

**Securities and Exchange Commission Investor Advisory Committee
Minutes of the Meeting on March 28, 2019**

The Investor Advisory Committee (IAC) met on March 28, 2019, in a public meeting at the Securities and Exchange Commission's headquarters in Washington, D.C. The meeting convened shortly after 9:00 a.m. and was broadcast live by webcast.

The following persons participated in the meeting:

Commissioners of the Securities and Exchange Commission

Chairman Jay Clayton

Commissioner Robert J. Jackson Jr. (morning only)

Commissioner Elad L. Roisman (morning only)

Advisory Committee Members

Anne Sheehan (Chair)

Elisse Walter (Vice Chair)

Craig Goettsch (Secretary) (by telephone)

Nancy LeaMond (Assistant Secretary) (morning only)

Allison Bennington (by telephone) (afternoon only)

John Coates

Lisa Fairfax (by telephone) (morning only)

Rick Fleming

Matthew Furman (by telephone) (morning only)

Stephen Holmes

William Lee

Paul Mahoney

Jennifer Marietta-Westberg

Lydia Mashburn

Mina Nguyen

Barbara Roper

Damon Silvers (by telephone) (morning only)

Anne Simpson

Jerome Solomon

Heidi Stam

J.W. Verret

Susan Ferris Wyderko

MORNING SESSION

Welcome Remarks

Chairman Anne Sheehan called the meeting to order and invited those SEC commissioners who were present to give opening remarks. Chairman Jay Clayton and Commissioners Jackson and Roisman commented on the Committee's agenda topics. Chairman Clayton then introduced Martha Miller, the new SEC Advocate for Small Business Capital Formation.

Discussion Regarding Stock Exchanges: Investor Protection Under the Modern Exchange Regulatory Structure

Ms. Sheehan introduced the panel members and Mr. Verret introduced the topic. Panelists then spoke in the following order:

- **Chester Spatt**, Pamela R. and Kenneth B. Dunn Professor of Finance, Tepper School of Business, Carnegie Mellon University, and Golub Distinguished Visiting Professor of Finance, Sloan School of Management, MIT
- **Brad Katsuyama**, Co-Founder & CEO, IEX Group, Inc.
- **Tal Cohen**, Senior Vice President, US Equities, Nasdaq
- **Mehmet Kinak**, Vice President & Global Head of Systematic Trading & Market Structure, T. Rowe Price Group Inc.
- **Ken Bertsch**, Executive Director, Council of Institutional Investors
- **Tyler Gellasch**, Executive Director, Healthy Markets Association

Mr. Spatt spoke about the impact of order routing and the structure of fees and rebates. He maintained that the transaction fee pilot had potential value and that the Exchange Act had potential significance in addressing what he described as various burdens on competition.

Mr. Katsuyama asserted that the exchanges have benefitted from business methods that harm investors. Exchanges must be held to a higher standard than profit maximization despite their status as for-profit companies, Mr. Katsuyama maintained.

Prefacing Mr. Cohen's remarks, Chairman Clayton and Commissioner Jackson both emphasized their appreciation for his presence on the panel representing one of the exchanges.

Mr. Cohen emphasized the role of exchanges in protecting investors and what he called the regulatory pillars of market surveillance and listing oversight. He went on to discuss tick sizes; a suggestion to revoke unlisted trading privileges (UTP) to revitalize markets for thinly traded securities; and a path forward on market data.

Mr. Kinak, offering the perspective of a long-term investor, argued that regulation has not kept pace with the transformation of exchanges from member-owned, utilities-like entities to for-profit corporations.

Mr. Bertsch picked up on the same theme, arguing that exchanges today focus on ways to monetize their role as gatekeepers and holders of market-critical information. He also discussed the listing of companies with dual-class shares in the context of global competition among exchanges.

Mr. Gellach touched on several themes, including pricing tiers, market data costs, order types, and market surveillance. He maintained that regulators had allowed exchanges to become for-profit entities without putting any sort of new regulatory guidelines or safeguards in place, and that this had proved unwise.

With the opening presentations complete, Chairman Clayton offered plain-language explanations of various economic terms relevant to the discussion. Commissioners Jackson and Roisman also made comments.

Ms. Sheehan offered Mr. Cohen the opportunity to respond to the comments and criticisms that the other panelists had made about exchanges. He spoke of Nasdaq's role in maintaining market quality and facilitating price discovery.

A discussion between panelists and Committee members followed.

Discussion Regarding Disclosures on Human Capital (which included a Recommendation from the Investor as Owner Subcommittee)

Mr. Coates, Chairman of the Investor as Owner Subcommittee, introduced the Recommendation, which stated:

...the Committee recommends the Commission recognize the significance of Human Capital Management (HCM) and incorporate it as a part of the Commission's Disclosure Effectiveness Review and the Commission's approach to modernizing corporate reporting and disclosure. We encourage the Commission to learn more from investors, issuers and the academic community through its customary processes, such as roundtables, concept releases, and proposed rules for public comment, including information about what kinds of HCM disclosures are already required under other regulatory regimes, with a view to minimizing marginal costs of compliance while achieving the benefits of improved disclosure. [Citation omitted.]

After a thorough discussion, the Recommendation was approved, with 14 members voting in favor¹ and six members voting against.² One member, Ms. Mashburn, has asked that the minutes reflect the following explanation of her vote: Ms. Mashburn, while agreeing with the first few pages and a principles-based approach, voted against the recommendation, noting concerns about interactions with GAAP, the potential for proscriptive disclosures to quickly

¹ These members voted for the recommendation: Ms. Bennington, Mr. Coates, Ms. Fairfax, Mr. Fleming, Mr. Goettsch, Ms. Marietta-Westberg, Ms. Roper, Ms. Sheehan, Mr. Silvers, Ms. Simpson, Mr. Solomon, Ms. Stam, Ms. Walter, and Ms. Wyderko.

² These members voted against the recommendation: Mr. Holmes, Mr. Lee, Mr. Mahoney, Ms. Mashburn, Ms. Nguyen, and Mr. Verret.

become obsolete, and the risks that specific metric mandates would encourage metric-gaming and give investors a false sense of confidence in those disclosures.

The Recommendation, the complete discussion on it, and a dissent submitted by several members all can be viewed online on the IAC webpage at the SEC website at <https://www.sec.gov/spotlight/investor-advisory-committee.shtml>.³

RECESS

The Committee went into non-public administrative session at 12:11 p.m.

AFTERNOON SESSION

The public meeting resumed at 1:19 p.m.

Discussion Regarding Trends in Investment Research and Potential Regulatory Implications

Mr. Holmes gave an overview of the topic and called on the panelists to introduce themselves and give opening remarks. They spoke in the following order:

- **Daniel Cummings**, Capital Markets Professional
- **Sallie Bailey**, Executive Vice President and Chief Financial Officer, Louisiana-Pacific Corporation (Retired)
- **Nanette Buziak**, Managing Director, Head of Equity Trading, Voya Investment Management
- **Amy McGarrity**, Chief Investment Officer, Colorado Public Employees' Retirement Association
- **William Llamas**, Director, Relationship Manager, Greenwich Associates

Mr. Cummings gave an overview of the role of sell-side investment research in capital markets.

Ms. Bailey described her past experience as a finance executive at mid- and small-capitalized industrial public companies. She discussed the importance of research analysts to issuers and their chief financial officers. She also noted the role of research analysts in facilitating management in-person meetings with shareholders or potential shareholders.

³ The archived webcast begins at 2:15:40 and is available at https://www.sec.gov/video/webcast-archive-player.shtml?document_id=iac032819.

Ms. Buziak offered her perspective as head of equity trading at a mid-size asset management firm. She said her firm valued the corporate access and sell-side conferences organized by sell-side firms. She also argued that MIFID II, if adopted in the U.S., would favor bigger asset managers at the expense of smaller ones.

Ms. McGarrity offered the perspective of an asset owner that consumes sell-side research. Unlike the other speakers, Ms. McGarrity spoke in favor of MIFID II. She argued that the traditional model of bundling research with trading commissions encourages opacity, prevents price transparency and discovery, and ultimately requires trading to obtain access to research.

Mr. Llamas described the initial impact of MIFID II on European asset managers and broker-dealers, based on a study that his firm had conducted a few months after the new regulations had taken effect.

A discussion with Committee members followed.

Subcommittee Reports

Ms. Sheehan asked for subcommittees reports. Ms. Roper, Mr. Coates, and Mr. Verret offered updates, respectively, on the work of Investor as Purchaser, Investor as Owner, and Market Structure Subcommittees.

Approval of Minutes of the Previous Two Meetings (November 7, 2018, and December 13, 2018)

Mr. Coates moved to approve the minutes of the two previous meetings (on November 7, 2018 and December 13, 2018). Members voted unanimously to approve both sets of minutes.

CLOSING

Ms. Sheehan briefly described topics for the next public meeting on July 25, 2019. She adjourned the meeting at 3:15 p.m.