



**FINANCIAL  
SERVICES  
INSTITUTE**

VOICE OF INDEPENDENT  
FINANCIAL SERVICES  
FIRMS AND INDEPENDENT  
FINANCIAL ADVISORS

## VIA ELECTRONIC MAIL

July 25, 2018

Nicole Puccio  
Branch Chief, Office of Financial Management  
Securities and Exchange Commission  
100 F Street, NE  
Washington, DC 20549-2521

Re: Draft 2018-2022 Strategic Plan for the Securities and Exchange Commission

Dear Ms. Puccio:

On June 25, 2018, the U.S. Securities and Exchange Commission (SEC) published its Draft 2018-2022 Strategic Plan for public comment (Draft Strategic Plan).<sup>1</sup> The Draft Strategic Plan includes a draft of the SEC's mission, vision, values, strategic goals, and planned initiatives. The Financial Services Institute<sup>2</sup> (FSI) appreciates the opportunity to comment on this important proposal.

### **Background on FSI Members**

The independent financial services community has been an important and active part of the lives of American investors for more than 40 years. In the US, there are more than 160,000 independent financial advisors, which account for approximately 52.7 percent of all producing registered representatives.<sup>3</sup> These financial advisors are self-employed independent contractors, rather than employees of the Independent Broker-Dealers (IBD).<sup>4</sup>

FSI's IBD member firms provide business support to independent financial advisors in addition to supervising their business practices and arranging for the execution and clearing of customer transactions. Independent financial advisors are small-business owners and job creators with strong ties to their communities. These financial advisors provide comprehensive and affordable financial services that help millions of individuals, families, small businesses, associations, organizations, and retirement plans. Their services include financial education,

---

<sup>1</sup> U.S. Securities and Exchange Commission, Strategic Plan, Fiscal Years 2018-2022 Draft for Comment (June 19, 2018) available at <https://www.sec.gov/files/sec-strategic-plan-2018-2022.pdf>.

<sup>2</sup> The Financial Services Institute (FSI) is an advocacy association comprised of members from the independent financial services industry, and is the only organization advocating solely on behalf of independent financial advisors and independent financial services firms. Since 2004, through advocacy, education and public awareness, FSI has been working to create a healthier regulatory environment for these members so they can provide affordable, objective financial advice to hard-working Main Street Americans.

<sup>3</sup> Cerulli Associates, Advisor Headcount 2016, on file with author.

<sup>4</sup> The use of the term "financial advisor" or "advisor" in this letter is a reference to an individual who is a registered representative of a broker-dealer, an investment adviser representative of a registered investment adviser firm, or a dual registrant. The use of the term "investment adviser" or "adviser" in this letter is a reference to a firm or individual registered with the SEC or state securities division as an investment adviser.

planning, implementation, and investment monitoring. Due to their unique business model, FSI member firms and their affiliated financial advisors are especially well positioned to provide Main Street Americans with the affordable financial advice, products, and services necessary to achieve their investment goals.

FSI members make substantial contributions to our nation's economy. According to Oxford Economics, FSI members nationwide generate \$48.3 billion of economic activity. This activity, in turn, supports 482,100 jobs including direct employees, those employed in the FSI supply chain, and those supported in the broader economy. In addition, FSI members contribute nearly \$6.8 billion annually to federal, state, and local government taxes. FSI members account for approximately 8.4% of the total financial services industry contribution to U.S. economic activity.<sup>5</sup>

## **Discussion**

FSI appreciates the opportunity to comment on the Draft Strategic Plan. We support the SEC's mission, values, and vision with respect to the protection of investors; maintaining fair, orderly and efficient markets; and facilitating capital formation. This detailed roadmap of the SEC's expected priorities and goals adds transparency to allow stakeholders to more fully engage with its future plans. FSI is committed to constructive engagement with the SEC to promote a more efficient and effective regulatory environment. To that end, we provide more specific feedback on various goals and initiatives below.

### **I. Goal 1. Focus on the long-term interest of our Main Street Investors**

#### **A. Initiative 1.2: Expand outreach to retail investors and small businesses to enable the SEC to hear various perspectives and provide timely and relevant guidance**

We applaud the SEC for expanding its investor outreach. Similarly, as part of the Proposed Regulation Best Interest rulemaking, the SEC conducted roundtables to hear directly from investors what sorts of disclosures and formats are important to them.<sup>6</sup> This investor focus is essential to formulate reasonable, full, fair disclosure that is effective and engaging. In addition to the retail investor perspective, we encourage you to include in this outreach feedback from financial professionals who work with investors to obtain their perspective as well. While transparency and fairness are essential to a productive relationship between a financial professional and their investor clients, investors highly value the working relationship they have with their financial advisor. Most of FSI's financial advisor members live and work in the same communities as their clients. Their children go to the same schools, they attend the same places of worship, and they are collectively invested in the well-being of their community. Investors choose to work with them because they are tied to the same community and their reputation within that community helps the investor feel comfortable. In considering future rulemaking, we urge the SEC not to focus solely on

---

<sup>5</sup> Oxford Economics for the Financial Services Institute, The Economic Impact of FSI's Members (2016).

<sup>6</sup> U.S. Securities and Exchange Commission, Proposed Regulation Best Interest ("Proposed Regulation Best Interest") available at: <https://www.sec.gov/rules/proposed/2018/34-83062.pdf>; Proposed Interpretation Regarding Standard of Conduct for Investment Advisers; Request for Comment on Enhancing Investment Adviser Regulation available at: <https://www.sec.gov/rules/proposed/2018/ia-4889.pdf>; Form CRS Relationship Summary; Amendments to Form ADV ("Proposed Form CRS"); Required Disclosures in Retail Communications and Restrictions on the use of Certain Names or Titles available at: <https://www.sec.gov/rules/proposed/2018/34-83063.pdf>.

the amount of fees or disclosures as being essential to rulemaking but also consider and take into account the value investors place on their relationship with their financial advisor.

B. Initiative 1.4: Modernize design, delivery, and content of disclosure so retail investors can make informed investment decisions

The question of how to improve the effectiveness of investor disclosures, while not new, is an important topic of research. The SEC's Investor Advisory Committee (IAC) has discussed this topic at several of their recent meetings, inviting academics, industry members, and advocacy groups to present their research on the subject.<sup>7</sup> In December 2017, the IAC's Investor as Purchaser subcommittee recommended that "the Commission continue to explore methods to encourage a transition to electronic delivery that respect investor preferences and that increase, rather than reduce, the likelihood that investors will see and read important disclosure documents." They expressed support for a layered disclosure including a summary disclosure document incorporating key information along with prominent notice regarding how to obtain a copy of the full report, as well as the ability in the electronic document to click through to more detailed disclosure on a particular topic. Further, the SEC's Office of the Investor Advocate is engaged in an evidence-based study of the impacts of proposed policy changes, including disclosure-oriented policies.<sup>8</sup> In statements on the SEC's Proposed Regulation Best Interest rulemaking package, Commissioners Stein and Peirce have suggested requiring disclosures to be more visually dynamic and engaging.<sup>9</sup> Everyone agrees that disclosures need to be more effective, but there is no consensus as to how to make that happen. There is no easy solution to the problem of disclosure, but future SEC efforts should allow firms flexibility to design more effective disclosures. We urge the SEC to consider our prior comments to Chair Clayton regarding a proposed two-tier disclosure regime included in our response to Chair Clayton's request for information.<sup>10</sup>

**II. Goal 2. Recognize significant developments and trends in our evolving capital markets and adjust our efforts to ensure we are effectively allocating our resources.**

A. Initiative 2.2: Identify and address existing SEC rules and approaches that are outdated – seek feedback from investors and others about where rules are, or are not, functioning as intended

---

<sup>7</sup> See e.g. Agenda: December 7, 2017, Meeting of the Securities and Exchange Commission Investor Advisory Committee, available at <https://www.sec.gov/spotlight/investor-advisory-committee-2012/iac120717-agenda.htm>.

<sup>8</sup> U.S. Securities and Exchange Commission, Office of the Investor Advocate, Policy Oriented Stakeholder and Investor Testing for Innovative and Effective Regulation (POSITIER), Press Release available at <https://www.sec.gov/news/pressrelease/2017-59.html>.

<sup>9</sup> See Kara Stein, Commissioner, U.S. Securities and Exchange Commission, Statement on Proposals Relating to Regulation Best Interest, Form CRS, Restrictions on the Use of Certain Names or Titles, and Commission Interpretation Regarding the Standard of Conduct for Investment Advisers (April 18, 2018) available at <https://www.sec.gov/news/public-statement/stein-statement-open-meeting-041818>; Hester Peirce, Commissioner, U.S. Securities and Exchange Commission, Statement at the Open Meeting on Standards of Conduct for Investment Professionals (April 18, 2018) available at <https://www.sec.gov/news/public-statement/statement-peirce-041818>.

<sup>10</sup> Letter from David T. Bellaire, Executive Vice President & General Counsel, Financial Services Institute, to Jay Clayton, Chairman, U.S. Securities and Exchange Commission 4-7 (October 30, 2017) (responding to request for Public Comments from Retail Investors and Other Interested Parties on Standards of Conduct for Investment Advisers and Broker Dealers) available at <https://www.sec.gov/comments/ia-bd-conduct-standards/cil4-2657870-161400.pdf>.

FSI fully supports the SEC's initiative to reexamine existing rules and policies to ensure that they are achieving their intended purpose. FSI and its members believe that retrospective review of existing rules is essential to smart, efficient regulation. We applaud the SEC for undertaking this effort. As you seek feedback from investors and firms as to which rules may be ripe for change, we urge to also seek the viewpoint of financial advisors. The financial advisor perspective is essential to form a clear picture of how the current regulatory framework is functioning. As one of the only trade associations representing independent financial advisors, FSI stands ready to facilitate your interactions with financial advisors to obtain their important input during future rule reviews. For instance, FSI recently commented on FINRA's Retrospective Rule Review of the Effectiveness and Efficiency of its Rule on the Annual Compliance Meeting<sup>11</sup>, FSI was able to provide both the firm perspective and the financial advisor perspective to inform FINRA's review.<sup>12</sup>

### **III. Goal 3. Elevate the SEC's performance by enhancing our analytical capabilities and human capital development**

#### **A. Initiative 3.2: Expand use of risk and data analytics to inform how we set regulatory priorities and focus staff resources**

FSI supports the SEC's efforts to enable rigorous analysis at reduced cost. Using data analytics can enable the SEC to more efficiently define and carry out its regulatory priorities. We urge the SEC to ensure transparency in the criteria and processes in place to expand use of risk and data analytics to inform how it sets regulatory priorities and focus staff resources. Such transparency is critical to effective regulation, and to allow industry to more efficiently comply with regulatory requirements. Additionally, we urge the SEC to work closely with the industry and data providers prior to developing and implementing risk and data analytics to reduce the possibility of requiring data from firms when the data is actually created or housed with a different entity, such as the product provider.

#### **B. Initiative 3.3: Use data analytics to prevent, detect and prosecute improper behavior**

FSI supports the use of technology to enable regulators to work more effectively and efficiently, provided certain parameters are in place to ensure transparency in the criteria used and to isolate false positives that may result. Many FSI member firms use data analytics and other technology to comply with their supervisory requirements.<sup>13</sup> For example, monitoring electronic communications to supervise their advisors' outside business activities, and identifying and investigating red flags for private securities transactions or fraud. When employed properly, data analytics and other technological tools can enable firms to more efficiently comply with their regulatory obligations and reduce costs. However, it can also have unintended consequences such as overly broad rulemaking and policy decisions or criteria resulting in false positives trapping good actors with the bad. We would encourage the SEC to ensure transparency in the criteria

---

<sup>11</sup> FINRA Regulatory Notice 18-14, FINRA Requests Comment on the Effectiveness and Efficiency of its Rule on the Annual Compliance Meeting (April 24, 2018) available at [http://www.finra.org/sites/default/files/notice\\_doc\\_file\\_ref/Regulatory-Notice-18-14.pdf](http://www.finra.org/sites/default/files/notice_doc_file_ref/Regulatory-Notice-18-14.pdf).

<sup>12</sup> Letter from Robin Traxler, Vice President of Regulatory Affairs & Associate General Counsel, the Financial Services Institute, to Jennifer Piorko Mitchell, FINRA (June 25, 2018) available at [http://www.finra.org/sites/default/files/notice\\_comment\\_file\\_ref/18-14\\_FSI\\_Comment.pdf](http://www.finra.org/sites/default/files/notice_comment_file_ref/18-14_FSI_Comment.pdf).

<sup>13</sup> See e.g. FINRA Rules 3270 and 3280 available at [http://finra.complinet.com/en/display/display\\_main.html?rbid=2403&element\\_id=9467](http://finra.complinet.com/en/display/display_main.html?rbid=2403&element_id=9467)

and processes it uses to prevent, detect, and prosecute improper behavior; and to place parameters around the data it collects to ensure adequate cybersecurity controls.

**Conclusion**

We are committed to constructive engagement in the regulatory process and welcome the opportunity to work with the SEC on this and other important regulatory efforts.

Thank you for considering FSI's comments. Should you have any questions, please contact me at [REDACTED].

Respectfully submitted,

A handwritten signature in blue ink that reads "Robin Traxler". The signature is written in a cursive style with a long horizontal line extending from the end of the name.

Vice President, Regulatory Affairs & Associate General Counsel