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THE NEW AMERICAN DREAM:
RETIREMENT SECURITY

A CONVERSATION WITH SEC COMMISSIONER KARA STEIN

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PARTICIPANTS:

Introduction:

AARON KLEIN
Fellow, Economic Studies; Policy Director,
Center on Regulation and Markets
The Brookings Institution

Keynote:

KARA M. STEIN
Commissioner
U.S. Securities and Exchange Commission

Fireside Chat:

MARTIN BAILY
Senior Fellow, Center on Regulation and Markets,
and Bernard L. Schwartz Chair in Economic Policy Development
The Brookings Institution

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PROCEEDINGS

MR. KLEIN: Good morning. I'm Aaron Klein, I'm a fellow in Economic Studies here at Brookings and it's my great pleasure to welcome you all here to an incredibly important conversation on the "New American Dream" which is a security and well-being in a financial comfort in retirement. It is no secret that we are living longer particularly among people who are lucky enough to live long. The advancements in medical technology and other changes mean a significant amount of people are going to be fortunate enough to live far longer than they ever expected. That while unquestionably good, creates a whole new set of economic challenges regarding how people save, what opportunities are available to them, what level of investor protection is available to them. Because just because you're getting older doesn't mean that your cognitive capabilities are remaining constant. There are a series of challenges that we need to address and we need to have a honest and upright and forthfill conversation about them because they aren't all easy. It's with that that I think it's fantastic to be able to welcome SEC Commissioner Kara Stein who will come up and give a speech and then be interviewed by my colleague and good friend, Senior Fellow at Brookings Martin Baily. Martin along with others is doing some substantial new work in research into this field that I think over the coming year to two years will help really crystallize this conversation which is going to require I think a new policy framework.

With that let me take a personal moment, you know, people come to Washington and many of us in the room, I can look out and I see we work together, we know each other, and occasionally if you're really fortunate you get to know somebody who's really special and makes a difference not just in your life but, and the reason we're all in Washington, which is the lives all Americans to make the world a better place. It's a great personal privilege to say that I know such a person and her name is Kara Stein.

Kara comes to us as an SEC Commissioner but her

roots go down to southern Virginia where she grew up in Lynchburg and as always in my opinion taken an understanding of what some people would call the real America or life outside the bubble with her as throughout her career. I first got to know her when we worked together in the United States Senate and then later at the Security and Exchange Commission. She's been a tireless advocate not for necessarily any one set of beliefs but for what she believes is right. A data driven, empirically, honest, tough, and thoughtful leader who's just had an amazing tenure at the SEC and somebody who I am proud and privileged to call a friend and thrilled to be able to introduce to come here and give a speech at Brookings. So Kara the floor is yours.

MS. STEIN: That was an awesome introduction, thank you Aaron. I want to thank Brookings for hosting this event this morning on a really important topic which is important to everyone in this room and everybody listening which is retirement. We have all dreamed at some point about what our retirement might look like. For some it's being able to stop work at 65 and engage in other activities. For others it might be moving to a long dreamed of retirement location or moving closer to family. Although everyone's ideal retirement might look a bit different, we all share the desire to have financial security that will allow these dreams to come true. Unfortunately for many Americans, the ability to achieve financial security in retirement in increasingly tenuous.

Since World War II Americans have planned their retirements around the expectation of combining a pension, social security benefits, and personal savings to provide sufficient income for their golden years. The combination of these three sources of income is commonly referred to as the three-legged stool of retirement and it's based on the understanding that any of these legs has been historically insufficient standing alone but that together these three legs of the stool create a strong foundation. But in recent years, each of these legs has become wobbly due to a number of factors. The financial health of the

Social Security Trust Fund has been declining. According to the 2018 Trustees Report on Social Security, the fund will be depleted in 2034. That is only 16 years away. At the same time, the availability of employer provided pension plans has also been declining. Few private sector workers today have access to a pension and many public sector pension plans are facing severe financial problems. So given the limited availability of employer sponsored pensions and Social Security's declining financial health, we are headed toward a world in which personal savings may be the most significant source of income for retirees. If these trends continue, the three-legged stool may look more like the leaning Tower of Pisa.

We've moved from a collective retirement system to one in which each person is expected to go it alone. About three out of every four adults in the United States lives in a household with at least one type of investment account and an overwhelming number of those investment accounts are retirement accounts. But unfortunately, most Americans are not and may never be prepared. A 65-year-old worker planning for a possible 30-year retirement will need savings around 1.8 million dollars to generate 75,000 dollars a year in income. However, according to the National Institute on Retirement Security, the median retirement savings of Americans between the ages of 55 and 64 is currently zero, the median is zero. Indeed, even for those who do have retirement accounts, the average balance is only 88,000 dollars which will provide a mere 3,600 dollars a year in retirement.

This is consistent with recent surveys conducted by my agency, the United States Securities and Exchange Commission by our office of the Investor Advocate where most investors reported holding less than 50,000 dollars of assets in their investment accounts. Further, the World Economic Forum estimated that the United States had a retirement savings gap of 28 trillion dollars. This is expected to continue growing by about

three trillion dollars a year.

The retirement crisis is a tsunami that is rapidly approaching. We can already see it and indeed we are starting to feel it's effects. Americans are having to work past traditional retirement ages and the number of bankruptcies for those over the age of 65 has increased dramatically. So the size and the speed of the tsunami is likely to increase as it gets closer and closer to us. Our population is aging and the cost of medical care, an important factor for retirees, is also increasing. We must address this problem before we're collectively under water.

The possible solutions to the retirement crisis, they're multi-faceted and involve many people and many government entities. My brief remarks this morning will not address the fundamental role of Social Security in the retirement paradigm or the difficulties many low-wage workers face in saving at all. As an SEC Commissioner I'm here to talk about solutions specifically related to the third leg of the stool, investments. Stashing away money in a savings account only gets retirees so far. To have a safe and secure retirement, Americans must invest their savings to allow them to grow. For example, someone who saves 17 dollars a day starting at the age of 21 will have put aside 273,000 dollars by the time they're ready to retire at 65. However, if they invest that same amount with return of 7 percent, they will have almost 1.8 million dollars in their retirement account. Without investment, retirement may be a dream that never comes true.

Given the importance of investment to Americans ability to retire, what can the Securities and Exchange Commission do to help? Well as an initial matter, we can certainly help build financial capacity, an investing acumen. The commission already does a lot of work in this area but we need to do more. For instance, we know that much of the education people receive about investing comes once they have enough money to invest. But if we're truly to make a difference, financial literacy education needs to start much

earlier. The SEC should work with other agencies to create a model curriculum for schools. We should sponsor contests similar to spelling bees for middle school and high school students about investing in their future. We can create an app that teaches kids and adults how to invest and we can work with private industry to have public service announcements on saving for retirement.

This is the kind of thinking we need to engage in if we're going to help prepare Americans for the task of investing for their own retirement. However, educating investors only go so far. The commission must ensure that investors have the information and tools they need to make good decisions. This means that the information they're given about potential investments must be easy to understand. Investors should be able to look at the first page or two of a prospectus and understand how much they will pay in fees and to whom. Investors also should be able to understand the key features and risks of the security without having to dig through hundreds of pages. If we can simplify food labels we can simplify investment disclosures. For instance in the home mortgage area, a concise disclosure form has greatly increased consumers understanding of the details of their mortgages. Why shouldn't we have a similar requirement for investments?

Moreover, investors should be able to easily compare financial products. To accomplish this, I would urge the commission to consider updating the means by which information is provided to investors. Many on line retailors use tools that allow customers to compare similar products side-by-side in an easy to understand format. We can learn from these retailers and allow investors the same opportunity to understand the choices before them. If we can compare toasters on line, we should be able to compare stocks, mutual funds, and other investments. Finally, why shouldn't a periodic disclosures about the value of an investors 401K account include how much income will likely be generated in retirement. This could be like the box on the back of your credit card bill. Such information

would let an investor know if they are on track to meet the retirement goals.

We are living in a digital age which provides a plethora of opportunities to effectively communicate information to consumers. We should use the technologies available to enhance investors ability to understand and process information about their investments. After all, it should not be easier to spend money than it is to save it. Education and disclosure can be helpful in some circumstances but it is not enough. Most Americans are not professional investors nor should they be. We as a nation need individuals to be the best teachers, fire fighters, doctors, or engineers they can be. They should not have to divert their valuable and limited time and resources to becoming the next Warren Buffett. To require them to do so would impose cost on the overall economy. Consequentially many Americans turn to professionals for investment advice.

Recognizing that many Americans depend on such professionals for their retirement, the commission must ensure that they are giving investors unconflicted advice. Unfortunately this is not always the case. It is estimated that retirement savers lose 17 billion dollars to conflicted advice every year. This is a staggering sum that has real consequences for such retirees. The commission must take action. There are many types of professionals offering investment advice and the rules that apply to them differ significantly. That is confusing. It's confusing both for the investors and for the investment professionals. In fact, there is a substantial expectations gap. In a recent survey conducted by the SEC staff, nearly 80 percent of respondents believe that investment professionals subject to a best interest standard would take into account the investors personal financial situation. Nearly 70 percent believe that the professional would monitor the account on an on-going basis and over half believed professionals would not sell products that would cause the investor to lose money. We also learned that the investors seeking investment advice tend to be older and keep getting professional advice once they've started and we

learned that most people expect their interest to be paramount.

When surveyed about what it means to act in the best interest of the investors, most respondents believe that it meant they would be afforded a very high level of investment protection and interestingly people that considered themselves more experienced believe that best interest implied an even higher level protection than the average person. Simply put, most investors assume that someone who's giving them advice has to put the investors interest first. This is after all what they're paying for. However, while sometimes this is true, frequently it is not.

So how do we ensure that investors expectations meet reality? I see at least two ways of going about this. We can raise the duty for all investment professionals so that it meets investors expectations or we can teach investors to treat the advice they receive from certain professionals differently. After all, most consumers do not treat the advice they receive from doctors the same as the advice they receive from salespeople. However, educating investors about complicated legal duties is quite complicated in and of itself. It's confusing for the investment professional and for the investor. My guess is it would be easier to simply require that all persons actually giving investment advice put their clients interests first. It's simple and it's straight forward. As I mentioned earlier, the cost of conflicted investment advice are huge and they come in large part at the expense of retirees.

The commission must address the different standards of conduct applicable to investment professionals and do so in a way that protects investors. This is our mission. This may require action from Congress but the consequences are too large for us not to get this right. While educating investors and ensuring that they are getting good advice are important steps, it's imperative that we incentify savers to invest in the first place. Many Americans are intimidated by the multitude of choices before them and they opt out of

investing as a result. We must make it easier for retirees and other nonprofessional investors to make the right decisions. These decisions should not require a differential calculus class. It also means that where there's a default option, the default option should always encourage saving. For instance in a work based retirement contribution plan, employers should set the default option to investing. That doesn't mean the employees have to invest, it just means they have to take action not to. We should always keep this principal in mind when setting opt-in, opt-out defaults.

We as a nation should also re-examine other incentives for individual retirement security. For example, should employers receive tax incentives to increase saving and participation by their employees? If 75 percent of the company's employees contribute an average of five percent to plans, should the employer receive a special tax rebate? Should individuals be allowed to deduct the cost of retirement advice? Should there be tax exemptions for pension refinancing bonds similar to municipal bonds? These are but a few of the ideas on how to use public policy to incentify saving and investing. Let's make it easier to Americans to prepare for retirement, not harder.

And as retirees rely more and more on their investments, we at the SEC have additional responsibilities. We must work to ensure that those investments are protected from fraud. Sadly, retirees lose billions of dollars every year to fraud and abuse. After the fact, enforcement is only so useful. I vote every Thursday on 20 to 30 enforcement cases and again a lot of the times we've come in after someone was truly harmed and the money has already been sent on luxury condos all over the world and Porsches and all kinds of other stuff. So by the time the SEC arrives, the money is already gone and investors can never be made whole. Thus, I believe that deterrence is critical to preventing such losses. An effective deterrent requires meaningful penalties. We all know that when it costs more to park in a garage than to pay a parking ticket on the street, the number of

illegal parkers goes up. Penalties cannot be merely the cost of doing business. They must be large enough to deter others from engaging in similar conduct. Unfortunately it appears that our penalties are trending down. What message does this send to the markets? Further, at a minimum, wrongdoers must be required to disgorge the profits obtained from their wrongdoing. Crime should not pay but unfortunately, sometimes it does. Currently the commission is limited to obtaining five years-worth of ill-gotten gain as a result of a recent Supreme Court decision. This means that clever wrongdoers are able to retain tens of millions of dollars of investor money. When crime pays, investors including retirees pick up the tab. The solution to this problem does not lie at the commission. This is something that Congress must fix and I urge them to do so.

However, the commission can ensure that known wrongdoers are unable to repeatedly assess our markets and retirees hard-earned savings. For instance, the commission can bar lawyers and accountants from practicing before it, bar broker dealers and investment advisors from the industry, and request officer and director bars. The commission also can apply certain restrictions on issuers or companies who have engaged in bad conduct. These limitations are prophylactic measures to prevent known wrongdoers from victimizing more investors. When the question comes up, I always ask myself, do I trust this person or entity with other people's money? If the answer is no, then they should not be in the securities industry. We must take this responsibility seriously. People are counting on us.

In addition, there are other ways the commission can protect retirees. For instance, the rules governing financial professionals should allow them to alert an investors trusted family or friends of suspected problems. An unfortunate reality for many seniors is a diminished capacity to make sound financial decisions. Indeed, one in five seniors has been the victim of exploitation. Many times the investment professionals or other parties who see

the financial activities of seniors are aware that something is wrong but feel there is nothing they can do. We must allow these financial professionals to raise the alarm.

Protecting investors and retirees investments involves more than merely being vigilant when it comes to fraud. The commission also must work toward maintaining fair and stable financial markets. We should remember that both companies and individuals are depending on these markets. Retirees often depend on income from their investments to pay for housing, medical care, food, and other expenses and we cannot forget that. Because they rely on the income from their investments, retirees are particularly exposed to extreme fluctuations of the market. While someone who is in their 20's has 40 years or more to recover from an extreme market downturn, retirees and soon-to-be retirees do not. During the financial crisis, the value of many investors portfolios was cut in half and this was catastrophic for some retirees. The reality that more and more retirees have to rely on the markets for their well-being means that severe market downturns do not harm just Wall Street. They also harm Main Street. Therefore, it is important that the commission consider systemic risk to the markets. That is not to say that the markets should never go down, they should as part of healthy markets. But markets need not plunge due to preventable systemic risk. The commission must be mindful that excessive risk taking in the markets that can lead to severe market downturns. The markets need to be resilient enough to withstand the financial headwinds.

So what does this mean for the commission? First me we must ensure that our regulated entities can withstand extreme but plausible market events. When financial intermediaries collapse, the consequences for retirees can be huge. Second, the commission should carefully consider new financial products, practices, or services that will exacerbate market fluctuations. If a product, practice, or service is likely to throw fuel on a raging inferno, the commission should require that at a minimum, there is a working fire

alarm and fire extinguisher. Third, the commission must ensure that the markets plumbing works. While not as headline grabbing as other topics, the markets underpinnings are critically important. Stocks must clear smoothly and efficiently. The triparty repo market must function. Unfortunately because of the utility-like nature of these services, there are frequently only one or two players. This high concentration makes these critical infrastructures more delicate. The commission and other financial regulators must pay close attention to these issues. Investors and in particular, retirees, are counting on us.

So today we as a nation face a fast approaching crisis. An aging population without sufficient resources to fund a secure retirement. This crisis is a collective problem that unless solved will cause many individual tragedies. To bring this point home, let me leave you with a real story of one of those tragedies. Liam Leaderman was my all means the epitome of American success. During World War II, Dr. Leaderman helped develop the Doppler radar. In the 1960’s he won a Nobel Prize for discovering a previously unknown subatomic particle. Later in life he organized a program to train thousands of teachers and founded a science and mathematics high school in Illinois. Yet in 2015 Dr. Leaderman had to sell his Nobel Prize, one of the highest honors in science, to pay for mounting health care costs. It’s stories like this that bring home the real price of the retirement crisis and why we must find solutions.

Some may say that the solutions I discussed are too limited to solve such a complex problem; however, at the SEC our mandate only encompasses a small portion of the larger retirement issue. We deal with individuals who already have enough resources to save and invest. Nonetheless our issues overlap with those faced by other government agencies. To harness the creative thinking of a wide range of people, I believe the President should issue an executive order to create a presidential working group on retirement security. The working group would assemble regulators from the Departments of

Labor, Treasury, Commerce, the SEC, and others. It would also bring together major market participants such as asset managers, exchanges, broker dealers, and others to determine private sector solutions wherever possible. The purposes and the functions of the group would be to enhance the state of retirement security in the United States by making recommendations regarding legislative, regulatory, or other changes. The retirement tsunami is approaching. Now is the time to do something about it. Let's move to higher ground. Let's ensure that our financial houses are up to code. In 20 years we do not want to be asking ourselves what were we thinking? Why didn't we do something? Both the government and the private sector have to work to prevent a potential crisis that has many causes but also many possible solutions.

I hope that we at the SEC can do our part to protect the American dream of secure retirement but I hope to do it with all of you as well. Thank you.

MR. BAILY: Thank you so much, that was terrific. It's hard to know where to start but let me pick up first on a point you raised about potential volatility in markets and you mentioned the recession and the hardship that caused the potential retirees. Actually the S and P had almost 50 percent following the 2002 and 2001 so those huge volatilities are not unknown. Is this something that the SEC needs to do more about or is that something we just accept as part of the way markets operate or has the SEC changed any of its rules since then to protect investors more against that kind of extreme volatility?

MS. STEIN: I sort of alluded to this in my speech but the volatility is a normal part of our capital markets and I think what we have done is in regard to more temporary changes like the flash crash and sort of these one or two day volatility events. We've created sort of what we call circuit breakers so the market can only fall a certain amount on one particular stock. But I think one of the things I've been saying is we can't rely on the capital markets to provide the answers to everything because they are going to

be volatile and they're going to be moments in time where people who are invested will have lost half of their portfolio and it won't be there at the time they might need it. So that's why it's so important to have a concept like the three-legged stool, it can be a four-legged stool, a five-legged stool, we shouldn't limit ourselves but at the end of the day, that's what I'm saying it's sort of a Leaning Tower of Pisa. You can't completely rely on the capital markets to provide the type of income that people need.

MR. BAILY: So as you mentioned in your speech, so if someone in their 20's, 30's, or maybe – I lost my train of thought a little bit. But as you said so if someone who is young, maybe has many years, the market went down and will come back up again and you can deal as long as you can sort of sweat it out, you can deal with the down and get the up again. What about those people who are retired or about to retire, there isn't as much attention to the decumulation phase of retirement and you sort of mentioned it a little bit but I wonder if you've got any more to add about how people can manage and negotiate that period of their lives because often times, not often times, they are older, they may not have the same cognitive abilities. What kind of help can either the SEC or other parts of our economy give to that group that's in that decumulation phase?

MS. STEIN: I mean I think at the end of the day what you're talking about is critically important and I alluded to it as people, and Aaron did too, people are living longer lives and I think the hard thing for folks is to try to plan for living into their 90's right versus into their 80's? What if I run out of money when I'm 85 right so you see people holding onto money for longer and they don't actually want to spend it down because they're worried about the longevity risk for lack of a better way to put it. It's a good risk to have but they're trying to hedge for that. I think there's some really interesting ideas out there about changing and even the President and his executive order is talking about changing the requirement for when people have to take money out of a 401K but I think we should have a

variety of options available for people so they can make the choices that are best for them. How much of that requires some type of government regulation or congressional legislation, I think is something this working group could focus on. But I think when Social Security was created, people had a shorter time period they thought they would be using it so that's certainly implicated in everything that's happening with Social Security and I think that's true with 401K's and other types of saving vehicles were created to be a supplement to Social Security but we have the same issues about people living longer than what people originally envisioned when they created these saving investment vehicles.

MR. BAILY: One of the issues that Jim Clayton talked about when he spoke at Brookings and there was an article in the Post and of course I'm blanking on her name, it's the head of NASDAQ, was the concern about the reduction in the number of public companies. Is that a concern to you? I know that Elizabeth Warren for example says well those companies are dangerous and we shouldn't worry about that anyway. Is that a concern to you and do you think the SEC can do anything to make it more attractive for companies to go public? I know I don't live in Silicon Valley but when I talk to people in Silicon Valley they can be very, we hate going public, we don't want to go public. Of course they do to make money in the end but the sense is that the regulations and all that, the costs of going public are too high. So what's your reaction to that? Do we need to get more public companies and if so what can we do about it?

MS. STEIN: There's a huge debate going on about this but I think at the end of the day, so after the great Depression we made it hard for anybody to have a private company. You know you pretty much, if you were going to raise capital, had to do it in a public manner. During the intervening 80 years, we've actually been de-regulating the private company side and making it easier to raise capital in the private space as opposed to actually regulating more heavily the public side. So I think you have to look

comprehensively at the whole ecosystem and decide you know at some point, we are trying to buy companies with a variety of capital formation options but are we actually incenting people to be private right, versus dissenting them from public. So I think we have to look at that entire ecosystem. I think a lot of times the debate centers around, we just need to deregulate the public companies and make them equal to the private versus the fact that we've already deregulated the private and made it extremely attractive. I think the other part of this is it's cyclical. As soon as it's harder to get money in the private space and interest rates go up, people will come back to the public markets because that's where they can get the capital they need so some of this is the result of the interest rate environment that we've been in.

MR. BAILY: Let me sort of set one foot into it because you raise the issue of financial advisor and broker dealers. As you mentioned there are different rules applying to each of those. I've heard, I think Chairman Clayton said that there may be limits to the SEC's power and we know there are sort of some rulings from the Supreme Court suggest that certain rules may be judged (inaudible) or something but disclosure may not have to do as much disclosure, there are certain protections on that so I'm not being very clear on that but help us out a little bit. So what do you think needs to be so that investors whether they're working with broker dealers or working with advisors, can feel more confident that their interests are being protected?

MS. STEIN: I think to some degree this goes back to the world has changed since we created rules for broker dealers and rules were created for investment advisors. We need to look at the world that we are in but what I was basically saying is people, whether they go to a broker dealer or an investment advisor, believe that financial professional is giving them advice that's in their best interest. I sort of talked about that survey so we can either change the law, which might need some help from Congress so that

if you're actually giving someone financial advice, you are doing it in their best interest versus I'm telling you I want 100 shares of Apple, go buy it for me, I'm not asking you for advice. So I think from my prospective our financial markets have gotten more complicated and a lot of people are appropriately choosing to go to a financial professional but I'm not sure that trying to explain the differences between different duties that people have to you, is actually going to change what most investors think the duty is to them when their getting that advice. So I think we either change the duty which I think is a simpler way to go about this or you can try to educate them but we've had difficulties in that area in the past and I think no matter how good a job we do, that's going to be a challenge.

MR. BAILY: So at the moment under the current, do you think there's much more that needs to be done? Do you think this is something that's an urgent thing because the judiciary rule has sort of gone away, so do you think there are new steps that need to be taken in this area to protect investors?

MS. STEIN: Yes.

MR. BAILY: Good. I'm going to throw the floor open to the audience and it looks like we've got lots of people who want to ask questions. Rules of the game, could you please identify yourself. Could you ask a question and not make a speech and I'm afraid I'm going to cut you off if it goes on too long. I may ramble but I'm not going to allow you to ramble so go ahead.

SPEAKER: Karl Golovin, Main Reference and Ideal Lives On.net. The SEC has recently famously been pursuing a tens of million dollar settlement in removing Elon Musk as Chairman of the Board at Tesla because he tweeted about what he was thinking about doing. Now he's responded saying SEC stands for Short Sellers Enrichment Commission. Now the question is along those lines. You're encouraging people to invest and 95 percent of us would think investing means to pile out savings into equity as long

holders of equities but yet Musk points out people disparages very wonderful company saying it is going to fail in the short sale, they use their funds to drive the value of stock down. So I would ask you is short selling an equally legitimate investment strategy as holding shares long? Should Americans plan to short sell into their retirement to have a secure retirement?

MS. STEIN: I guess this goes back to not everybody should be a Warren Buffet right? At the end of the day the market's always been for many things, for people who are investing for the short term and people investing for the long term. I think ultimately what we're talking about today for retirees is how to help people invest for the long term and have the money they need 30 years from now to be able to retire. So I don't have any more comment on how different people investing in the market chose to invest differently. I think that's what the markets have always been about.

MR. BAILY: So you don't think short sellers are getting some special advantage? Do you think that's just part of the normal operation of the market?

MS. STEIN: Yes.

SPEAKER: Dave Michaels with the Wall Street Journal. Ms. Stein could you tell us what is your expectation for the commission voting to approve the best interest proposal and the accompanying releases that you all put out when Reg B.I. was issued based on whatever the Chairman's office has told you? Will they get done before you leave office? And can you clarify what you mean in the speech by saying Congress, this may require action from Congress since the Dodd Frank Act did include authorization for the commission to impose judiciary duty for broker dealers?

MS. STEIN: I can't really comment on the Chair's timeline for approving regulation best interest. I haven't been told what the timeline will be for that. I think we've received an overwhelming amount of comments and I think our staff is working through

those comments right now and to some degree how we proceed will be based on what we've learned from that comment period.

Without getting too legalistic here, there's arguments about the parts of our statutes that regulate broker dealers that basically have to do about incidental advice and the line broker dealer is not to be registered as investment advisors if the advice they are providing is solely incidental to the transaction they are helping someone with and I think that goes back to paradigm and a world which is very different from the one that we live in now. So that's why I say we might need Congressional action to actually change the underlying statute to allow broker dealers to give that advice if we want to continue with that type of exemption.

SPEAKER: Thank you. I'm Dave Robinowitz. I'm retired since 1989 and I'm wondering about the enforcement powers of the SEC. Apparently there was a lot of fraud involved in the great recession yet no one went to prison. A lot of stockholders were effectively fined but the people who actually broke the law got their bonuses. My question is why would anybody take SEC regulations seriously given that situation?

MS. STEIN: It's a good question. I mean I think it's complicated one, to start out with the commission only has the power to bring civil lawsuits. So the Department of Justice does criminal cases, not our agency. Two, a lot of what happened during the great recession or the financial crisis, the law as it was written at the time did not make some of what people were doing illegal. So I think part of the discussion is have we changed the law enough since then to make that type of activity less likely to happen in the future? I think people have tried, there is still more that could be done but a lot of what people were doing was arguably not illegal at the time. To the degree people were doing things that hurt investors and solely made the money and it was conflicted advice in one way or the other there would be a lawsuit available but again, some of what the behavior was

that you're talking about wasn't illegal at the time.

MR. BAILY: Let me throw in a question that somewhat follows from that. This is not something first hand but I have heard people talk about possible dangers in the investment management business. There is sort of a natural tendency as cycles go on, it gets harder to get yields and so people start reaching for yield. Is there concern that there's too much reaching for yield in the investment management business at this point that could potentially threaten stability or at least create disruptions in markets?

MS. STEIN: I think we should always be focused on that. I think there's always a reach for yield. People are always trying to figure out how to make money especially in a low interest rate environment. So I always say to our staff, where is all the money going? Because that might be the place where we have a new problem. Where's the new product that people have created that suddenly everyone's really interested in so I think as financial regulators we always need to be looking at where the flow of money is heading and that's at least a beginning of an investigation on our part to see what's going on.

SPEAKER: Thank you very much, Larry Checco, Checco Communications. I agree with a lot of what you said about trying to mitigate the issue with retirement but I think you're speaking to a small segment of the population. Saving for retirement is a luxury these days if 15 dollars an hour is the bar we're setting. I'd like to have a show of hands of how many people in this room live on 30,000 dollars a year? The question is toward regulation however. Personally I don't believe the SEC did a great job with the run up to the bubble and second of all what I'm seeing is the gutting of the CFPB. We're not helping people, we're really aren't and if the government believes it's doing the right thing with deregulating that industry we're in trouble and can I have your comments.

MS. STEIN: I agree.

SPEAKER: Thank you, Sean Egan, Egan/Jones Ratings Company. The question is what are the impediments to simplifying the disclosure and making it easier for investors to understand what the risks are for various products? What are the impediments to implementing that?

MS. STEIN: I believe where there's a will there's a way. So I think it's vision and I think markets love opacity. People make a lot of money off of opacity so to some degree there's always a lot of pushback on bringing more transparency in any space. I think as you know, there's a constant attention.

SPEAKER: Thank you Commissioner Stein. Andrew Ramones with Bloomberg Law. Your term as Commissioner will officially wrap up in December. What do you still hope to accomplish during your remaining time at the SEC and what's next for you after the SEC?

MS. STEIN: That's a lovely question. It's been an absolute honor to be a Commissioner. I feel like every day I get to come to work and try to do the right thing. I have valued that immensely. I don't know what my next steps are or I would tell you. I don't know if I would do it in this context but I don't know yet. But I'm grateful that I've had this opportunity to do public service.

SPEAKER: Roger Cosriker. The ETF, the exchange credit funds and the index funds are growing in proportion. They haven't reached a critical mass yet but are you concerned that could have an adverse effect on the market?

MS. STEIN: I'm not concerned about necessarily particular products. What I do get concerned about as we sort of have learned about some products like ETF's is that their liquidity dried up very quickly on stressful days in the market place. So I think we've got to think through how groups of products are effected when the market is extremely volatile or stressed. Our markets, like I was saying earlier, are always going to be volatile

and they aren't going to respond to stress so we need to make sure they are resilient and they can get back up and running quickly. You don't want any class of products or group of products that are actually able to bring the market to a halt. So I think in the context of ETF's which you can argue are a modern form of mutual funds, we need to keep thinking through how to make sure they perform well. I don't' mean perform well, meaning there's no risk but that they're not actually an accelerant or somehow making the market even more volatile than it would be otherwise.

MR. BAILY: Could you expand on that a little bit. Sort of what liquidity, you mentioned liquidity as a concern that they may not holding enough liquidity. You may not want to but give us a for instance, presumably if a lot of people suddenly decide to withdraw funds from an ETF could that have a disruptive effect if the fund is not properly prepared for that or are you thinking of something different?

MS. STEIN: You know, that's a problem with any product right? If everybody pulls out of it at the same time so it's not again about a particular product. What we found during the flash crash, I guess it's been now six or seven years ago, was certain ETF's just stopped trading completely because those who were trading them stopped trading because they weren't sure what was helping in the market. So it had a lot to do with the relationships of the folks who are actually engaged in the training versus the underlying product. We've also seen instances where the equities or the other, let's just call them stocks, that might underlie an actual ETF continue trading but not the EFT. So you sort of see this juncture between what's happening in the equity space and what might be happening with a product that has wrapped within it equities, that's sort of the simple way to talk about. So I think as a commission we need to understand that, not only when we approve individual EFT's but what a particular product lasts, how it might respond, and certain stressful market circumstance.

MR. BAILY: Well I'd like everybody to, obviously you're still at the SEC and will be until December but I'd like to thank you on behalf of everybody for the service that you had at SEC and thank you especially for coming today and speaking with us. Such a terrific speech and great answers to the questions, thank you.

MS. STEIN: Thank you.

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