 2011 ("NASAA Letter"); letter from Don Blandin, President and Chief Executive Officer, Investor Protection Trust, dated June 22, 2011.

or students.⁷⁰⁶ Other commenters identified programs targeting traditionally underserved populations or more discrete groups.⁷⁰⁷ A few commenters noted that their investor education efforts are intended for general audiences.⁷⁰⁸

Many commenters stated their views on the availability of financial education resources.⁷⁰⁹ A number of commenters indicated that there already exists a large supply of investor education materials on a wide array of topics.⁷¹⁰ But some commenters suggested that the bulk of available investing information is marketing literature focused on selling particular

⁷⁰⁵ See, e.g., letter from Marcia E. Asquith, Senior Vice President and Corporate Secretary, Financial Industry Regulatory Authority, dated June 21, 2011 (“FINRA Letter II”); letter from Amanda O. Blanks, Investor Education Coordinator, Virginia Division of Securities, dated June 21, 2011, dated June 21, 2011.

⁷⁰⁶ See, e.g., letter from Susan P. Beacham, Chief Executive Officer, Money Savvy Generation, dated April 20, 2011; letter from Melanie C. Mortimer, SIFMA Foundation for Investor Education, dated June 21, 2011 (“SIFMA Foundation Letter”); letter from the National Endowment for Financial Education, dated June 21, 2011 (“NEFE Letter II”).

⁷⁰⁷ See, e.g., letter from Ariel Investments, dated June 9, 2011 (“Ariel Letter”) (promoting investment literacy within the African American community); FINRA Letter II, supra note 705 (identifying FINRA Investor Education Foundation grant programs focused on a variety of target audiences, including, among others, Hispanics, Native Americans, union members, nurses, and farm families).

⁷⁰⁸ See, e.g., letter from letter from American Savings Education Council, dated June 15, 2011 (“ASEC Letter”); letter from Pam Krueger, dated April 20, 2011.

⁷⁰⁹ See ASEC Letter, supra note 708; letter from Stephen McMEnamin, Executive Director, Greenwich Roundtable, Inc., dated May 2, 2011 (“Greenwich Roundtable Letter”); letter from Linda Rapacki, Managing Director of Visitor Services and Operations, Museum of American Finance, dated June 28, 2011 (“MAF Letter”); letter from Theodore R. Daniels, President and Chief Executive Officer, Society for Financial Education and Professional Development, Inc., dated June 27, 2011 (“SFEPD Letter”); SIFMA Foundation Letter, supra note 706; letter from William N. Stant, President, L.B. Stant and Associates, LLC, dated April 20, 2011 (“L.B. Stant Letter”); letter from Carol Winkler, dated May 2, 2011 (“Winkler Letter”).

⁷¹⁰ See ASEC Letter, supra note 708; MAF Letter, supra note 709; SIFMA Foundation Letter, supra note 706; Winkler Letter, supra note 709; But see L.B. Stant Letter, supra note 709 (noting lack of awareness of any significant efforts to educate investors outside of securities regulators’ websites); letter from Elvin S. Lee, dated November 7, 2011.

investment products, rather than on educating investors.⁷¹¹ One commenter noted that many investors are not aware of existing investor education resources, due to a lack of promotion.⁷¹²

Many commenters stated that financial education should start at an early age.⁷¹³ Several commenters agreed that financial education should be incorporated in school curricula.⁷¹⁴ Some commenters argued that financial education should be taught to students starting in elementary school,⁷¹⁵ while other commenters maintained that schools should begin teaching financial education in middle school or high school.⁷¹⁶

Many commenters listed existing efforts to educate investors that they viewed as the most effective.⁷¹⁷ A number of commenters noted that specific programs run by the Financial Industry

⁷¹¹ See Greenwich Roundtable Letter, supra note 709; SFEPD Letter, supra note 709.

⁷¹² See ASEC Letter, supra note 708.

⁷¹³ See Ariel Letter, supra note 707; letter from Reuben L. Martinez, Empire Stockbroker Training Institute, dated April 20, 2011 (“Empire Stockbroker Training Institute Letter”); letter from Sue Duncan, Vice President, Investment Company Institute Education Foundation, dated June 20, 2011 (“ICI Foundation Letter”); letter from David Anderson, Working In Support of Education, dated June 24, 2011.

⁷¹⁴ See Ariel Letter, supra note 707; letter from John A. Brouse, dated May 1, 2011 (“Brouse Letter”); Empire Stockbroker Training Institute Letter, supra note 713; letter from Todd Genger, dated July 13, 2011 (“Genger Letter”); letter from Ken Kivenko, dated April 20, 2011 (“Kivenko Letter”); L.B. Stant Letter, supra note 709; letter from Conrad C. Lysiak, dated June 20, 2011 (“Lysiak Letter”); Winkler Letter, supra note 709.

⁷¹⁵ See Ariel Letter, supra note 707; Brouse Letter, supra note 714; Genger Letter, supra note 714; ICI Foundation Letter supra note 713.

⁷¹⁶ See Winkler Letter, supra note 709; L.B. Stant Letter, supra note 709 (suggesting that high schools and colleges should not be eligible for state or federal funding if they do not include a course on investing within their curricula); Lysiak Letter, supra note 714.

⁷¹⁷ See letter from Jennifer Abel, Senior Extension Agent, Virginia Cooperative Extension, dated June 27, 2011 (“Abel Letter”); anonymous letter dated April 23, 2011 (“Anonymous Letter”); ASEC Letter, supra note 708; letter from Andrew Roth, Director of Education and Outreach, California Department of Corporations, dated June 13, 2011 (“California Letter”); letter from George Crawford, dated May 4, 2011 (“Crawford Letter”); letter from Cynthia G. Custer, dated

Regulatory Authority (“FINRA”) or the FINRA Investor Education Foundation were particularly effective.⁷¹⁸ Several commenters identified initiatives or resources affiliated with the Cooperative Extension System as effective investor education programs.⁷¹⁹ Other examples of programs cited as effective by commenters include the Stock Market Game™,⁷²⁰ InvestEd’s annual conference,⁷²¹ and the Greenwich Roundtable’s best practices series.⁷²²

Characteristics of Effective Investor Education Programs

Based on research and evaluation. Several commenters highlighted the importance of using research and evaluation to improve investor education programs.⁷²³ Some commenters stated that organizations involved in investor education should use research to inform existing

May 15, 2011 (“Custer Letter”); Greenwich Roundtable Letter, supra note 709; letter from Elizabeth Gorham, dated June 17, 2011 (“Gorham Letter”); Genger Letter, supra note 714; letter from Barbara O’Neill, Extension Specialist in Financial Resource Management, Rutgers Cooperative Extension, dated April 25, 2011 (“Rutgers Extension Letter”); SIFMA Foundation Letter, supra note 706; Letter from Robert O. Weagley, dated June 15, 2011 (“Weagley Letter”); letter from Justin Southern, Communications Director, West Virginia State Auditor’s Office, West Virginia Letter, dated June 17, 2011 (“West Virginia Letter”).

⁷¹⁸ See Anonymous Letter, supra note 717; ASEC Letter, supra note 708; California Letter, supra note 717; West Virginia Letter, supra note 717.

⁷¹⁹ See Abel Letter supra note 717; Genger Letter, supra note 714; Gorham Letter supra note 717; Rutgers Extension Letter, supra note 717; Weagley Letter supra note 717.

⁷²⁰ See Genger Letter, supra note 714.

⁷²¹ See Custer Letter, supra note 717.

⁷²² See Crawford Letter, supra note 717.

⁷²³ See AARP Letter II, supra note 704; letter from William P. White, Commissioner, District of Columbia Government Department of Insurance, Securities and Banking, dated June 28, 2011 (“District of Columbia Letter”); letter from Dan Iannicola, President & Chief Executive Officer, The Financial Literacy Group Letter, dated June 21, 2011 (“FLG Letter”); letter from Judy Chapa, Vice President, Community Services, Financial Services Roundtable, dated June 22, 2011 (“Financial Services Roundtable Letter”); FINRA Letter II, supra note 705; ICI Foundation Letter, supra note 713; Rutgers Cooperative Extension Letter, supra note 717; SIFMA Foundation Letter, supra note 706; West Virginia Letter, supra note 717.

efforts, as well as new programs and campaigns.⁷²⁴ Commenters also indicated that these organizations should conduct evaluations to measure the effectiveness of their programs.⁷²⁵ A few commenters recommended that these evaluations be conducted by independent third-parties.⁷²⁶ One commenter noted that independent evaluations, among other benefits, can help determine the strengths and weaknesses of programs and whether they are impacting their target audiences as intended.⁷²⁷

Focused on clear goals. Many commenters stated that effective investor education programs have clearly-defined and measurable goals.⁷²⁸ A number of commenters indicated that investor education programs should aim to positively influence investor behavior.⁷²⁹ Some commenters noted that behavioral change is the most important measurement of an effective

⁷²⁴ See AARP Letter II, supra note 704; FINRA Letter II, supra note 705; West Virginia Letter, supra note 717.

⁷²⁵ See District of Columbia Letter, supra note 723; FINRA Letter II, supra note 705; FLG Letter, supra note 723; ICI Foundation Letter, supra note 713; SIFMA Foundation Letter, supra note 706.

⁷²⁶ See FINRA Letter II, supra note 705; FLG Letter, supra note 723; SIFMA Foundation Letter, supra note 706.

⁷²⁷ See FLG Letter, supra note 723.

⁷²⁸ See Financial Services Roundtable Letter, supra note 723; ICI Foundation Letter, supra note 713; letter from Brian H. Graff, Executive Director/Chief Executive Officer, National Association of Independent Retirement Plan Advisors, dated June 21, 2011 (“NAIRPA Letter”); letter from Thomas J. Kriger, Vice President for Academic Affairs and Provost, National Labor College, dated June 21, 2011 (“NLC Letter”); letter from Gina McFadden, President, The Options Industry Council, dated June 21, 2011 (“OIC Letter”).

⁷²⁹ See AARP Letter II, supra note 704; FINRA Letter, supra note 705; letter from Kelly May, Public Information Officer, and Anetria K. Connell, Attorney, Kentucky Department of Financial Institutions, dated June 21, 2011 (“Kentucky Letter”); NAIRPA Letter, supra note 728; NEFE Letter II, supra note 706; Rutgers Cooperative Extension Letter, supra note 717; SIFMA Foundation Letter, supra note 706.

investor education program.⁷³⁰ Other commenters highlighted the importance of social marketing – the goal of which is to influence voluntary behavior to improve welfare – for improving the effectiveness of investor education programs.⁷³¹ In addition, some commenters indicated that effective investor education programs should be action-oriented or include “actionable steps.”⁷³²

Timely and relevant. Many commenters stated that effective investor education programs should have relevant or timely content.⁷³³ Some commenters indicated that investor education programs should tailor their information to a specific target audience.⁷³⁴ Some commenters also noted that investor education programs should try to reach individuals at “teachable moments,” or certain stages of life when they are most receptive to learning.⁷³⁵ A number of commenters

⁷³⁰ See Kentucky Letter, supra note 729; letter from Heidi Stam, Managing Director, The Vanguard Group, Inc., dated June 21, 2011 (“Vanguard Letter”).

⁷³¹ See FINRA Letter II, supra note 705; AARP Letter II, supra note 704.

⁷³² See letter from Scott C. Goebel, Senior Vice President and General Counsel, Fidelity Investments, dated June 21, 2011 (“Fidelity Letter II”); MAF Letter, supra note 709; letter from Joe Mansueto, Chairman and Chief Executive Officer, Morningstar, Inc., dated June 17, 2011 (“Morningstar Letter”); Rutgers Cooperative Extension, supra note 717; letter from Lila D. Washington, dated June 18, 2011 (“Washington Letter”).

⁷³³ See ASEC Letter, supra note 708; Ariel Letter, supra note 708; letter from Kathleen Zaracki, Chief Executive Officer, BetterInvesting, dated June 21, 2011 (“BetterInvesting Letter II”); letter from John A. Bescoe, dated May 23, 2011 (“Bescoe Letter”); California Letter, supra note 717; Fidelity Letter II, supra note 732; FINRA Letter II, supra note 705; letter from State of Hawaii Department of Commerce and Consumer Affairs, dated June 17, 2011 (“Hawaii Letter”); ICI Foundation Letter, supra note 713; Kentucky Letter, supra note 729; Morningstar Letter, supra note 732; NAIRPA Letter, supra note 728; NEFE Letter II, supra note 706; Rutgers Extension, supra note 717; SFEPD Letter, supra note 709; SIFMA Foundation Letter, supra note 706; Vanguard Letter, supra note 730; Washington Letter, supra note 732; letter from M. Cindy Hounsell, Women’s Institute for a Secure Retirement, dated June 21, 2011 (“WISER Letter”).

⁷³⁴ See Ariel Letter, supra note 707; BetterInvesting Letter II, supra note 733; California Letter, supra note 717; Fidelity Letter II, supra note 732; FINRA Letter II, supra note 705; ICI Foundation Letter, supra note 713; Kentucky Letter, supra note 729; NEFE Letter II, supra note 706; Rutgers Extension Letter, supra note 717; SIFMA Foundation Letter, supra note 706.

⁷³⁵ See ICI Foundation, supra note 713; NEFE Letter II, supra note 706.

indicated that investor education programs should present material in a manner that is engaging and interactive.⁷³⁶ In addition, some commenters emphasized the importance of allowing investors to relate program materials to real-life scenarios.⁷³⁷

Include important investor education concepts. Many commenters expressed views on important content areas for investor education programs. A number of commenters indicated that investor education programs should teach basic financial concepts, including risk, diversification, and compound interest.⁷³⁸ Several commenters noted that investor education programs should explain specific investment products and strategies.⁷³⁹ Some commenters stated that programs should educate individuals about investor protection, including how securities regulators protect investors and what steps individuals can take to avoid investment

⁷³⁶ See ASEC Letter, supra note 708; Bescoe Letter, supra note 733; Hawaii Letter, supra note 733; ICI Foundation Letter, supra note 713; NAIRPA Letter, supra note 728; NEFE Letter II, supra note 706; SIFMA Foundation Letter, supra note 706; Washington Letter, supra note 732.

⁷³⁷ See ASEC Letter, supra note 708; SIFMA Foundation Letter, supra note 706; SFEPD Letter, supra note 709; WISER Letter, supra note 733.

⁷³⁸ See ASEC Letter, supra note 708; California Letter, supra note, 717; letter from Merlin R. Cavallin, dated May 27, 2011; letter from Kevin R. Keller, Chief Executive Officer, Certified Financial Planner Board of Standards, Inc., dated June 21, 2011; Kentucky Letter, supra note 729; Kivenko Letter, supra note 714; ICI Foundation, supra note 713; NAIRPA Letter, supra note 728; NLC Letter, supra note 728; SIFMA Foundation Letter, supra note 706.

⁷³⁹ See Anonymous Letter, supra note 717; ASEC Letter, supra note 708; Greenwich Roundtable Letter, supra note 709; Kivenko Letter, supra note 714; letter from Catherine Weatherford, President and CEO, Insured Retirement Institute, dated June 21, 2011 (“IRI Letter”); Rutgers Extension Letter, supra note 717.

fraud.⁷⁴⁰ A few commenters suggested that investor education programs should help individuals understand how emotions influence investing decisions.⁷⁴¹

Be easily accessible. Many commenters stated that effective investor education programs should be accessible to their target audiences, including that these programs should be easy to use and easy to find.⁷⁴² Commenters also noted that investor education materials should be easy to understand through the widespread use of plain language,⁷⁴³ and that program content should be culturally sensitive to any target audience.⁷⁴⁴ Some commenters also indicated that investor programs should be affordable to participants.⁷⁴⁵ One commenter noted that their focus on supporting community-based initiatives contributes to increasing effectiveness.⁷⁴⁶

⁷⁴⁰ See letter from Cynthia M. Fornelli, Executive Director, Center for Audit Quality, dated June 3, 2011; District of Columbia Letter, supra note 723; FINRA Letter II, supra note 705; Hawaii Letter, supra note 733; Kentucky Letter, supra note 729; SFEPD Letter, supra note 709.

⁷⁴¹ See ASEC Letter, supra note 708; Greenwich Roundtable Letter, supra note 709; IRI Letter, supra note 739.

⁷⁴² See AARP Letter II, supra note 704; BetterInvesting Letter II, supra note 733; Fidelity Letter II, supra note 732; Morningstar Letter, supra note 732; NLC Letter, supra note 728; ICI Foundation, supra note 713; NAIRPA Letter, supra note 728; NEFE Letter II, supra note 706; OIC Letter, supra note 728; Vanguard Letter, supra note 730; Washington Letter, supra note 732; WISER Letter, supra note 733.

⁷⁴³ See ASEC Letter, supra note 708; NLC Letter, supra note 728; letter from Ronald C. Long, Wells Fargo Advisors, dated June 21, 2011 (“Wells Fargo Letter”).

⁷⁴⁴ See Ariel Letter, supra note 707; ICI Foundation Letter, supra note 713.

⁷⁴⁵ See BetterInvesting Letter II, supra note 733; OIC Letter, supra note 728; SIFMA Foundation Letter, supra note 706.

⁷⁴⁶ See SIFMA Foundation Letter, supra note 706.

Promoted with strategic partnerships. Several commenters indicated that effective investor education programs utilize strategic partnerships.⁷⁴⁷ Some commenters suggested that, to be effective, investor education programs should leverage the support of public, private, and not-for-profit organizations through partnerships.⁷⁴⁸ One commenter recommended that securities regulators and certain investment professionals work together on a public investor education campaign.⁷⁴⁹ Another commenter emphasized the importance of establishing partnerships with the media.⁷⁵⁰

Delivered efficiently. Many commenters expressed views on how investor education programs can effectively deliver information to the public. Some commenters indicated that online delivery channels, including websites, webinars, podcasts, and videos, are effective for particular audiences.⁷⁵¹ Other commenters emphasized that investor education programs should use in-person methods, such as classroom settings and presentations to large groups.⁷⁵² A few commenters suggested that investor education programs should use a combination of these approaches to reach investors in a variety of ways.⁷⁵³ Some commenters asserted that the most

⁷⁴⁷ See AARP Letter II, supra note 704; Financial Services Roundtable Letter, supra note 723; ICI Foundation Letter, supra note 706; SIFMA Foundation Letter, supra note 706.

⁷⁴⁸ See Financial Services Roundtable Letter, supra note 723; SIFMA Foundation Letter, supra note 706.

⁷⁴⁹ See L.B. Stant Letter, supra, note 709.

⁷⁵⁰ See ICI Foundation Letter, supra note 713.

⁷⁵¹ See BetterInvesting Letter II, supra note 733; Vanguard Letter, supra note 730; Wells Fargo Letter supra note 743.

⁷⁵² See, e.g., Kentucky Letter, supra note 729; WISER Letter, supra note 733.

⁷⁵³ See California Letter, supra note 717; Fidelity Letter II, supra note 732; NLC Letter; supra note 728.

effective investor education programs should include a one-on-one component with access to a full-service financial professional.⁷⁵⁴ However, a number of commenters stated that the most effective investor education programs are sponsored by non-commercial organizations, free from conflicts of interest.⁷⁵⁵

Scalable. Some commenters noted that investor education programs should be designed in a way so as to reach a high volume of investors.⁷⁵⁶ Commenters also indicated that an investor education program should be easily reproduced under different conditions and in different locations.⁷⁵⁷ According to one commenter, “effective investor educations should be scalable and replicable nationally.”⁷⁵⁸ Another commenter questioned the effectiveness of any investor education program with a limited audience.⁷⁵⁹

IX. Discussion of Dodd-Frank Act Section 917(a)(6): Strategy to Increase the Financial Literacy of Investors in Order to Bring about a Positive Change in Investor Behavior

Dodd-Frank Act Section 917(a)(6) directs the Commission to conduct a study to identify, among other things, a strategy to improve the financial literacy of investors. Specifically, the Commission must identify “in consultation with the Financial Literacy and Education

⁷⁵⁴ See letter from Francis Investment Council, LLC, dated June 17, 2011; Wells Fargo Letter, supra note 743.

⁷⁵⁵ See NAASA Letter, supra note 704; NEFE Letter II, supra note 706; West Virginia Letter, supra note 717.

⁷⁵⁶ See AARP Letter II, supra note 704; FINRA Letter II, supra note 705; SIFMA Foundation Letter, supra note 706; Wells Fargo Letter, supra note 743.

⁷⁵⁷ See FINRA Letter II, supra note 705; SIFMA Foundation Letter, supra note 706.

⁷⁵⁸ See FINRA Letter II, supra note 705.

⁷⁵⁹ See ASEC Letter, supra note 708.

Commission, a strategy (including, to the extent practicable, measurable goals and objectives) to increase the financial literacy of investors in order to bring about a positive change in investor behavior.”⁷⁶⁰

OIEA staff consulted with FLEC representatives (collectively, “FLEC Participants”) to identify the strategy pursuant to Dodd-Frank Act Section 917(a)(6).⁷⁶¹ FLEC Participants identified key themes and goals for the strategy during three in-person meetings.⁷⁶² FLEC Participants discussed using the National Strategy for Financial Literacy 2011 and FLEC’s financial education core competencies for saving and investing to help implement the strategy.

Key Content Areas for Improving the Financial Literacy of Investors

FLEC Participants identified four content areas that they believe should be promoted through the strategy’s goals to improve the financial literacy of investors and to have a positive impact on investing behavior. The four content areas are: (i) different types of risk; (ii) the fees and costs associated with investing; (iii) proactive steps for avoiding fraud; and (iv) general investment knowledge, including topics such as compound interest. FLEC Participants also agreed that these content areas should be highlighted in financial education and capability efforts generally, especially at schools, in the workplace, within communities, and by families.

⁷⁶⁰ Pub. L. No. 111-203, 124 Stat. 1376 (2010).

⁷⁶¹ FLEC Participants represented at the meeting included the Department of the Treasury, the Department of Education, the Department of Labor, the Consumer Financial Protection Bureau, the Commodity Futures Trading Commission, the Social Security Administration, the Office of the Comptroller of the Currency, and the Federal Deposit Insurance Corporation.

⁷⁶² OIEA staff hosted meetings with FLEC Participants on November 17, 2011, January 18, 2012, and March 28, 2012.

Goals for Improving the Financial Literacy of Investors

FLEC Participants identified four goals for the strategy:

- **Develop joint investor education programs that target specific groups.**⁷⁶³

FLEC Participants discussed the possibility of working together to create, support, or augment joint investor education programs focusing on the following groups: young investors;⁷⁶⁴ lump sum payout recipients;⁷⁶⁵ investment trustees;⁷⁶⁶ members of the military;⁷⁶⁷ underserved populations;⁷⁶⁸ and older investors.⁷⁶⁹

⁷⁶³ According to a recent GAO report, "significant financial literacy and education activities and programs [are] those whose primary goals [are] to educate, inform, or encourage individuals to make informed judgments and take effective actions regarding the current and future use and management of money." See 2012 Annual Report: Opportunities to Reduce Duplication, Overlap and Fragmentation, Achieve Savings, and Enhance Revenue, GAO Report 12-342SP (February 2012).

⁷⁶⁴ FLEC Participants indicated that the target audience of this initiative would be 21-35 year olds. According to the 2009 National Financial Capability Study, approximately 23% of respondents ages 18-29 have ever tried to estimate how much money they need to save for retirement.

⁷⁶⁵ FLEC Participants indicated that recipients of a lump sum payout, such as an inheritance or a distribution from a qualified retirement plan, often are targets of investment fraud.

⁷⁶⁶ FLEC Participants generally identified investment trustees as candidates for investor education. Trustees of 401(k) and 403(b) plans, for example, may not have a strong background in investing or may not understand certain investment products.

⁷⁶⁷ According to the Report on the Military Survey Component of the National Financial Capability Study, approximately 28% of service members "do not have or do not know whether they have a retirement savings plan through a current or previous employer."

⁷⁶⁸ For example, according to the 2009 National Financial Capability Study, approximately 20% of Hispanic adults and 38% of African-American adults have tried to estimate how much money they need to save for retirement.

⁷⁶⁹ According to the 2009 National Financial Capability Study, approximately 50% of respondents ages 60 and over have ever tried to estimate how much money they need to save for retirement.

- **Increase the number of investors who research investments and investment professionals before investing.**⁷⁷⁰

FLEC Participants agreed to work together on an “ask and check” campaign that would encourage individuals to check the background of investment professionals before investing with them. The campaign would also encourage individuals to verify that a potential investment is legitimate before choosing to invest.

- **Promote Investor.gov as the primary federal government resource for investing information.**

FLEC Participants agreed to work together to add relevant content to the SEC’s Investor.gov website and promote Investor.gov as the “first stop” for investing information. FLEC Participants also agreed to promote Investor.gov as an initial point of contact for questions and complaints relating to investing.

- **Promote awareness of the fees and costs of investing.**

FLEC Participants agreed to work together on a campaign to help individuals understand the fees and costs associated with buying, owning, and selling investments and working with investment professionals. A component of the campaign would encourage individuals to consider available investment options and make informed decisions.

⁷⁷⁰ According to the 2009 National Financial Capability Study, approximately 15% of respondents have checked the background or credentials of a financial professional with a state or federal regulator.