

**Securities and Exchange Commission Investor Advisory Committee
Minutes of the Meeting on July 25, 2019**

The Investor Advisory Committee (IAC) met on July 25, 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 (morning only)

Commissioner Robert J. Jackson Jr. (morning only)

Commissioner Allison Lee (morning only)

Advisory Committee Members¹

Anne Sheehan (Chair)

Elisse Walter (Vice Chair) (by telephone)

Craig Goettsch (Secretary)

Allison Bennington

John Coates

Lisa Fairfax

Rick Fleming

Matthew Furman

Stephen Holmes

William Lee

Paul Mahoney

Jennifer Marietta-Westberg

Lydia Mashburn

Mina Nguyen

Barbara Roper

Damon Silvers (by telephone)

Jerome Solomon

Heidi Stam

J.W. Verret

Susan Ferris Wyderko

MORNING SESSION

Welcome Remarks

Chairman Anne Sheehan called the meeting to order shortly after 9 a.m. She welcomed incoming Commissioner Allison Lee and invited those SEC commissioners who were present to give opening remarks. Chairman Jay Clayton and Commissioner Jackson also welcomed

¹ Nancy LeaMond and Anne Simpson were absent.

Commissioner Lee, and all three commissioners commented on the Committee's agenda topics. Ms. Sheehan thanked Ms. Fairfax and Mr. Lee for their service on the committee and noted that their terms would expire before the next meeting.

Discussion Regarding the SEC Approach to Regulation in Areas with Limited Competition

Mr. Coates introduced the topic and panelists, who spoke in the following order:

- **Aline Darbellay**, Assistant Professor of Law, Center for Banking and Financial Law, University of Geneva, Switzerland
- **Craig Pirrong**, Professor of Finance, Bauer College of Business, University of Houston
- **Robert H. Lande**, Venable Professor of Law, University of Baltimore School of Law
- **Daniel M. Gray**, Senior Special Counsel, Office of Market Supervision, Division of Trading and Markets, SEC
- **Narahari Phatak**, Associate Director for Policy Economics, Division of Economic and Risk Analysis, SEC

Ms. Darbellay spoke about the impact of U.S. and European regulations on credit rating agencies since the 2007 financial crisis. She paid particular attention to what she described as a tradeoff between regulation and competition.

Mr. Pirrong described the impact of Regulation NMS on order flow and also on the provision and sale of data. He also observed that regulation tends to act as a fixed cost and thereby tends to encourage market concentration.

Mr. Lande elaborated on a form of collusion that seeks to fix the rules of competition for the purpose of isolating and then exploiting consumers. He classified this as the third of three forms of collusion.

Mr. Gray described the evolution and current state of issues involving proprietary exchange data and connectivity fees in both the U.S. and Europe. He described regulators' approaches as well as positions taken by exchanges and other market participants.

Mr. Phatak described the work of SEC economists in supporting Commission rulemaking. He suggested that there were usually tradeoffs in questions of regulation and the impact on competition.

A discussion between panelists and Committee members followed.

Discussion Regarding Trends in Investment Research and the Impact of MiFID II (which may include a recommendation from the Market Structure Subcommittee)

Mr. Furman, Chairman of the Market Structure Subcommittee, and Ms. Bennington introduced the recommendation as amended.

The recommendation establishes a series of principles for the SEC staff to consider as it works through the impending expiration of the SIFMA No-Action Letter. The SIFMA No-Action letter provided a temporary solution to enable U.S. broker dealers, providers of investment research, and U.S. Asset Managers to be able to provide research and trading services to EU clients, pursuant to the EU's relevant MiFID II rules. The MiFID II rules, which became effective January 1, 2018, required unbundling of investment trading and research when using client commissions as a form of payment. The SIFMA No-Action Letter enables U.S. broker dealers to continue to bundle investment research and trading without requiring registration as an Investment Advisor under the Investment Advisors Act until July 3, 2020.

The Recommendation proposes that:

(a) Consumers of research, regardless of where they are located, be able to choose whether to purchase research bundled or unbundled from trading. Any new SEC Legal Authority facilitating unbundling should avoid subjecting broker-dealers who provide that research to increased regulatory burdens that arise solely from the form of payment received, as those could curtail their ability or willingness to produce research while avoiding any undue relaxation of Advisers Act protections; and

(b) The Commission should act to provide greater transparency, as it relates to the costs of research, and a greater understanding that clients actually benefit from research they pay for.

Specifically, the Committee recommended that the Staff take into consideration the following principles as it determines next steps regarding MiFID II, the impending expiration of the SIFMA No-Action Letter, investment research, and greater transparency:

(i) Prioritizing investor protection, cost and choice in any compliance strategy;

(ii) Considering all types of investors; and

(iii) Considering market participants of all sizes and geographies.

After a thorough discussion, Mr. Fleming moved to vote on the Recommendation. The Committee voted without objection to approve the recommendation as amended.

The Recommendation is available on the IAC webpage at the SEC website (see [Investment Research in a Post-MiFID II World](#)). The archived webcast of the complete discussion can be viewed at https://www.sec.gov/video/webcast-archive-player.shtml?document_id=iac072519.

RECESS

The Committee went into non-public administrative session at 11:40 a.m.

AFTERNOON SESSION

The public meeting resumed at 1:24 p.m.

Discussion Regarding the Proxy Process (which may include a recommendation from the Investor as Owner Subcommittee)

Mr. Coates, Chairman of the Investor as Owner Subcommittee, gave an overview of the recommendation. An extensive discussion on the content of the recommendation ensued.

Ms. Mashburn, raising a question of process, urged that the vote be postponed to give members adequate time to consider it. Ms. Roper and Ms. Walter supported Ms. Mashburn's suggestion.

Ms. Sheehan, recognizing committee sentiment to have more time before voting, deferred the vote to a future telephonic meeting that would be arranged for that purpose.

Presentation on the Work of the SEC Office of the Advocate for Small Business Capital Formation

Martha Miller, Director of the Office of the Advocate for Small Business Capital Formation, described the mission, business plan, and start-up activities of the office, which was founded in December 2018. She noted that the office has a dual focus on both small businesses and investors in small businesses. A discussion with IAC members followed.

Presentation on the Work of the SEC Office of Minority and Women Inclusion

Pamela Gibbs, Director of the Office of Minority and Women Inclusion, described the mission and activities of the office, which was founded in 2012. She spoke of the work to promote diversity and inclusion both internally at the SEC and externally among the office's regulated entities. Ms. Gibbs also described challenges that the office has faced and its efforts to overcome them. A discussion with IAC members followed.

Subcommittee Reports

Mr. Goettsch, who took over as chairman of the meeting upon the departure of Ms. Sheehan,² asked for subcommittees reports. Ms. Roper, Mr. Furman, and Ms. Stam gave brief updates on the work of Investor as Purchaser, Investor as Owner, and Market Structure Subcommittees, respectively.

² (Ms. Sheehan's schedule required her to leave early.)

CLOSING

Mr. Goettsch adjourned the meeting at 3:06 p.m.