

Testimony Concerning *Financial Literacy: Empowering Americans to Make Informed Financial Decisions*

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Chairman Akaka, Ranking Member Johnson, and Members of the Subcommittee:

Introduction

My name is Lori Schock, and I am the Director of the Office of Investor Education and Advocacy (OIEA) of the U.S. Securities and Exchange Commission. Thank you for the opportunity to testify today about the SEC's efforts to improve the financial literacy of individual investors throughout the United States.

OIEA administers the SEC's nationwide investor education program. We provide a variety of services and tools to address the problems and questions that individual investors may face. OIEA conducts educational outreach; assists with investor complaints and inquiries; and facilitates individual investors in bringing their perspectives to the Commission and its staff.

SEC Investor Outreach and Education Programs

In addition to participation in financial literacy and investor education programs across the United States and throughout the year, we also develop and maintain the SEC's Investor.gov website, publish Investor Alerts and Bulletins, and partner with outside organizations to help investors better understand how they can protect themselves when they make their investment decisions.

Investor.gov

In October 2009, the SEC launched Investor.gov, its first-ever website focused exclusively on investor education. This website aims to help investors educate themselves on issues affecting their investment decisions and includes information such as how to detect fraud. Earlier this month, we re-launched Investor.gov with a new design and additional information in an even more user-friendly format.

Individual investors who access this website can learn information on a variety of investing topics, including how to research investments and investment professionals,

understand fees, and detect fraud. The content is designed to be easily understandable, including the “Investing Basics” section, which explains common retail investment products in plain language.

Investor.gov also offers tools and materials targeted to investors who may face particular investment needs, such as members of the military, teachers, and retirees. The site will be further enhanced with videos, interactive quizzes, and additional investor education resources in the coming months. In addition, we are working with the Department of Treasury to ensure that key resources from Investor.gov are included in relevant sections of the Financial Literacy and Education Commission’s financial education website, MyMoney.gov.

Print Publications

For those investors who prefer print publications, we continue to offer these materials to help individuals make informed investment choices and detect fraud. We emphasize factors and important questions for investors to consider and ask before they invest. All of our materials are available free of charge and not copyrighted, so that the widest possible dissemination is encouraged.

Our most popular brochures are offered in both English and Spanish, including publications focused on mutual funds and variable annuities. Our most recent publication is a primer to educate students about setting long-term financial goals. The SEC’s *Saving and Investing for Students* booklet explains different types of financial products, the realities of risk, and other key information students need to know in setting their goals.

Individuals can order free copies of *Saving and Investing for Students* or any SEC print publication by calling (888) 878-3256 or visiting Investor.gov. Individuals can also receive SEC brochures by requesting the Financial Literacy and Education Commission’s MyMoney toolkit. Additionally, we have developed a series of fourteen information sheets including such topics as Asset Allocation, Target Date Funds, Ponzi Schemes and Affinity Fraud.

Investor Alerts and Bulletins

Another way the SEC reaches out to individual investors is through our Investor Alerts and Bulletins. Investor Alerts and Bulletins are short articles written to inform the investing public about particular topics. Investor Bulletins provide individual investors with important information regarding various investment-related topics. Investor Alerts warn investors about potentially questionable activity that the Commission’s staff has been made aware of, including through investor complaints and inquiries. In the past year we have published over twenty-five different alerts and bulletins on a variety of subjects, including municipal securities, stock trading basics, day trading, margin rules, life settlements, and a number of new SEC rules. Recent Investor Alerts have covered pre-IPO investment fraud, investment scams related to payouts by BP, and fake securities-related websites. Moreover, we have issued a number of joint alerts, including

one on target date funds with the Department of Labor and another on ETFs with the Financial Industry Regulatory Authority (FINRA).

OIEA publishes Investor Alerts and Bulletins on the SEC's website, SEC.gov, as well as on Investor.gov. We also disseminate them through a variety of other channels, including a designated RSS feed, Gov.delivery, press releases, and our Twitter account, @SEC_Investor_Ed. As of last week, we had over 13,000 followers. We plan to continue to explore the possible utilization of other social media tools to reach more individual investors with limited additional cost, especially given constraints on our resources.

Reaching Investors through Partnerships – Recent Examples

As part of its mission of investor protection, the SEC encourages investment literacy for all Americans. Our partnerships with other government agencies, localities and private sector financial education are vital to helping us reach investors within our limited resources.

Some recent examples of our partnerships to reach investors include:

- Outsmarting Investment Fraud. We continue to work with FINRA, AARP and state securities regulators on a campaign designed to reduce investment fraud among older Americans. The campaign is based on research funded by the FINRA Investor Education Foundation. With our partners, we regularly participate in events that teach seniors how to identify common persuasion techniques used by con artists. We also train attendees on how to “ask and check” about investments and investment professionals before they invest so they can protect themselves and teach others in their community about effective fraud detection techniques.

Over the last year, we helped educate thousands of older Americans at “Outsmarting Investment Fraud” events across the country. We also have promoted key messages from the campaign’s curriculum to residents of other states by incorporating those messages in our online investor education materials and print publications.

- SEC Graduate Program. We also work with NYSE Euronext on professional development programs designed to help educators teach students about the financial marketplace and its importance in their lives and the global economy. The training sessions feature lecture-discussion sessions, hands-on activities, and field trips.

Last July, more than thirty educators from across the country attended the inaugural SEC Graduate Program, a four-day workshop that focused on the securities markets, investor protection, and the federal government’s oversight role. SEC Chairman Mary Schapiro, SEC Commissioner Elisse Walter and a host

of SEC staff led training sessions during the program. Additional training sessions were led by, among others, representatives from the White House, the Federal Reserve, the Department of Treasury, the Department of Education, and Commodity Futures Trading Commission.

- Internal Revenue Service (IRS) Tax Refund Check Mailings. Over the last few years, we have worked with the Financial Management Service at the IRS to communicate messages on saving and investing to Americans across the country. During the month of April, approximately eight million individuals will receive IRS tax refund mailings that contain an insert promoting investor education resources from the SEC. In addition to raising awareness about Investor.gov, the insert encourages individuals to request an Investor Education Toolkit to learn how to become a smarter investor. Individuals can order the free toolkit online, by phone, or by mail.
- Outreach to Gulf of Mexico (Gulf) Residents Through Public Libraries. In October 2010, the SEC issued an Investor Alert to warn individuals and small businesses about potential investment frauds targeting those who receive lump sum payouts from BP due to the oil spill in the Gulf. At the same time, the SEC began working with public libraries near BP claims centers to distribute a special package of financial education materials to Gulf residents.
- Financial Literacy and Education Commission. The SEC is a member of the Financial Literacy and Education Commission (“FLEC”). The Financial Literacy and Education Commission was established under the Fair and Accurate Credit Transactions Act of 2003. The FLEC was tasked to develop a national financial education web site (MyMoney.gov) along with a hotline (1-888-My Money) and a national strategy on financial education. It is chaired by the Secretary of the Treasury and made up of the heads of twenty additional federal agencies. In addition to the activities noted above, the SEC serves on FLEC’s Research and Evaluation Subcommittee. We also will be working with FLEC to develop a “strategy to increase the financial literacy of investors in order to bring a positive change in investor behavior,” as required by Section 917 of the Dodd-Frank Wall Street Reform and Consumer Protection Act (the “Dodd-Frank Act”).
- SEC-Academy of Finance Shadowing Program. Consistent with Section 342 of the Dodd-Frank Act, the SEC has developed an SEC Shadowing Program with the Academy of Finance students from inner city high schools in the DC region. The Academy of Finance connects high school students with an interest in finance with the world of financial services.
- Other Partnerships. The SEC is a partner and ex officio board member of the Jump\$tart Coalition for Financial Literacy, a mission partner of the American Savings Education Council, a charter member of the Department of Defense's Financial Readiness Initiative, and a founding advisor of the Alliance for Investor Education. We participate in numerous local and national financial literacy

events each year including Military Saves Week, America Saves Week, and Financial Literacy Day on Capitol Hill.

SEC Investor Assistance Program

OIEA's Office of Investor Assistance responds to questions, complaints, and suggestions from members of the public. The Office handles investment-related complaints and questions from tens of thousands of individual investors and others every year. Investors contact us seeking information about the securities markets, securities laws and regulations, investment products, and financial professionals. Investors also submit complaints involving brokers, investment advisers, transfer agents, mutual funds and other companies that issue securities.

To help investors resolve their investment disputes, OIEA forwards investor complaints to the entities involved, requesting a response that fully addresses investor concerns. Our efforts to facilitate informal resolutions of complaints often succeed. Where an entity denies wrongdoing, however, or it is unclear whether any wrongdoing occurred, OIEA cannot compel an entity to resolve a complaint to an investor's satisfaction. Instead, we provide information on alternatives such as mediation, arbitration or legal action. In appropriate cases, OIEA refers complaints to other offices and divisions within the SEC, including the Division of Enforcement, or to state or other federal regulators.

In Fiscal Year 2010, OIEA staff closed approximately 72 percent of complaints and inquiries within seven days and approximately 93 percent within 30 days.

Office of Policy

OIEA's Office of Policy reviews and comments on proposed rulemakings and concept releases with an eye toward making Commission documents more useful and understandable to individual investors, with an emphasis on plain writing and data driven research. Also, consistent with Section 912, OIEA has been tasked with conducting survey research and/or focus groups to identify the level of satisfaction of individual investors with various disclosure requirements. These efforts include benchmarking overall satisfaction with disclosures and probing areas of interest including usefulness of content, ease of comprehension, and accessibility of formats.

The Office also has been actively involved in managing a number of the studies required by the Dodd-Frank Act. In addition to coordinating the Section 919B study on improved investor access to information of investment advisors and broker-dealers, OIEA participated in the SEC working groups for the Section 913 study on the obligations of brokers, dealers and investment advisors, and the Section 914 study on enhancing investment advisors examinations.

Investor Testing and Dodd-Frank Studies

Disclosure Document Evaluation Study and Dodd-Frank Act Section 917

The SEC currently is conducting investor testing as part of its Disclosure Document Evaluation Study (the “Study”). The purpose of this investor testing is to examine the effectiveness of SEC-mandated disclosure documents, specifically, the Form 10-K annual report and the mutual fund shareholder report, in communicating useful information to individual investors. The Study is designed to gather feedback from investors in order to determine how these disclosure materials could more effectively communicate information to individual investors. The Study also will generate a baseline assessment of these documents, providing a way to measure potential improvements in disclosures over time. The Study entails:

- Obtaining investors’ evaluation of the Form 10-K and the mutual fund shareholder report, including a baseline assessment against which to measure future disclosures;
- Identifying specific areas of these documents where investors think current disclosure is adequate;
- Identifying specific areas of these documents that could be improved;
- Suggesting new document formats as alternative ways to express or summarize complex financial information in both hard copy and digital formats; and
- Proposing actions and/or solutions to simplify documents for use by the individual investor.

In examining these disclosures, OIEA is working with the SEC’s Division of Corporation Finance to evaluate investors’ responses to current Form 10-K materials, and with the SEC’s Division of Investment Management to evaluate investors’ responses to current mutual fund shareholder reports. These evaluations are designed to prioritize the importance and usefulness of each of the disclosure items within the Form 10-K and the mutual fund shareholder report, including information that is less useful and information that might be included in a revised document. The Study is responsive to the SEC’s 2010-2015 Strategic Plan, which calls for investors to have access to disclosure documents that are useful for investment decision-making and for those materials to be provided in concise, easy-to-use formats.

The Study also will serve as a predicate for significant portions of a separate study regarding financial literacy among investors, as mandated by Section 917 of the Dodd-Frank Act. That provision calls for the SEC to identify the existing level of financial literacy among retail investors; methods to improve the timing, content, and format of disclosures to investors with respect to financial intermediaries, investment products, and investment services; methods to increase the transparency of expenses and conflicts of interest in transactions involving investment services and products; and the most effective existing private and public efforts to educate investors. Section 917 requires us to deliver a final report to Congress by July 2012.

With regard to Section 917, the staff is currently working on a project plan, including developing an organizational framework, an analysis of required resources, and a calendar of expected completion dates of various project milestones. Consistent with available resources, we intend to conduct investor testing on a number of the issues presented by Section 917. We also anticipate seeking public comment on a number of aspects of Section 917, including about existing successful financial literacy programs, in the near future. In addition, we have already begun a thorough review of existing relevant data, including other studies and analyses, to identify areas in which additional research and study would be useful in providing the most meaningful report to Congress. Because Section 917 requires us to focus on the financial literacy of investors (as opposed to on financial education more generally), we believe the study has the potential to arm us with a great deal of valuable data about individual investors in the United States.

Dodd-Frank Act Section 919B

Section 919B of the Dodd-Frank Act directs the SEC to complete a study, including recommendations, of ways to improve the access of investors to registration information about registered and previously registered investment advisers, associated persons of investment advisers, brokers and dealers and their associated persons, and to identify additional information that should be made publicly available. The Act specifies that the study include an analysis of the advantages and disadvantages of further centralizing access to registration information, and identify data pertinent to investors and method and format for displaying and publishing the data to enhance the information's accessibility and utility to investors.

OIEA prepared the study in consultation with the SEC's Division of Investment Management, the Division of Trading and Markets, the Division of Risk, Strategy, and Financial Innovation, and the Office of the General Counsel. OIEA also sought input from FINRA and NASAA.

The study made the following recommendations:

- Unify FINRA's BrokerCheck and the SEC's Investment Adviser Public Disclosure ("IAPD") database search results
- Add a ZIP code search function to BrokerCheck and IAPD
- Add educational content to BrokerCheck and IAPD

In addition, the study recommends that SEC staff and FINRA continue to analyze, including through investor testing or other means of soliciting investor input, the feasibility and advisability of expanding BrokerCheck to include information currently available in the Central Registration Depository (the securities industry online registration and licensing database developed by FINRA in consultation with the states), as well as the method and format of publishing that registration information.

Conclusion

As the Committee recognizes, improving financial literacy is an important goal that can empower individual investors to participate in the financial markets. By making it possible for investors to access educational materials that are understandable and geared to their interests and concerns, the SEC can play a valuable role in assisting them to invest intelligently and to detect fraud. The SEC is committed to this important role in our rapidly changing markets. Thank you for the opportunity to appear today, and I would be pleased to respond to any questions.