

March  
2014

# Building Blocks for Industry Driven Investor Education Initiatives

EFAMA Report on Investor Education



**2**

**Investor Education: A Regulatory  
Perspective**

**Gary Tidwell<sup>20</sup>**

Senior Advisor  
International Organization of Securities Commissions (IOSCO)

**Introduction**

Investor education is a key component of investor protection. Investor education can provide understandable explanations of products and processes, and can play a key role in financial planning. Investor education can also alert investors to potential problems and to some “red flags” of possible fraudulent activities. A robust investor education program can provide investors and potential investors with a list of questions to ask, as well as helpful tools to assess investments and financial services professionals.

---

<sup>20</sup> IOSCO Senior Advisor; Education Training and Regulatory Capacity Building; and Visiting Professor of Business Law, Stephen M. Ross School of Business at the University of Michigan.

Regulators are clearly in a unique position to provide this unbiased and objective information to potential investors. Investor education, as a component of investor protection, can lead to the expansion and growth of financial markets with investors who are informed, and who can invest with confidence.

The International Organization of Securities Commissions (IOSCO) is the acknowledged international body that brings together the world's securities regulators and is recognized as the global standard setter for the securities sector. Its membership regulates more than 95% of the world's securities markets in over 127 jurisdictions, and is the only international financial regulatory organization that includes within its membership all the major emerging market jurisdictions.

Not surprisingly, IOSCO's guiding principles of securities regulation<sup>21</sup> addresses investor education. Specifically, key issue 6 of Principle 3 says: "Regulators should play an active role in the education of investors and other market participants."

This is critical because the IOSCO Objectives and Principles of Securities Regulation have been endorsed by both the G20 and the FSB as the relevant standards in this area. They are IOSCO's main instrument to develop and implement internationally recognized and consistent standards of regulation, oversight and enforcement. They form the basis for the evaluation of the securities sector for the Financial Sector Assessment Programs (FSAPs) of the International Monetary Fund (IMF) and the World Bank.

Consequently, IOSCO intends to not just advance investor education, but also to have investor education as a program priority for its Education and Training Team.<sup>22</sup> The IOSCO Education and Training Team is working with IOSCO's Committee Number 8 on Retail Investors whose primary mandate is to conduct IOSCO's policy work on retail investor education and financial literacy.

The balance of this paper examines some to the actions IOSCO has taken, is taking, and will be taking with respect to investor education. It must also be clearly stated that there remains asymmetric information challenges between financial firms and consumers of financial services. This gap means there must be regulation of products; selling rules; suitability tests and other regulatory measures to protect investors. Investor education must never be seen as a way to minimize the regulatory responsibilities of those who are statutorily charged with securities regulation. Instead, and as stated earlier, investor education is a key component of the overall objective of investor protection.

---

<sup>21</sup> See The IOSCO Objectives and Principles of Securities Regulation (IOSCO Principles) as revised in December 2011, and located at: <https://www.iosco.org/library/pubdocs/pdf/IOSCOPD359.pdf>.

<sup>22</sup> IOSCO members have ranked investor education very high in the last two education and training (E and T) surveys conducted in 2011 and 2013 that sought member input with respect to possible E and T topics for IOSCO education and training programs. For a complete discussion see, 2010 IOSCO Annual Report: [https://www.iosco.org/annual\\_reports/2010/educationAndTraining1.html](https://www.iosco.org/annual_reports/2010/educationAndTraining1.html), and the 2011 IOSCO Annual Report: [https://www.iosco.org/annual\\_reports/2011/educationAndTraining1.html](https://www.iosco.org/annual_reports/2011/educationAndTraining1.html). For 2013 survey results see IOSCO Members' Area at, <https://www.iosco.org>, and the 2012 IOSCO Annual Report: [http://www.iosco.org/annual\\_reports/2012/pdf/annualReport2012.pdf](http://www.iosco.org/annual_reports/2012/pdf/annualReport2012.pdf) (pages 59 and 60).



## Background and Recent IOSCO Initiatives

IOSCO is certainly not a newcomer when it comes to recognizing the importance and the possibilities as well as the limitations of investor education. IOSCO's involvement with investor education includes at least the following significant events.

In March 2001, IOSCO's Technical Committee issued a "*Discussion Paper on the Role of Investor Education in the Effective Regulation of CIS and CIS Operators*"<sup>23</sup>. That report examined the wide array of advantages gained from investor education and noted four different approaches IOSCO members take to meet the IOSCO investor education mandate.

In October 2002, the Emerging Market Committee (EMC) released a report: "*Investor Education*."<sup>24</sup> The EMC surveyed members regarding why regulators undertake investor education initiatives and the most important aspects of their educational program. The survey confirmed the considerable potential benefits of investor education for emerging market economies.

More recently, in 2011 the IOSCO Education and Training Team worked with students from a New York City college to manually examine every investor education website of IOSCO members. Students, under the guidance of IOSCO staff, used a specially designed template to objectively capture critical information and components of most comprehensive investor education program websites. A subjective rating was also awarded to each investor education website that was reviewed.

Those student research results, conducted under IOSCO Secretariat oversight, were used by IOSCO members to not only provide objective feedback with respect to their own investor education website, but to also obtain a rough comparison as to how their website compared to the websites of other IOSCO members.

This research resulted in a report being issued by the Secretariat in June 2012, "*Investor Education: An Analysis of IOSCO Member Websites and Web-Based Information*."<sup>25</sup> That report can be found on the members' area of the IOSCO website, and resulted in several presentations made around the world showing some of the unique investor education programs and components being offered by IOSCO members.<sup>26</sup>

As discussed more fully below, this research and the research template were subsequently used to allow IOSCO members to voluntarily provide links to their web based investor education materials.<sup>27</sup> That information and those links are now available not only to IOSCO members, but also to the general public.

In June 2012 the Emerging Markets Committee published, "*Development and Regulation of Institutional Investors in Emerging Markets*."<sup>28</sup> In November 2012, additional IOSCO member investor education

<sup>23</sup> <https://www.iosco.org/library/pubdocs/pdf/IOSCOPD117.pdf>

<sup>24</sup> <https://www.iosco.org/library/pubdocs/pdf/IOSCOPD140.pdf>

<sup>25</sup> <https://www.iosco.org>

<sup>26</sup> <https://www.iosco.org>

<sup>27</sup> [http://www.iosco.org/investor\\_education/](http://www.iosco.org/investor_education/)

<sup>28</sup> <https://www.iosco.org/library/pubdocs/pdf/IOSCOPD384.pdf>

websites were highlighted in a presentation, “Child and Youth Financial Education and Inclusion in Europe and Central Asia,” that was given at the Child & Youth Finance International (CYFI) Regional Meeting for Europe and Central Asia, held in Brussels, Belgium.<sup>29</sup> During the same month, the IOSCO Secretariat also delivered the keynote speech at the European Fund and Asset Management Association (EFAMA) Investor Education Day that was held in Brussels, Belgium.<sup>30</sup>

In February 2013, IOSCO Committee 3 (C3) issued a report titled, “*Report on Investor Education Initiatives Relating to Investment Services*.”<sup>31</sup> The report noted different approaches C3 members take with respect to investor education and some of the investor education challenges faced by IOSCO members. The report was coordinated with the IOSCO Education and Training Team and is used to inform the education and training team on its ongoing investor education work.

The IOSCO work clearly shows that “no one has a monopoly on good ideas!” It is always productive to share the innovative and creative ideas of IOSCO members with respect to investor education. Those ideas act to not only stimulate, but to also highlight investor education globally. The topic of investor education has been and continues to be a part of multiple IOSCO seminar training programs.<sup>32</sup> Also, at the request of IOSCO members, dedicated investor education trainings have been organized by IOSCO staff in different regions of the world.

IOSCO’s goal is to provide the “latest and the greatest” when it comes to all aspects of investor education content as well as to suggest the best modalities for successfully delivering investor education materials and concepts. And we provide samples of that information because so many IOSCO members are offering innovative and thought provoking classes, and have introduced new concepts and delivery mechanisms for investor education. IOSCO members are offering activities and programs that are designed to change behavior and help ensure confident and informed investors are participating in the capital market system.

Consequently, as a result of all of the above actions, and realizing there is an immediate need to share investor education ideas and initiatives, on June 4, 2013, IOSCO launched a new online tool, an “Investor Education Gateway” that is found on the public area of IOSCO’s website.<sup>33</sup> This gateway allows IOSCO members to voluntarily showcase and share with each other, as well as the global community, the web based investor education work that they are accomplishing.

The Gateway contains online investor education materials from many of IOSCO’s members, as well as published IOSCO reports and presentations regarding investor education. This effort is part of IOSCO’s

---

<sup>29</sup> <http://www.iosco.org/library/speeches/pdf/20121106-ET-Gary-Tidwell.pdf>

<sup>30</sup> [http://www.iosco.org/library/speeches/pdf/20121107-ET-Gary-Tidwell\\_1.pdf](http://www.iosco.org/library/speeches/pdf/20121107-ET-Gary-Tidwell_1.pdf)

<sup>31</sup> <https://www.iosco.org/library/pubdocs/pdf/IOSCOPD404.pdf>

<sup>32</sup> For example, the 2012 Seminar Training Program for the Africa / Middle-East region was hosted by the Securities and Commodities Authority of the United Arab Emirates, in Dubai, from 10-12 December 2012. The first two days of the seminar were on “*Investor Protection: Investor Education, Corporate Governance and Sanctions for Market Abuse*”, and the third day was dedicated to “*Islamic Finance*”. The program was attended by almost 50 delegates from 15 different jurisdictions.

<sup>33</sup> [http://www.iosco.org/investor\\_education/](http://www.iosco.org/investor_education/)



broader investor education initiative and aims to enhance the sharing of investor education information among IOSCO members and the public.

Through the IOSCO Investor Education Gateway we are not only sharing with the global public all the outstanding online efforts that IOSCO members are conducting with respect to investor education, but the Gateway also acts as a valuable education and information resource for investors globally. Regulators, investors, educators, and researchers can learn much from these voluntary IOSCO member postings.

Current priorities on the horizon of the IOSCO Education and Training Team include, but are not limited to the following: Investor Education Workshops; Continued Member Research, Assessment, and Assistance; Forums to Share “Best Practices” and “Good Ideas”; Analyze “What does the current statistically valid research show with respect to investor education?”; a renewed focus on “What Works and What Does Not Work?...and what is the supporting evidence?”

Expanding on those priorities, here are just some of the initiatives and programs that IOSCO Education and Training will be implementing with respect to investor education:<sup>34</sup>

- **Conducting global and regional investor education workshops:** Workshop that are fully responsive to IOSCO member needs and directions. Workshops that offer train the trainer sessions that address content, pedagogy, and innovative delivery mechanisms.

These workshops will examine a number of current investor education initiatives. The initiatives include teaching the basics of finance in schools at an early age, and the impact of behavioral economics on financial literacy.

For example, in the United States there are more than 800 curricula that address the critical need of fostering financial literacy among high school students. However, starting in 2013, Columbia University is testing in New York City a high impact financial literacy program that is designed to help teachers in grades 9 – 12. Specifically, the program will “focus on helping teachers to integrate important concepts about finance into courses that they are already teaching....*The Cowin Financial Literacy Project* is also unique because it seeks primarily to change student behavior rather than to transmit academic knowledge.”<sup>35</sup>

Behavioral economics should be examined from the “new” approach as well as the “old” approach as well as the policy implication for using or adopting either approach.<sup>36</sup> Of course full discussion of this topic and of behavioral economics is beyond the scope of this paper.

---

<sup>34</sup> Some of these activities were also outlined in a presentation given by the IOSCO Secretariat in November 2012 at the EFAMA Investor Education Day Program. See, [http://www.iosco.org/library/speeches/pdf/20121107-ET-Gary-Tidwell\\_1.pdf](http://www.iosco.org/library/speeches/pdf/20121107-ET-Gary-Tidwell_1.pdf).

<sup>35</sup> See, “Joyce B. Cowin Funds Program at Teachers College to Foster Personal Financial Literacy among High School Students,” at <http://www.tc.columbia.edu/news.htm?articleID=8590>. See also generally an April 2013 working paper, “THE ECONOMIC IMPORTANCE OF FINANCIAL LITERACY: THEORY AND EVIDENCE” at [http://www.nber.org/papers/w18952.pdf?new\\_window=1](http://www.nber.org/papers/w18952.pdf?new_window=1).

<sup>36</sup> See generally, “Behavioral Economics Perspectives: Implication for Policy and Financial Literacy,” at [http://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=2013449](http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2013449). See also an IOSCO press release on this topic: <http://www.iosco.org/news/pdf/IOSCONEWS286.pdf>

- **Providing forums to share “best practices” and “good ideas”:** And in fact, because no one has a monopoly on good ideas, it only makes sense for IOSCO to offer forums that are designed to share best practices and good ideas.
- **Conducting and disseminating research, research, and even more research:** Research is the key. With limited resources, it is critical to know what works and what does not work. It is also important to recognize the limitations and boundaries of investor education.

Annamaria Lusardi, the Denit Trust Distinguished Scholar and Professor of Economics and Accountancy at the George Washington University School of Business, is quoted as follows:<sup>37</sup>

“We need more resources to study what types of education programs work. This is a problem in the field. Everybody wants to know what works, but nobody is willing to pay for that evaluation. So we are stuck. If you look at other fields where responsibility shifted to the individual, such as health, you see signs of progress, for instance in fighting cancer. We have gained so much knowledge that we can even hope to eradicate cancer. My dream is for the same thing to happen for financial illiteracy. This is a disease. It's widespread in society. And we need to eradicate it...”

It seems that we have not moved the needle all that much when it comes to research and investor education and what works and what does not work. As one person wrote, “we need to approach investor education with a sense of humility about what we think the right answers really are.”<sup>38</sup>

- **Being a key player and a thought leader in the global discussion in helping to determine with statistically reliable data what works and what does not work:** IOSCO has been involved in investor education for a very long time, and we will continue to make significant contributions to that critical area. On occasion, IOSCO has partnered with and has participated in conferences with other organizations that share IOSCO's commitment to investor education.<sup>39</sup>

<sup>37</sup> <http://www.ifie.org/index.php/member-directory/112-leadership-profiles>

<sup>38</sup> Market Watch, “It's time to change how we teach investors,” June 7, 2011.

<sup>39</sup> For example, IOSCO and IFIE jointly sponsored a Conference on “*Delivering Dynamic Financial Capability and Investor Education Programmes - Changing Behaviour Across Life Stages.*” The event was held 20-21 June 2013 in Toronto, Canada, and was hosted by the Investment Industry Regulatory Organization of Canada (IIROC).



## Challenges for Investor Education

Today, more than ever, there are real challenges for investors and for investor education. Often there is contradictory advice with respect to investor education.<sup>40</sup> As stated earlier, much more research is needed as to what works and what does not work with respect to investor education. We need to be very clear about what investor education can and cannot accomplish, and how success is defined and measured in investor education programs. Research should also address the real limitations of investor education and help manage expectations with respect to what investor education can accomplish.

Clearly, investor education is not without its critics and unanswered questions. For example, a U.S. Minneapolis, Minnesota Newspaper, *The Star Tribune*, in its April 8, 2013, edition had an article titled “Financial education still looking for elusive payoff.” The author of the article wrote this: “There is, a problem with this well intentioned effort to teach youngsters personal finance: Educators haven’t found an approach that clearly works.”

Research conducted by Professor Lauren Willis<sup>41</sup> questions the effectiveness of teaching financial literacy. Specifically, Professor Willis suggests the playing field seems to be tilted against financial literacy for at least the following reasons<sup>42</sup>:

- Personal financial management is complex, requiring considerable time and effort to understand. Most consumers start off with quite low skill levels. The huge gap between those skills and what is needed in today’s marketplace cannot be bridged by financial literacy training alone.

---

<sup>40</sup> For example, consider the following: First, “Are you Brilliant or Lucky?” is the title of an article in *The Wall Street Journal*. The thesis of that article is investors have a difficult time assessing and determining a fund manager’s skill and their luck. Second, a May 3, 2013 article from *The Globe and Mail* titled, “Some simple investor advice: Don’t follow your gut.” That article quotes Harvard Law Professor Cass Sunstein who writes this in his latest book, *Simpler: The Future of Government*: “If you’re deciding how to invest your savings, your gut may speak clearly and simply. Please ignore it.” Finally, there is the article in *The New York Times* dated June 1, 2013, titled, “The Only Pattern That Matters.” The author of the article quotes a researcher from Caltech, David J. Leinweber who supposedly figured out how to predict the stock market using just three variables:

- I. Butter production in the United States and Bangladesh
- II. Sheep populations in the United States and Bangladesh
- III. Cheese production in the United States.

Speaking statistically, the author writes, “those three variables predicted 99 percent of the stock market’s movement.”

<sup>41</sup> For a review of studies of the effectiveness of financial education, please see: “Evidence and Ideology in Assessing the Effectiveness of Financial Literacy Education,” 46 SAN DIEGO L. REV. 415 (2009), available at <http://ssrn.com/abstract=1098270>. See also, “Financial Education: Lessons Not Learned Lessons Learned, Boston University School of Management Federal Reserve Bank of Boston Conference on Financial Education Consumer Financial Protection” (May 2011), available at <http://ssrn.com/abstract=1869313>; “The Financial Education Fallacy,” 101 AMERICAN ECON. REV.: PAPERS PROCEEDINGS 2011, available at <http://ssrn.com/abstract=1869323>, and “Against Financial Literacy Education,” 94 IOWA L. REV. 197 (2008), available at <http://ssrn.com/abstract=1105384>.

<sup>42</sup> <http://faircanada.ca/retail-investors/financial-literacy/a-case-against-financial-literacy-education/> provides the text for many of the bullet assertions cited in this paper as points made by Professor Willis. Also, see her article at the following link: <http://faircanada.ca/wp-content/uploads/2009/09/A-Case-Against-Financial-Literacy.pdf>



- The financial marketplace is constantly changing at a very rapid pace. It is tough for regulators and almost impossible for consumers to keep up with the pace of financial innovation. Financial literacy is chasing a moving target it will never reach.
- Personal bias and inherent psychological traits prevent most consumers from acting as “rational” economic players able to maximize their own benefits. Difficult undertaking given the complexity of today’s products.
- Financial literacy is not the only element for good financial decision making.
- Inefficiency. Limited resources.
- For some, personal finance classes increase confidence without improving ability – potentially leading to worse decisions.
- Avoiding a regulation through education model that might blame investors for their plight, shaming them and deflecting calls for effective regulation.

Even more recently, three business school professors present a discouraging assessment regarding current attempts<sup>43</sup> to improve financial behavior. Specifically, the professors conducted “a meta-analysis of the relationship of financial literacy and of financial education to financial behaviors in 168 papers covering 201 prior studies.” The professors found “that interventions to improve financial literacy explain only 0.1% of the variance in financial behaviors studied, with weaker effects in low-income samples. Like other education, financial education decays over time; even large interventions with many hours of instruction have negligible effects on behavior 20 months or more from the time of intervention.... We envisage a reduced role for financial education that is not elaborated or acted upon soon afterward.... We suggest a real but narrower role for ‘just in time’ financial education tied to specific behaviors it intends to help.” In short, the researchers found that while financial education is laudable, it is not particularly helpful.

However, some research seems to show that financial literacy increases with additional years of higher education. In addition, increased mastery of numeracy skills and direct one-on-one instruction along with taking advantage of teachable moments that may arise close to a “point of sale” or close to a point in time of making a financial decision have been shown to be of value.<sup>44</sup>

There is much more work and research yet to be conducted with respect to investor education. IOSCO is currently considering different funding options to cover the cost of this ambitious education and training agenda. Securities regulators globally must continue to have a key and unique role in evaluating and properly advancing investor education.

---

<sup>43</sup> “Financial Literacy, Financial Education and Downstream Financial Behaviors, Social Science Research Network, Forthcoming in Management Science, ([http://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=2333898](http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2333898)) and discussed in “Financial Literacy, Beyond the Classroom,” The New York Times, October 6, 2013 at page B16 ([http://www.nytimes.com/2013/10/06/business/financial-literacy-beyond-the-classroom.html?\\_r=3&](http://www.nytimes.com/2013/10/06/business/financial-literacy-beyond-the-classroom.html?_r=3&)).

<sup>44</sup> For a recent example, consider, “Financial Education and the Debt Behavior of the Young,” Federal Reserve Bank of New York Staff Reports, [http://www.newyorkfed.org/research/staff\\_reports/sr634.pdf](http://www.newyorkfed.org/research/staff_reports/sr634.pdf) (2013).