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30 July 2014

*Via electronic mail*

Mohamed Ben Salem  
Senior Policy Advisor  
IOSCO General Secretariat  
Calle Oquendo 12  
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Spain

Re: Public Comment on the IOSCO *Strategic Framework for Investor Education and Financial Literacy*

Dear Sir:

ICI Global<sup>1</sup> applauds the formation of the Committee on Retail Investors (“C8”) and welcomes its focus on retail investor education and financial literacy. The International Organization of Securities Commissions (“IOSCO”), its members, and ultimately participants and investors in members’ capital markets will benefit from the increased attention and enhanced discussion of these issues facilitated by creation of a single formal forum.

We appreciate the opportunity to comment upon the *Strategic Framework for Investor Education and Financial Literacy*.<sup>2</sup> ICI Global and its members share IOSCO’s belief that “investor education is a key strategy for enhancing investor protection, promoting investor confidence and fostering investor engagement in financial planning and decision-making.” We agree that “the need for investor education and financial literacy has never been greater.” And we agree that “IOSCO is well positioned to play an influential and substantial role in the development and delivery of investor education and financial literacy programs for retail investors,” thanks to its unique insights into workings of the markets and access to expertise and data of its members and, through them, market participants.

The *Strategic Framework* is a thoughtful assessment of current efforts to enhance investor education, globally and within key jurisdictions. It lays out a sound approach that will enable the C8 to draw upon the expertise and experience of member regulators, other governmental bodies,

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<sup>1</sup> The international arm of the Investment Company Institute, ICI Global serves a fund membership that includes regulated funds publicly offered to investors in jurisdictions worldwide, with combined assets of US\$18.6 trillion. ICI Global seeks to advance the common interests and promote public understanding of regulated investment funds, their managers, and investors. Its policy agenda focuses on issues of significance to funds in the areas of financial stability, cross-border regulation, market structure, and pension provision. ICI Global has offices in London, Hong Kong, and Washington, DC.

<sup>2</sup> Board of the International Organization of Securities Commissions, *Strategic Framework for Investor Education and Financial Literacy: Consultation Report*, May 2014, available at [www.iosco.org/library/pubdocs/pdf/IOSCOPD441.pdf](http://www.iosco.org/library/pubdocs/pdf/IOSCOPD441.pdf).

the private sector, and academic experts and work collaboratively with these entities to share knowledge, improve educational techniques, and inform IOSCO's policy work.

Specifically, we endorse the C8's three initial areas of focus: (1) investment knowledge and understanding; (2) financial skills and competence; and (3) program design, delivery, and measurement for programs developed and executed by securities regulators. We also agree with the *Strategic Framework's* focus on the eight practices identified from current investor education and financial literacy programs of C8 members.

### ***The Role of Investor Education in Defined Contribution Plans***

As more countries implement defined contribution retirement systems with individual investment choices, ICI Global has observed a greater focus on the need for investor education. ICI Global has noted the importance of investor education and information in its 2013 and 2014 Global Retirement Savings Conferences.<sup>3</sup>

In 2010, the United Kingdom implemented the Money Advice Service (initially known as the Consumer Financial Education Body), an independent body set up by the government and tasked with responsibility for improving UK individuals' money management skills.<sup>4</sup> The Service provides free information to everyone across the country—online, over the phone, or in person, including information and tools on general savings and investing, as well as information on pensions and retirement.

Hong Kong provides another example. In November 2012, the Hong Kong Securities and Futures Commission launched the Investor Education Centre, which set out a three-year strategy to improve financial literacy in Hong Kong.<sup>5</sup> Its activities to date include an Investor Education Seminar series and a website with comprehensive information on financial planning and engagement, including information and tools for retirement planning.

New Zealand also is taking steps toward increasing overall financial literacy of its citizens, through its Commission for Financial Literacy and Retirement Income.<sup>6</sup> As part of this mission, the Commission is helping New Zealanders financially prepare for retirement in a number of ways, including offering online tools to help citizens manage their personal finances; publishing research papers about retirement issues; and working to make sure personal financial education is part of the New Zealand school curriculum.

In the United States, the Department of Labor is complementing its 2012 fee disclosure regulations by developing webcasts, videos, and publications to help retirement plan participants better understand the fees, risks, and investment objectives associated with the investment options available through their retirement accounts. In addition, the Department of Labor offers a number of educational tools to help Americans plan for retirement, including a brochure about the top 10

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<sup>3</sup> See *Insights from the 2013 Global Retirement Conference: The Role of Investment Funds*, available at [www.iciglobal.org/pdf/pub\\_13\\_grsc\\_insights.pdf](http://www.iciglobal.org/pdf/pub_13_grsc_insights.pdf), and "Highlights of the 2014 Global Retirement Conference," available at [www.iciglobal.org/iciglobal/events/highlights/ci.conf\\_14\\_grsc.global](http://www.iciglobal.org/iciglobal/events/highlights/ci.conf_14_grsc.global).

<sup>4</sup> See <https://www.moneyadviceservice.org.uk/en/static/background>.

<sup>5</sup> See <http://www.hksec.gov.hk/web/en/index.html> for reference.

<sup>6</sup> See <http://www.cflri.org.nz/>.

ways to save for retirement, answers to the most common questions about pension plans, and videos to help small businesses understand their retirement plan options.

In this regard, the Organisation for Economic Cooperation and Development (“OECD”) has recommended that governments address financial literacy when they design their defined contribution systems.<sup>7</sup> OECD also maintains the International Network on Financial Education to provide governments with a policy forum to exchange views and experiences on the issue of financial education.<sup>8</sup>

### ***The Role of Public-Private Collaboration and Partnership***

While the *Strategic Framework* focuses properly on investor education efforts by IOSCO members—primarily securities regulators—it explicitly acknowledges that the private sector can and does play a crucial role in investor education as well through its recognition of Practice 6 (“Collaborate and partner with other relevant organisations in developing and delivering investor education and financial literacy efforts”).<sup>9</sup>

Fund industries around the world are developing new means of informing and educating investors, drawing upon the Internet, social media, and other digital communications tools.

Government and the private sector can work together to leverage one another’s efforts. For example, governments can provide the framework that focuses public and private attention on financial literacy efforts. In the United States, each year since 2003 the US Congress has designated April as “Financial Literacy Month,” providing consumers and investors with “an excellent opportunity to take advantage of local resources and programs focused on developing healthy financial habits.” The Investment Company Institute, through its ICI Education Foundation (“ICIEF”), and its members support Financial Literacy Month and organise and participate in many such programs.<sup>10</sup>

We also have worked with US government agencies, through ICIEF, to enhance financial literacy in the Washington, DC area by providing cash rewards to students and schools participating in the National Financial Capability Challenge, sponsored by the US Departments of the Treasury and Education.<sup>11</sup>

ICI has urged the US Department of Labor and Internal Revenue Service to “become catalysts for partnerships among financial firms, non-profit organizations, and the government to develop and

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<sup>7</sup> See “The OECD Roadmap for the Good Design of Defined Contribution Pension Plans,” available at <http://www.oecd.org/finance/private-pensions/50582753.pdf>.

<sup>8</sup> See <http://www.oecd.org/finance/financial-education/>

<sup>9</sup> *Strategic Framework*, *supra* note 2, at pp 18–19.

<sup>10</sup> See “ICI Education Foundation Encourages Participation in Financial Literacy Month,” news release, April 1, 2013, available at [www.icief.org/news/13\\_news\\_flm.html](http://www.icief.org/news/13_news_flm.html).

<sup>11</sup> See “DC High School Students and Schools Win ICI Education Foundation Awards in 2012 National Financial Challenge,” news release, June 12, 2012, available at [www.ici.org/pressroom/news/12\\_news\\_icief\\_nfcc](http://www.ici.org/pressroom/news/12_news_icief_nfcc).

publicize ... educational campaign[s]” for retirement savers, including campaigns to help in both the accumulation and distribution phases of retirement preparation.<sup>12</sup>

Similarly, ICI has encouraged policymakers to consider offering incentives for employers to offer, and individuals to participate in, a financial education curriculum.<sup>13</sup>

We encourage IOSCO members in developing education programs to be mindful of two principles that have emerged from ICI’s research and experience.

First, while investor education and financial literacy can lay a solid foundation, for many investors education cannot fully replace financial advice in supporting sound investing. In the United States, 81 percent of mutual fund–owning households who held funds outside of retirement plans in 2013 purchased their funds through investment professionals.<sup>14</sup> Investment professionals also play a critical role for retirement investors holding individual retirement accounts (IRAs), who typically report that they consult multiple sources of information when making decisions about rolling over money from employer-sponsored retirement plans and when creating a strategy to manage income and assets in retirement.<sup>15</sup> Indeed, 64 percent of traditional IRA–owning households with rollovers and 63 percent of traditional IRA–owning households with a strategy to manage income and assets in retirement consulted a professional financial adviser to assist with those decisions. In addition, 58 percent of traditional IRA–owning households making withdrawals say they consult with financial advisers when deciding on how much to withdraw from their IRAs.<sup>16</sup>

Second, policymakers should be careful to avoid biasing investor education and financial literacy programs to favor particular financial products or solutions. Given the wide range of investors’ personal circumstances and of financial products on offer, “one size fits all” solutions are seldom ideal. Investor education should strive to equip potential investors to make choices that best fit their needs and circumstances, not to drive them to particular products.

### ***Conclusion***

All involved in financial markets—investors, intermediaries, providers, and regulators—benefit when investors are informed, educated, and equipped to make sound decisions about their financial needs. IOSCO and the Committee on Retail Investors are to be commended for undertaking a thoughtful leadership role in advancing investor education and financial literacy.

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<sup>12</sup> See Paul Schott Stevens, “Opinion – Retirees Have Choices and Need Flexibility, Not Mandates, in Retirement Planning,” published in *BNA Pensions and Benefits Daily* on June 29, 2010, available at [www.ici.org/401k/statements/10\\_stevens\\_bna\\_insights](http://www.ici.org/401k/statements/10_stevens_bna_insights).

<sup>13</sup> *Ibid.*

<sup>14</sup> See Figure 8 in Kimberly Burham, Michael Bogdan, and Daniel Schrass, “Characteristics of Mutual Fund Investors, 2013,” *ICI Research Perspective* 19, no. 10 (October 2013), available at [www.ici.org/pdf/per19-10.pdf](http://www.ici.org/pdf/per19-10.pdf). Investment professionals include registered investment advisers, full-service brokers, independent financial planners, bank and savings institution representatives, insurance agents, and accountants.

<sup>15</sup> See Figures 15 and 31 in Sarah Holden and Daniel Schrass, “The Role of IRAs in U.S. Households’ Saving for Retirement, 2013,” *ICI Research Perspective* 19, no. 11 (November 2013), available at [www.ici.org/pdf/per19-11.pdf](http://www.ici.org/pdf/per19-11.pdf).

<sup>16</sup> *Ibid.*, Figure 27.

We appreciate the opportunity to respond to the Consultation Report. If you have any questions on our comment letter, please feel free to contact the undersigned or Mike McNamee, President, ICI Education Foundation, +1-202-326-5864, [mike.mcnamee@ici.org](mailto:mike.mcnamee@ici.org).

Sincerely,

/s/

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