



OICU-IOSCO

**BEST PRACTICES in FINANCIAL EDUCATION
A ROLE for IOSCO**

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WHO IS IOSCO ?

- IOSCO is the leading international policy forum for securities regulators and is recognized as the global standard setter for securities regulation
- The organization's membership regulates more than 95% of the world's securities markets in 120 jurisdictions and it continues to expand
- The only international financial regulatory organization that includes within its membership all the major emerging market jurisdictions (87 EM members)

IOSCO PRINCIPLES of SECURITIES REGULATION

- The Principles set out a broad general framework for the regulation of securities. The objectives of that framework are:
 - To protect investors
 - To ensure fair, efficient, and transparent markets
 - To reduce systemic risk

IOSCO PRINCIPLE 3 - KEY ISSUE 6

- Highlights the importance of investor education:

“Regulators should play an active role in the education of investors and other market participants”

WHY INVESTOR EDUCATION AS A PRIORITY ?

- Investor education is a key component of investor protection
- It alleviates the impact of the huge information asymmetries between the financial services suppliers and retail investors

IOSCO's COMMITTEE 8 on RETAIL INVESTORS

- C 8 is the new IOSCO Committee solely dedicated to work on retail investor education and financial literacy

- C 8 has the following three mandates:
 - Investor education policy (As a primary mandate)
 - Advising the IOSCO Board on investor perspectives (As a secondary mandate)
 - Investor protection policy as requested (As a secondary mandate)

SOME of the IOSCO WORK on INVESTOR EDUCATION

- Discussion Paper on the Role of Investor Education in the Effective Regulation of Collective Investment Schemes (CIS) and CIS Operators, *March 2001*
- IOSCO Emerging Markets Committee Report on Investor Education, *October 2002*
- Report on Investor Education: An Analysis of IOSCO Member Websites and Web-Based Information, *June 2012*
- Report on Investment Education Initiatives Relating to Investment Services, *February 2013*
- IOSCO Investor Education Gateway, *June 2013*
- Other Current Priorities on the Horizon of the IOSCO E&T Team

ISSUES

- How broad and how deep are the investor education literacy challenges?
- What are some of the challenges facing those of us who are committed to advancing investor education?
- What can be done about those challenges?

THE CHALLENGES

- 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
- Investor education tests should extend also to professional investors and eligible counterparties

WHAT WORKS and WHAT DOES NOT WORK ?

- Research is necessary: What works, what does not work?
- Be clear about what investor education can and cannot accomplish
- How is success defined and measured in investor education programs ?

Six Characteristics of Effective Investor Education Programs

- Focus on investor protection
- Emphasize behavior changes
- Follow social marketing principles
- Incorporate numeracy skills whenever possible
- Can be scaled and replicated nationally
- Undertake target audience research and undergo neutral evaluation

BEHAVIORAL ECONOMICS

- “A strand of economics that uses insights from psychology to explain how people make economic decisions”
- The traditional approach based on disclosure and caveat emptors have failed “give people more information and they will make better decisions”
- Retail investors are mostly simple people who may not be able to make the right decisions, particularly about complex products
- An important instrument which IOSCO and its members will intend to use in the context of retail investor protection

Thank you