U.S. SECURITIES AND EXCHANGE COMMISSION

MEETING OF THE
SECURITIES AND EXCHANGE COMMISSION
ASSET MANAGEMENT ADVISORY COMMITTEE

Via Webex Video Teleconference

Thursday, July 16, 2020

9:00 a.m.

Diversified Reporting Services, Inc.

(202)467-9200

PARTICIPANTS:

Securities and Exchange Commission:
Jay Clayton, Chairman
Hester Peirce, Commissioner
Elad Roisman, Commissioner
Dalia Blass, Director, Division of Investment Management
Paul Cellupica, Deputy Director, Division of Investment Management

Panelists:
Solange Brooks
Brenda Chia
Eric Clarke
Robert Greene
Juan Martinez
Ronald Parker
Lowell Putnam
Robert Raben
Stuart Rubinstein
Hardeep Walia

PARTICIPANTS(CONT.):
Asset Management Advisory Committee:
Edward Bernard, Committee Chairman
John Bajkowski
Michelle Beck
Jane Carten
Scot Draeger
Michael Durbin
Gilbert Garcia
Paul Greff
Rich Hall
Participants (Cont.):
Neesha Hathi
Adeel Jivraj
Ryan Ludt
Susan Mcgee
Jeffrey Ptak
Erik Sirri
Aye Soe
Ross Stevens
Rama Subramaniam
John Suydam
Russ Wermers
Alex Glass (non-voting)
Joe Savage (non-voting)

C O N T E N T S

C O N T E N T S (CONT.)

PROCEEDINGS

MR. BERNARD: So I'll call the meeting to order and I would note that we do have a quorum. This is a virtual meeting on Webex, and we've done a sound check to ensure that all can hear. If anyone, members of the committee or other speakers who are involved in the Webex itself, have problems, please send a chat directly to the host, who is actually someone from the tech staff who can help sort that out. I am not the host.

So as committee members are aware, at today's special meeting we'll address two topics that were originally planned for our second meeting on May 27th, but which had to be rescheduled to accommodate our pivot to engage in timely discussion of the impact of the COVID-19 pandemic, financial markets and the asset management.

I'm particularly grateful to all involved for making time for this additional shorter meeting to keep us caught up on our priorities. We open the meeting. I'd like to thank Chairman Clayton and Commissioners Peirce and Roisman for their attendance and invite each of them to offer any open remarks they may have.

Chairman Clayton, sir?

CHAIRMAN CLAYTON: -- leadership of the

committee --

(Whereupon, the audio was interrupted.)

MR. BERNARD: Chairman Clayton, with apologies, I think we've got an audio problem. Can I ask the tech folks to see if they can sort that out?

A PARTICIPANT: Okay.

CHAIRMAN CLAYTON: Ed?

MR. BERNARD: Yeah. I'm here. I heard a voice and I heard lots of echo. Does anyone else -- if I'm the only one -- think, people wave if it's okay, but I think we have a problem.

A PARTICIPANT: Yeah. We, we can't hear, Ed. We have a problem.

MR. BERNARD: Okay.

CHAIRMAN CLAYTON: Let me do this, Ed. Can you hear me now, or do we need a --

MR. BERNARD: That's great.

A PARTICIPANT: Yeah. I solved the problem.

CHAIRMAN CLAYTON: Testing, 1, 2, 3.

MR. BERNARD: That sounds good. Not sure what you did, but it's working.

CHAIRMAN CLAYTON: Ed, are you able to hear me now?

MR. BERNARD: Yes, sir. I can --

CHAIRMAN CLAYTON: Are we good to go now?

MR. BERNARD: We can hear you, Chairman Clayton. I'm not sure if you can hear us.

MR. BAIN: Please stand by.

CHAIRMAN CLAYTON: Ed, I'll, Ed, I'll start again. Let me, let me go quickly. A number of thank yous to you, to Gilbert Garcia, to Neesha Hathi, to all the Commission staff, Dalia Blass and Robert Marchman and their teams, our office of information technology for making this possible.

I want to particularly highlight my appreciation for the scheduling of this special meeting so that the topics can be discussed in more detail than would have been possible at your last meeting, which was focused on the market impact of COVID-19.

Looking at the impressive list of panelists that the Commission has gathered I'm confident that today's discussions will help inform the Commission as we move ahead. I look forward to your discussions on improving diversity inclusion in the asset management industry, including issues relating to opportunities for diverse asset managers.

As I said at your last meeting, I believe we should continue to ask ourselves how we want participation and representation in our markets to evolve at all levels. I'm hopeful that today's

panelists will be able to provide useful insights on where we are now, where we need to be, and actions we can take to get there.

For example, I look forward to hearing more about the role of diverse-owned asset management firms in providing advisory services to investors, and thoughts about how that role might be enhanced through more access and opportunity. I've heard about the obstacles that some firms have faced in gathering mandates. I hope that this group can have a candid discussion on one, those obstacles, two, why firms face them, and three, how we can work together to surmount them.

And I look forward to hearing about how we can promote diversity and inclusion in the broader asset management industry, particular in two key areas. First, how do we improve diversity and inclusion in the industry itself? How do we get more diverse candidates in the door, and once they are in, how do we make sure they have access to the opportunities to advance and succeed?

I note here that these are questions we have been asking ourselves throughout the various divisions and offices of the Commission, and we will continue to do so.

Second, I'm interested in your perspectives on how we might be able to leverage the resources of the Commission and the asset management industry more broadly to provide increased investment services and opportunities to a broader, more diverse base of main street investors.

Regarding today's second agenda item, I welcome your discussion about data privacy and technology's impact on investment advice. Our principles-based framework for the regulation of investment advisers provides flexibility to advisers to meet their responsibilities, while tailoring their services to the needs of individual clients all within the context of investor protection requirements.

This flexibility can in part facilitate advisers' use of technology to increase investors' choices in how they wish to receive investment advice and more broadly interact with their advisers. We have seen this flexibility at work firsthand as much of this -- as much of the industry has moved to a telework or virtual posture in response to COVID-19.

Speaking more generally, many investors expect to be able to use the same types of technology for receiving investment advisory services that they are able to use when receiving many other types of consumer

services and products. At the same time, investors may seek choices in how their personal data is made available to and used by their investment advisers, just as they may seek choices in how they interact with those advisers.

In addition, data privacy laws and other restrictions on the use and access to individual client data may affect how advisers are able to leverage technology while satisfying their regulatory responsibilities. I hope that these and other issues can be discussed in a meaningful way today, and I look forward to hearing from the panelists about the innovations you are currently seeing in the industry.

(Whereupon, the audio was interrupted.)

MR. BERNARD: Mr. Chairman, thank you. I can see from the video you're done. I think we lost a little of your last --

(Whereupon, the audio was interrupted.)

MR. BERNARD: But I'm -- thank you very much for your remarks.

Commissioner Peirce, did you want to make any remarks?

COMMISSIONER PEIRCE: Thank you, Ed. In the short time the asset management advisory committee's inaugural meeting last -- since, since its inaugural

meeting last January, it already has earned a reputation for taking up matters of real importance to the industry. Today's agenda with panels set to discuss diversity and inclusion, as well as data privacy and the effect of technology on investment advice is no different. The importance of ensuring that our workplaces are diverse and inclusive is beyond dispute, and I would argue universally supported.

Where the debate begins, however, is what those terms mean and how we should attain our shared objective. I have never been an adherent of numerical goals and metrics on questions of diversity and inclusion, because I worry that in trying to achieve an objective I share, they unintentionally strip people of their individuality, which is the heart of any true diversity.

People are not fungible. Rather, each person comes to the table with a unique perspective formed through an intricate mixture of personality, personal and professional experience, core values, education, past triumphs and trials, fears and foibles, influence from family and friends, and hopes for the future. We cannot appreciate that beautiful, complicated blend that makes up a person simply by looking the person. We can only appreciate it by getting to know the person.

Knowing one characteristic or to which group someone belongs is not enough.

I fear that counterintuitively that simple yet profound truth about the value and uniqueness of every individual gets too little consideration when we talk about diversity and inclusion. Scanning a room or looking at pictures populating the About Us page of a firm's website doesn't tell us much about the firm's diversity. I cannot tell you the number of times that people have made some pretty wrong assumptions about me based on my gender.

As it turns out, women do not all think the same way. While being a woman is an important part of who I am, it does not completely define who I am. No one woman is perfectly representative of all women. That said, the asset management industry plays a vital role in people's lives, so it ought to be embedded in and draw talent from every community across the country.

When tackling with these essential questions this morning I would urge you all to contemplate the importance of exposing American children early in their lives to financial literacy and linked with that, the career opportunities open to them in the financial services industry.

I wanted to be a securities analyst when I was

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young, but I was really a nerdy kid. If asked today about a career as an investment adviser, many young people might echo George Costanza when asked whether he thought being a marine biologist was a good job. I didn't know that a career in asset management was a job.

As more and more young Americans look to the asset management industry as a potential career choice, market forces will ensure that talent will be recognized and whole new groups of citizens will find rewarding work assisting their families and neighbors to secure their financial future, their financial futures.

This afternoon's panel addresses important questions surrounding data privacy. As government collects more and more of our private data, it is incumbent upon us all to ensure that first, the collection of the information is needed, and secondly, that it is protected and kept safe.

As I have made clear in my opposition to the consolidated audit trail, we ought to be asking the same questions in financial markets that we ask in other areas of life. Why should someone who is not suspected of wrongdoing have her every move tracked in the financial marketplace? We too often undervalue the right to be free of government monitoring in financial markets.

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On a more practical level, many asset managers are confronting significant challenges in trying to comply with new data privacy protection laws. Is there anything the Commission can do to aid firms as they navigate these difficult waters?

This afternoon's agenda also includes the effect of technology on investment advice. Technology can help to make investment advice available to more people at a lower cost than ever before. It also can be a path for new entrants to come into the industry. Of course new technology also raises novel legal and operational questions. I hope the discussion will shed light on areas in need of regulatory guidance or regulatory changes to accommodate technologies that would benefit asset managers' clients. I look forward to hearing your discussion today. Thank you.

MR. BERNARD: Thank you very much, Commissioner Peirce.

Commissioner Roisman?

COMMISSIONER ROISMAN: Good morning, and thank you all for convening this meeting of the Asset Management Advisory Committee. Further thanks to you, Ed, and to your members of your committee and the Commission staff and the panelists who have prepared today's agenda and finalized all the logistics to

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produce a virtual event that allows us to have a robust discussion despite the fact that we cannot meet in person.

As in this committee's past meetings the agenda today will focus on topics that are important and timely, improving diversity and inclusion in the asset management industry and issues relating to data protection and the impact of technology on investment advice.

With respect to the first topic for discussion, I'd be remiss if I did not start by recognizing the focus and attention given by Pam Gibbs, Robert Marchman and the team in the SEC's office of minority and women inclusion to help guide SEC-regulated entities' self-assessment for their diversity policies and practices.

To the extent those listening today are not familiar with the SEC's diversity assessment report or the joint standards issued by the SEC and other federal financial regulators, I encourage you to review them on sec.gov or reach out to OMWI for more information.

I'd also like to thank Peter Henry and his team in the SEC's office of equal employment opportunity for their work to help promote diversity and inclusion within this agency.

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The fact of the matter is that minority and women-owned asset managers make up a small fraction of the overall 70 plus trillion dollars of assets under management. I'd like to hear your thoughts on why this is the case, and what efforts are being taken to improve upon status quo. I also hope this committee will discuss areas where hiring and enhancement may be dependent on paths that are less accessible to certain candidates.

At the beginning of this pandemic as the SEC switched to working remotely full time, one excellent leader inside the Agency offered some unsolicited advice to me and other SEC managers. Remember your whole team. Don't reactively rely on the same go-to staffers. In other words, it's easy for managers to repeatedly give work to the few team members they have come -- that have come through for them before, but this can also close out others to advancement opportunities, even though they may be ready, willing and able to get the job done.

To me, this advice extends beyond the context in which it was offered, raising questions about go-to hiring processes, go-to candidate pools and go-to networks for career help. How many of these are accessible to the full array of people who get the job done and do it well? I look forward to your ideas on the many facets of these complex issues and thank you for your willingness to engage in this dialog.

Regarding the second panel today, the pandemic has also given us reason to refresh our thinking on how to best protect data and technology. In the past few months many, if not most financial industry participants have moved their operations entirely online. They have executed these dramatic operational changes quickly, with many firms relying much more heavily on newer technology products than that they had ever intended.

I worry that these circumstances have introduced new vulnerabilities into our financial system, interconnected as it is, and created new opportunities for bad actors to compromise valuable information. Last week the SEC's office of compliance, inspections and examinations published a cyber-security risk alert focusing on ransomware attacks following recent reports that threat actors have orchestrated campaigns designed to penetrate financial institution networks.

I've long been a proponent of principal-based rules which allow firm leaders who know their businesses best to take appropriate actions to accomplish the requirements of the given rule. In the context of data technology and cyber-security, are asset managers

comfortable that they have the necessary knowledge base or access to those who do? How often do such firms update and test their playbooks to ensure resiliency if they were the victims of a cyber attack? Throughout this industry regulators and market participants share a common interest in protecting data and technology.

I'm interested to hear your views on how we can better leverage the resources already dedicated to this purpose throughout our markets, including through private ordering or new regulation.

Thank you again to the committee for taking up such a challenging issue, challenging issues, and I really look forward to today's discussions.

MR. BERNARD: Thank you very much, Commissioner Roisman and to -- again, to Chairman Clayton --

(Whereupon, the audio was interrupted.)

MR. BERNARD: And now I think Director of Investment Management, Dalia Blass will, will make a few open --

(Whereupon, the audio was interrupted.)

MS. BLASS: Good morning, and thank you, Ed, and welcome to today's meeting of the Asset Management Advisory Committee. Before we get started, before I get started, let me remind you that I'm speaking today only

for myself and not for the Commission, the Commissioners or the Staff, and I give this disclaimer on behalf of myself, as well as any other SEC staff members who may participate in our discussions today.

Today the AMAC, as it's been said, is meeting to discuss two topics critical to the evolution of the asset management industry, improving diversity and inclusion in the industry, and issues relating to data privacy and the impact of technology on investment advice.

On the first topic, as of last year, per a study commissioned by the Knight Foundation from which we will hear more shortly, minority and women-owned asset managers advise only 1.3 percent of global assets under management, and those statistics have not changed in a decade. The same study found that ownership by women or minorities does not negatively impact performance.

So the reason for this lack of diversity cannot be explained by performance expectation. In fact, the study found that women and diverse-owned firms were overrepresented in the top quartile investment performance of all funds considered.

There is also evidence that diversity of thought and backgrounds leads to better creativity and

decision making in institutions. A Harvard Business School article found a positive relationship between diversity and an institution's innovation. Their relationship was stronger when more dimensions of diversity were represented.

Finally, America's population is composed of nearly 40 percent minority groups. And yet, African Americans and Hispanics have been severely underrepresented among investor households. As panels discussed in previous AMAC meetings, the asset management industry has achieved greater importance. You have households seeking to meet their investment needs, as well as their general goal. So does this underserved clientele provide then opportunity for growth? Doesn't it make good business sense for the industry to be more representative of the population that it may better understand current and potential clients?

I too look forward to today's discussion and ways in which the industry can improve the diversity equity inclusion within its ranks and with respect to diverse asset managers. I also look forward to any thoughts or recommendations that AMAC may provide on how the SEC can take concrete steps forward to advance this important dialog.

The second topic of the day is technology and the use of data. This is a topic that has reshaped asset management as we know it. It is in fact a very broad and multi-faceted topic. On one level, it's plainly a set of tools. For example, technology has been key to a recent business continuity plans as the industry leveraged virtual tools to navigate the COVID-19 market disruption.

On a more fundamental level, the use of investor data informs investment advice more than ever, and technology in general has revolutionized trading and the investor experience. This evolution was discussed during the inaugural AMAC meeting, and I look forward to hearing further on this topic from our panelists today.

But as the industry becomes more reliant on technology, cyber-security and data privacy are an increasing priority. Investors entrust sensitive data to asset managers, and I believe it's important for managers to show that they value this trust and inform clients of how they use client data.

On cyber-security, the Commission and the Staff have long stated, and the Staff has recently reiterated the need for managers to have robust processes in place to keep valuable customer data secure. The conversations about whether and how the

industry is addressing cyber-security and data privacy are critical.

Ed, before, before turning back over to you, I would like to thank Christian Broadbent, Sirimal Mukerjee, Angela Mokodean, Olawale Oriola, DeCarlo McLaren, Emily Rowland, the division's managing executive office, the Commission's office of minority women and inclusion, and the Commission's office of information technology for enabling us to meet virtually today. Their efforts in supporting today's AMAC meeting are much appreciated.

With that, Ed, I'm turning it back to you, and I look forward to your opening of our discussion.

MR. BERNARD: Thank you very much, Dalia, and actually, before I get to my remarks, let me just reiterate your thanks. Your team have just been magnificent all along the way, and I am very grateful for their support, as I know the entire AMAC is.

So before we proceed, I'm going to just quickly bring us up to date and outline our plan for today. First, let me quickly brief the committee regarding our broader agenda. ESG and access to private investment sub-committees, both of which provided updates at our May 27 meeting, our -- with them will be featured in our September 16 meeting.

I'm grateful that two teams who led discussions in our COVID response on May 27 relating to ETFs and operational issues have agreed to capture those discussions in draft recommendations to be considered by the full committee. You'll be hearing more about that ahead of our September meeting and can expect discussion of those recommendations in that meeting.

So now, turning to today's agenda, as has been discussed, our first panel will discuss improving diversity and inclusion in asset management. As Chairman Clayton and, and Director Blass have mentioned today, and in the past, we set this as a priority at our inaugural meeting. Regrettably, the challenges we'll hear about today have existed for years, and when the AMAC was formed it was clear at the outset this issue should be part of our work.

Yet even since our first meeting in January there was increased time on -- timeliness and urgency to today's discussion. I'm really grateful to Gilbert Garcia for taking the lead in our work here, as well as the support provided by Robert Marchman from the Commission's office of minority and women inclusion. They've assembled a truly stellar panel today to provide a foundation for our work, and I sincerely thank all of our speakers for their contribution of time and

insights.

Following a short break, our second and final panel will be -- will discuss data privacy and technology's impact on investment advice. Needless to say, the impact of technology is ubiquitous, and I believe it's important for AMAC to deliberate on emerging issues relating to asset management -- provide recommendations to the Commission. I'm very grateful to Neesha Hathi and her team of Mike Durbin, Ross Stevens and Russ Wermers for assembling their own stellar panel of innovation leaders to help us begin our exploration of these broad topics.

The objectives of both panels today are to, A, provide a solid foundation for our understanding on their respective topic, and B, serve as a basis for the committee to discuss and prioritize follow-on issues for further work and deliberation. We'll seek initial input from the committee in our practice of around the table quick reactions at the close of today's session with follow-up communication after the meeting.

So with that, let me refresh everyone on some quick housekeeping, and I want to make sure I turn it over to Gilbert before 9:30. Please scroll on your screen. Make sure you know where your audio and video buttons are, as well as how to access the chat function.

If you run into any technical problems, please send a private chat to the meeting's host, who is the SEC's tech support professional on duty for the duration of the meeting. We will each manage our own status. When you're not speaking, please make sure you're muted and I think Nick will help with that to mute us all, but, but keep an eye on your mute button, and when you're ready to speak, unmute. My hope is you'll keep your video -- up on so we have a sense of our collective presence, unless you're interrupted or need to step away from your screen.

We'll identify Q & A breaks as we proceed. In May it worked fine for folks to simply unmute and, and speak to raise comments or questions. Since an SEC tech professional is the host, I can't see the raised hand flag, but I can see in the, in the tiles on the screen when you raise your hand, so we'll do it in the analog fashion. Just raise your hand and I'll call on you.

So with that, I'll take a pause to see if there are any questions now before we proceed. And seeing -- I'm checking two screens here. Seeing none, Gilbert, the next two hours are to you and your panel. Thank you for your leadership, and we very much look forward to the discussion.

IMPROVING DIVERSITY AND INCLUSION
IN THE ASSET MANAGEMENT INDUSTRY

MR. GARCIA: Thank you very much, Ed. First, my name is Gilbert Garcia, and I am a multi-generational Mexican American, and I'm proud of that. And I will tell you that I'm the first one to go to college in my family. My parents didn't go to college. My grandfather was a custodian. My grandmother dropped out of middle school. So I am that American dream, and I have to say I've been waiting my entire life, certainly my entire professional life, for this moment.

And I want to thank in kind of a little reverse order a few people as well, because this has been an extraordinary effort. I want to go back a little bit to just say thank you to former Commissioner Kara Stein, because she's the one that first called me to say, "We're setting these committees up. Are you interested?" And I said, "Sign me up."

And then I want to thank Robert Marchman also, because he's been a -- just a, a lot of inspiration for me and really helped guide me through this process. And Ed Bernard. Ed is like Obi-Wan Kenobi, and I feel like young Luke or young Gilbert. While we're probably the same age, Ed is just very wise and he has handled things with such grace and poise, and so I really, really

appreciate you, Ed, and it's just a -- it's a personal thing for me.

I want to say thank you to Dalia Blass, because when I first met Dalia she was very much into this issue, and she has given me more latitude than I probably deserve, and, and I just can't thank her for the confidence in what I'm trying to do, and what we're trying to do here with this issue, and her team. And I will also mention Sirimal and Christian, because they've been very patient with me. And guys, I want you to know that I know it and it's wonderful, and thank you, guys, so very much.

As it relates to the commissioners, just your presence here shows us how important this topic is, and the fact that we're going to have so much time, airtime. So to all the commissioners, thank you for your opening comments, and thank you again for giving this the attention that we all think it deserves.

And for Chairman Clayton, you know, I think the public should know that diversity has been something that's been on Chairman Clayton's mind since he arrived, even before he arrived, and I remember talking to him about it more than a year and a half ago about starting the, the ideas of forming this committee and forming this effort. And Chairman Clayton, I just want to say

thank you so much, because you really are a gamechanger.

Now, I'm going to do three things. I'm going to say some comments. I did sort of my opening, but some comments, and then I'm going to go through my own housekeeping, if that's okay. And I think when you talk about diversity, the first thing that comes to mind for people, what an old friend of mine, John Rogers, always says, is supplier diversity. And supplier diversity is important. But what rarely comes to mind are professional services and diversity in the law firms, accounting firms, money management, advisers. That's where a lot of wealth creation is so powerful, but it never gets the attention.

Now, we want to highlight a lot of things. We're only going to look backwards a little bit, only for the purpose of developing a baseline. All of our efforts really are about looking forward. How can we do things differently? How can we put things on a different path for the betterment of the entire country? So there's just going to be looking backwards just for a baseline.

And of course we're going to hear from industry experts. Their bios are very amazing. They're really there for your leisure, because I won't go through all their bios. I'll just give you the, the real highlights, but their bios are amazing. But what's more amazing are their stories, and how they achieved those amazing accolades.

And then again, you will hear lots of things, and some of it might be a little uncomfortable, but diversity and talk about diversity frankly and freely can be uncomfortable at times. And it might be -- you might hear a lot of passion in these people, and that's because it's a passionate topic. You might scratch your head and say, how can that be in the year 2020? Well, guess what? How can it be in the year 2020? You might say we got to do something about that.

And guess what? We have an extraordinary opportunity, this group, to do something profound. And when you see the speakers, remember, behind all the data, because you'll hear data, are people, and people's lives and families. And sometimes that gets lost when we see numbers. But in reality, they are people that look just like me, just like my family, and just like all the speakers you will hear from.

As it relates to doing something profound, we all know about the inequality and the, and the wealth inequality, the wealth gap, all the terms that we are now using today. But the end of the day, it's been

going on a long time. And we could really accelerate the process of closing that gap by leaps and bounds through these efforts.

So I hope we'll all have lots of questions. This is just the beginning of what I hope will be something quite extraordinary. Because remember, we all want the same thing. We all want to reach the pinnacle of the American dream, and when you have some sort of massive wealth gap there are pockets of the communities that leads to unequal access to education, unequal access to healthcare, and unequal access to that American dream.

So I'm going to move now to the next thing. I'm going to introduce our first two speakers. We will have two speakers that will speak first. They will be 20 minutes each, and then at the end we'll have approximately 10 minutes of Q&A, and then I'll introduce the next four speakers.

So our first two speakers are Mr. Robert Raben, who is the executive director of the Diverse Asset Managers Initiative. He's really a public policy expert, and I think it's fascinating to hear his words, and I think you're going to be very, very glued to the screen.

And he'll immediately be followed by Juan

Martinez of the Knight Foundation. Juan has quickly become an expert in this area as they took it on, the Knight Foundation, over a decade ago, have done a lot of research as they did in their own rear view, not rear view, the man in the mirror. They looked in the mirror at their own fund and realized, we can do better. And now they're at the forefront of utilizing diverse managers.

So we've got -- Robert Raben, I'm going to turn to you, and then when Robert, you finish, we'll turn right to Juan Martinez. What I'm going to do is I will hold up two fingers when we're getting close to two minutes before the 20 minutes, so just to give you some timing.

So with that, Robert Raben.

Ed, unless you have anything else, let's turn to Robert.

MR. BERNARD: We're good to go. Robert, go ahead.

MR. RABEN: Thank you very much. Thank you, Chairman Clayton, the commissioners, for allowing this important advisory meeting, to Mr. Bernard, our -- your esteemed chair, to Gil Garcia, who makes the indefatigable look sluggish with his incredible passion and energy level, to Dalia Blass and Ms. Gibbs and Mr.

Marchman at the SEC, who are just fantastic at, at moving this along.

And let me also mention the key staff at the Diverse Asset Managers Initiative, on whose behalf I am here today. Justin Wilson and Brandi Colander and others have really made a difference, and I cannot do this work without them.

So I'm Raben, Robert Raben. I run the Raben Group. I'm an attorney, and have been for a long time, and worked in Congress, a large law firm, Arnold & Porter, and ran a division at the Department of Justice. But for the last 20 years I've run a unusual public affairs firm. We run campaigns. There are 85 or so of us in 6 cities around the country, and we run all kinds of advocacy issue campaigns, communications, heavily focused around social justice.

What's unusual about us is we are 70 percent people of color. We are 95 percent minority and female, and within that a plurality gay, visibly disabled. So have switched the demographic of every other private sector firm in the nation. I don't think there's anything like us, certainly at our size. And an enormous amount of issues that we work on have to do with the balance of power as between men and women, people of color, white people. We run all kinds of campaigns that have to do with diversification and inclusion.

Five years ago I launched something called the Diverse Asset Managers Initiative, very straightforward effort to focus on inclusion, diversification in the asset management industry. And for Raben, there's nothing unusual about this. We run all kinds of campaigns. We've helped Google and Airbnb and the BBC with their diversity. We do straightforward diversity campaigns for all kinds of NGOs, and so this felt quite natural. Let's focus on financial services.

I thought it would be straight diversification, which always has two components, supply and demand when you do diversity. You demonstrate the talented pool of women and people of color who are qualified to participate at the top levels, and then you set about to increase demand.

And the theory was we would go to institutions, large asset allocators, corporations, AT&T, University of Chicago, institutions that had a reputation for handling diversity well, and we would bring them together, show critical mass, talk about best practices about how women and people of color were well used in asset management, and then we would grow the pool of asset allocators' foundations, endowments,

pension plans, universities, et cetera, high net worth individuals, grow the pool of people interested in making sure they were working with the best women and people of color.

And what I saw was within a few months of running this campaign that I would be a hundred and seventy-five years old before I would make a dent in diversification in the asset management industry by focusing strictly on carrot by demonstrating what the studies show, that there's high performance among women and people of color, and if you're not using the best, you're missing out on returns.

I've actually never seen anything like it. And this is someone who studied southern history as an undergrad and runs a national civil rights film festival, so I have some standing to say I've never seen anything like the bias that I have encountered at the most elite levels around asset management. And obviously there's no violence. I'm not equating the two.

Here's what seems to be singular in asset management. I've not encountered any other area of American public life, boards, C-suites, sales forces, the entering classes of universities, where people publicly dispute the premise that the inclusion of

people of color or the inclusion of women matter. If they feel it in 2020, they don't have the chutzpah to say out loud, "It doesn't matter that we don't have any black people."

But in asset management, and I find this to be true at the most elite levels, the conventional wisdom is that it's irrelevant. CIO after CIO, investment committee member after investment committee member looks you in the eye and says, "We just follow the numbers. Demography is irrelevant. If they're high performing and they're in the database, Preqin, wherever, we will use them."

So, I don't often get to quote Chico Marx in public, but I will. Sort of the, who you going to believe, me or your own eyes? In organization after organization of asset management it is overwhelmingly white. It is overwhelmingly male. Where are the people of color? Where are the women?

So the conundrum for someone who runs diversity efforts is, what do you do when no one wants to talk about it? You have to force the question. Yale won't return a phone call. I run a survey each year of the top investment consulting firms, for those who don't know, which is going to be very few people tuning in. Investment consulting firms are the search firms that

many, many asset allocators' institutions rely on to find asset managers.

We ran a survey of the investment consulting firms to figure out their own diversity. Two-thirds of the firms won't answer the questions about whether or not they employ people of color and women. Regrettably, the SEC's own survey of regulated entities -- now, let me repeat that. The SEC surveys the entities it regulates on this question.

In the latest round from, from my research, only 69 of 1,367 regulated entities bothered to answer your survey. I raise that not to say anything negative about the SEC, but how intractable the central problem is here. Most white people don't want to have this conversation. The importance of the SEC at the top level raising it cannot be overstated. Thank you.

So we have a two-level problem in this area. As I said, key people don't want to talk about it. And the second, when they do talk about it, the racism and the sexism which goes on in the industry is really palpable. I think it's devastating if you believe that people have a responsibility, a fiduciary responsibility to maximize returns, as they say, and they refuse to recognize that they're not working with talented women and people of color, costing them returns.

So here's what we do about it. It's generally true in life, it's true in your own families, it's true in public life, you can't get to people's genuine concerns until you dispel the disingenuous concerns. And so there's an enormous amount of murmuring, I won't say conversation, out there, that people of color and women may not be able to perform as well.

So we turn to dispel that. The Knight Foundation, Juan Martinez in particular, has been singular in the United States in putting energy and effort into dispelling what most of us should know to be obvious, that women and people of color can perform at the highest levels. They have put money into research, principally from Josh Lerner at Harvard Business School to show two things, one, the underutilization of women and people of color. And those are the statistics that Dalia and others tout.

About 1.7 percent of all assets are managed by women and people of color, even though there's a cognizable tranche of female and people of color asset managers who are capable. The more important data that was revealed is that in every asset class, women and people of color perform at least at par to white-owned firms.

Now, for those of us who sort of do this work

that which should have been obvious, this is not a genetic issue, but it's important to have out in public that women and people of color perform at par. In the top quintile, women and people of color outperform white people, but I don't focus on that. I don't think you have to show that everybody's a Jackie Robinson in order to work with them.

So if women and people of color perform at par, why is the underutilization so strong? And here's why. Bias. Absolute, abject, pervasive unrelenting bias. And until we talk about it, we can't fix it. The bias operates in five interrelated but distinct, I'll use the word tranches, because I'm talking to the SEC audience. And they are the following:

One, there is a complete conflation of the groups emerging and minority. A huge percentage of search firms and institutions which look at the issue at all believe that minority is coterminous with emerging. And so you have very seasoned people of color with multiple funds still shunted through an emerging process. If they get into the emerging track and they graduate out, they're not treated like the seasoned people of color that they are.

Wilshire, which is a premiere investment consulting firm, had the same person in the same

committee handling emerging and people of color. They didn't dispute the notion that it was all the same. They have since segregated the two.

The second issue is what we call fungibility. White people are never fungible to each other. People of color and women are almost always fungible to each other. On the negative, it works like this. The CIO of Princeton tells me that he worked with a black firm and it didn't work out. And you would think there would be a semicolon after that, which is I'll try again. But for him, there was a period.

On the positive, it's equally damning. If a Latina is exceptionally good at asset management, the vast majority of white people don't look at that and say, "Find me another Latina." They find a way to say that she's sui generis. So the fungibility issue is real, and that is a profound part of implicit bias.

The third tranche is condescension. It's what President George Bush so elegantly called the soft bigotry of low expectations, the relentless notion that there is a cap at which firms owned by people of color should be, and the notion that they can't be too big. No one ever says Carlisle has too much business. People ubiquitously talk about some of the most successful black and Hispanic asset managers as having too much.

You don't want to be overexposed.

The fourth is what happens in sort of every area, and there's disparate and what I would call inappropriate vetting. In some cases it's as profound as the literacy tests of poll tax of old. Why don't you have any white employees? I hope to -- it may sound unfair to some -- I hope to reach a point where vetting firms, investment consulting firms will say to an all-white asset management firm or an all-male asset management firm, "Why don't you have any women on your team?" That's what we're working for, the Diverse Asset Managers Initiative.

And the last is the most sprawling, and this happens a lot when you're trying to make change. It's, it's what we call the problematization of the solution. Instead of accepting the fact that I may be missing out on my fiduciary duty by not having a robust network of vetting and search to ensure that I'm getting talented women and people of color into my pipeline, all of my energy is about problematizing the solutions.

So Chris Ailman at CalSTRS will say to a large group of people that his board has instructed him to focus on gender, not race, as if you need to be instructed by anybody to maximize performance or wonder why there's an absence of seasoned Hispanics or black people in your pool.

Eric Lundberg is a CIO of Michigan. My board has instructed me not to engage in social engineering. Put aside the sort of graduate school discourse that one could do that would consider the inclusion of women to be social engineering. The CIO of the Hawaii Pension Plan will tell us that she doesn't have the staff to focus on diversity.

Well, I, I won't go on and on. That's just a flavor of sort of what you hear. That people are still willing to say these things either in private or quasi-public life is an indication of how far we have to go to open up the conversation about what's going wrong in asset management, that so many people won't see that I'm missing out on talent if I'm not working with a full pool.

And I'll stop there. Notwithstanding my dour demeanor, I am cautiously optimistic. I can't do this work if I don't believe that the cup is half full and that we are going to move to a place where people see that this has been ridiculous for years and there are solutions right in front of us. Today's meeting is a sign of that. The, the fact that Chairman Clayton and senior leadership, the commissioners at the Commission are willing to have a public conversation about the

roots of these problems and what the SEC can do about it is of course a good sign.

I need for asset allocators who care about this, I need for employees at investment consulting firms who know that they're missing out on talent to openly say that. Come on in. The water's warm. In 2020 we have a pool of talented women and people of color at every level in every asset class who want to work hard like everybody else. If you want to work with the Diverse Asset Managers Initiative, we need your help. Diverseassetmanagers.org. You knew I wasn't going to plug that. And we welcome your cooperation. We welcome your ideas.

And I will turn it back to you, and thank you so much for creating this --

MR. GARCIA: Thank you, Robert. We're now going to turn to Juan Martinez, but I'd like to just give one quick stat to put something in context. P&I magazine publishes a list of the largest 100 consultants every year, and when you look at it, the total assets they advise is roughly 30.1 trillion, the largest 10. The total market's 37.9.

So let me just say that again. The total top hundred's about 37 trillion. The largest 10 have 30 trillion. That's 80 percent market share, 10 firms.

What's their diversity? If you look at the largest 20 consultants, they have 92 percent market share, so I think you can see the picture.

Juan Martinez, it's all you.

MR. MARTINEZ: Thank you very much, Gilbert. I always appreciate your kindness, and especially your kindness in putting me after a speaker like Robert Raben. Thank you. That's really -- sets the bar particularly high.

I want to echo Robert's thanks to the Commission and Staff for this important -- this opportunity to speak about such an important subject. And I do want to thank Robert for his kind words about me and -- but I want to stress that Knight Foundation is incredibly committed to this issue, that it is because of the leadership of the organization, both at the -- on the board side and our CEO, Alberto Ibarguen, our, our chief program officer and head of research, Sam Gill, who has -- and his team, Andrew Sherry and our communications department. It is really a heart of the mission of the organization to look at and promote diversity, and to find opportunities for our communities to be reflected and to be successful.

So I think it's -- hearing all these things, I think it's, it's important to kind of set the stage

about who Knight Foundation is just for a minute. So Knight is a, a private foundation, which is a 501(c)(3) parity. We, we have about 2., $2.3 billion in assets that are invested in our endowment. And it is from those assets that we are able to, to make the grants that we make every year.

So Knight makes well over a hundred million dollars a year in grants to support communities in the United States. There, there are 26 communities in the United States where Knight does program work. We, we have staff in eight communities. We fund activities that are important to those communities that engage, engage those communities. And then we are -- with both community activities and arts, and then we are one of the largest funders in the United States in journalism. And so the -- that is part of the DNA of the organization.

We were, were created by a contribution by the Knight brothers, mainly, and their, and their mother, Clara Knight. The Knight brothers at one point owned Knight newspapers and then Knight Ridder newspapers, which was at the time that they went -- merged were the largest newspaper chain in the United States.

So it is within the, the DNA of the organization to look at data, to look at informing

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communities, and the belief that we should have healthy communities that can make informed decisions. That's I think a very market-based approach and perspective to the world. The -- but it is sort of equally important to understand that the Knight brothers provided us in mid-eighties, late nineties with about $600 million. And since that time we have made about 2 and a half, 2 and a half billion dollars in programmatic spend to benefit those communities and benefit journalism, benefit the art. And we've also grown as I mentioned, the portfolio to be, you know. $2.2 billion.

So it's pretty self-evident that investing is core to what we do. It is what kind of provides the engine for the -- or provides the resources for the programs that we accomplish. So today, we manage, you know, diverse or women-owned firms manage about 35 to 40 percent of our portfolio at any given point in time. As Director Blass mentioned, that differs from the -- sort of the asset management field writ large, which has about 1 percent of assets under management managed by women and minority firms.

So how did we get here? If you'll indulge me, I'll give you a little history lesson on that story. What -- Knight Foundation in 2010 was asked the question. Alberto Ibarguen, our CEO was asked the

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question about how much diversity do we have in our investment manager pool. At the time his answer quite truthfully was, "We don't know. We haven't looked at that. We haven't asked ourselves that question. We assume it's going to be a big number. We have a lot of money under, under management."

Then we asked ourselves. And what we found was that at the time in 2010 we had one commitment to a African American-owed private equity firm. It was managing about 7 and a half million dollars, so that's a $2.2 billion portfolio with a 7 and a half million dollar commitment to one firm. That, quite frankly, was unacceptable to us, because it didn't make sense and it didn't -- to, to Robert's point, our eyes that are used to seeing diversity as a plus and an additive factor to performance just -- it didn't make sense to us that that was how the allocation worked.

So we worked with our consultant to include not a numerical target, but to include the, the -- a diversity, an ownership diversity, because we thought that was the sort of easiest way to track and promote diversity within our portfolio, to look at, at firms as we were adding and considering adding new firms, to look at, at that factor within the, the other rigorous analysis that we do when we add a firm.

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In other words, we look at, will they perform? We look at, are they institutional quality from a back office perspective? And we also ask ourselves, is there an opportunity to add a woman or a diverse owned firm within this category? And by doing that, over the last 10 years we have added to the portfolio across all our asset classes, so in marketables, in private investment and in hedge funds, to this -- to the -- to where we are today.

So that's kind of how we've moved to, to being an outlier in the field. One of the things that we did, though, was to try to understand based on the DNA of our organization, try to understand what the, what the data was around this issue, right, this, sort of the journalistic background of the foundation.

And so beginning in 2017 and then with a follow-on study in 2019, we engaged Professor Josh Lerner from Harvard Business School, the, the Bella Research Group, which he leads and, and Director Blass mentioned the study that, that was published. And it basically looked at what was the, the -- what were assets under management by women and diverse owned firms within the U.S. based asset management field.

So as, as Dr. -- as Director Blass mentioned, about 1.1 to 1.3 percent, depending on the, on the two

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studies, it hasn't changed significantly, is managed by women and minority owned firm.

We then looked at what the possible reasons for that could be, and, and as Robert mentioned there is an active conversation that exits that says, well, women and minority firms -- I, I will tell you that I have had conversations with people who will tell me, one, "It's okay for you at the Knight Foundation, which is a, which is a non-profit to not have great returns, but we -- you know, we're a for-profiter institution or we're professional investors, we need to have that."

I think that the statistics that I pointed out on the front with, with our returns and, and the growth of our portfolio would point out that we care about returns deeply. And so for us, we wanted to see if there was a disparity within the performance of managers. And what Bella Research Group did in both studies was to look deeply at the numbers and, sort of, is there a performance -- is distribution -- is performance distributed differently among women and minority owned firms, as opposed to non-diverse firms? And the answer was no.

So if that's not the question and if that's not the issue, then what could it be? So we looked at in -- back in 2019, we also did another study with, with

Bella Research Group, which looked at the likelihood of underperforming private equity firms that are to raise a, a new fund, right? And, and in that, in that study, which is called the intolerance of failure study, it was published in June 2019, what, what we did was to look at what was that likelihood, of a women or minority owned private equity firm to be able to, to raise a new fund if they underperformed, compared to a non-diverse peer to be able to raise a new fund?

And what we found was it, it was significantly easier for a non-diverse firm to -- underperforming at the same level as a women or, or diverse owned firm to, to raise another fund. It was -- they were more likely to raise another fund. It was easier for them to raise another fund. It was easier for them to raise a larger fund. So performance is not the general driver, right? And it can't be, using that, using that data.

So recently what we did was to look at -- we partnered with Global Economics Group to do a further study of sort of the top 50 charitable foundations in the United States by asset size. And we asked, we asked them to participate. We first looked at publicly available information. Not us. Our, our survey partner looked at publicly available information. The data was not evident there in, in most cases, and so we had to

ask. We had to survey many of the top 50 to ask them what their assets under management by women or minority owned firms was.

And of the top 50, 26 foundations participated. And so among those 26, what we found was that an average of 13 and a half percent of their assets were, were managed by women and minority owned firms, so a significantly higher percent than the field in general.

So it could indicate two things. One is this is a field and a -- and, and -- that is concerned and looking at this space. But it could also indicate that professional investors with resources and -- are able to identify opportunities for performance, and that that performance is in a population the women and minority owned firms, that provide those sort of extra opportunity to -- for, for return.

So the other -- so that was very telling, and, and all of that research is available on our, on our website, and we've also made that research available to the Commission. But one of the things that I, that I think is, is very important is for us to be able to look at what, what the context is of why we should care, right? Why, why should we care about this?

So we should care because as there is an

opportunity, as Robert pointed out, for investors to outperform the market. And as we think about stabilizing communities, as we think about institutions that can use those results, as we think about our own pension funds, for example, we should be incenting outperforming. That should be the, the, the -- a, a natural, a natural guide.

But for communities, there is a, there is also an -- there is an opportunity cause. There is a human capital opportunity cause for people who should have access, who can provide this, this performance to not get that. There is also the fact that the financial services industry as Gilbert mentioned with regards to, to professional -- to sort of vendor diversity work is a place of huge wealth creation. And so to the extent that wealth creation is being not shared equally or not made access, the opportunity for that is not, is not accessed. Then there is a -- yet another driver for growing disparity between community.

Lastly, I would say one of the, one of the other elements that has been evident in all the research that we've done is the difficulty to get data. So it, it is not accidental that Knight Foundation has had to hire great partner research firms like Bella or Global Economics Group to do this work. It has been very hard

work. It has required a lot of resources, both internally to Knight and externally through our partners, to be able to do this -- these studies.

And so if we believe that a market should be able to allocate capital to its best use, one element of that is data, right? A market needs -- an efficient market needs good data. It's one of the great innovations of the, of the SEC, right? To be able to provide transparent data at a high quality is one of the hallmarks of a public market.

And, and what we've seen in this regard is that data on diversity within the investment field, the asset management space, is incredibly hard to come by. And so the, the presupposition that a -- that market forces will be able to drive assets to the best performers could be, could be undermined by this lack of data.

So one of the things that we would ask is for greater participation, greater sharing of data, not only about -- not only at least on an aggregate level on, on diversity within investment portfolios, but also within asset management firms, not only at the aggregate institutional level, but at the level of, of functions, of investment functions within an organization, because it will allow for more -- for easier prioritization of firms where that is an input that an investor would like to make.

Lastly, I would -- I said lastly twice. This is for sure lastly. There is a personal observation, which is when we think about why these -- why, why the -- sort of this perpetual underrepresentation of women and minorities in the field, we have to remember that the investment field, the financial field is a field that pairs high trust and, and efficiency, right? We're always looking to get more and more efficient.

Margins on the investment side get narrower and narrower as index funds increase, and, and so you're looking for easier data that you're able to benefit and then analyze. Well, if there is a lack of data, there's one thing. But the other thing is that as one of the commissioners was saying, the, the idea of relying on people that you can trust is, is a -- and not giving opportunity to those that you can't trust by extension, right, is, is an issue, right?

How do you build that trust? Is it just performance? Is it, is it a sort of historical background that you might have with the -- with their resume and their CV and their life experiences? That then undermines the idea that diversity as, as Robert mentioned that in a, a recent -- Robert Raben mentioned

in a recent article that he published in -- opinion piece that he published in Forbes, that there are significant amounts of studies that show that diversity, especially in complex financial decision making adds value, at least at the corporate level.

And so I, I think that we as managers really need to be able to challenge ourselves with regards to, to providing opportunities to different communities to extend and -- and extend ourselves in how we search for, for partners to help us manage our fund. So thank you for this great opportunity.

MR. GARCIA: Juan, thank you very much. Before I turn it over to Ed, who will be coordinating all the Q&A, you know, every one of these groups and every one of these individuals has a story, and I have my own. Just listening to Robert, some of the things, the anecdotes I could share is I've been point blank told by a consultant that they would never hire us because we don't have enough white male partners in our firm.

I've been told point blank by a consulting firm, these are the largest, that how -- doing a due diligence in my office meeting with 10 of us, "You claim you're a Hispanic firm, but I don't see any Hispanics here." And of course, they were talking to -- eight of

the nine people in that room were Hispanic. But there's an image of what they think a Hispanic should look like, and that's what we're reminded of every day in just our natural business life. And that's what I think is one of the core differences when we talk about individuals and so forth. All we're asking for is a -- truly a level playing field.

So Ed, I'm going to turn it over to you for Q&A.

MR. BERNARD: So I'm looking for hands. Does anyone have questions? And first of all, thank you both. Those were superb presentations, very helpful baseline data and information for us, and the way you broke down the issue so we can understand the components was I think extremely helpful.

Any questions from the group? I see Russ Wermers' hand up, and then Scot, you'll go right after that.

MR. WERMERS: Thanks, Ed. And Mr. Raben and Mr. Martinez, excellent presentations, very important, good stuff. Mr. Garcia, also very inspiring. Yeah. My question, so I've been working on research and consulting in the asset management industry for some 30 years or so, and, you know, my presumed expertise is in selecting managers and measuring performance and coming

up with indicators of future good performance, and I think is very germane to this discussion.

One of the, one of the key aspects that a good investment consultant should consider is qualitative considerations. You don't just look at Morningstar star ratings for the last three, five and ten years, and pick the, the five-star funds. You also dig in and do work on deciding, you know, what is the teamwork, what is the culture, things of this nature.

And I just wanted to ask whether your research or that of Professor Lerner has delved into how diversity aids in creating a better qualitative, I guess, framework for a fund that -- a fund or a fund family that could likely outperform?

MR. MARTINEZ: So let me -- this is Juan. Let me, let me address that. We, we haven't, we haven't specifically addressed that, that question. I think one of the challenges that we do find, though, in our conversations with, with consultants, and thank you very much for pointing out the sort of complex multi-faceted analysis that's necessary in order to be able to do really good research is as I mentioned the sort of the business model of research, which is to have a universe of managers and then do a deep dive into those managers.

And to some extent and in some case that, that bodes ill for -- it, it raises the bar for adding extra names, extra firms into deep diligence research, because it requires additional investment. And so I think it's inherent to -- I think it's part of the business model to seek to leverage the data that you have and the research that you have, and then I think it's inherent to -- and it's a responsibility of customers to also be able to say we think that this is important, I want my consultant to do this work.

We, we've been very fortunate that in partnering with our consultant we've, we've asked for that specifically. I, I have heard, though, pushback from some consultants, some areas that say, well, if our customer never asks, we don't feel responsible to make it an issue. And, and, and I think that is a question that, that needs to be addressed, right?

I think if you never tell -- if a consultant never, never tells or never asks a client, hey, is this a thing that you care about, they might never say yes, right? And so is it a self-perpetuating sort of cycle of silence and, and not, and not asking? And, and, you know, and, and there is a lot of reasonable reasons why in short committee meetings people don't have enough time to address the question. It -- I just think the question needs to be asked. That's all.

MR. RABEN: The qualitative -- it's a great question if I understand it right, and if I understand it wrong, I'm still going to give the same answer. The qualitative evidence is overwhelming everywhere in society that we all operate on bias. I was a closeted gay man at Arnold & Porter, and partners projected onto me straightness and asked me to take out client's daughters for dinners. The minute I was outed they stopped doing that.

They project -- I passed for white. If I split an infinitive in a memo, sort of someone who wants me to succeed sort of circles that and says, oh, try harder. If a, if an African American does that and people were dubious, white people were dubious about their success to begin with, you look at that infinitive and you say, oh, I don't, I don't know if Larry's going to make it here. And that's the beginning. That's the alpha and omega of bias.

If you work in a firm, Elliott Management or wherever you work, and the only Latina you ever deal with is the woman who comes in at 7:00 p.m. to clean out your office while you're still working, it's very, very, very hard to then look at a Latina asset manager and not be -- see fungibility.

The amazing thing to me is why people are

still so defensive about this. It is overwhelming true in pluralism that we have biases. It is overwhelmingly true that we're missing out on opportunity because of our biases, and if you say you're about performance, why is it so hard to just sort of take that defensive off and say, hey, what do I ought to learn here? What am I missing out?

MR. BERNARD: Great. That's both great answers. Scot, you had your hand up.

MR. DRAEGER: Yeah. Thank you, Ed, and, you know, first, Gilbert, thank you so much for your passion and for putting these, these -- this great group of people together, Mr. Raben, Mr. Martinez. This has been just truly special already.

My question is, you know, you've spoken quite a bit about asset aggregators, things at an institutional level, fund managers, you know, things like that. However, you know, there's no shortage of bias, obviously, in the side of the market that represents the vast majority of registered investment advisers.

Of the many thousands of registrants at the SEC in the advisory industry the vast majority are -- of them are firms catering to, you know, families, high net worth families, low net worth families. They're buying

individual stocks and bonds, you know. This is a huge segment of the industry in which bias is obviously also a huge problem.

Do you have observations that relate to those elements of the industry that can help us further the dialog there?

MR. MARTINEZ: So I will say -- you know, I come, I come from the perspective of -- I come from two perspectives. I come from an institutional perspective because of where I work, and in the sort of private foundation institutional, institutional asset manager space, and then I come from sort of a personal perspective, which -- with a story that's very similar to Gilbert's.

And I will say that recognizing the, the point that you make about the, the registered advisers that one -- the, the, the question of sort of driving market indicators to be able to, to figure out kind of where, there these things -- how we could address bias, I think the first element is for people to be able to have knowledge about what firms they're buying into or who they're working with, right?

When I buy a name brand ETF, I'm buying that name brand ETF, not just the underlying index that's there, but there are many index offerors, right? And so in the, in the -- to the, to the, to the -- what distinguishes one index which is composed of exactly the same thing as another index that's composed exactly of the same thing, is primarily cost and, and the brand, right? Do you trust the brand? Do you have the, do you have the cost? If you have absolutely no data and you care, right?

So for example, I care. As an individual investor I have no way of knowing which organization promotes diversity with its structure, right? It's just not there. And if I was to ask my adviser how -- you know, can you help me find this, they would, they have a dickens of a time trying to find, trying to find that information.

And so I would say, you know, the -- that, that is from my perspective the -- I hope that's, I hope that's helpful in, in my response.

MR. RABEN: The reason I have -- it's a great question, Mr. Draeger. Thank you. The reason I at Diverse Asset Managers Initiative focus on sort of the largest, the Yales and the Apples, the pension funds, CalPERS and CalSTRS. I think this is, this is going to change the fastest with client demand, that the investment consulting firms are going to actively curate women and people of color when the clients say to the

investment consulting firms, "I want to see that in my slate", and then they act on it.

And so for me it's just as a campaign manager it's efficient to go after the totemic institutions when I -- when we can crack Yale, which may take another hundred years, unless you all want to get involved. When we can crack Yale, then the other Ivys will follow, et cetera, et cetera, et cetera.

So it's not a -- it's not sort of one institution is more important than the other. It's strictly about the efficiency of an initiative of a campaign to get serious change.

MR. BERNARD: Great. I'm now scanning two screens looking to see if -- I have a question myself, but I want to see if any others have question. And if not, Gilbert, if I can -- I'll ask what, if I look at the time, may be the last.

And I'm going to violate a counsel I've given to my fellow committee members all along of, let's not jump to conclusions about recommendations. We've still got a lot of work to do. So for this discussion, this has been enormously helpful. We're about to hear from other leaders who I think will give us even more to think about. So we've got more work to do, questions to ask and answer before we reach conclusions.

With that said, you two are here. You've made some very insightful observations, and I feel I would miss an opportunity if I didn't ask you, with you with this opportunity of this committee around you, if you had to think of one or two things that you would advise us as a committee as you continue this work on diversity inclusion, whether it's how we frame and ask the questions we ask, or even, dare I say, you know, if you're going to make recommendations to the Commission, here are some key ways they could help, what would those one or two pieces of advice be for us?

MR. RABEN: Juan, I'll, I'll start. I know the least about the SEC, but I know the most -- I know a lot about diversification. Well, one, it's, it's an emotional issue. Accept that diversity inclusion is a value. It's not a function. Stop treating it like a function. These three people over here are assigned to do a survey. These four people over here are assigned to figure out programming in February for our black staff, et cetera.

Diversity is a value, like safety, like transparency, like integrity. So for safety, for example, I happen to live near the SEC building. You take security seriously. What you have to go through to get into the building means that security is a value for

you. So I want people who sort of don't do this for a living to accept that inclusion and diversity, the fact that talented people can look like Dalia Blass all over the country, is a state of mind. It's not sort of something you assign to HR to go figure out. And it comes from the top.

And once you accept that it's a value, it ceases to become problematized, and it becomes sort of an ebullient, how do we get this right, and everybody focuses on it. So that's one. It's a value. It's not a function.

Two, tracking and reporting is crucial. I'd encourage you to stop treating it as sort of, oh, it would be nice. In a, in a field allegedly driven by data, the refusal to provide information to anybody, including the agency of record about people, institutions' own diversity, is deeply, deeply troubling. And sort of the passivity of the institution about it occurring year after year after year is a sign that we're not there yet. It's simply unacceptable for a regulated entity, for a Mercer, to not provide data which they're giving to the EEOC about its own demographics in 2020.

So there are other sort of tactical recommendations, and, and events like this are crucial in sort of getting people comfortable to talk about how we can work together.

But one, the emotional question of diversity as a value, not a function, and two, insistence on tracking and reporting. Until we have a body of data that shows what's going on, you can't have a community of practice among academics, sociologists, statisticians, et cetera, sort of staring at this showing people best practices and how to, how to improve. You're stuck with people like me relying on anecdote, which is a terrible way to make change.

MR. BERNARD: That's great. Anything to add, Juan?

MR. MARTINEZ: Well, I would -- I think Robert makes -- as always, is making great points. I would just say the, the other thing that I would add is I would use the example of Yale and alternative, right? So Yale was able to change the endowment world, broaden the perspective and, and, and earnings by modeling and socializing the use of, of alternatives within its diversified portfolio, and it did a fantastic job, and it has benefitted the, the endowment world significantly through that type of modeling and, and discussion, right? The, the discussion of what do we do, how do we do it? And then smaller, less sophisticated investors

or smaller investors who wanted to mirror that were able to plug into the broad concepts that, that Yale promulgated.

So one of the key elements of the research that we did, research we just did recently, the top 50 study, was to show investors who may not be in the top 50, but who want to add, add women or minority managers who are asking that question to their consultants and getting sometimes feedback or, or getting from peers the feedback that, wow, you want to be really careful there.

You, you don't want to socially engineer. You don't want to have concessionary returns. You don't want to fill in the blank of the potential road blocks to show that there are people in the market who are sophisticated institutional quality investors that, that are already adopting their -- that are -- that do have returns that people envy. What are they doing, what do they know, how is that happening?

Because change, societal change, value change as, as Robert mentioned, is a function of modeling, of modeling it throughout a society. And so the extent that that's encouraged, in addition to the, the sort of statistical information, again, at an aggregate level, that is a -- that's a -- that does not hurt people's competitive position, but rather just discloses kind of

broad direction, and I think that would be extremely helpful as a, as a indicator for, for the field.

MR. BERNARD: Great. Thank you. And Gilbert, apologizes for extending the Q&A a bit. I'll turn it back to you.

MR. GARCIA: Okay. Here we go. Thank you, team. And let me just say, Scot, thanks for your nice comments, and let me just say there is a lot more to come.

I want to give another data point, though, very quickly, because I mentioned earlier that if you looked at the largest 100 consultants, the top 10 percent or 10 of them make up 80 percent market share.

Well, now, let's look at the other side of the equation. We are the largest Hispanic money management firm in the country, Garcia Hamilton, by a sizeable margin, and we're 15 billion, a little over 15 billion, and we are active domestic high quality fixed income, kind of vanilla. Well, that marketplace, according to P&I from just a couple years ago, is 273 firms and approximately 2.65 trillion. We're not even a rounding error. But what's very interesting, the largest 10 firms have 50 percent market share. The largest 20, which is not even 10 percent, have 71 percent market share.

So when you think about the statistics, statistically when you see the numbers never move and you see things so concentrated, so you can already see a closed system, a largest to largest and the large begets large. And how can you then penetrate these barriers of entry that have now been put up?

So let's go on to our next speaker. We have four amazing speakers. I won't go through all their bios, but at the end of the day they are the leading experts. There are many groups that are --

(Whereupon, the audio was interrupted.)

MR. GARCIA: -- and I use that, you know, in a loving way, but that are on this topic, and I wanted to give a broad spectrum of them. So the first is Brenda Chia, and she's with the Association of Asian American Investment Managers, and they have some very unique issues and they're one of the newer ones on the block. They're right around 2006. So Brenda is going to talk 10 minutes.

I'll do sort of the same rule, and at the end I'll just -- as each one ends, I'll go through the next person. And we will be leaving about 30 minutes for Q&A for everybody.

So it's all you.

MS. CHIA: Thank you very much, Gilbert.

Chairman Bernard, members of the AMAC, thank you for today's opportunity to discuss the experience of Asian Americans and Pacific Islanders. We use the acronym of AAPIs in the investment industry. We are here, all four groups are here, to show you that there is not a supply issue when it comes to talented investment managers. On behalf of my colleagues at AAIM, a non-profit organization dedicated to the advancement of AAPIs in the investment industry, I have three main points to make.

The first is that specific challenges faced by AAPIs in the form of the model minority myth. The second is how AAPIs can create opportunities for our own community, and third, some very specific and pointed recommendations for the SEC, as well as AMAC.

While there is a perception that success comes easy to AAPI professionals across the board, my path here today was not a guaranteed upward trajectory. My father was a grade schoolteacher in Singapore and the sole breadwinner of our family of six, including two grandparents. I guarantee you that teachers are poorly paid around the world. My family members watching today, and I know they are, from around the world, are both proud and mystified that I am in this seat talking to you. How did she get there? The issue of capital

and opportunity access therefore is a personal one to me.

I would like now to touch on the model minority, which is a challenge that's faced by AAPIs in this country. It is broadly defined as the perception that AAPIs are successful and do not need any help. We may be invisible in most circumstances because of the perception that we do well in school, that economically successful, and therefore we have been fully assimilated into the American fabric.

In the investment business there are diversity programs and industry gatekeepers, consultants, through their own policies who exclude AAPI managers from consideration. If you dig a little bit deeper in the number AAPIs are 6 percent of this country's population and growing faster than any other community.

The 2019 update to the Knight Foundation and Bella Research report, thank you, Juan for allowing me to ride on your coattails on that, showed that minority and women owned funds collectively still manage around 1 percent of all investment assets. Out of the 70 trillion dollars we manage around 1 percent.

Broadly, the numbers for the AAPI community is about the same. It's about 1 percent AUM. Each percentage point is worth $700 billion. That's a huge

number, no matter how you slice it.

So I want to step back a little bit and talk a little bit about AAPIs in this country. We are a very diverse group, because so many of us are immigrants from a large -- from across the world, from India to Indonesia, from Northern China to Singapore, we represent many national and ethnic origins. We have different languages, cultures, religions and history, therefore, we're not just one big group of Asian Americans. And within that group there are different ethnicities, and each one has their own characteristics.

From a 2018 Pew report, income inequality is the greatest among AAPIs. The top to bottom gap income increases 77 percent from 1970 to 2016. This is a far greater increase than among any other ethnic group. Whites increased at 24 percent, Hispanics at 15 percent and blacks at 7 percent.

In 2017 the national poverty rate was 15 percent, while that for certain AAPI groups was almost 30 percent. So I'm trying to say -- what I'm trying to say here is that the model minority stereotype does not hold. It's not about enriching specific investment managers. It's about the impact that we can have on the AAPI community -- over and over again that minority and women led firms invest in more diverse entrepreneurs and

businesses.

We think outside the box for opportunities often overlooked in urban and rural areas. This in turn enriches our communities and creates more jobs without sacrificing the returns that limited partners seek in order to meet their funding obligations.

So here is the big question of the day, which is what can the SEC -- to effect real change? We believe it begins with strong policy, measurable milestones, and consistent follow-through. The SEC is well within its authority to measure both the quantitative and qualitative impact of increased participation of investment, of minority investment managers. This effort starts with today as a baseline.

The SEC, as has been mentioned, already has the means to collect the data in its annual diversity assessment report sent to fund managers. The key data collection in the demographic composition of a fund's workforce and supply diversity by dollars spent are all, are all in the survey. We understand that this is a voluntary data submission, and as Robert has pointed out, compliance is really low. The underlying questions you ask in the survey are the right ones. We need industry overall to step up and participate in this reporting.

So what are some of the carrots and maybe the sticks that the SEC can employ to collect the information and create baseline transparency? More importantly, how can the SEC effect change through policy and by --

(Whereupon, the audio was interrupted.)

MS. CHIA: -- a light on the collective performance of all the groups represented here? We urge the AMAC to challenge the industry with broad and bold goals. I know that some people are not fans of, you know, hot numbers, but very simply, for example, you know, AUM in hiring to reflect the composition of the U.S. population would be something that is easily understood.

AAIM as an organization has deep interest in the success of all minorities, not just of AAPIs in the asset management industry. We support the retention, promotion and representation of influential board members among the minorities. Our country is best served and enriched by its diversity of people, talent and perspectives. Until we can collectively break through the 1 percent barrier holding back diverse investment managers and better reflect the makeup of our country, this group before you and its communities will always remain a small voice.

So to recap, a critical role that the SEC can play is in creating greater transparency and tracking the asset management industry's access to capital. Today's hearing is a great start to this collective goal, and I would like to propose regular updates to AMAC. Continued engagement and dialog on a quarterly basis with the groups represented on this panel will give the AMAC a front row seat to, to continuing challenges or whether today's suggestions creative effective change.

The groups before you here today, AAIM, NAA, NASP, NAIC, Robert Raben's group, and of course Juan, we have longstanding working relationships based on mutual respect and cooperation, so this is a big issue before us and we need to move forward together. There is no better time than now with heightened awareness of many challenges faced by minorities and women in the investment business.

So let's get going together sooner rather than later. Thank you very much for your time, and AAIM looks forward to working closely with you.

MR. GARCIA: Thank you. I'm going to quickly go continue, if that's okay, Ed, which is -- let me just say you certainly have my commitment and I know for the SEC, you have their commitment and Ed Bernard's

commitment, because we've talked about it. So you can count on that, Brenda.

Our next speaker is Mr. Ron Parker, who is the president and CEO of NASP, which is the National Association of Securities Professionals. It's probably the largest. It's probably the -- one of the most visible, because they have chapters throughout the country. Some are larger than others, but at the end of the day they collectively have extraordinary influence. And it was really formed during the renaissance, the great renaissance of African American mayors in the late -- well, the mid-eighties and late eighties.

So with that, Mr. Parker.

MR. PARKER: Thank you, Gilbert, and let me say thank you to Chairman Clayton, Chairman Bernard and the other members of the AMAC for assembling us this morning and this -- and eventually this afternoon. It's an honor to appear before you to discuss the policy concerns that I've been asked to speak on as it relates to the Dodd-Frank Act Section 342(c).

But first let me commend you, the Commission itself, for coming together and forming this council. The National Association of Securities Professionals, NASP, is extremely proud to have one of our own, Gilbert Garcia, as a part of this council representing the

voices and the perspectives of many of us who are unseen, unheard and underutilized. So Gilbert, thank you very much for your participation and your engagement.

Now, with the amount of time that I have, let me just reemphasize some of the things that Brenda has -- and others, my good friend, Robert Raben and, and others, have indicated already. Let me just kind of underscore some things.

First of all, we have the policy. It does exist. And, and let me back up. I come from the private sector side, 30 plus years in Pepsi, Pepsico, as a leading organization around diversity and inclusion, and to the comment that was made earlier by Gilbert, it starts at the top. And for us at NASP, there is the entity SEC, it's -- which we view as being at the top. And your shadow that you, you cast across a number of different spectrum is quite large.

So coming out of the private sector, we like to say, hey, if the opportunity is there, lead into it and take advantage of it. So if we have policy, which is the Dodd-Frank Act in the section 342 (c), we only ask that you do what is required to do, and that's to make a decision to engage, to engage with those organizations, those entities and those companies that represent 1.6 trillion in assets, but to what Brenda said, basically have a process by which once the decision is made to act and to enforce, it will hopefully spill over into other areas of, of progress.

You know, recently under the Title 4 of the U.S. Department Treasury regarding the coronavirus aid relief, we realized that we had a missed opportunity. That missed opportunity was several facilities that were introduced by the Treasury Department did not adhere to the process of engaging diverse and women owned firms into the process of really helping the country through this major issue of economic recession.

However, the lack of intentional engagement and requirement and enforcement of the Act itself did not allow for the full participation of our communities that could truly benefit from what is being done at the federal level. The Act itself required U.S. financial agencies and reserve banks to develop and implement standards and procedures to ensure, and I underscore to ensure, that the maximum extent possible, that the fair inclusion and utilization of minorities and women owned firms be engaged in all of the different business levels and transactions.

So the great philosopher Mike Tyson once indicated that everybody has a plan until they get hit.

Well, guess what? The recent set of situations in -- across this country is the punch that has hit us squarely in the face. Now is our opportunity working very closely with the Commission, as well as with other agencies to take the appropriate actions, to make decisions, but to move forward.

And that is the suggestions that we're making on the behalf -- that I'm making on the behalf of NASP is that, that the Commission mandate and enforce all agencies and reserve banks to be required to retain investment managers, advisers, broker dealers, law firms and other service providers to share their relevant information as it relates to their diversity representation. And this is easily gathered through the EEO-1 reports that all of these firms are required to submit, gets back to the point that was made earlier about data.

NASP also is recommending that we require all investment managers, advisers, broker dealers, law firms and other service providers to file reports so that we can actually glean as to what are some of the best practices, and in the private sector be willing to share some of those best practices with other organizations who may be lagging in their efforts.

We also require that we insist that our tier 1

financial managers, bankers and advisers, that they use minority and women owned firms as in a sub-advisory capacity. Just because we're great at stealing bases doesn't mean that as we step up to the plate that we can go long by hitting a, a ball outside of the park. So my point there is we have attributes and capabilities of doing other things.

And then last, but not least, to quote a good friend of, of ours in NASP, Malik Murray with Ariel Investment, he said we should monitor what we manage. And as Brenda indicated, to periodically call a timeout and review with a group that is assembled on this phone and just review what is actually taking place in these areas, in these facilities with these strategic partners that, that we are asking to partner with us, and just see what they are doing and how might be do better.

You know, I come out of a culture where we look at the whole aspect and the explanation around diversity is that while it may start on the quantitative side of diversity, it immediately shifts into the qualitative side of inclusion.

And if you can envision a pyramid with the base of the pyramid being diversity, the next rung on the ladder is inclusion, the third rung on the ladder is innovation, and the top rung on the ladder in this

pyramid is growth. We do not know of any organization or any institution or any structure that does not want to achieve growth for all of its shareholders.

So with that said, I appreciate very much the opportunity to represent NASP, and in closing I would encourage us to step into the opportunity that we have before us today to lead with courage, to lead with curiosity, to lead with leadership, but more importantly, to act on accountability.

So thank you very much, Gilbert, for having us. I'll look forward to the questions and the exchange that we'll have throughout the rest of the day.

MR. GARCIA: Thank you. I'm going to keep driving. What's interesting, though, is to hear Ron talk is it's, it's -- if you all are feeling what I'm feeling, which is who could be against transparency? Unless there's something wrong. That's the only reason, which means you should have probably more transparency, because maybe there's something wrong. And at the end of the day, what do decision makers tell at the top, what responsibility do they have?

And I'm an old-timer. I remember the RTC, the S&L crisis, and I remember all the crises in Lehman, and now here we are again, and the taxpayers always step up to the plate. Well, what obligation do

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they have to ensure that everybody participates? You know, we continue to have these large contracts that are no-bid or low bid. Why not partner with a minority owned firm or a woman owned firm to help build capacity if you're worried about capacity? Let's build capacity.

So let me go into our next speaker, Solange Brooks, of the New America Alliance. The New American Alliance is a very elite organization. It is primarily Hispanic investor professionals, but it's beyond investor professionals. They are one of the newer ones on the block as well, started right around 1999 by some of the leaders like Raul Yzaguirre, like Henry Cisneros, like Martin Cabrera. They're the ones that really said, we need some type of -- we got to be in the room when it happens, kind of like the Hamilton, and that's what really started the NAA.

Solange, it's all you.

MS. BROOKS: -- Gilbert -- ladies and gentlemen, first I applaud the SEC Asset Management Advisory Committee for focusing on diversity and inclusion as a top priority at this meeting, and I thank you for including the New America Alliance and our sister organizations to provide you with some perspective. You will find that when it comes to diversity and inclusion there is much to learn, there is

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much to discuss, and there's much to do.

So secondly, I would like to give you a little background on my organization and the people we represent that will provide you with some perspective on my comments. As Gil said, the New America Alliance is a 20-year old professional non-profit organization structured with the underlying principle that American Latino business leaders have a special responsibility to facilitate and lead the charge for a stronger America.

Our members leverage their success and influence as leading financial managers to increase the availability of investment capital for women and minority owned firms.

(Whereupon, the audio was interrupted.)

MS. BROOKS: -- to accelerate diverse leadership and entrepreneurship corporate America and public service. We strongly believe that access to capital for women and minority owned businesses is one of the last frontiers of the civil rights movement. The availability of capital means the difference between a community that can build both individual and community wealth through flourishing businesses and job opportunities in those communities that stagnate, creating an even higher level of poverty and lack of opportunity.

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As that -- as it was mentioned, initially the organization was dedicated to advancing the economic development of American Latinos only, but now we advocate on behalf of all communities of color and gender. This gradual evolution makes sense. It was inevitable.

American Latinos have always included people from a multiplicity of ethnic and racial groups and mixes of the groups, from Asian Latinos to Afro Latinos and to the blue-eyed blond Latinos. We embrace them all. We are -- this is our family, es nuestro familia, as we say. It is the diverse world that is quickly becoming mainstream, but often in the financial services arena we go unnoticed and people do not take the time to get to know us.

For example, according to a 2020 report from the Pew Research Center, Latinos are 18 percent of the population, but we possess $1.5 trillion in buying power, and more than half of us are under the age of 29. So ladies and gentlemen, the future looks Latino.

And last month at the New York Times, the New York Times columnist, Nicholas Kristof, pointed out that we live longer than other ethnicities with a life expectancy of 81.8 years, compared to 78.5 for Caucasians that are not Latinos, and 79.9, excuse me,

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74.9 for non-Latino blacks. So he partly attributed the longevity to faith, family and community ties. And faith, family and community ties are not just Latino values. They are the traditional American values. So our very act may describe the new America.

And our actions are with the firm belief that America cannot live up to its full potential if its business leaders do not reflect the composition of the citizenry. Regrettable, regrettably, as all of you know, our communities of colors have been hardest hit by the pandemic and all of the repercussions, thus making our resolve even stronger.

So it is with that understanding and background of our organization and members that I propose to you some general recommendations for this committee to consider.

As you and I know, the, the topics highlighted today are multi-faceted. And as I said, there's much to learn, there is much to consider. But seldom is there one magic bullet for a complex problem. So I echo all of the speakers today and I echo their thoughtful comments and suggestions, and I ask you to consider them. Yes, if there is a need for policy changes, we should do that. Definitely transparency, that is crucial. Engagement, which you are doing, and accountability, which we all expect.

I have four specific recommendations where the SEC can take immediate action. This is what I call the low-hanging fruit. And a, a couple of them you're already doing.

My first one is increase diversity in personnel with the -- within the SEC, particularly in decision making positions. Today, lack of diversity in the -- is the enemy of organizations, particularly in government where there are so many important decisions made. We want to see the face of America in our civil service workforce, diversity in not only race, gender, ethnicity, women veterans, but also in people with different views, you know, this -- how a person approaches a challenge, how a person solves problems, and how a person sees the world.

If this is a little confusing, why I'm bringing this up, all you have to do is place a baby boomer and a millennial next to each other working together. At first you're going to see them throwing their hands up in the air and moving away from each other, being frustrated. But then later on in a couple of days you'll see them working together, and if they're working together it's due to an understanding of each other's views a little better, and everybody benefits.

This is the same with diversity and inclusion. It prevents groupthink. It helps us understand each other and it helps us learn other people's viewpoints.

Your website indicates that the SEC is more than a workplace, that it is united by a core of set values and it is a career with a conscience. Who wouldn't want to work here? So continue what you're doing, however, reach out to organizations like those represented here today. We represent diverse populations. We can provide recommendations and we can help you accelerate that diverse leadership in public service. If you are indeed changing the face of the federal workplace with fresh talent and creative ideas, reach out to us. We will help you in that search for talent.

My second recommendation is very close to my first, and that is that all SEC advisory committees should include diverse people. Again, it is a request to solicit candidates from organizations represented here. We can be of a great assistance. And, you know, committees should always be diverse, and not by chance. It should be by design.

Latinos are 18 percent of the population, as I mentioned, but in major cities where you find a lot of

talented financial people such as Chicago and New York, we're 29 percent. In Los Angeles, we are 52 percent. And in Miami, we are 72 percent.

Also, women, you know, we're the majority in the population. Trust me, we can find you well qualified candidates.

My third recommendation is to include diversity question in the SEC audits, particularly diversity at the top echelons of funds and business that are being audited. This is a subtle, yet powerful message. It sends a tremendous signal that the SEC is cognizant of the value add that diverse teams bring to business. At a minimum, diversity prevents groupthink.

And also, if you're not doing this already, eventually you can develop a, a diversity scorecard as it was also mentioned before, with maybe -- make it simple, four or five questions or data points that should be required for all registered investment advisers to report on a consistent basis. In this way we add transparency to diversity inclusion by businesses.

And my last recommendation is probably my -- one of my most important recommendations, is that for the SEC to be an outspoken leader for diversity and inclusion in business and in government. And let me

propose two specific areas. First, first, do everything possible to ensure that there is a minimal -- meaningful inclusion and utilization of minority and women in all stimulus packages coming out of Washington, particularly in financial services. This is not new. It has been done before, the stimulus packages that came out of the great financial crisis.

And while it is true that the SEC does not distribute funds from stimulus packages, you do work closely with many other institutions, including Congress and federal departments and agencies. You can facilitate our communication with these federal agencies and within the Treasury Department that does deploy funds. So with this communication, with this dialog, we can be architects of our own destiny.

The second specific area is for the SEC to actively facilitate the inclusion, development and growth of minority and women owned businesses in financial services. Why financial services? Because it's your area of expertise, and it also the last bastion of institutional unfairness and everybody has discussed this. And lack of opportunity. There is incredible lack of opportunity for women and minority owned business, even after the Dodd-Frank Act law was passed.

You know, after a decade of that law, there is -- women and minority owned financial services firm are only 1.3 percent of the industry's trillion AUM, despite findings that the performance, as it was mentioned before, is on par with non-diverse forms. That should be shocking to everybody that's listening to this webinar.

So our proposal is to assemble a working group with the entities that represent women and minority members of financial services and basically give you -- get to the details, get to the, the nitty gritty as to how programs, how good programs are -- would work. And I'm talking about having larger firms mentor smaller ones, developing incubators, proposing appropriate regulatory and legislative changes if needed, and identify ways to promote the interests of women and minority owned financial services firm and their investors.

And lastly, proactively identify the unique challenges faced by minority and women owned businesses affected by the pandemic.

Lastly, and this is my last point, the, the Chairman of the SEC represents the agency as a member of the financial stability oversight council. This is a tremendous opportunity to be a voice for diversity and

inclusion. The council is charged with identifying risks and responding to emerging risk that threatens the stability of the United States' financial systems.

I propose, ladies and gentlemen, that the longer the situation continue with business leaders not reflecting the nation's citizenry, the more it weakens the country's financial system, as well as the country itself. The lack of women and minority representation represents a risk, because it creates an abyss between us and them.

We have just witnessed what happens when inequality reaches a breaking point, and the social unrest is unearthed. Let's address this issue before it gets to that breaking point. The SEC voice is powerful. Let it be heard promoting diversity and inclusion.

I would like to go on the record saying that the New America Alliance is here to support and assist you. We can be a constructive partner to advance the sourcing of talent and collaborate to promote diversity and inclusion. Thank you very much.

MR. GARCIA: Solange, thank you.

(Whereupon, the audio was interrupted.)

MR. GARCIA: Robert is the president and CEO of the NAIC, the National Association of Investment Companies. Robert, I don't want to take any of your

time. These words are very powerful, so my committee members, buckle your seatbelt.

MR. GREENE: First, Chairman Clayton, thank you so much for convening such an important topic and one that is so extremely relevant in the days and times that we face. Committee Chairman Bernard, thank you so much for your leadership and your commitment around this.

And Gilbert Garcia, to you, my friend, I say, brava, simply brava. The passion, the insight, the intellect that you've brought to this topic really qualifies you in my mind to be a patriot, because you are absolutely putting country first. You're not promoting your firm. You're not promoting your own wealth.

This is about our nation, ladies and gentlemen, and I'm honored to be here. And I'm absolutely saddened that in 2020 I have to speak to you about diversity. It is unfortunate that the conditions and climate in our nation require us to have an ongoing conversation about the importance of including everyone -- in times as if talent is only bestowed upon one group and one gender within that group, when in fact looking at the panel and the folks that we have assembled, it is true that God has endowed all of our people with talent,

and we simply need the opportunity to utilize that talent.

And in the financial services area it does not matter how well your models look. It does not matter how bright the light is in your office. It does not matter how tall the building is you are on top. The only thing that matters is how much capital do you have, and what are you able to do with it?

So as we break that down and look at how much capital do you have, you hold staggering statistics. You've heard statistics from Robert Raben, you've heard them from Juan Martinez, you've heard them from all of my colleagues and leaders at the sister organizations. It is abysmal, and it is abysmal that we take 70 percent of the population and we afford them the opportunity to manage less than 3 percent of the total capital.

Just think about that. We entrust 97 percent of the capital to a population of individuals that only make up 30 percent. We wouldn't do that in any other field. We wouldn't do that in any other place. And it's unfortunate that we still have to talk about that in 2020. I will spare you the text from NAIC's website. If you'd like to go out and take a look at it, it's naicpe.com.

I will share with you that my members or

NAIC's members manage a significant amount of capital on an absolute basis. Our members manage $175 billion worth of capital, and by comparison, that is less than 3 percent of the $4 trillion actively invested in private equity in this country. My hedge fund members manage an even smaller portion of that capital. And yet we find ourselves at a place where the diverse managers are the best performing managers by and large in the marketplace. I didn't say we were equal to, didn't say that we try harder. I didn't say that we are happier to, to be doing more than we did last year.

It is true and it is an empirical fact that diverse managers represented by the NAIC are the best performing segment of the financial services marketplace en masse. We take a look at a recent study. It's on our website, done by KPMG, called examining the returns. The numbers were, were received by KPMG on a proprietary basis and the returns and financials were calculated by Aon.

It found that diverse managers in private equity outperformed the marketplace by 525 basis points. That's 5.25 percent. So whatever the marketplace would have given you, had you invested the same money with diverse managers you would have outperformed the marketplace.

So why do we have to have this conversation? Why do you guys have to listen to all of us come talk to you about the many things and just the constant pounding on diversity, diversity and diversity? And it's for one simple reason. Diversity doesn't just happen. I'll say it again. Diversity does not just happen. The status quo is hard to defeat. We must be intentional about diversity. It's the exact same reason that in the fifties housing was a problem.

Racial discrimination in housing was an extraordinary problem, and it wasn't until HUD got heavily involved and made realtors and bankers and sellers and held every single person accountable that you got fair housing in America. It's the exact same reason why the federal government and the U.S. military are among the diverse, the most diverse institutions in the country, because of the Equal Employment Act and the EEOC.

We are asking simply -- I will give you four recommendations later, but there is none greater than asking the SEC to be what it's supposed to be, the watchdog over the best practices and the guardian against the worst practices in financial services. And of the worst financial services practices is the exclusion of women and people of color that are

extraordinarily talented, talented enough to sit in the top three schools in the country, talented enough to be recruited in many cases by the top investment firms in the country.

But when it comes to them becoming entrepreneurs and when it comes to them hanging out a shingle, and when it comes to them offering their services and offering a desire to contribute to the economic wealth of this country, they're denied. "We don't need you." "No, thank you." "Please go talk to someone else." "Let me help you. I will call my friends and you can go speak to them."

I had an experience in my career of being the chairman of the Virginia Retirement System. I was, I was appointed by governors of two different parties. My first appointment was by a Democratic governor and the second was a Republican governor. I offer that because this need not be a partisan issue. When I got to the Virginia Retirement System, VRS, with a $50 billion pension plan, had less than a $100 million with diverse managers.

And through an intentional effort of requiring asset class heads to talk to, meet with and determine how to include diverse managers, I'm proud to say that in a seven-year period that number went from less than a

hundred million with diverse managers to over 4.4 billion with diverse managers. And in true fashion to what I proclaimed to you earlier today, the number one segment of performance for the Virginia Retirement System at 1200 East Main Street in Richmond, Virginia, the number one performing segment of managers are the diverse managers that happened to be in the private equity program.

It's consistent with the data that NAIC found. It's consistent with the data that Juan Martinez and the folks at Knight found. It happens over and over again, yet we allow individuals, many of whom have never been investment managers themselves at consulting firms to guide, steer, gerrymander, redline and do all of the things that we've learned in housing and in other practices that shouldn't be done. They do it with impunity. They do it every single day. And they will continue to do it unless you get involved.

So let me just shift to some very -- what I feel are some very important recommendations. The first thing I would like SEC to do is to be yourself. And when I said, be yourself, it is to do what you do in every other field, and that is the action of issuing guidance. Issue guidance on diversity, the same way that you issue guidance on cyber-security, the same way that you issue guidance on fiscal controls. Issue guidance on diversity. There is a body of knowledge that can be done. There is a body of knowledge that has been done that can be shared over the -- on your letterhead that would be powerful in the marketplace.

Secondly, I ask you to use your other powers beyond guidance to investigate. The GAO has done enormous work and studies in a variety of areas. There was a, a study done in 2017 on investment manager diversity, and that study was never investigated. The findings of that study where discrimination was pointed to and lack of inclusivity was pointed to, no one ever did an SEC investigation on that. No manager was called before the SEC to talk about the practices, to talk about the behaviors, to talk about the malfeasance.

Do what you do, investigate, because that fact that you investigate, the fact that someone could be found guilty, the fact that that could be printed in a newspaper, the system can correct itself with a little help from you.

The third, and you've heard many of my colleagues report on it, is require data and reporting from two groups in particular. Require data and reporting from the institutional investors, because if they are not asking for diversity it will not happen,

and require it of the consultants. The consultants, in particular, act and operate with a level of impunity and a level of disregard for inclusivity that is embarrassing in 2020, and it would have been embarrassing in 1975.

The final thing I would encourage you to do is we do not have the ability as investment managers to exercise our First Amendment right in many cases, because we cannot -- we are banned by the SEC from making contributions to federal campaign. I would encourage you to go back and rethink the, the motivation for doing that, and take a look at the unintended consequences of doing that.

When you have a very small industry by comparison and few people within that industry that -- few, if any, that have a voice loud enough to be heard to be excluded from the thing that gets federal elected officials' attention from a policy standpoint is problematic. I understand why you did it. I understand what you're trying to prevent. But the current rules obstruct in a way that I don't think you intended.

With that, I want to thank you for your attention, and I'll yield back my time, Gilbert, to you. Thank you.

MR. GARCIA: Very good. Thank you. I'm going

to go ahead and yield my time, and I think I may be closing or speaking in a moment.

Ed, do you want to take whatever questions we have? We got about maybe 5, 10, 10 minutes, 15 minutes?

MR. BERNARD: It looks like we've got about 13 minutes, and I want to leave a minute for, for Gilbert to close us out here. So -- and first of all, let me just say thank you once again to this group of speakers. It's -- this has just been superb panel, and I'm, I'm grateful to all of you.

I will say so far it's, it's a, a fool's errand to try and distill everything we heard in a panel like this into two words, but I'm going to, I'm going to start with transparency and accountability. But I would welcome any questions from the group, and I'm trying to scan two different screens to look for hands raised, and if not, I will turn it back to Gilbert.

But let me just see if anyone -- Solange, did you want to make a comment or ask a question? You need to unmute.

MS. BROOKS: Yes. I wanted to add a little bit of context to a comment that was made earlier. It was made, a comment was made by Mr. Raben that Chris Ailman said that he focused on women, that his board asked him to focus on women. To add a little context

that is having worked at CalSTRS for 15 years and having worked in investments, what we noticed and what our board noticed was that women were not -- even though we're the majority in population, we're -- still we're lagging in education, in jobs, in pay and et cetera, and 75 percent of California educators from kindergarten to community colleges are women.

So our board did ask him to focus on women, but it was because of that situation that they identified. That was all.

MR. BERNARD: Thank you. Any questions or comments? Ron Parker.

MR. PARKER: Yes. Thank you, Ed, and thank you to my colleagues for that, that framework that, that we provided to you.

My question, Ed, to you and the Commission is what more might we be willing to provide to you as a external resource to the Commission and for the work that you do? What, what is it that you are needing more from us to help you help all of us, so to speak?

MR. BERNARD: I'll ponder that, but I want -- Dalia, do you want to comment at all, or do you want me to take that on behalf of AMAC?

MS. BLASS: I actually had a question for the, for the group, but --

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MR. BERNARD: Okay. Well, I can -- I, I guess what I would say is I think first of all, today is a great start, because you've provided a baseline. It's, not surprising, regrettably, it's a very challenging baseline of, of issues that we know have been in place for a long time. But to me, what's been helpful is the way each of you have framed the issues, brought data to bear to help us understand both what's really going on and the impact of different structures, frameworks and so forth.

So I guess what I would ask, rather than sort of give you a quick glib answer now, is to be available to us, because we're going to continue to do this work. And as we as a committee discuss it, as we do further research, I've, I've literally written down each of the recommendations that's been made, and I've got a little follow-up list of research that I think we should do.

Please allow us to reach back out to you with specific questions, to ask you what information you may have to bring to bear on an issue, and to, to give us your best advice, because it's very clear to us, at least to me from your remarks, that you all have a broad and deep understanding of these issues and are very effective in articulating how to, how to approach that.

So help us be successful in continuing this

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work, would be my, my question, or my request, I should say.

And with that, Dalia, I think you said you had a question.

MS. BLASS: I do. And just quickly on that one, you know, I, I don't and cannot speak and will not speak on behalf of the, the Commission, but just on behalf of myself, you know, what I started with in the conversation is having this group together listening to all of you, your presentations, which have been thoughtful and thought provoking, quite frankly, ideas from the AMAC on how we can not just keep this dialog going, but moving to that next level is -- would really, really be helpful.

On my question, I've heard from a lot of you in the presentations on the -- what I'm going to call barriers to opportunity. There are two that were not, you know, specifically touched on that I was wondering if we could -- from any of you guys have spoken this morning, if we can a little bit on.

The first one is -- and this we've heard about anecdotally. Is there a minimum sort of threshold assets under management that act as a barrier, a roadblock to diverse asset managers, you know, coming to the table?

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And the second one is, is there a barrier in terms of a bias towards long-only strategy and with both the maturity in the industry and the fee compression, does that act as a further barrier to opportunity for diverse asset managers to come to the table?

If anybody has thoughts for us on, on those things, we'd be, we'd be very grateful.

MR. BERNARD: Robert? And then Solange.

MR. GREENE: Yeah. Dalia, the -- those are certainly two barriers. The barrier on scale is in many cases on the higher end, rather than the lower end, capping managers, not giving managers the opportunity to compete, giving investment firms like Blackrock and others the opportunity to venture into areas without a track record, and holding all other diverse firms responsible for having track records, writing, writing for -- writing investment policies that cap where a diverse manager, how large they can be.

One of the big issues that we see in the marketplace is simply just the notion of believing that diverse managers, to Robert's point around conflation, should only receive an allocation out of the diverse manager bucket, and then needing another special program after the emerging manager bucket to transition them out, as opposed to working to invest in, in managers

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where they are.

The last big point is there is a huge incumbency bias that hurts us, so even in places that want to be more forward leaning, more progressive, you work against the notion that the plan is fully invested in an asset class. They have to wait until there is an increased allocation or they have to wait until they decide to not invest or not reup with the manager. So you can't realize significant change, because we're competing on the margins to increase the, the diversity.

So if 5 to 7 percent of an asset class's assets become available and they're deciding that they are going to need 7 managers or 5 managers or 6 managers, you're really only competing at any one time for a small piece of it, and that's what hurts and stunts the growth of diverse managers when it comes to accessing new mandates.

MR. BERNARD: Ron?

MR. PARKER: Yeah. Ed, if I could underscore that as well. I think one of the barriers, Dalia, is the unfamiliarity with us as resource. There is a tag line that I like to use and it's first of all, see us, know us, use us. In every dynamic, human dynamic, there is an aspect of trust that needs to be established in order for transactions to take place and relationships to grow stronger, and unless there is a conscious level of getting to know us so that you know what our capabilities are and to see us and to use us.

So the absence of knowledge of our existence and our capabilities is a huge barrier to us participating in the process.

MR. BERNARD: Appreciate that. And Solange, forgive me. I realize I didn't get back to you, and then after you, Juan Martinez, and then I think we may be out of time.

But Solange, please.

MS. BROOKS: Can you hear me?

MR. BERNARD: Yep.

MS. BROOKS: There's -- when it comes to barriers for -- at least for private equity firms, the first thing that you have to remember is that institutional investors do not invest with new investors. They invest with new teams. So the average new manager in private equity has already had 15-some years of experience. But even with that, institutional investors like to see at least a hundred, a hundred and thirty-five million dollars being raised so that it can prove the strategy.

So that's the very, very tough first barrier, because most private equity firms that spin out of large

funds have that, that support of, of maybe friends and family.

The other, the other problem is that normally when an institutional investor conducts an RFP there is a minimum criteria for having been in business. So a fixed income group has to be in business for about two to three years. And during those years it's very, very important that their -- that record is basically almost perfect.

So just those two areas, getting into, getting in front of institutional investors takes quite a bit of preparation.

MR. BERNARD: Thank you, Solange. Juan --

(Whereupon, the audio was interruption.)

MR. BERNARD: -- chance to comment. I'm not sure why I'm echoing. And, and then hopefully leave a minute for -- we've got about 3, 4 minutes left, and then I'd love to leave a minute for Gilbert to close us out.

MR. MARTINEZ: Sure. I, I'll be, I'll be very quick. I think that the -- sort of to echo or build on the point that Solange was making, if you think about the size of a portfolio and then what, what position size it needs to have from a return perspective in order to be able to have A, an impact on the portfolio, there

is a -- sort of a sweet spot that is a typical target, depending on the size of the -- right, over -- or the portfolio that's being invested.

And then in addition to that, there is a -- so that goes to the idea of the minimum size that you want to make as far as an allocation to a manager. But then on the other side of that, there is the, the sort of a, a position that says, well, I'm going to make an investment based on -- you, you don't want to have just from a risk management perspective there are limits as to what percentage of a fund any -- you, you really want to target, and that depends on the, on the investor.

So there is a sort of minimum view or minimum asset under management that a lot of institutional investors will, will target when they look at a, a, a potential asset manager.

With private equity, it's, it's particularly difficult, because those are vintage year funds that are, that are sort of capped and your ability to invest in them is capped on the -- in the vintage year. With marketable -- in marketable securities where there is more flexibility, think one of the, one of the, the perspective that we've taken which has helped us is to think about what, what a relationship with a manager could be, not today, but in five years as they increase

capital, so that our capital and our, and our name, allowing our name to be used for example as a, as a -- in their marketing or in their, in their, in their outreach for other funds, in, in some cases allows a manager to build their assets under management, so that as they build their assets under management, especially in the marketable space we can increase our position as well, or have the ability to increase our position as well.

That does require us to take smaller initial investment, but we're -- what we try to look at is in a longer term perspective and say, okay, over the next five years what do we think you will get to, and how can we build that position --

(Whereupon, the audio was interrupted.)

MR. BERNARD: Great. Thank you so much. Gilbert, bring us home.

MR. GARCIA: Let's do it. Hopefully you all got the same vibe I got, which this is an incredible opportunity. At the end of the day, just remember everything I said at the beginning, all those thank yous? Well, I'm saying it here now. Thank you again to everybody. Let's come up with positive things we can do for our next meeting.

I mean, for example, let's think differently.

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The movie industry changed when Rotten Tomatoes were invented. Everybody says, "What's the Rotten Tomatoes score?" If it's high, it must be good, so you go see it. Maybe we have our own score, the SEC score for consultants, how they do things internally and externally.

Another thing. What's wrong with the Rooney Rule in football? Here we call it the Garcia rule, because we implemented it at Houston Metro and the Illinois State Treasurer implemented it as well, which is every time the consultant does a search, why not bring a minority firm to the finals? It doesn't mean you have to hire them. It just means give them the exposure, because they'll learn from that exposure which just make them better. The trustees will learn something. They'll be introduced to someone they probably wouldn't have been introduced to anyway. Everybody wins. It might be a little bit more work for the consultant, but that's what they're getting paid to do.

But what's clear is the tone at the top of the SEC is there. We have the right chairman. He's already done some things on these guidances as it relates to board diversity. Thank you, Chairman Clayton and the Staff. But the key is it's not just him. It's Dalia.

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It's, it's the tone at the top that goes all the way down to the bottom.

We need to seize this moment. We are at the right place at the right time in history where the world is really watching us. Let's make it happen. Thank you.

MR. BERNARD: Thank you, Gilbert, and thank you again to all of our speakers. This has been a superb panel. We're very grateful to you. I'm going to actually borrow Dalia's words in this chair. I think I can safely pledge on behalf of the committee that we will work hard to figure out how to keep the dialog going and move it to the next level.

With that, it's 11:32 East Coast time. I'm going to try and keep us on time and suggest that we take an eight-minute break, let everybody get away from their screens for a moment. For those of you watching the webcast, I believe it's -- it will be muted and a title screen will go up. For those of you who are participating in the webcast, I would ask you just to mute your audio and video, but don't log off. Let's stay on.

And I will introduce Neesha's panel at, well, it will probably be 11 -- I'm looking at my watch now, maybe 11:42, so please get back to us as soon as you

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can. Thanks.

(Whereupon, a brief recess was taken.)

MR. BERNARD: Okay. So we're back. Thanks, everyone, for taking a very efficient break. In the interest of time, I'm just going to once again thank Neesha, Mike, Russ and Ross for pulling together this great panel, and thank the speakers for their participation, and turn it over to Neesha to get us going.

DATA PRIVACY AND TECHNOLOGY'S IMPACT ON INVESTMENT ADVICE

MS. HATHI: Great. Thank you, Ed, and thanks to everyone for spending time on a topic that I think was woven throughout the very first AMAC committee meeting that we had which was around data and technology. The ask for our group was to identify within that broad landscape of data and technology, what are the areas that, this group should really dive into?

And with my -- with the help of Mike Ross and Russ we met and discussed and thought that there were two topics that were particularly compelling and that this group should dive into, and they were around data provide -- privacy, as well as what I think we internally call the deconstruction of the, of advice. And, and so the two focus areas that we're going to

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spend time on during the, the rest of this meeting are, are those two.

And, and what we've done is we've put together two panels, similar to actually the diversity inclusion, the fabulous diversity inclusion topic that we just discussed, two panels to dive into those topics.

For each of these panels, we were lucky that we have been able to recruit -- and a big shout-out to our colleague, Mike Durbin who helped with that recruiting, some really fabulous experts, who we think will help bring dimension to both of these topics. We specifically tried to select panelists who are not only experts, but potentially had opposing or differing viewpoints to bring, again, more dimension to these topics.

So, so first we're going to dive into data privacy. Oh. And by the way, we've structured this so we're going to have about 30 minutes for content from our speakers, their, their perspectives, sharing their perspectives, sometimes through slides, sometimes not. And then followed by a 15-minute Q&A, and then we'll shift to the second topic.

So the first topic we're going to spend time on is data privacy. And as is obvious to everyone, the way that our industry interacts with data has evolved significantly over the past many years, and the growing use of technology has impacted the way our, our firms manage -- assets deliver advice, and I would say overall has advanced -- has created some advantage to the way that we serve clients and the opportunity to serve them even better, and at the same time has opened up our industry to new risks, and we continue to hear concerns from investors about the use of their, their personal confidential data and, and how our firms in our industry use that data, how we share it, and how we ensure that it's private and secure.

And so today we're fortunate to hear from the two experts on this particular topic, and I'm going to introduce them and then hand it over to them to dive into these topics.

So our first expert is Stuart Rubinstein, who is the CEO of Akoya. Akoya is a network that facilitates consumer permission data access, and Stuart founded Akoya while he was at Fidelity Investments. Earlier this year Akoya was spun-out with Fidelity and 11 of the nation's leading banks. I think some of you know Stuart. He's really a true expert in this field and, and has a lot of passion for this particular topic. So I'm excited that we're all going to get this opportunity to hear from Stuart.

And then our second panelist on this particular topic is Lowell Putnam, who is the head of partnerships for Plaid. I think many firms are familiar with Plaid and, and the business model that they have. They are one of the leading financial account data platforms. And before joining Plaid, Lowell was the CEO and co-founder of Quovo, which many of the firms in our industry have also worked with, which was acquired by Plaid in 2019.

So I'm going to turn it over to Stuart and Lowell to dive into our first topic around data privacy.

MR. RUBINSTEIN: Great.

MS. HATHIS: Stuart, Lowell, you there?

MR. PUTNAM: Yep.

MR. RUBINSTEIN: We're here. Thank you, Neesha. Can everyone hear us?

A PARTICIPANT: Mm-hmm. Get going.

MR. RUBINSTEIN: Thank you, Neesha. Thank you, Mike, and the rest of the committee for inviting us today. I'll just tell you a little bit about Akoya to start as just an intro. You know, Akoya, as Neesha mentioned was, was born at Fidelity Investments really to ensure that consumers have the ability to grant third parties' ask, if you will, you know -- things -- about things, like, whether it's Turbo Tax or Venmo or, you

know, or all these -- a lot of these firms are client's of, of Lowell's firm or Plaid, so that consumers can grant them secure third party access to their accounts in a safe and transparent manner.

Historically, the way that's been done is consumers have given their account IDs and passwords to third parties, and those third parties have kind of had, you know, access to sites and would scrape data from those sites. In today's environments that just doesn't work anymore.

So we formed this data access network so it could be done in a safe, secure and transparent manner. We built it for one firm. We started building it for Fidelity Investments, and we quickly realized that this is a network problem. It's -- every firm needs to kind of do the same thing. Every data recipient, that's what we call those firms, need access to all of those firms, so it's a many to many problem, to move from an old method that's way less secure to a, to a new method.

So Akoya was born as a network to facilitate that. We spun it out of Fidelity, so one firm doesn't control it, but it really becomes a platform for the entire industry.

That's a little backstory on, on Akoya, and I'll turn it over to Lowell to give you a little bit

about himself and Plaid.

MR. PUTNAM: Am I still muted or am I --

A PARTICIPANT: You're good. You're good.

MR. PUTNAM: Good. So you can tell by our outfits, Stuart and I don't always see the world the same way. But I think that you'll find during this panel we actually have a lot more in common than we do otherwise. Plaid is I guess the closest thing I can think of to open banking in the U.S. because it was built during a time when institutional data, to Stuart's point, really just wasn't available to consumers to share with third parties. And so both my old firm, Quovo and Plaid got data however we could with consumer consent, and then passed it on to third party apps for a variety of purposes. And so I break those purposes into two big categories, learning and doing.

And so a learning purpose might be Mint.com, or a budgeting app, or an investment adviser if he wants to -- financial planning or satisfy fiduciary standard or a -- even a best interest standard with their customer and so they want to see a 360-degree view of a client's assets.

What's been exciting, especially for I think this group is that when I started Quovo back in 2012 we had to educate the investment management and wealth community on why advisers should care about seeing the 360-degree view of client's assets. And in the past eight or nine years that's a no-brainer, right? It's, A, better business for the wealth management community. It allows advisers to do their job better. And there's even a, a compliance and regulatory benefit to being able to see more of the full picture. So it's always exciting when we see the education portion go away from our sales process into an industry.

On the doing side, that's actually something where Plaid just really picked up the majority of its volume. And today, between a quarter and a third of Americans actually have used Plaid to link an account. Most people on this call have probably used Plaid or Quovo at one time or another.

And the doing use case is usually account funding or bank to bank ACH transfers where Plaid can be used with a credentials based or some other authentication or permissions process to pull data from a bank account for ACH transfer, as opposed to doing the old micro deposit model, which used to take a couple of days and apps would see a drop-off rate between 30 and 50 percent of customers that came in to use them and then fall off.

So in my personal opinion Venmo couldn't exist

without the services that we provide, because you download the app, you get linked up and then you're off to the races.

I think that we should, we should asterisk two big, two big concepts here. The first is consent, because that's something that Stuart and I are going to talk about a fair amount, what defines consent and how do we sit on top of consent, how do we regulate consent and how do we --

(Whereupon, the audio was interrupted.)

MR. PUTNAM: -- consent. Both of us I think agree completely that we only exist because consumers want to move their data around. They want to share it with third parties. We live in a world where you don't just have one financial relationship anymore. You have several or even dozens. So the concept of consent I think the entire industry agrees with. If a customer wants to move their data around, in theory they should. It's just a question of how, when and what happens after that data has been shared that really not a whole lot of attention has been paid to.

The second concept that I think is worth reflecting on, but probably not dwelling on is that a number of people here on this call probably from the asset management space are familiar with what I call

sort of the -- like, the, the closet or like the -- you know, the closet where you keep all of your junk in the front hall of the aggregation space, which is companies that have resold aggregated data that they've received for one purpose and they have sitting in a database, and then have resold it to third parties largely in the asset management space, often in the alternative investment space.

Because, honestly, if you can see into a quarter of American's bank accounts, the ability to trade retail stocks or other consumer stocks can be, or there is a theory that it can be -- you can be more efficient that way.

That's not something that Plaid does, and I think that's something where both Stuart and I feel like if that's a use case that's going to continue there have to be a lot more guardrails around it.

But Stuart, and I'll kick it back over to you to maybe discuss some of the concerns and some of the controls that the industry views as probably necessary for this next generation of account aggregation --

MR. RUBINSTEIN: Thanks, Lowell, and, yeah, I'll hit on one that Lowell just mentioned, you know, which is consent. And so the way consent has worked till, till now is a client has gone to an, an app and

given their credentials to that app -- you know, click through whatever agreement that app may have.

That app employs a data aggregator. Often it's, it's Lowell's firm. There are several others in the business as well. So think about the chain now. Consumer gives their credentials, ID and password to their account to some app. That app gives it to another third party firm called the data aggregator. That data aggregator then shows up at a financial -- typically a financial institution, a custodian website, inputs those credentials. They're seen as valid. And then the data is brought down and passed back through.

The data typically is stored at the data aggregator, and then a copy of it is passed on to that app that's used to display something back to the consumer or to do something that the consumer wants to do, as Lowell said that.

You take that view from the financial firm. The financial firm only saw valid credential. They have no idea whether there was actually consent or not.

Now, I'll take you to my own account, right? You know, I had a, an account with Yahoo, right? I had an e-mail account, Yahoo, goes back actually to the beginning of Yahoo e-mail, and that account was breached. Yahoo's IDs and passwords were stolen, was a very well known, very well known breach.

Well, like a typical consumer to be, I used the same ID and password at many different websites, many different applications. Well, guess what? I used the same ID and password on my brokerage account as I did on my e-mail account. Now those credentials are in a criminal's hand. Many consumers do this. They use the same credential. I don't do that anymore, by the way, and I suggest everybody who still does that go and change them all.

But the financial institution has no idea whether that's actually the consumer coming in and often -- you know, most of the time it is, or if it's criminal activity that's gaining access to data which can then be used to social engineer a call center, to establish an account at a contra firm, and maybe even to, maybe even to move money.

So look to, to today's model that firms are trying to implement and, you know, and we need to move -- frankly, I think we need to move a lot faster, where consumers should be giving consent to the firm, right, where the data and information is held, affirmative consent, saying, yes, I want this third party to access, be able to access my account, the same way you would for any other kind of power of attorney or, or a trading

authorization, help the firm -- let the firm get that consent directly for the consumer.

The firm can then help the, the investor monitor who has access to the data, which of their many accounts are being accessed and help them control that, monitor that, and be able to revoke that consent through their firm interface when they don't want to let that access go on anymore.

I would say that's the number one thing for firms and frankly, number one thing as we talk later about maybe what regulators should look at, is how firms actually manage and monitor who has access to their systems, who has access to the data, and help consumers keep track of that and, and help consumers control that. At the end of the day, consumers should be able to control --

MR. PUTNAM: I agree completely. I use the term conspicuous consent, which I think is really the direction that the industry needs to move in, because, you're right, burying -- and regardless if this is at the institution, at the app, at the aggregator, at the whoever, the idea of a terms of use, 80-page click through, or even an 8-page, or even a half-page click through, is really asking too much for the consumer who is in the middle of a single workflow that they have to

get interrupted with in order to share data from the third party.

And so the consent process really needs to be conspicuous, and this is from a user experience standpoint, from a design standpoint, and then obviously conspicuous to all the other --

(Whereupon, the audio was interrupted.)

MR. PUTNAM: -- exactly what's, what's happening. I think the, the struggle is that we've got 10,000 institutions in the U.S., give or take. You've got probably that same number for the rest of the world combined. And what we've seen in the EU, who is far ahead of the U.S. in terms of a top-down mandate or a top-down approach to the sharing process where they, they have a regulation called PSD 2, that basically mandated open banking and open exchange of data several years ago.

And everyone patted themselves on the back for it across the EU for putting this thing in place and getting great consensus for it, and then the first deadline hit, and nobody was ready. And then the second deadline hit, and nobody was ready. And then they banned the use of screen scraping because they had a better protocol that had been mandated, but it didn't exist. So they turned screen scrape back on again.

And now here we are four years later, and we're about 10 to 20 percent penetrated into Europe with PSD 2 compliance. And that's not even across the largest institutions.

So the, the fear or the concern that, that I have and I think that Plaid has is that there are more use cases being built for helping consumers quickly. There are more Venmos and Betterments and SoFis being built than there are institutions who are capable of actually making this protocol work, which I think is where standards like Akoya come in, or Plaid's own version, which is called Plaid Exchange, where I think we all realize that the top 10 institutions might be able to get this stuff built with all of the controls and the uptime and the, the sort of sophistication that we need.

Outside the largest institutions in the country or the world, you know, the Regional Bank of -- you know, Bank of Danvers, Massachusetts where my brother has his account is not at all prepared to actually build an informed consumer consent layer on top of all the different use cases where the data could go.

So the question is how we get from the philosophy that the whole industry agree with, with -- to a practical working safe protocol, and I personally

-- which is, maybe this isn't, you know, helpful for anyone here, I'm very bearish on the industry's ability to adopt it without a lot of help and possibly top-down help.

But Stuart, maybe you can talk to the stuff that Akoya's done to try and get that consensus, because it's herding cats to the tune of 10,000 of the slowest moving, least technically sophisticated companies in the entire country.

MR. RUBINSTEIN: Yeah. That's a -- you know, Lowell raises a good point. We have a lot of large institutions who manage their own systems who are probably of -- who are capable, and many have already started making moves in this direction. What do you do about the small institutions, like Lowell's father's bank and things like that? The good news is they use third parties.

In banking they use, you know, firms called core providers. In wealth management you could think of those like clearing firms. They use third parties for their systems to get the 10,000 banks, you have to work directly with maybe the top 30 or 40. The rest is about five or six core providers who do the systems work for them.

So like anything else in life, right, the work

expands to fill the available amount of time, right? If we don't kind of force the issue about making a system more secure, Lowell's right. Nobody will -- you know, people will put it on their list and, you know, it will be number 20 on the top 10 list. Yeah. I said that on purpose, number 20 on the top 10. It will just never get, it will never get done.

However, if we set deadlines for firms, like, like, many other things that we've done in the past across our industry, our industry responds really well to deadlines, like, fights them until they're set in stone, and then adopts them. If we set deadlines, we'll get the core providers and the clearing firms to do the work for the small firms, and the large firms will do the work themselves.

And again, many, many are already, many are already doing that. It's important, not just from a data privacy standpoint, but for this group, I think this group understands, it's also important from a systems capacity standpoint.

When you talk to, you know, whether it's a brokerage firm or a 401(k) provider, 20 to 40 percent of daily activity on those websites can be coming from robots, coming from third party firms that are refreshing data every day. Think about how often an

individual checks their 401(k). However, the robots go and scrape that data each and every day.

Now, add a day of market stress on top of that and you watch people who don't have the capacity to deliver what they need to deliver for the consumers who are coming in on those very, very busy days. We've seen that in brokerage. We know what that's like and we know how to handle and we know how to flex up capacity.

Banking, on the other side, did not see that until the -- this pandemic. And back in April banks had to throttle, actually had to block robots from coming in and accessing, accessing consumer data. They just didn't have the capacity. Consumers were coming in to check if their unemployment check was there or just to check their balance, to check if their PPP loan came in, to check if their stimulus there.

So banks had this increased capacity that they never, that they never saw before. So it impacted the whole ecosystem.

MR. PUTNAM: Yeah.

MR. RUBINSTEIN: So what -- what -- and for the -- you know, some of Lowell's clients couldn't get access to the data that they needed for their service.

MR. PUTNAM: On -- yeah. On any given day, I don't know the exact numbers, but Plaid is probably the

plurality of all traffic inside the financial services system in the United States for consumer facing institutions. And --

MR. RUBINSTEIN: But using consumer websites that weren't built for that.

MR. PUTNAM: Exactly. And so the, the -- and number two behind Plaid is probably another aggregator and number, number seven or eight might be consumers themselves. However, my, my largest issue with, with this is that every single -- for, for with only minor exceptions, every single institution that has suffered from the load of aggregators on them have tech budgets that are somewhere between 50 and 5,000 times Plaid's own technology budget.

And I do consider it inexcusable for a financial institution not to have a 2020 load scaling system for managing five, ten, a hundred X the volume in a 24-hour period. Plaid itself manages more volume in and out of it than the largest bank in the world on a daily basis, and our engineering team compared to JP Morgan is a hundred people, versus God knows how many.

So I do think that -- I'm not sure if there, there is a regulatory angle here, however, I do think there has to be some, some pressure on financial institutions to grow up their own load capacity to what isn't even a 2020 level, what is honestly a 2005, 2006 level, for the ability to scale dynamically to handle increases in loads.

MR. RUBINSTEIN: So Neesha was right when she said that Lowell and I won't always agree on, on everything. That is clearly an area where we disagree. It's not about increasing capacity on a website that's not meant for, not meant for businesses to come in and get a high volume of data. It's meant for consumers to come in with single keystrokes and go to one or two pages, which is very typical. What firms are doing -- there are no firms anymore saying, hey, we shouldn't -- consumer shouldn't be able to access data through a third party app. That, maybe that was some old thinking. Now everyone agrees. There were third parties who provide extremely valuable services.

Again, you know, think about tax planning. Think about financial planning, right, you know, companies like Be Money or Money Guide Pro. There is money movement, you know, Venmo and PayPal and Zelle, and things like that. But they have to be done -- those are business to business connection. Those connections need to be made in the business to business way.

Firms need to be involved in that, so that we're delivering the right data, we're delivering it in

a way that we have consumer consent, and we're delivering it in a manner that everyone continues to have access to systems. You can have an individual who's coming in to maybe liquidate a -- you know, liquidate a security in a time of market stress competing with someone who's coming in to access thousands or tens of thousands of accounts.

MR. PUTNAM: Yeah. I think --

MR. RUBINSTEIN: The channels aren't made, the channels just aren't -- weren't built for that.

MR. PUTNAM: It's, it's worth -- it's also worth discussing a little bit the additional challenge of the data itself, particularly in the wealth management space, is actually a more complicated dataset by a number of levels, compared to the banking space that an -- a banking ledger, most people are familiar with, is quite simple, right?

There's, there is transactions in and out. There's a single security, which is cash. There's some interest, and it's pretty clear that the data is actions that I do out in the world which is then reflected directly in the bank account, and then a little bit of internal chase stuff, like interest and things like that. And so the ability to separate out who owns what data, it's kind of between me, the aggregator, the app,

and, and -- my, my primary bank.

However, in wealth it is much more complicated, because there are multiple securities in every account. There are corporate actions that happen on securities, and there are not clear rules of the road right now about exactly how that ownership construct works. I don't know.

Stuart, do you want to touch on, like, some of the different owners? When we sat down to talk, preparing for this panel, Mike Durbin threw out three or four, and then we threw out three or four more, and then Neesha and Mike threw out another three or four. And so the actual number of human beings or entities that own or have an ownership claim on a single record of holdings in an investment account is much more complicated I think, than most people realize this is.

MR. RUBINSTEIN: Yeah. That's a great, you know, a great point, Lowell, is, you know, who -- the question comes up often in data aggregation, who owns the data? And in banking, you know, it's going to be clear. You know, if the data is generated by the bank on behalf of the customer, so somewhere it's definitely between those two.

In asset management most of the data is licensed from third party. So if you think about an

equity position, maybe the firm and the client together own the number of shares, but the ticker symbol, the name of the security, the price, the dividends, you know, think about everything that's on, like, an expanded quote or show -- even the, the few bits that show up on a statement, all of that typically most firms license from someone else. And they license it to be redistributed to their consumer, right? You can show it on the website, you can show it on a statement, you can show it on a confirm, right? But they don't necessarily license it to redistribute it to another for-profit entity.

MR. PUTNAM: Yeah.

MR. RUBINSTEIN: So when the consumer wants to grant someone else access to that, it creates another issue for firms on both sides, right, you know, on, you know, who has to license that, how does that work, can a firm even redistribute that? And if a firm is violating their agreement, can it potentially block access? The firm is not worried about, hey, if we redistribute that to the third party, that third party needs to get a license and if they don't, it's their problem.

What they're worried about is if they violated their license by redistributing it, potentially blocking them from getting that data in the future, right?

Meaning no data for all of their consumers --

MR. PUTNAM: I think that this, this -- this is a situation where, where this group and the SEC and regulators in general I think can be very helpful in creating better rules of the road. Because, honestly, Stuart and I are both in the business of making sure people can get the data they need to either have better relationships with their advisers or make better financial decisions.

And if a CUSIP is sitting in the middle of that, and that gets in the way of a consumer getting a better financial plan or, or having a better budget, we're, we're talking about a third party's owner, ownership of a string of symbols and numbers possibly getting between a consumer and a better financial outcome.

And so I think that in terms of requests for things to take back from, from this conversation, I don't think that, you know -- I was about to say, is I'm not going to get up and ask the SEC to remove S&P's ownership of CUSIP, however, potentially something I'd love to see happen, just -- I think it's sort of ridiculous when a company puts itself out as the owner of, of data and then also says, this should be the universal anyone has to use to identify security, which

is -- but the, the bigger point is we do need to make sure that a consumer looking to get a better financial plan isn't stopped at the starting gate because of a third party that is in no way related --

(Whereupon, the audio was interrupted.)

MR. PUTNAM: And so finding a way to step in and manage these different data owners so that the consumer, who honestly doesn't think about CUSIP ownership when they place a trade, because otherwise they, they might make a different decision or they might choose a brokerage that doesn't use CUSIPs, they use those -- the universal security identify, the Bloomberg identifier, or whatever.

I think that it is very important that consumers get to have their best interests put in front of IP around data reselling and the profit of data resellage.

MR. RUBINSTEIN: I think in the interest of time, I think we said we'd go about half an hour and then open it up for questions. So we should probably do that. So we're happy, Lowell and I are happy to take your questions and --

(Whereupon, the audio was interrupted.)

Mr. RUBENSTEIN: -- a little more.

MR. BERNARD: Neesha, I'm happy to facilitate

questions, but is there anything you wanted to offer before we go around the screen?

MR. RUBINSTEIN: You're on mute, Neesha.

MR. BERNARD: Am I on mute still?

MR. RUBINSTEIN: No, Neesha was.

MS. HATHI: I'm sorry, Ed. I was on mute.

MR. BERNARD: Oh. Neesha.

MS. HATHI: No. I just -- only thing I would say is I, I hope, I hope we've met the promise that we would bring some opposing viewpoints on this topic, because I think it is a, a complex topic and I think we can easily dive into deep areas here and lots of complexity, but hopefully it has helped illuminate. And I'm, I'm looking forward to what questions the committee has as well.

MR. BERNARD: Okay. Michelle Beck.

MS. BECK: This question for Lowell. I just wanted to get a better understanding. You talked about screen scraping as a lower standard of what these data aggregators could be doing, and so if you could give me the compared to what, and, and, and why you see it as a lower standard, just need to understand the terrain better.

MR. PUTNAM: I, I agree with, with Stuart's general, general hypothesis, that if you were to tier

out the, the quality of data you can get from an institution. An API that is purpose built for the distribution of data is going to have higher uptime. It's not going to change without someone giving us a call first, and so we know it'll, it'll work more consistently.

And then I would say down at the other end of the spectrum is statement parsing, PDF parsing or HTML parsing, which means they could change very, very quickly, and the parsing technology is very, very brittle. Somewhere in between is where most of the technology works today. Screen scraping today is almost never HTML parsing, which is what it was before, right?

Back in the day, websites were rendered on a server and then sent over as a big block of HTML and then you get what you get and then parse it up. Today most websites and apps are built with APIs, and so really what aggregators like Plaid uses are APIs or, you know, highly structured data feeds, and so the data is pretty workable. It's just not built for this purpose.

So the, the main issue is it could change at any moment and then the thing goes down. And to Stuart's point, the APIs that are built for this are sitting on top of servers that are doing a whole bunch of other stuff too. Having a, a dedicated silo-ed API just for this purpose is the way to maintain uptime and also data consistency.

And the amount of Plaid's code that goes into monitoring that, you know, quantity and price always show up in the same place -- flip flops, is, is a bad use of our time. We should have an API that hopefully has price next to price and quantity next to quantity --

MR. BERNARD: Other questions? Erik Sirri.

MR. SIRRI: Yeah. You mentioned that PSD 2 pretty much didn't, didn't roll out the way it should have rolled out or the regulators would have liked it to roll out. What's, what's the lesson out of that? I mean, it seemed like that was a, that was a regulation that was designed to level the playing field, reduce fraud, get things on a, on a level ground. But, but there was no update. What should we take away from that lesson?

MR. PUTNAM: Well, so the, the best example I can think of for this is those of you who remember the CARDS initiative from FINRA of about four or five years ago. I assume there are some people who are scratching their head and some people who remember it and are nodding sadly, is that it was -- the -- it was -- I think it was great, by the way.

The idea was to have a standardized set of reports that, that firms would have to give back to FINRA to make monitoring more proactive instead of reactive and less audit-focused. So if structured data went back to FINRA on a regular basis, the, the concept was that the net amount of work going into regulation would be decreased significantly because people wouldn't be digging back in or wouldn't be -- have to do reactive audits, which also is hell of a lot more expensive, right, when you're doing a reactive audit versus getting stuff in the, in the first place.

And so it was this great initiative and then it was destroyed. It was -- you know, the carcass is long behind us on the road, because the, the firms really were concerned that all of them on a set timeframe tried to build a set of reports. And these were reports going to one entity, right? This was a report or a CSV to be generated on a regular basis to go back to FINRA, let alone an API that anyone could access.

The tech lift alone that PSD 2 required on banks was just so massive, and banks think in terms of annual or even multi-year planning cycles for this. It was just asking companies that are not technology companies. These companies are highly tech enable

financial services companies to become technology companies.

You know, but Plaid is an API company. It's what we do, and we've hired 500 people across the company to build it and sell it, and those are hard people to hire. So building these things, to Stuart's point too, outside the top institutions that can allocate a resources to this -- and even there, you look at, you know, I'm sure that Mike and Neesha can state to this, as probably the two most sophisticated or two of the most sophisticated wealth management companies out there, allocating resources to get this stuff built is a very time consuming difficult process. And then take that out to the 40th largest bank in Italy, forget about it. I think that that's really the issue from the top down approach.

So I think that we all agree here, the industry first approach driven by massive customer demand is moving things along. I'm not sure what a top down edict would, would necessarily do. But, I mean, Stuart, I don't know what you think, if we're going to hit a period of sort of slow-moving where actually from a top down standpoint would actually help accelerate it.

MR. RUBINSTEIN: Yeah. I actually don't think we have a choice. I think that we've built incredible,

we've built incredible businesses and lots of innovation on an extremely shaky foundation. We're allowing access with consumer credentials, which doesn't let firms do a lot of security stuff that nobody really knows about that does under the covers, making sure it is the right person logging in. They don't do that when it's, you know, a third party coming to the website. We're one significant cyber event away from the whole system crumbling the way it is today.

We need to move to a place where firms are sure who they're dealing with, who they're getting the authorization from, maintaining that, maintaining that authorization and helping consumers they'll get monitor be able to revoke that access. When it's done directly between the consumer and the investor in our case and the firm that they're, the firm that they're working with firms are -- they have a lot more confidence that they know who they're dealing with and are, are happy to, you know, engage with the data.

We want our consumers to be able to use these services, right? We want people to be able to, you know, financial plan, do their taxes, do budgeting, check their accounts, understand their spending, but we need to do it in a way that's safe, secure and transparent. That's not how it's been done, but we can move that way.

And I really can't comment on the success and failure of PSD 2. What I can comment on is that if we don't do it, it will be thrust upon us and it will be thrust upon us, you know, in a state of emergency. We should get ahead of it now.

MR. BERNARD: Neesha.

MS. HATHI: Yeah. Ed, there was just one point that I, I think -- I'm not sure if Lowell and Stuart made explicitly, and it connects to Michelle's question and I want to make sure that we, we talk about it just for a moment, is that, you know, when, when the firms access whether it's our website or Fidelity's or whoever's website through using client credentials, they then are entering and look to us as if they're the client.

And what that means is they have access to all of the information that that client would have access to. And often when that client has consented to provide this third party application a data, they're, they're thinking they have a particular use case in mind. I want to link this account, I want this app to get this particular balance, I wanted them to know about this transaction.

They don't necessarily have in their minds,

oh, wow, once I give this consent this firm is going to have access to all of the data that's available once I -- once they log in looking like me.

And so I think one of the other, one of the other challenges with the scraping model that both, both folks here are talking about we need -- us needing to move away from and moving towards the more API, more structured, secure approach, it is so that the consumer or the investor actually can control the datapoint or the datapoints that they actually want to give access to, and not have it be a kind of once you're in, you're in and then you have access to all the, all the potential data that that consumer, that investor may have accessible within their profile with, with the firm.

MR. PUTNAM: I think --

MS. HATHI: I hope that, that makes sense and, and maybe Stuart or, or Lowell, please chime in if you have more to add there.

MR. PUTNAM: I mean, I, I agree in principle with the concept of making sure that a bad actor doesn't go take whatever they want. The, the flip side of the concern from an aggregator standpoint is we've seen this with some of the largest banks that we've had to negotiate data access agreements with to get onto their

API is that the banks say, oh, you can get, you can get balance and transactions and take this and take that, get everything the customer needs, with the exception of, of account number. And this is largely from banks, which is I think particularly clever, which is the one piece of information that a consumer could use to actually transfer money away from the bank, which they would like to do to move to a neobank, to move to another bank. The institution is actually saying, well, we aren't going to do that.

Even though our API is ironclad and very safe and you've been through an audit, we're not going to give you the information that the consumer wants, by the way, however, it's the information that actually allows assets to leave the firm, which is, is -- I think that that, that trend is starting to shift, because it's not entirely in keeping with the spirit of, of open access for, for consumer controlled data.

But it is interesting that we see that the, the flip side of an aggregator being able to take whatever they want screen scraping is an API allows a bank to decide not to send something, or God forbid, someone decides at a custodian that their data licenses have changed with a third party data provider, and as a result the institution has chosen to no longer make a

401(k) available to someone for their financial plans, because they, they think it's going to run afoul of in essence the license agreement.

MR. RUBINSTEIN: Yeah.

MR. PUTNAM: And our opinion is that, you know, Schwab or Fidelity's S&P license agreement is a lower --

(Whereupon, the audio was interrupted.)

MR. PUTNAM: -- than the consumer making sure that they're financial plan or their 401(k) is available to them the day before they retire. And so that's sort of the tension is that the more controls you put on for the -- from the institution's perspective means that the institution can become a bad actor in terms of the data they're not going to allow the consumer to take with them based on the, the circumstances.

MR. RUBINSTEIN: Yeah. Yeah. There's, there are some challenges with, with that, so thanks for bringing up the point. I'll just give one example of something that, you know, I saw in the brokerage business. You know, clients are signing up for things where they think -- yeah, and they think they're doing budgeting, they think they're doing their taxes, right? They think they're just connecting their accounts for, for -- to send money to their babysitter.

But again, in the brokerage business we have lots of stuff on our websites. We have beneficiary's, we have beneficiary's social security numbers. We -- actually have open transaction, open orders, right, limited orders placed, not yet executed. Well, what we saw was we saw data aggregated. We, we tagged all the pages, so we saw who was hitting each page. We saw data aggregators accessing open orders, right, accessing the page that had the orders waiting to be executed.

So the firm -- I was working at the time. We actually blocked the access to those pages. We had the technical capability to block access. We never heard from the data aggregator that was accessing those pages. So I'd like to think that they just weren't using it. Perhaps they knew they shouldn't be accessing it. But we don't believe that's what the consumer granted access to, right? If the consumer knew they granted access to this, somebody would have complained to us that we blocked, that we actually blocked that.

We blocked it because we thought it was potentially market moving information that we should not be -- you know, in an individual level it probably isn't, but en masse it probably is. So we thought that that would be information that we probably shouldn't have let out, unless we understood the real need, and we

never got that.

So when you go through the -- each piece of data, really have to understand why is it, why is this flowing, how is it being used, and how can we make sure that it's safe and secure and only being used for what the consumer actually intended?

MR. BERNARD: So, Neesha, if I could take the privilege of the Chair and ask one last question, and -- because I, I suspect you're ready to move onto the next one.

MS. HATHI: Yep.

MR. BERNARD: This is a fascinating topic. I'm guessing if we had time to discuss it, we could get unanimous agreement. You sort of talked about ultimately, and I realize there's a complexity in defining what the data is, but that consumers should own their data and that we should have consent. And it's two values, two core principles.

Without getting into a big legal exposition, I guess my question to the two of you, my question is a lot of this is being resolved by industry participants through collaboration and sort of standards setting boards. I think you all are members of one.

Just tell us, how is -- how are these decisions being made and which ones are by unanimous

consent among industry participants, versus laws and regulations? And I'll just -- part of the reason for my question is I think this committee will all agree on the importance of it.

One of the things we'll have to research with help of our colleagues at the SEC is where and how the SEC -- this is a vast topic that goes beyond the SEC, and, and where in fact the SEC can bring something to bear on the issue. But I'm sort of curious. Are we just in the Wild West, or are there responsible adults who are setting standards here?

MR. RUBINSTEIN: You know, Lowell's firm and my, and my firm are both members of the Financial Data Exchange. You know, I sat on the board representing Fidelity when we were part of, part of Fidelity. There are responsible adults on all sides of this, of this issue setting standards, right, setting standards for what does consent look like, what does the data transmission look like. There is mostly unanimous consent on the data elements. You get into specific ones like account number, for example, right? You know, some people don't want to share it because of the potential for fraud, right, you know, accounts and routing number are the two things that the ACH system --

(Whereupon, the audio was interrupted.)

MR. RUBINSTEIN: So it's more solving what the need is than maybe sometimes the specific data field, and so it will take time for industry to wrestle with that, but some of those are being wrestled, are being wrestled with. It's about adoption, which is the issue. This goes back to my statement that work expands to fill the available amount of time, right? So we could have standards, but if we don't have a forcing mechanism to get people to adopt, it will drag out forever.

My first conversations on this were with a data aggregator almost four years ago. Some firms had them five years ago. You can go back in, you know, October of 2015, this was a story in the New York Times and the Wall Street Journal regarding a couple of banks and, and data access. And most of us are kind of in the same spot where we were. A few agreements. There were a few implementations, but most folks, screen scraping's still going on, client credentials are being used.

You know, we can talk about it for the next five years, or we can try to push, you know, industry, whether it's through heavy suggestions -- registered regulations, heavy suggestions from regulators, through questions from examiners. There are ways to push it forward. You know, there is talk on data privacy on

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Capitol Hill, right? You know, some, something has to force industry to move or we'll just have this -- that hangs out there forever.

MR. PUTNAM: I think that's, that's a hundred percent right, that the -- it's not worth the time of regulators to get into some of the specs for the operational how of this. I think that's something that industry can figure out. And even if we don't agree perfectly, even if there are five different competing specs in the industry, five is certainly better than the thousands today.

I think where, where we can all use help from regulators is exactly to Stuart's point, which is to put pressure on adoption, that if we all agree on a better way to do things, actually getting industry adoption top down is, is the only reason that you're going to get the next CIO or CTO to put this above the new login page or the next thing that -- may make more revenue for the firm.

However, this is a situation where consumer freedom, consumer access and consumer safety actually will end up being net economically profitable and successful for firms if they make the investment now. It's just very, very hard to make that case inside institutions or inside service providers. So I think

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that Stuart's a hundred percent right about what we can do or what you guys can do to help us.

MR. BERNARD: Terrific. Neesha, I'm going to hand it -- and this is -- both, those are terrific answers, because Neesha, I want to hand it back to you, because I suspect we need to move on.

MS. HATHI: Yes. Well, thank you both, Lowell and Stuart for that -- those great presentations. So we're going to move on to the next topic of our data and technology panel.

And as I mentioned at the beginning, you know, we, we looked for, for areas within data and technology that we thought were particularly compelling where there was a lot of evolution and, and where we thought that, you know, at least having a conversation to bring awareness to the changes that are happening would be compelling.

And for this particular panel, we're, we are focusing on what as I mentioned we're calling the deconstruction of advice, and, and as we've seen the evolution of the industry we know that firms are continuing to evolve the way they use technology and the way they deliver technology, and even what they consider advice, and that, that kind of broadening of service. And so, again, we have two great panelists, and I'm

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going to introduce the two of them.

First, we have actually a new colleague of mine, Hardeep Walia, who, who was the former founder and CEO of Motif, who actually just recently joined the Schwab team. But today he is actually going to be talking as a founder and as a -- as bringing a perspective around an entrepreneur and innovator's perspective around the deconstruction of advice, and how Motif looked at this particular topic around data and automation to build thematic portfolios.

So we're going to start with Hardeep, and then we're going to transition to Eric Clarke. And Eric is the founder and CEO of Orion Adviser Solutions. With its technology investment strategies Orion powers the adviser client journey serving more than a trillion dollars in AUM. Eric and his team have been innovating in portfolio optimization technology to better scale personalized portfolio implementation, and that's what Eric is going to focus on.

Now, Eric's firm serves a lot of the registered independent adviser community that our firm works with as, as well as many other custodians in the industry. So I think you're going to hear a little bit of the direct to investor, as well as the adviser perspective as these two panelists go through their,

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their material.

So Hardeep, I think I'm going to hand to you first.

MR. WALIA: All right. Thank you, Neesha. Can you all see my screen? All right. Terrific. So thank you, Neesha. Thank you, AMAC committee members for inviting me. I should caveat that the perspectives I'm going to share on technology and the deconstruction of advice are more informed from my 10 years as CEO of -- and founder of Motif, and, and less from my -- I think it's six weeks, Neesha, as a executive at, at Schwab.

For those of you who don't know what Motif did, we were an early fin tech pioneer, and our technology patents and IP were acquired by Schwab last month. What Motif did is we built systematic thematic investment models, and we mined unstructured data. If an investor wanted to invest in a theme like artificial intelligence, we would take that intent. We would look at structured financial data, but then we would look at patent databases, academic papers, global filings, and we would construct an investment model that gave a client's exposure to the thesis of AI.

And we would -- we had two lines of business. We had a, a retail brokerage model where we would take those models, put them on a brokerage platform where our client could put as little as two fifty dollars to that model, but they could also customize it. We targeted self-directed investors, crowdsource it, make the model better.

And then we had a second line of business where we took those same models and we put them into more of a traditional asset management structure. Then we'd take those models. We'd create a same -- a thesis around AI, for example, put them into an ETF, a structured note, an SMA, an annuity, and partner with Wall Street to deliver those products to a -- independent advisers.

Now, I think it's important as we talk about technology and its role and, and -- in the deconstruction of advice, you know, any fin tech entrepreneur when they start in this world, they, they try to look at what am I disrupting and how to I unleash value to my client? And I think when we showed up on the doorstep of this industry 10 years ago there was already a lot of disruption happening, with or without technology.

So we look at manufacturing. We saw the commoditization pressure of passive investing. We saw how that was changing the balance of power between

manufacturers and distribution, specifically value was migrating to distribution and, and specifically those companies that owned end customers. But at the same time, that customer base was changing, and people were looking to tap into new demographics like the millennials, and also retain existing investor bases.

So when we started Motif we really wanted to pull out the, the global trends that were hitting this industry, and really tease out a technology perspective, and this is actually one of the first slides I wrote when we were writing the business plan for Motif. And, and what we wanted to do was make these not just thematic, but any investing insight seamless and frictionless as we thought about it. And we wanted to take a customer perspective.

So let's go back to the concept of a client that wants to invest in AI. If that client wants a cheap exposure, we wanted to build an AI ETF and give that client access to that ETF. We ended up doing that. If the client wanted some way of teasing out income from that, we'd put it in an annuity. If they wanted to manage risk, we'd put it in a principal protected structured product, again, AI as the theme, putting it back into that context. And if they wanted more personalization, some, some benefits of tax, we'd put it

into an SMA.

So we took these same concepts of AI and started to deploy them in all these different product categories. Clients have a lot of money in 401(k). We felt AI long-term structural trend, does it make sense in, in putting it into a 401(k)? And as we tried to build these different instance implementations of a very complex theme like AI, we kept running into regulatory questions about what are you doing, and how does it frame in the context of are you giving people advice, and under what rule base are you giving people advice?

And I'd go so far for us as one of the rate limiting steps for innovation for us was simply this notion of we've got this innovative model, but what are you doing in, in the context of deploying this technology in, in an advisory landscape?

So let me give you a few examples of how we ran into those questions and, and how we ended up thinking about the problem. So in 2018, we launched a robo-adviser, and it was designed to allow a self-directed investor to express their value system and make sure nothing was going into their portfolio that conflicted with values. We had a lot of problem of defining a standard model for people's value.

A case in point, I grew up in Kuwait. Where I

came from, oil was not necessarily a bad thing. I was married to a -- I'm married to a woman who grew up in Laguna beach spray painting people who wore fur coats for a living. And, and for her, no carbon in my portfolio under any circumstances.

So we wanted to empower the investor to take our impacting models, tailor them, customize them. And so we went to the SEC and FINRA and we said, we've got this innovative model. We don't think it's advice. In fact, we launched a Motif impact under a broker dealer without an advisory agreement with the client. And we kept coming back to, in what way is this advice? And if we're empowering the user to build these models, to build these tools with, with -- in a seamless way, we wanted to get clarity from everyone on what parts of this chain here is advice?

Another example we ran into is when we started building thematic models we, we gave them to our clients. We gave them the freedom to change anything they want, anything they didn't like, and our clients started coming back to us saying -- my father is a retired vascular surgeon, and he would say, "You know, son, I know more about minimally invasive surgery than any of your friends on Wall Street. Why don't you let me build my own model?" And we said, "That's a great idea. Let's give our clients the ability to start building their own models."

And that was fine until our customers came to us and said, "Well, look, we're putting all this free content out there. Maybe you guys should start paying us, because we're actually driving a lot of traffic."

And so we took that theme, and said, all right. We showed up with FINRA and the SEC and we asked, if a user puts out a content like this or starts building their own models, how do we think about it from a regulator perspective, and are, are they giving advice? And I remember the, the answer I got at the time was, it's a gray area, which for me meant, can we go do it then?

And they said, "No, not, not that simple, Hardeep." So then we, we put lots of other contexts to test the rules. So my father, to use that as an example, could write a blog, could write a blog about minimally invasive surgery, tell you exactly what to buy, publish it and charge for the blog, and because of the publisher's exemption, that would be viewed as not advice.

And so all we argued what we're doing is taking that blog, rolling it through and just making it seamless for someone to say, that's the idea, I can

customize it, I can change it. And after a year of, of discussing this issue with FINRA and the SEC, we agreed there is definitely openness to interpretation and we launched this product under something we called the creator royalty program, and it was designed as a content argument to take the contents of our clients, put it in -- onto a platform, and then the technology would just seamlessly automate it.

On our AMAC panel, as we were preparing for this, there are lots of other examples that we can use to test the theory on what is and what is not advice. I think, Mike, you brought up an interesting example around portfolio replication technology. So if we go back to a fund manager who now we -- there is technology out there. It's something we, we looked at in our early days. We used to call this hack a fund. Give me your fund. I'll give it back to you minus the fees.

And, and this notion of replicating a model in a self-directed environment for example, what does that do to the definition of advice when we're replicating a strategy of an asset manager, for example? Or in other cases, if that asset manager starts to see people using his or her IP now decides to say, I'm going to start building relationships directly with my customers and I'm going to adopt an SMA model, but I'm going to

standardize it, don't really care about the nuances of my client, but I'm just trying to get a model out there and expand my relationship, because this, this -- the, the trends that are happening in the industry make it better from the economics to go do that.

How is that different now in the context of someone managing money in an account level to lots of different accounts directly, and more in a package product model? And so we kept running into these issues, and we really wanted to start to get more clarity around them.

So, so as I -- as we think about all of what we've learned in the context of building Motif over the last 10 years, I think we can all agree that a lot of these intersection between technology and regulation -- Lowell mentioned CARDS. Motif was going to be the first company to submit itself to CARDS, and unfortunately that went away. We felt that was a good thing. But we, we wanted to make sure we start by -- before we address these issues, start by raising the right sets of questions that we think we should be considering from an industry and regulatory perspective.

The most obvious question is when you look at that, what I call the opportunity map on the prior slide, it's a very product-centric view, and there are

patches of regulation. And the question one naturally wants to ask is is there a need for an advisory-centric overlay onto that model so they can be some sense of standardization, or are we going to encourage your model? Are we okay with the encouraging of a model where different companies come in and at some attempt try to play regulatory arbitrage?

The next one is near and dear to my heart. Can we adopt a principle-based model of regulation? I've said this many times. We, Motif would not have been able to start had FINRA, during the NMA process, not adapted a principle-based approach to looking at our application, simply because it didn't fit into many of the boxes. And I remember vividly getting a letter from FINRA saying, "Dear Mr. Walia, we're putting you on the new and novel list." And I went to my compliance officer and said, "High five. Even FINRA thinks we're cool." And, and she said, "No, Hardeep. This is not good news. This is really, really bad."

So the notion of principle-based regulation, especially as we look at these novel cases of technology and regulatory boundaries overcrossing, does that make sense?

The next two questions are somewhat related, and, and I, I must confess, I'm, I'm fairly biased as it comes to this issue. But simply put, there are things in the context of advice that humans do really, really, really well, better than any algorithm, better than any machine.

At the same time, there are things that algorithms do exceptionally well, things that might be hard for humans to even contemplate. So as we look at these two offerings in the terms of human-led advice and algo-led advice, is there a need for some regulatory equity between the two models, or are we, are we going to adopt a model where these two things start to remain siloed?

And then the last question is, as we look at any of these questions, we can't forget at the end of the day we're, we're looking to make this beneficial to the end investors. And so as we go through these questions, what are we trying to do for the client? Are we trying to protect them? Are we trying to offer them new services like personalization so we can tailor things out?

So I look forward to the Q&A session where we can perhaps talk about some of these questions. But I, I did want to turn it over to Eric for his session and, and to hear his perspectives on, on the same topic.

MR. CLARKE: Great. Thank you very much,

Hardeep. I would like to share some content as well to the committee. First off, I'd like to thank the committee for the opportunity to spend, spend some time with you this afternoon, or this morning, I guess it depends on our time zones, right, discussing optimization technology, and more broadly speaking, the technology's role in the evolution of investment advice.

You know, at, at Orion we focus on supporting fiduciary investment advisers, and they're typically independent investment advisers. Today we support just over 2,000 investment advisory firms who leverage our technology to enable their fiduciary process. That process starts with, you know, reaching out to prospects and potential investors, helping them define what goals are most important to them with regard to their financial situation and their financial futures.

The technology then helps them organize their financial lives in such a way that they can see what resources they have available to help them accomplish those goals. And as we heard from, from Lowell and Stuart earlier, you know, being able to leverage aggregation technology in this section of the fiduciary process is incredibly important. That's what allows an investment adviser to come in and get a full picture of the client's situation and be able to efficiently scale

that process across all of their clients.

So I'd like to, you know, reiterate all of the, the comments that Lowell and Stuart made earlier, because it's their technologies that ultimately power advice at scale for the industry.

After assembling the balance sheet our advisers will then leverage technology to do risk assessments to determine how much risk the investor, you know, can take with their investment portfolio, help them be matched up with an allocation selection that will help them achieve their planning goals, that will take into consideration their risk level and their individual tax situation.

Then we will leverage, you know, algorithms, such as Monte Carlo projections to help the investor visualize their future outcomes and the probability that -- and likelihood that they'll be able to achieve their goals and objectives.

And then most importantly, the adviser is then provided with the opportunity to talk to the investor about what actions they can take place -- what actions they can take today to improve their future situation.

As it relates to leveraging technology to specifically help with the investment part of this process, you know, traditionally firms have leveraged

investment products, such as '40 Act mutual funds to help investors achieve their goals. They have evolved over time into building model portfolios or aggregating client accounts with like objectives and being able to efficiently leverage technology to trade those portfolios in a group, and in essence, you know, following under the Safe Harbor provisions of Rule 3A-4, it allows the adviser to efficiently scale their advice across a large group of, of clientele.

Now we're entering into an era where technology is being leveraged in such a way that, that Hardeep has reviewed with us, where portfolios are individually implemented at scale, and advisers are able to now efficiently scale reasonable investor restrictions and individual portfolio implementation by leveraging optimization technology.

I thought it might be beneficial to spend just a minute and explain the optimization technology to the committee as far as how it works and, and ultimately how it's being utilized in the marketplace today. At its core, optimizer technology is a mean variance engine that tries to build a portfolio that will express the ideal balance between risk and return.

When Harry Markowitz wrote his paper on modern portfolio theory, he was only using expected return and historical standard deviation as inputs to his optimizer. Optimization tech does something similar, but expands it a little bit to include first, returns, second, risk, and risk has expanded well beyond standard deviation to include multiple risk factors, as well as return expectation models, and, and three, cost.

And cost is typically where trading costs and taxes are taken into consideration. Within a matter of a few seconds the optimization technology will run multiple iterations to determine an outcome with minimal tracking error against the goal objectives.

So you might be asking, what would some of those goal objectives be? Hardeep had mentioned some individual investor preferences earlier, but we see the optimization technology being utilized to, you know, implement ESG restrictions in portfolios. We also see it being implemented to customize portfolios around low cost basis positions that investors have to minimize tax consequences of targeting a certain risk level or a model portfolio.

And we also see investor restrictions, such as, you know, a client that works at a CPA firm that's restricted from investing into securities where they're providing audit consultation, you know, it easily allows an investment adviser to then load a list of securities

that the investor cannot own in their portfolio and automate the portfolio creation around that against a portfolio target.

I do think that there's an opportunity for the committee to consider some things to increase investor transparency along the way. Initially, as we look at investment advice being implemented through the purchase of '40 Act funds things like seeing how the portfolio did against an appropriate benchmark were put into place. Under the Safe Harbor provision of Rule 3A-4, clients were then required to receive a, a statement detailing account activity, but not necessarily being tied back to a portfolio benchmark.

Well, today I think we have an opportunity for the committee to consider increasing investor transparency through the reporting of actual account activity against a benchmark performance, as well as goal progress and achievement that's defined as part of this tech-enabled fiduciary process.

The good news about all of this is that today advisers have, you know, access to affordable technology that allows them to improve transparency at a very low cost. You know, there are three areas of fiduciary advice that are really important for an adviser to be able to provide their services at scale.

First, their value propositions typically are focused around planning. Historically, advisers had a value proposition that was focused very much on asset management, but as time has gone on, advice has changed and now has a value -- a planning centered value proposition.

The second is in regards to personalizing investment strategies. Gone are the days where we had to put investors into '40 Act funds that had goals and objectives that were different or closely similar to an investor's objectives, but investors weren't able to, you know, express their preferences as Hardeep had, had mentioned earlier in his comments.

And third, we should be able to deliver comprehensive reporting at scale to those investors that not only outline the account activity that's taken place, but also take some steps to increase transparency and show performance of those portfolios against the investor's specific benchmarks and the goals that, that they have previously outlined and set.

You know, this process, the fiduciary process, if you will, when combined with technology really creates the opportunity for an adviser to have a holistic view of a client's financial situation by leveraging technology, such as the data aggregation tech

that Lowell and Stuart had, had reviewed earlier. It allows an adviser to come in and provide advice at scale in a very interactive way that involves the investor.

But then I think most importantly, advice can be very transparent today to help educate the investor along the way so that they are not only confident in the trust, trusted relationship that they have with their adviser, but they're educated with regard to the plans that are being implemented specifically for them.

Neesha, those, those were the, the main points that, that I wanted to, to make on this topic.

MS. HATHI: Great. Thank you, Eric and thank you, Hardeep.

Ed, do you want to move to Q&A?

MR. BERNARD: Sure. If I could ask you to --

(Whereupon, the audio was interrupted.)

MR. BERNARD: -- so I can see the tiles again, I can see hands that are raised. I see Michelle Beck.

MS. BECK: Sorry to be the frequent, frequent questioner. I'm curious about -- Eric, with the analysis that you do, what do you think's required for disclosing to, to folks? What time horizon and techniques have been used to create that advice? I really wonder at the end here of a 20-year, you know, market if, if folks are -- need to be given more disclosure that this is -- might be an unusual period, or if that you are using, you know, drawdowns from much earlier periods or more severe market movements?

So talk, talk me through how do you disclose to the user of that, be it the RIA or the client, what they're seeing in that analysis and how they should interpret it?

MR. CLARKE: Absolutely. So here at Orion we do leverage the Northfield optimizer specifically, and Northfield provides our advisers with a library of white papers that go into great detail about the algorithms and the settings that are available to them to leverage with the optimization technology. But I would suggest that, that it is important for firms to have, you know, essentially a well-documented, repeatable process that, that has solid investment theory behind it so that these technologies, when they are utilized, they're utilized in a well-documented and known fashion, so to speak.

You know, I, I had mentioned earlier Harry Markowitz's work in -- and, you know, the, the mean variance optimization work that, that he did on risk and return. And, you know, today it's, it's not uncommon for us to see the optimization technology's leverage

four or five dozen measures of risk when they're building portfolios.

So, you know, not only are they leveraging that, but they're also leveraging, you know, return expectation models as well. And those types of capabilities I think allow for an extremely sophisticated, you know, view and application of investment theory to be applied to the portfolio, but they should absolutely be documented and, and, and known so that those processes are repeatable and that they feel confident in the investment theories that are being applied.

MR. BERNARD: Thanks, Eric. Dalia, I saw your hand go up.

MS. BLASS: Yes. Thank you, Ed. So I have a couple of questions, one on transparency and one on risk. On transparency, Eric, you mentioned, you know, creating more transparency around perhaps the, the portfolio benchmark or the portfolio against the benchmark and progress towards goal.

As a consumer how can I get transparency around how my individualized model is performing by the adviser I'm working with, versus a comparison against other models run by other advisers? So if I'm investing in a '40 Act fund I, I look at their perspective, you

know, their, you now, their documents.

MR. CLARKE: Mm-hmm.

MS. BLASS: I can see their performance. I can see their expenses. I can see the benchmark. I compare fund A from, you know, manager A, to fund B, you know, provided by manager B, and I have that. Can we build -- is that comparability, is that possible? So that's on transparency.

On risk, you've mentioned that several times as well. Last week the Commission hosted a roundtable on emerging market investments, and a lot of the panelists raised questions around the particular risks that are presented by these investments. So as you build these models, these algorithms can the risk factors that the models look at, can they be evergreen?

Can they look to these different risks of the emerging different markets and be particularized, and can they also be particularized in terms of the investor him or herself what they want, you know, what type of risks they, you know, they, they wanted to block out, if you will, and frankly, can they educate the investor on the particular risks in the particular market?

MR. CLARKE: Absolutely. So I'll address your first question in regards to transparency, and Hardeep, I'll welcome you to help me with the second one as well

as I, I'll touch on that briefly.

But in regards to transparency I think it's important to remember that when you're investing in a '40 Act mutual fund the objective of that fund is against a stated benchmark, so it's not as personalized as individual, you know, benchmarks become, if you will, when you're dealing with building out a personalized portfolio. So the fund itself almost exists as a, a separate entity that has a stated, stated objective and a stated benchmark that they're managing those resources towards.

With regard to individualized portfolios, I think it's really important not to necessarily compare yourself against other model portfolios, but rather compare yourself against those benchmarks in which you've established working with your adviser.

So as you set out your financial goals, the amount of risk that you want to take in the portfolio, at that point you should be able to establish a reasonable benchmark with regard to stated objectives, performance and the overall risk that you'd like to take -- have take place in the portfolio, so it becomes a very individualized portfolio, and the benchmark itself becomes also individualized, as opposed to comparing yourself to others.

I think it's a situation where you're comparing yourself against your own stated objectives and goals. And I think that's, that's what's very different about this construct that the committee should taken under consideration relative to, say, a framework around a '40 Act fund.

With regard to the risk models, absolutely the risk models can be adjusted. All the risk factors and biases that an adviser has with regard to the risk models can, can be implemented in a very efficient and, and modern way through an easy to use interface.

Hardeep, would you like to talk about the risk models as it relates to the individual, you know, portfolios that, that you've had experience with?

MR. WALIA: Yes. Thanks, Eric. And I think there's kind of two points. And as it relates to the first question, we, we allow the user to put whatever portfolio benchmark they want. We default them in to the extent there is a package product versus a portfolio and you want to compare, you could be investing in a theme like cyber-security and you want to know how that model's doing, versus a HACK ETF or something like that, as well as looking at standard equity benchmarks like the S&P.

And so we, we like the user, in this case the,

the self-directed investor, to be given choices to go figure out with the necessary caveats what are the relevant benchmarks to a model like that. And, and as it relates to the personalization and the transparency, even if they were to, to exercise some change to a portfolio we want them to understand what it's going to do, not only to their, their expected return, but also the risk level. And we found it really important for clients to understand a risk model and be able to interact with that.

The other point worth mentioning is as it comes to risk and transparency, the, the two are kind of hand in hand. We spent a lot of time showing investors not only how they're doing against a -- other alternative models, but they kept coming to us saying, can you show me how other people like me are doing on the platform? And with their permission, they would be able to volunteer, I'm, I'm a 47-year old male, I live in the -- work in the tech industry at the time. What are other people doing from an asset allocation perspective, or give me the ability to control the data, and if I choose to publish it, will other people share with me what they're doing in the context of my specific case?

So the notion of transparency, and then this

ties a little bit to the earlier panel as well, you've got to empower people to do what they want with their data. And if it is for the level of benchmarking, benchmarking not only happens at the model level, we allow people to broadcast not net worth, but their investor profiles to anyone they want. They could do it publicly, get feedback. They could do it within a small social circle, like friends and family only, but they wanted that level of transparency. They didn't -- it's not like Twitter where you brag about everything you're doing.

But the intimacy, there were typically four or five people that they were intimate and they needed help. And sometimes it was a financial adviser. In many cases it didn't have the wealth threshold of financial advisers. It was a parent. It was a, a friend who had a knack of investing. So when we talk about benchmarking, it can be at the product level. It can actually be at the persona level as well.

MR. BERNARD: Other questions? Oh. Those were great questions and answers, and I'm scrolling back and forth between two screens here. That's great. I will -- let me just thank all of our speakers again.

And Neesha, I don't know if you have anything to wrap up.

MS. HATHI: No. I think we're out of time. Thank you.

MR. BERNARD: Okay, great. So with that, as promised and as has become our practice, I'd like to go through the committee and ask each of you to take no more than one minute. Literally, that's what time we've got left, but it's, it's really top of mind, we share the one or two things you heard that struck you today, and I'm particularly interested in any specific issues that you would prioritize for further work and discussion by the, the AMAC.

And as we said in the past, it's entirely fine if what struck you is similar to what we've heard from other folks, because that will help us see the dominant themes and priorities differently. You can feel free to introduce new issues by -- based on what struck you, but please don't be different for different's sake, because that will give us a false sense of the group's priorities.

If you can see the participant list on your screen, this time I'm going to go in reverse order. It's in alphabetical order by first name, so Susan McGee, you'll be up first. I'll just give you that heads-up.

But I'll go ahead, to give you a moment to think, just my two thoughts. First of all, I think both panels were phenomenal, both important and timely issues. I'm going to stick with my two words from diversity of transparency and accountability, and I'm going to continue to plagiarize Dalia with our challenge is how to keep the dialog going and move it to the next level. So I know there will be follow-up on this.

And on the data privacy and technology, I want to understand the role that we as AMAC and the SEC can play in the data questions that were raised, because it's in many ways broader than the SEC, so I think part of it's understanding what our, our role is. And, but I just love the questions that Hardeep and Eric raised and getting as basic as what is advice, how is that evolving? I think we know the innovation will continue.

And a question that's been rattling in my -- around in my head since --

(Whereupon, the audio was interrupted.)

MR. BERNARD: -- is given that innovation, what's the future paradigm --

(Whereupon, the audio was interrupted.)

MR. BERNARD: So those are the couple things that I think about. So with that, I'm about to go to the list. And --

(Whereupon, the audio was interrupted.)

MR. BERNARD: -- you're up first. Keep it to a minute or less if you would, please. And everyone, remember to unmute yourself as you do this. We're going to -- this is literally going to be rapid fire.

MS. MCGEE: Okay. Sorry about that. You think I'd learn. What I learned today was that, very talented committee members. I've been extremely impressed with the hard work that was put into the May presentations and today. I, I think the focus -- my -- what I think the priorities should be are two issues that are very visible, and one not so visible.

But I do think on the two visible issues we probably owe the SEC some advice and some marching orders to get out ahead of these, and it was the ESG issues that were raised by Michelle's panel, and I know we're going to get an update in September.

And then today, the diversity. I think that that panel really raised some very good points and how -- what advice can we give? I think we need to dig deep into that one, and what advice can we give the SEC?

The third issue was -- had to do with the ETFs and the structure of the market and it related to Reggie Brown's comments, and with the proliferation of ETFs I think we need to make sure that that -- how that market operates is efficient.

MR. BERNARD: Great. Thank you. Scot Draeger, you're up next.

MR. DRAEGER: Yeah. Thank you, Ed, and thanks to everybody for all the presentations today. You know, what I, what I think I learned is that the dramatic nature of the problem that we have in the implicit bias in the industry that's existed is at a scale and level that I don't think I fully appreciated until recently, and the presentations today really brought that home for me.

So to Ed's initial comment on focusing on transparency and accountability, I'm really interested in doing that work, and I really commend the courage of Ed and, you know, everyone on the committee that's working on that issue, and Dalia's courage as well for taking this on. So for me, I think that's something that is just as important, or even more important than some of the technical issues we're talking about in other areas, and, and think it's worthy of our effort.

MR. BERNARD: Great. Thank you. Russ Wermers, you're up next.

MR. WERMERS: Thank you, Ed. I've obviously enjoyed all the speakers. Just two things come to mind, and I'll make them quick to meet your 60-second deadline. On the diversity and, and inclusion panel, I

just wanted to put a plug out here for academics like me who are hungry to publish. This is a public good, and some of the panelists brought up the idea that there is not enough data for various reasons, surveys not being filled out. And all I can do is offer all of academia as your workers, for free, free, I guess, to high tuition for your kids, but --

(Laughter.)

MR. DRAEGER: So there's that. Build it and it will -- and they will come, is kind of the buzz word.

Secondly, on the data secure and technology, Stuart and Lowell I think talked quite a bit, quite well and quite authoritatively on the idea of who owns the data. And this brought to mind to me as a financial economist, an academic financial economist, the Coase theorem. The Coase theorem basically says in my simple words if property rights are well defined then the, the private parties will work things out themselves.

And my kind of dumb example of this is Turbo Tax might let me file my taxes for free in return for letting me -- in return for letting them use my name for marketing purposes. So I just thought that this is a -- maybe a, a useful way to think about data secure and technology.

Are property rights, rights well defined in this space, or is there something that can be done better to define them?

MR. BERNARD: Terrific. Ross Stevens, you're up next. And you're muted. Are you there? Maybe not. I'll keep this going. Rama?

MR. SUBRAMANIAM: Hi, Ed. Thanks for organizing everything as usual, and, you know, to the panelists for their insights. On the diversity and inclusion, you know, I, I still kind of struggle at the end that without the demand or perseverance of end investors of their pension funds and allocators, you know, what actually ends up changing, right?

I think that someone suggested SEC mandating some disclosure. We've seen disclosure in public companies of various things. It takes a while for that to flow into behavioral change. So I'm -- you know, as a minority myself, I'm all for it, but, you know, I, I slightly struggle to kind of see the clear path in the short term of what we should be looking at to do. So really appreciate if other people provided some guidance on that.

On the data side, I think the thing that struck me the most was that this -- you know, what you said, that this isn't a specific asset management issue. I think the way that we share data or the fact that

when, you know, we sign in through Facebook, for example, we don't even think about what data's being provided to that person, because it's just become so ubiquitous, right? We just do it.

It obviously is more of an issue when it's investment-related information. And that point about, you know, you sign up to let -- to do some -- one task, but you've given them access to everything, including your order information. I'm not sure we've got -- it's -- is it understanding, or the tools right now to fully work out what to do, right?

But a lot of the rules we have around, you know, a lot of the areas, whether it's advice, whether it's access to information, are not set up for computers being able to scrape all the information and, you know, use it for means that we probably didn't intend to, even though probably somewhere in the fine print when we scroll down and hit, accept, we allowed them to do it, right?

So I think it's a wider issue generally around just the mass of data we provide access to via different platforms or aggregators or portals, or whatever you want to call it. It's obviously acute when it comes to investment information, right, but it's a wider issue.

MR. BERNARD: Great. Thank you.

MR. STEVENS: Can you hear me, Ed?

MR. BERNARD: Oh. I'm sorry. Who is that?

Mr. STEVENS: It's Ross. Can you hear me now?

MR. BERNARD: Oh, yeah. I can hear you now. Ross, you're --

MR. STEVENS: -- technical difficulties. I just wanted to say I thought the, the panels again this time were outstanding, as, as they were for our last meeting. And just on the second part, I think one of the main sort of organizing principles which was talked about to be emphasized is who owns the data, and I think there is clear consensus that the consumer owns the data. And sort of emanating from that first principle a lot can follow.

And in terms of clearing the path for innovation, I think based on that core first principle that the consumer owns their own data, I think we want to make sure that overregulation is not what's warranted here. The business has been extremely innovative with a fairly light touch, and as long as we establish the principle that the consumer owns the data and we could make it as portable as possible I think a light touch when it comes to regulation and not stifling innovation is, is the challenge.

It's definitely tempting to see the world as

nails when you have a hammer, and I think we should really try to avoid that in such a fast moving industry that's generally helping customers quite a bit.

MR. BERNARD: Great. Thank you for that. Looks like I'm up to Paul Greff. You still there?

MR. GREFF: I'm here. Can you hear me?

MR. BERNARD: Yep. Go for it.

MR. GREFF: Yeah. Now, I'll confine my brief comments to the diversity portion of today. You know, I just, I heard a lot of statements that just resonated, such as, you know, you have to be intentional about diversity, it doesn't just happen. That is absolutely true. It's my experience. It is, you know, directed from the top down. I don't think -- you know, cultures of organizations are, are rarely established from the bottom up, so it's really incumbent on the leaders to, to make it happen.

I would just urge the, the AMAC, you know, when we make recommendations if it's possible, as Solange put it, to get into the nitty gritty a bit, and possibly provide a, a road map, a pragmatic road map for either getting started or accelerating an existing diversity program, because it can be a daunting task, where to start, you know, talking to these organizations and the people and understanding what the supply is and all the constraints of, you know, beneficial owners of assets and capital allocators.

So to the extent it could become a little more pragmatic would be helpful. Thanks.

MR. BERNARD: Great. Thank you. Neesha.

MS. HATHI: Yeah. I -- so I might stick to the diversity topic too, since I spoke quite a bit on the technology and data one. But on the diversity topic I think actually you asked a question at some point during the -- I think the second session, around will the industry solve it on their own? And I, I guess I go back to the diversity topic and I say, well, the industry hasn't solved it on its own. And there seems to be some sort of a need for whether it's transparency or some, some catalyst.

And I, I like the point that Paul just made, which is I do -- I'm an optimist, so I tend to believe that there are a lot of good intentions, but not necessarily a playbook and practical guidance on how to actually get to where I think many firms would like to get to. So to me, that, that feels like a topic that would be worthy of, of diving in more deeply and figuring out what, what might that playbook, what might that guidance look like to help those that want to get there, get there.

MR. BERNARD: Great. Thank you. Michelle Beck.

MS. BECK: Hello. Thank you. I too enjoyed the day immensely and the couple things that really stuck out for me when we had Lowell and Stuart talking about data and the, the standards that they want to put in place. It's interesting how, how something very specific like beneficiary's social security numbers and open trades stands out in a sea of a lot of general discussion of data. So knowing what's at stake really helps to sharpen the focus about what actions might need to be taken and what the benefits of the standards are, so I just really appreciate that clarity.

When Hardeep was talking about the -- what constitutes advice and not advice, that was very striking to me. I almost think of it as the difference between if you're running a business where you're chauffeuring people versus a business where you're selling people cars you've got different risks and --

(Whereupon, the audio was interrupted.)

MS. BECK: -- both cases you have a problem if the car breaks down, but in the other case you have -- the chauffer case you have the malfeasance of the person driving the car, which you do not have in the case of the self-directed advice.

So I thought it was just, it was just a lot of food for thought there about what are the components that the regulation was meant to cover and what are the components that are covered by other items? So that's -- I'll be thinking about that till the next meeting.

MR. BERNARD: Terrific. Thank you. Mike Durbin.

MR. DURBIN: Thank you, Ed. On the two topics, both excellent. On diversity and inclusion, maybe I'll thread, you know, your opening two words with Neesha's comments. I, I agree with you that a focus on transparency and accountability is going to be key, but, but that we do that as an industry that still takes advantage that we're going to be better together on this topic. If, if we push transparency and accountability, I don't know, too much, might be the wrong phrase, we run the risk of fragmenting, and as an industry we have deep systemic issues to deal with here, and I suspect we are stronger together than unbundled. That would be my comment there, I guess.

On the, the latter two panels around data and, and technology, thank you to the panelists. Neesha, I thought it came together great. I agree with the sentiment that this is not the SEC's issue to solve, because it's so far reaching, but, you know, maybe the

SEC can play a rule -- role in some nudging at the component level, and, and we touched on some of the component levels of this issue, things like security standards, things like I think Lowell tagged, conspicuous consumer consent, the ability to monitor and turn off, or things like -- which we didn't talk about, but is, is an important issue on data aggregation, how does liability travel with the data. And so when the data leaves the doors of one and enters the doors of another, is it clear that liability, you know, travels with it.

And then, you know, to Hardeep and, and Eric's comment, I guess I would just maybe pose a, a -- maybe paint a picture of the future, which is if we get to a point where aggregated consumer data is ubiquitous and secure and cheap it likely has an impact, should it have an impact, I'll pose it as a rhetorical question, on an adviser's, you know, standard of care, whether you're a Reg BI or full fiduciary?

Is there a time when you -- when the industry, when the fiduciary should be compelled to take the 360 view, to put personalized plans and solutions in place and to measure outcome?

And I'm -- Dalia, I'm, I'm sensitive to your good question around performance and benchmark tracking.

Is the ultimate outcome did, did the adviser help the family achieve its outcome? And it's interesting to know how they performed against the benchmark or peers, but at the end of the day, are we compelled to take that 360 view and actually through planning and, and related technologies, you know, drive the outcomes that that end client is actually seeking?

So I'll, I'll leave it there. Thank you.

MR. BERNARD: Great. Thank you. John Suydam.

MR. SUYDAM: I want to thank the presenters. It was a lot learned today. My takeaway actually is similar for, for both presentations, which is really I think I need a better understanding as we go forward of what the framework is and the tools, you know, for this group and the SEC to kind of make some positive impact within both of these areas. I, I didn't get a complete sense as we were going through what the kind of concrete steps and, you know, how to move it along.

You know, the transparency clearly is something that, that could be looked at. But I think I need a better understanding as we move forward as to what are the other tools in the, in the toolbox to, to kind of help deal with these issues.

MR. BERNARD: I think that's a good assignment for us to work on. John Bajkowski.

MR. BAJKOWSKI: Thank you. Yeah. It was great presentations today. I mean, probably two things that really stood out for me, especially in the area of -- financial data control, access to your data, understanding whether or not -- how transparent the information is, can you trace the information that's flowing and the security of it? You know, those are the basic principles I know that we apply very often in our internet transactions and, you know, the EU with the GDPR rules as far as access have been very helpful.

But as a consumer, I mean, not knowing, you know, that simply by granting someone your, your login credentials they could go ahead and look at much deeper data, is, is obviously a scary proposition. And the notion of consent control is very important.

And also, I was struck by the whole notion of what constitutes advice, and, you know, in the robo world and, you know, rules versus the principles-based accounting of -- or treatment of that regulation is -- are interesting things that I need to discuss and, and keep note of. Thank you.

MR. BERNARD: Great. We're about to be at time, but I'm hoping people can hang in for just a few more minutes. I'd love to finish this roundtable. So Joe Savage.

MR. SAVAGE: Thanks, Ed. I guess first on the diversity and inclusion panel, I thought it was great. One of the things that struck me was the discussion of the barriers to entry for diverse investment management firms, and, you know, some of it's implicit bias. Some of it's explicit bias. But there is also a lot of structural barriers. You know, Gilbert talked about the top 10 firms kind of dominating the industry, and, you know, it, it makes it much harder for these smaller firms to get in, and so I think that's something we've got to think about.

On the second panel, I just wanted to give a shoutout to Hardeep. You know, he was mentioning some of his conversations and I guess struggles with FINRA. Hardeep was a great contributor, has been over the years, to FINRA. He's served on a number of committees and panels, so I want to thank him for that. And I think he's right. I think we need to look at ways the SEC and FINRA need to modernize their rules to adapt to, to, you know, fin tech and technology. So thank you.

MR. BERNARD: Great. Thanks. Adeel, you come up next because of the way your sign-in works. You need to unmute. There you go.

MR. JIVRAJ: Got it. So I want to -- first of all, I want -- I thought the panels were great today and

I want to commend the leadership of the AMAC for including diversity and inclusion in the asset management industry as a top priority. I think as it relates to diversity and inclusion, I think one of the panelists said it best, until we talk about it, we can't fix it. And it made me think about how much unconscious bias we're dealing with.

For example, one of the panelists mentioned they had an assumption that they had a significant allocation to diverse managers, and then when they looked at it, they, they realized it was a lot lower than they anticipated. And another panelist mentioned that people may associate someone based on how they viewed someone else. So I, I think this is a great first step in, in continuing an important area.

Regarding data privacy, I think Neesha made a great point. When a consumer grants access, I don't think they really do think about how much access they're granting and it's something we should all keep in mind, certainly. One other thing as it, as it relates to my passwords, I'm certainly going to re -- go back and look at my passwords to make sure they're not linked and similar. So, so -- and thank you very much. Great panelists today.

MR. BERNARD: Great. Thank you. Jeff Ptak.

MR. PTAK: Yeah. So I would echo the previous speakers, great job today, very insightful. Want to thank the sub-committee chairs and the presenters for, for doing such an engaging and really thoughtful job of laying out the different issues. I'd focus on a couple of those.

With respect to diversity and inclusion, I guess this springs from, you know, where I work and what we do. I'm at Morningstar. We're a hard data firm. And I know that one of the issues that we're grappling with is our responsibility to make sure that, you know, we're surfacing relevant measures of diversity and inclusion as comprehensively and richly as we possibly can. We've seen what that can do to help investors to make more informed decisions that, that yield better outcomes over time.

And so it stands to reason that we can help to advance other types of objectives, including diversity and inclusion if we can do an even more vigorous job of trying to make sure that, you know, we're putting those, bringing those sorts of issues to the fore and making them the priority that they deserve to be within our various set of data and analytics priorities. So certainly that helped to, I would say underscore that in my mind.

And then with respect to the changing template, if you will, for advice, you know, I think that it stands to reason again that, you know, probably the fabric of different rules, regulations and standards that we've thoughtfully developed over time, they probably contemplated a certain type of relationship between the client and whoever it is that was providing advice, and so one of the things that we heard today, and it was very articulate, was, you know, that that advice is increasingly being mechanized where appropriate, and also, we're trying to tailor it to the individuals, so it's, it's sort of this notion of scalable customization, and perhaps that fabric didn't contemplate those types of developments, and it needs to flex in order to evolve to meet the changing standard.

So again, that was reinforcing to me and, and very insightful, and, and that's something I'll take away from today.

But again, just want to thank all of the -- the Chairman and the panelists for doing such a good job of presenting the content today, which I enjoyed.

MR. BERNARD: Great. Thank you. Gilbert, you're up next.

MR. GARCIA: Thank you. I think I had my share of airtime, so let me just say to everyone, thank

you for your patience. I really loved a lot of the comments. I think the one that stuck out with me is what are the tools in the toolbox? And I think that's something that we'll need to wrap our heads around so we can really start getting to those tools. But thank you all very much for all the time.

MR. BERNARD: Great. And thank you. Dalia, I'm going to hold you till the end. Who else have we got here? Aye Soe, are you there?

MS. SOE: Hi. Yes, I'm here. And I, I enjoyed all the sessions. On -- two points, quickly. On the diversity and inclusion, I'm part of the ESG sub-committee for AMAC, and, you know, we always look at -- from the point of view of the organization that's getting the rating with regards to diversity, women on board, what have you. But we've never looked at from the allocation of capital perspective. So I'd like to see that a bit more.

And, and I echo some of the sentiments made earlier. I don't know what exactly the path forward for, for these minority -- firms to, to get more, more capital, but that's something that we will have to think about, and that is probably beyond the scope of AMAC or the SEC, but it's something for us to consider.

On the data privacy, you know, we already have

the precedent with regards GDPR in Europe and that's really -- regarding that. So that's, you know, again, I do think the data privacy issue, it is beyond the scope of us sitting here today, but probably will have to be taken up in a broader -- with board stakeholders. But would really like to dive deeper into that, and, and maybe that we could learn a thing or two from the CBPF.

MR. BERNARD: Great. Thank you. Alex Glass.

MR. GLASS: Yeah. As the previous two meetings, I thought the panels were very, very informative, the diversity panel. Certainly learned a lot today, particularly how multifaceted this topic really is. I think, you know, diversity in all industries is obviously very important and I'm glad the committee is taking this as one of the priority tasks. I also want to commend Gilbert for his energy and passion for the topic, and it just oozed out of him today.

Regarding the second panel, for state regulators, data privacy and technology are just as important for our registrants. In May 2019 NASAA passed an account access model rule. The rule makes it an unethical business practice to access a client's electronic accounts through the client's own unique identifying information, which was discussed today.

That prohibition does not extend if the IA has permission and has its own unique login information, so we work through those. We currently have out for public comment a, a policies and procedures model rule. The rule is comprehensive. It addresses a lot of things, but physical security, cyber-security and privacy policy requirements.

So we look forward to hearing industry feedback on that rule and finalizing it soon. And really the NASAA section will continue to review data privacy concerns, technology developments right at the state level, so I found all the information in this session very interesting today. Thank you.

MR. BERNARD: Great. Thank you. And as I look at the participant list, I think the Chairman and commissioners have had to drop off, which is understandable. But if, if you're there, please make yourself known to me. And unless I hear otherwise, Dalia, do you have anything you'd like to add before we close?

MS. BLASS: Actually, Ed, before I go, I think I saw Ryan. Why don't you go first?

MR. BERNARD: Oh, okay. Ryan, did I miss someone? Oh, Ryan, I'm sorry I missed you on the way up the list. Apologies. But you need to unmute, though.

MR. LUDT: Yeah. Sorry about that.

MR. BERNARD: Sorry about that.

MR. LUDT: No worries, no worries. Thanks, thanks for coming back to me. You know, I'll echo some of the comments here. As I reflect on the diversity and inclusion panel, certainly important work and, and merits continued focus. I'm happy that we brought this group of experts together and that we were able to hear from them, and recognizing as well that the focus has to come from top and that we have to be intentional about this.

In hearing the, the panelists today some of the things that jumped out that are maybe a little bit unique that I haven't heard others talk about is just the idea of diversity and inclusion being a value and not a function, and the breakdown of diversity being a -- the kind of quantitative side of the coin, and inclusion and belonging being the qualitative side of the coin.

And, you know, as, as others have said, we heard some, some recommendations around transparency and statistics that, you know, perhaps we, we formalize what that looks like, but those seem like things that would be steps in the right direction in, in making progress there.

As it relates to data privacy and investment advice, undoubtedly, you know, we're going to see technology continue to play a big part and, and see where this evolution goes. Any of this that's driving higher quality and efficiency for clients is obviously a benefit to investors, and so that's great and, and I look forward to, to seeing what happens there, but also recognizing the role of, of some sort of hybrid model where it's not just all technology, that there is a role for, for people to, to play now and, and into the future, for sure.

The continued themes around data rights and transparency were, were really interesting, and just data ownership, consent and monitoring certainly resonated with me. So thank you.

MR. BERNARD: Great. Dalia, last word goes -- well, the almost last word goes to you.

MS. BLASS: Thank you, Ed. So first, I just want to again thank Gilbert and Neesha and all the speakers that we had today. It was really, really thoughtful panels and just really thought provoking. And Gilbert and Neesha, I, I know how much it took from your time to put these presentations together, so thank you again.

And I want to thank the AMAC. You know,

bringing these issues front and center, I'm going to borrow a word that Scot used, courage. It takes a lot of courage to bring these issues to the, to the forefront and to discuss them. It's really easy for us to sit as, as folks in, in this, in this space and talk about all the, you know, the regulatory technical issues.

But it takes a lot of courage to talk, to talk about things like diversity equity inclusion and data privacy, and shed light on, on the issues surrounding them. So thank you for doing that. Thank you for having that as a priority, and I really look forward to hearing more about how we can move the dialog forward. Thank you, Ed.

MR. BERNARD: Great. And let me thank you all as well. It's 1:41, so I've taken 11 minutes more than I promised, so I apologize for that. I'm really grateful to everyone for their time for this special meeting to catch up where we, where we had to do the additional work on COVID-19 in May.

I'll be following up with the panel moderators and reach out to anyone about any follow-up questions to you.

And as I mentioned in my open remarks, there's some groups doing work on ETFs and operational issues coming out of COVID-19. They do want to come back to this group probably in the August timeframe with some e-mail requests for input and/or sort of just to give you an opportunity maybe by September ahead of our meeting to reflect on some recommendations so we'll be prepared to discuss them.

So if I could, I know I continue to impose on your time, please keep an eye out for those e-mails, and I would encourage you to remember that we all represent our firms. So if you happen not to be the expert in your firm on the issue that we send, don't think to yourself, oh, I can't really add much to this question. Please figure out who in your firm can, and, and help us bring those resources to bear.

So with that, I'm going to try and get this done before 1:45 and make it 15 minutes over what I promised. Thanks again to everyone. I think it's been a great discussion. These wrap-ups at the end I find particularly helpful. We will be back, and we'll figure out how to move these issues forward. Enjoy the rest of your summer. Thanks, everybody.

(Whereupon, at 1:43 p.m., the meeting was adjourned.)

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PROOFREADER'S CERTIFICATE

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File No: OS-0716

Date: Thursday, July 16, 2020

Location: Washington, D.C.

This is to certify that I, Christine Boyce (the undersigned), do hereby certify that the foregoing

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