

ICSA International Council of Securities Associations

Principles and Best Practices for Investor Education

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The members of the International Council of Securities Associations (ICSA)¹ understand that educated investors who are able to make informed judgments regarding their investments are more apt to invest in securities products, promoting their own financial well-being while also contributing to higher levels of national savings and a more efficient allocation of capital. Moreover, since educated consumers are able to make informed choices about financial products and investments, investor education helps regulators and private sector market participants achieve the critical goal of protecting investors while also helping to build investor confidence in securities markets. ICSA members conclude, therefore, that educating consumers so that they are able to obtain the understanding, skills and knowledge necessary for them to become informed investors is critical for their own financial security and for the continued growth and stability of securities markets.

Given the importance of investor education for investor protection and the future growth and development of securities markets, ICSA members have endorsed the following principles for a comprehensive investor education program:

1. Investor education programs should be efficient, effective and appropriate for their intended audience;
2. Investor education should be delivered to as broad an audience as possible;

¹ The membership of the International Council of Securities Associations (ICSA) includes self-regulatory and trade associations for the securities industry in ten countries as well as a number of international trade associations. ICSA members represent and/or regulate the overwhelming majority of the world's equity, bond and derivatives markets. ICSA's objectives are to encourage the sound growth of the international securities market by promoting harmonization in the procedures and regulation of those markets and to pro-mote mutual understanding and the exchange of information among ICSA members. A list of the individual members of ICSA is attached to this document.

3. A comprehensive investor education program should include reference to investor protection services; and,
4. A comprehensive investor education program should include measures to foster dialogue and cooperation between providers of investor education.

In addition to the principles outlined above, ICSA members have endorsed a set of best practices for investor education that provide more specific guidelines for the establishment and evaluation of investor education programs in different jurisdictions.

These principles and best practices for investor education are based on the understanding that individual investor education programs should always be tailored to the specific needs and level of sophistication of the consumers who will be the audience for those programs. At the same time, however, consumers will benefit from a comprehensive approach to investor education that involves a large number of different programs from both public and private sector providers of investor education, with each individual provider employing its own approaches, technologies and learning strategies. This diversity of approaches and viewpoints will help to ensure that the greatest numbers of consumers within a given jurisdiction are able to access and effectively learn from investor education programs. A comprehensive program of investor education will include, in addition, reference to investor protection services as well as measures that encourage dialogue and cooperation between providers of investor education.

The principles and best practices for investor education outlined here provide a framework for both regulators and private sector providers of investor education to evaluate the extent to which the investor education initiatives in their jurisdiction are sufficiently comprehensive and successful at providing well-designed and executed investor education to as many consumers as possible. Accordingly, ICSA members propose the following:

Principles and Best Practices for Investor Education

1. Investor education programs should be efficient, effective and appropriate for their intended audience

It is incumbent upon regulators and private sector providers of investor education to ensure that their investor education programs best serve the audiences that they want to reach. This can be done by ensuring that:

(a) The content of investor education is appropriate for investors' needs

The content of investor education programs will always need to be tailored to the level of sophistication of the consumers to whom the programs are addressed. Providers of investor education programs can ascertain the needs, existing knowledge level of their target audience and the educational strategies that would be particularly effective in their jurisdiction through a variety of methods, including consultation with other providers of investor education and with stakeholders and the use of survey data examining investor' attitudes and behaviors toward securities markets and investments.

(b) Investor education programs are non-promotional and impart specific skills

Investor education programs should be non-promotional and must not contain recommendations for specific products, services, individuals or institutions. At the most basic level, investor education programs should strive to ensure that investors gain a general understanding of core financial concepts (yield, inflation, return, compounding, and risk), the investing process, the range of financial products and services in the provider's jurisdiction and basic elements of financial planning (asset allocation and diversification). Investors should also gain a basic understanding of how security markets function, the role of their regulators, the role of financial intermediaries in the securities market and the investor protection services, including dispute resolution processes, which are available within their jurisdiction. Finally,

investor education programs should address emerging trends in financial markets that may be or become of interest to the investing public. Such trends may include new or novel financial products and investing strategies that could be of use or could pose unique risks to investors but which may not be well understood.

- (c) Longer-term investor education programs imparting more sophisticated understanding of financial products and markets are encouraged

Longer-term investor education programs that provide a more sophisticated level of learning should also be encouraged. Such programs could include courses or modules on economic history (particularly the history of market manias) as well as information about more sophisticated financial products and investment strategies than are covered in the basic courses. These programs should strive to ensure that investors are better able to understand how financial markets and intermediaries function, to adequately assess their own risk tolerance, match their financial goals and risk tolerance to specific types of investments and evaluate whether their investment expectations are realistic given their goals and risk tolerance.

- (d) Periodic assessments of investor education programs are carried out

To ensure that specific investor education programs are reaching their targeted audiences and achieving their stated goals in the most efficient manner possible, providers need to carry out periodic assessments of their programs. Such assessments may utilize consumer surveys or other methods that will enable the provider to determine if investors are gaining the knowledge that their programs are intended to impart.² It may also be useful for regulators and others to carry out periodic surveys to test the level of investor literacy in the jurisdictions as a whole, in order to ascertain the effectiveness of the jurisdiction's overall investor education effort.

² In addition, in some circumstances providers of investor education may wish to carry out a cost-benefit analysis of some of their programs as a means to determine if the benefits being generated by those programs are appropriate given the costs involved.

2. Investor education should be delivered to as broad an audience as possible

Investor education initiatives should have as broad a reach as possible so that the programs are accessible to consumers with different levels of understanding and sophistication. This can be accomplished by:

(a) Distributing investor education through various channels

In many jurisdictions the Internet has become the most appropriate medium for distributing investor education programs. However, since not all investors have access to the Internet, effective investor education programs may also include: (a) specific publications that cover fundamental issues of the investment process; (b) training teachers and/or guest lecturers for schools and other institutions; (c) offering forums or seminars in various locations where investors can learn about specific topics related to the investment process; (d) supporting local or regional organizations that meet on a regular basis to discuss investment issues; (e) distributing investor education material to libraries or other facilities where they will be available to the public; and (f) working with the media and community intermediaries to ensure that educational initiatives reach their target audience.

(b) Employing different learning strategies to enhance the learning process

Since consumers have differing abilities and interests, a comprehensive investor education program will utilize a variety of approaches in order to enhance the learning process. Such learning strategies may include interactive websites or interactive programs, in-class training and seminars, a mechanism to provide answers to investors' questions about specific topics, either through the Internet or other media, and other related services.

(c) Targeting specific audiences

Investor education programs may need to include initiatives addressed to specific audiences, taking into account their needs, experience and accessibility. Investor education programs, for example, may be targeted at school-aged children with the objective of developing lifelong saving and investing habits at an early age. Investor education programs may also be targeted to those segments of the population that are just starting to accumulate savings, which are frequently not invested in securities markets, and to individuals who are nearing or already in retirement or planning for retirement. In these and other cases providers of investor education may find that their initiatives are more effective when they are targeted to the needs and abilities of specific populations.

(d) Promoting diversity and innovation among investor education providers

As in other areas of a market economy where competition fosters diversity and innovation, consumers will benefit when they have access to a range of investor education programs that provide different points of view and utilize different learning strategies. A diversity of approaches to and providers of investor education is to be encouraged in a comprehensive investor education program in order to ensure that the greatest numbers of consumers have access to investor education programs which are appropriate for their own needs and circumstances. However, because non-commercial investor education services are generally provided free-of-charge, new and innovative investor education programs may call for additional financial resources that are not readily available. In such cases it may be desirable for regulators to assist or partner with private sector providers of investor education in order to launch new programs or increase the reach of existing programs.

3. A comprehensive program of investor education should include reference to investor protection services

One of the main objectives of investor education programs is to protect investors by providing them with the tools that will allow them to assess the risks and rewards of investing in different financial products and/or utilizing different investment strategies. However, because investors may be subject to unethical or criminal behavior by individuals or institutions operating within financial markets, a comprehensive investor education program should include reference to specific investor protection services that are readily available to consumers. Such services could include:

(a) Provision of investor alerts

A comprehensive, jurisdiction-wide investor education program may include a system to notify investors about scams and other potential problems within the financial services field before they become major issues. Investors can be alerted to these potential problems through various media, including the Internet.

(b) Provision of information on intermediaries

A comprehensive, jurisdiction-wide investor education program may also include a service allowing investors to determine if specific brokers, brokerage houses and financial advisors have been subject to certain administrative, civil or criminal sanctions. Where this information is not available, regulators should be urged to provide it to the public at the earliest possible date as long as relevant legal statutes and regulatory rules allow for the release of such data.

4. A comprehensive investor education program should include measures to foster dialogue and cooperation between providers of investor education

An active and open dialogue among providers of investor education, specifically between regulators and private sector providers of investor education, will help to ensure that more potential investors are reached within a given jurisdiction while also lessening the overlap that may exist between different investor education programs. While an active and open dialogue may be maintained on an informal basis, effective linkages between providers of investor education may be better fostered through forums specifically established for the exchange of views and information among regulatory and private sector providers of investor education within a given jurisdiction. Among other activities, these forums may help determine and/or evaluate standards for investor education programs within that jurisdiction.

The members of ICSA are as follows:

Association Française des Entreprises d'Investissement, France

Australian Financial Markets Association, Australia

Bond Exchange of South Africa, South Africa

Bond Market Association, United States

Chinese Taiwan Securities Association, Taiwan

Italian Association of Financial Intermediaries, Italy

International Banks and Securities Association of Australia, Australia

International Primary Market Association, United Kingdom

International Securities Market Association, Switzerland

Investment Dealers Association of Canada, Canada

Japan Securities Dealers Association, Japan

The Korea Securities Dealers Association, Korea

London Investment Banking Association, United Kingdom

NASD, United States

Securities Industry Association, United States

Swedish Securities Dealers Association, Sweden