COMCEC

Standing Committee
For Economic and Commercial Cooperation
of the Organization of Islamic Cooperation

CAPITAL MARKET
REGULATORS FORUM
COMCEC

KEY ISSUES FOR FINANCIAL LITERACY IMPROVEMENT IN SECURITIES MARKETS

The Report of the Financial Literacy Task Force

Written by:

ALI SAEEDI (PhD) **MEYSAM HAMEDI**

Chair of the Financial Literacy Task Force	Co - Chair of the Financial Literacy Task Force	Secretariat of the COMCEC Securities market Regulators Forum
سازمان بورس و اوراق بهادار SECURITIES & EXCHANGE ORGANIZATION	هيئة أسواق المال Capital Markets Authority	SERMAYE PİYASASI KURULU CAPITAL MARKETS BOARD OF TURKEY 1982

The document is available for download from
the COMCEC Capital Market Regulators Forum website
(www.comceccmr.com)

Secretariat's Contact information:

COMCEC CAPITAL MARKET REGULATORS (COMCEC CMR) FORUM

Eskişehir Yolu 8. Km. No:156 06530 Ankara-TURKEY

Phone:	+90 (312) 292 90 90
Fax:	+90 (312) 292 90 90
E-mail	secretariat@comceccmr.org

EXECUTIVE SUMMARY

Since the global financial crisis, financial literacy has become as an important element of financial stability and economic development. There is a consensus that low level or lack of financial literacy may cause challenges for local markets. Consequently, governments around the world recognize that good financial literacy skills would enable individuals to make better informed decisions in an increasingly complex financial marketplace. Well informed decisions could have positive spill-over effects on financial markets and the economy as a whole. Despite major global initiatives in case of financial literacy improvement in general concept, what is neglected is financial literacy improvement in securities markets.

Based on the COMCEC Capital Market Regulators (CMR) Forum mandates, the Financial Literacy Taskforce as its 2015 initiative decided to determine some principles for financial literacy improvement. However, since setting principles need cooperation of all member countries, the taskforce decided to only restrict its initiative into key issues related to financial literacy improvement in securities markets.

The present report reviews the definition of financial literacy from the Organization for Economic Co-operation and Development (OECD) and International Organization of Securities Commissions (IOSCO) perspectives and introduces a new definition regarding financial literacy in securities markets. Then, it identifies components of financial literacy and bases key issues in these components.

The report consists of 28 key issues regarding financial literacy improvement which the taskforce assumes them as the most important issues regulatory bodies in capital market should consider. It is finished with three suggestions that can be applied in COMCEC CMR Forum for further actions of the secretariat in respect of financial literacy improvement among OIC member countries. The Financial Literacy Taskforce hopes these kinds of initiatives will be fruitful for all, enhance cooperation among Islamic countries and mature members’ capital market.

Table of Contents

INTRODUCTION

The origin of financial literacy can be traced in Smith-Lever Act of the United States. In 1914, the Smith-Lever Act created the Cooperative Extension Service in the United States to provide learning experiences that would develop skills people needed at home, on the farm and in their community, including financial skills. Since that time, many initiatives which aimed personal finance have taken place around the world. However, financial literacy concept mainly got birth in liberalization or deregulation of financial markets in 1998.

The most comprehensive international initiative targeted financial literacy improvement was conducted by the Organization for Economic Co-operation and Development (OECD). It started an inter-governmental project in 2003 with the objective of providing ways to improve financial education and literacy standards through the development of common financial literacy principles. However, undoubtedly, the great recession of 2007-2009 can be considered as turning point for paying more attention to the financial literacy concept. Financial liberalization led to eruption of many products particularly derivatives. Diversification of products and investment opportunities in front of investors encouraged them to take position in products that were unknown in nature. These products were too complex to understand and even because of their diversity, investors could not understand them all.

Financial literacy is increasingly receiving precedence in different economies, as it is recognized as contributing to financial stability, financial inclusion, and to the effective functioning of financial markets (The World Bank, 2013). It is now recognized that financial literacy is an important factor for financial stability and a way to avoid occurrence of probable future crisis. Policymakers are increasingly using surveys as diagnostic tools to identify key problem areas and inform the design of national strategies. According to the OECD (Grifoni and Messy, 2012), at least 36 countries have established or are in the process of designing a national strategy for financial education. Moreover, 80 percent of these countries have used a survey as a diagnostic method to identify the key priorities for their national strategies. Major international organizations consider financial literacy as an important component of their current and future initiatives and underscore its role in financial markets. Meanwhile, International Organization of Securities Commission (IOSCO) has published reports in the field and in October 2014 issued

"Strategic Framework for Investor Education and Financial Literacy" report to spotlight the importance of financial literacy in securities markets.

In addition of what mentioned above, there are several main reasons might be attributed to the importance of financial literacy. These include:

- ***Complexity of products and markets***: there are many complex products in the world of finance (particularly in securities markets) which are even hard to understand for experts and professionals. Securitization of different assets and hybrid products, derivatives and stock market products are numerous in which their understanding entirely is impossible for an individual. Financial education and subsequently financial literacy could contribute to understanding basics of these products and their inherent consequences;

- ***Different institutions providing financial services***: Nowadays, there are many institutions providing financial services. Not only banks are in the scene but also many private institutions and many other companies offer similar products and service that identification of them and what they offer is really hard. Financial literacy can help investors to understand services provided by institutions and would allow them to avoid fraud.

- ***Investors' protection***: It is always cited that literacy is a kind of protection. Undoubtedly, a person who is equipped with literacy can protect him/herself more appropriate than an illiterate person. This self-protection is even beneficial for authorities whose one of their most important goal is protecting retail investors. As IOSCO asserts, investor education (and subsequently financial literacy) is a key strategy for enhancing investor protection, promoting investor confidence and fostering investor engagement in financial planning and decision-making. It is complementary to the traditional tools of regulation, supervision and enforcement (OICV-IOSCO, 2014).

- ***More responsibility taken by investors***: Nowadays, investors are expected to take responsibility of they own decisions. They are compelled to decide in their financial life. Financial literacy can help them and increase the probability of making proper decisions.

- ***Importance of risk and return***: If is not the most, the implication of risk and return is one of the most important concepts in securities markets. Its importance led OECD to add "*risk*" particularly in the definition of financial literacy. Since financial literacy is associated with investors, understanding the implication of real and perceived risk takes importance. Generally, perceived risk is negative or unexpected consequences a consumer or an investor fears may occur as a result of making wrong decision. The greater the perceived risk, the more likely it is that the investor will seek information about the product and the recommendations and experiences of peers before making decision. Educated and self-confident individual is less likely than others to perceive risk. Moreover, by understanding risk and return concept, investors would accept the responsibility of their own decisions.

- ***Stability of local markets:*** Many experts blamed financial literacy as a reason for distress in local markets. By knowing fundamental concepts and improving knowledge practically, however, the likelihood of emotional reactions might be reduced and investors would behave more rationally. Therefore, rational behavior of investors in normal situations can be one of the main results of financial literacy improvement.

- ***Better planning for future:*** Financial literacy is not dedicated only to securities market. It is a broad concept which includes all financial markets. Decision making in financial markets is woven by long term planning. In insurance market, for instance, policy holders face long term planning for retirement. Therefore, improvement of knowledge and ultimately confidence resulted in financial literacy process can contribute to better choices in planning ahead. It should be noticed that financial markets are interrelated and proper (or weak) performance of an individual in a market can affect his\ her performance in others. International markets in the global scene also are tangled up to each other. Improving financial literacy can enhance investors' knowledge in this regard and helps them in better decision making between local and international products.

- ***Global trend toward financial literacy improvement:*** These days, different international and national organizations are working to improve financial literacy. Authorities in different economies have recognized the importance of financial literacy and are cooperating to alleviate its restrictions and barriers. The World Bank, IOSCO, G8 and G20 are those that underscore the importance of financial literacy.

- ***Financial literacy as a right****:* While financial literacy is a protection, it also is a definite right of individuals. Alleviating illiteracy is an important responsibility on shoulders of not only governments but also institutions and educated people. Therefore, governments conduct different initiatives to, besides other reasons, respect individuals' right.

- ***Importance of securities market in views of households****:* Many economies are basically bank based. Some of these economies are transforming from bank based toward market based economies or even giving more responsibility of financing to the securities market. This transition needs some elements which an important one is financial literacy since through that, retail investors will obtain familiarity with the securities market.

- ***Cross border investment:*** A mutual relationship between corporations looking for out of border financing and investors who seek for investing opportunity. An important factor in this relationship is necessity of acquiring enough knowledge about destination markets. This is the point in which financial literacy can role play effectively. Both corporations and individuals can enjoy from higher financial literacy level by increasing more stable and appropriate decision making.

There could be more reasons as the importance of financial literacy but mentioned ones can be considered as the most important reasons. Prior to expressing key issues in financial literacy improvement in securities markets, the definition of financial literacy should be clarified since issues are mainly based on components of the definition.

DEFINITION OF FINANCIAL LITERACY

There are many definitions used in financial literacy literature. For some it has a broad concept, including an understanding of economics and how household decisions are affected by economic conditions and circumstances. For others, it focuses quite narrowly on basic money management. However, two major definitions of financial literacy are attributable to OECD and IOSCO definitions. OECD defines financial literacy as: "*knowledge and understanding of financial concepts and risks, and the skills, motivation and confidence to apply such knowledge and understanding in order to make effective decisions across a range of financial contexts, to improve the financial well-being of individuals and society, and to enable participation in* *economic life*” (OECD 2013,PISA, 2012) which can be considered as a broad definition of financial literacy applicable in financial markets (including securities markets). However, as a specific definition of financial literacy for investors, in its 2012 report on the investor education websites of IOSCO members, the IOSCO Education and Training Team identified the concept of “investor literacy” as the “*understanding ordinary investors have of market principles, instruments*, *organizations and regulations*” (IOSCO, 2012). Indeed, the definition itself does not help understanding financial literacy. But, decomposition of its components and their recognition contribute to its understanding and taking action in respect of its improvement. Therefore, correct and accurate definition of financial literacy (financial literacy in securities markets in this case) is important. Thus, the financial literacy taskforce has made a mixed definition (with some changes) which is based on combination of OECD and IOSCO definitions. The taskforce defines financial literacy in securities markets as follows:

> **“*knowledge and understanding of financial concepts, principles, instruments, organizations and regulations of securities market and the skills, motivation and confidence to apply such knowledge and understanding in order to make informed decisions*.”**

The ultimate goal of financial literacy in securities markets is changing behavior of retail investors. By defining financial literacy particularly for securities markets, the decomposition of its components is easier.

DECOMPOSITION OF FINANCIAL LITERACY DEFINITION

Financial literacy definition contains six components:

1- Knowledge;
2- Understanding;
3- Skills;
4- Motivation;
5- Confidence;
6- Decision making.

Each components includes factors should be considered in financial literacy improvement and better recognition of the concept.

Knowledge: stemmed from education and experiences. This is the result of financial education which is prerequisite of financial literacy. Knowledge is awareness and shaped theoretical dimension of investors' mind. Figure 1 shows factors affect knowledge.

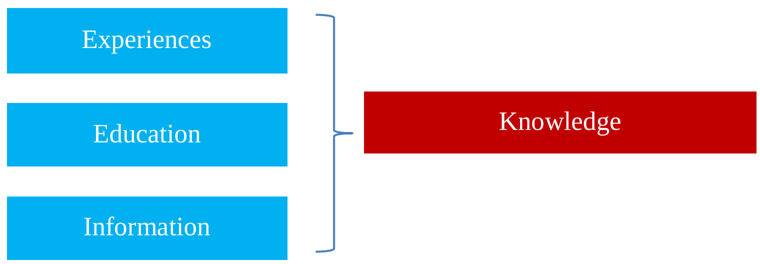

Figure 1- factors affect knowledge

Understanding: rooted in environmental stimuli and perceived real world. At this case, the taskforce considers understanding equal to perception or cognition. Understanding is shaped through realizing characteristics of three factors: 1- characteristics of the issue; 2- characteristics of the situation; and 3- characteristics of the perceiver (investor). For instance, the main issue that investors face in their investment is deciding to buy, sell or hold a security in market fluctuations. Totally, characteristics of investment shape the first matter. Moreover, securities market shows some traits which force investors to react. Reactions of investors, which are rooted in their perception, form a portion of their behavior. As an example, behavioral biases are those which affect perception of investors. And finally, characteristics of investors would model their cognition. These characteristics are stemmed from personality, reputation, emotions, attentions, income level, peer pressure, beliefs (norms and attitudes) and information. As it was mentioned, these all factors are called environmental stimuli. Figure 2 illustrates factors affect understanding. An important point should be emphasized is that investors (and human generally) realize different environmental stimuli but pay attention only in a narrow portion of them. This narrow perspective would make misunderstanding or leads investor to wrong decision making. The role of financial literacy in this respect is to widen the scope of environmental stimuli perspective.

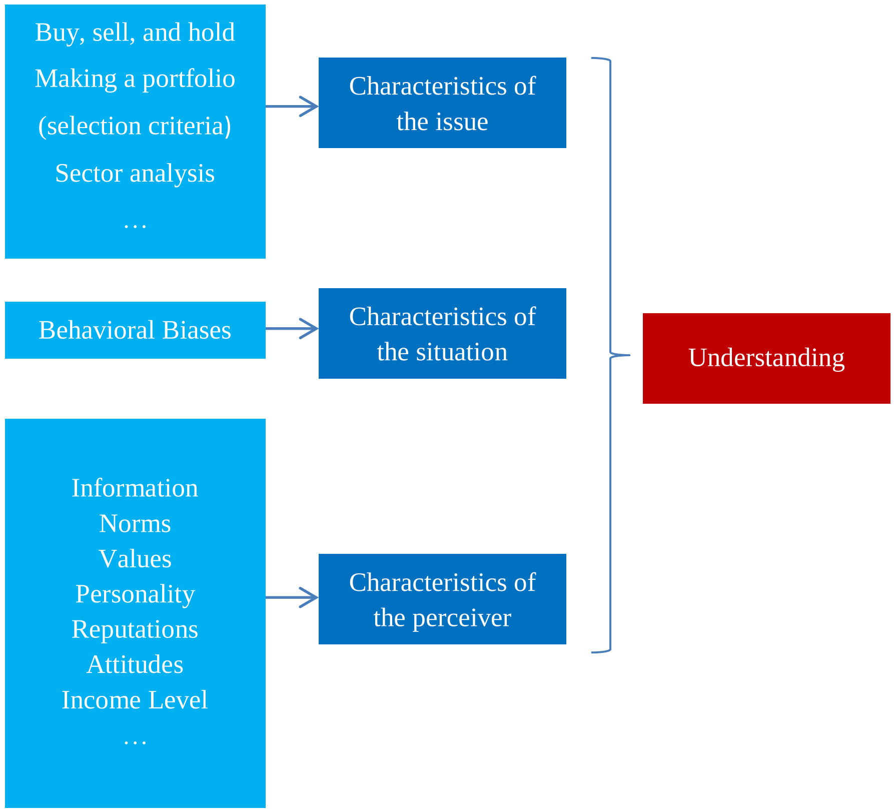

Figure 2- factors affect understanding

Skills: come from practice whether in virtual or in real worlds. After investors' education, they should be trained to practice what learned in educational programs or courses. Frequent practices and familiarity with ups and downs of an issue will transform knowledge of an investor into skill or ability. Skill can be considered as a main factor for more appropriate decision making. In other word, skill is realization of theories into practice. Figure 3 depicts relationship between previous components and skills.

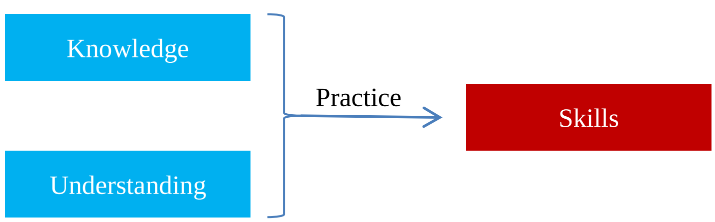

Figure 3- Relationship between Knowledge, Understanding & Skills

Motivation: originally means needs, desires, wants or drives within the individuals (investors). Motivation is defined as the process that initiates, guides, and maintains goal-oriented behaviors. It is the process of stimulating people to actions to accomplish the goals. Motivation results from the interaction of both conscious and unconscious factors such as: 1- intensity of needs; 2- value of the goal; and 3- expectations of an individual. Stimulating factors which motive individuals to show a particular behavior might be desire to success, satisfaction, recognition, and etc. the role of financial literacy is affecting unconscious factors of motivation and changing them into conscious factors. Financial literacy unfolds investors' needs and motives them to take action by setting goals and struggling to accomplish them.

There are some points regarding motivation which should be considered. Firstly, when people (investors) involve achieving determined goals, motivation will increase. However, when they accomplish it, their motivation or needs decrease sharply. Secondly, based on previous research of the taskforce, many active investors in the market are not aware about their needs. They simply adhere what they used to do and are not stimulated to increase they literacy. Thirdly, based on the situation of the market (bullish or bearish), investors are motivated by some misleading factors which only promote speculation in the market and is in contrast to the spirit of investing. Therefore, in these situations, investors are not motivated by their needs or determined goals and might decide haphazardly or based on the atmosphere of the market.

Foot track of motivation can be traced in all aspects of financial literacy improvement process. Figure 4 shows factors affecting motivation and its position in financial literacy definition.

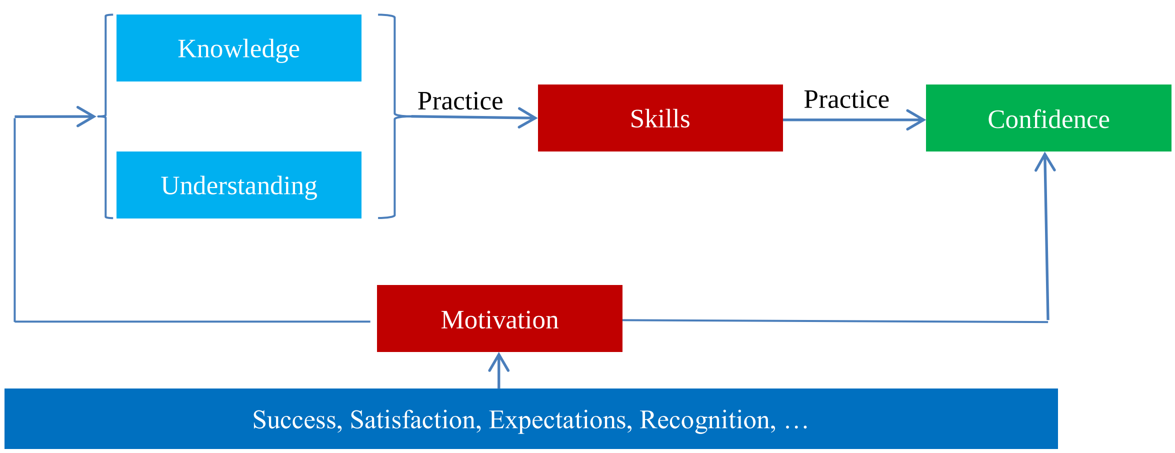

Figure 4- factors affecting motivation

Confidence: that is the degree of certainty or assurance within an investor in his/her decision making process. In essence, when a skilled and motivated investor practices and internalizes knowledge and understanding and finally decreases the probability of failure in his/her decision making, is confident. Indeed, confidence is a prerequisite of responsible decision making. A confident investor does not consider his/her investment as a bet but takes effort to minimize the risk of failure in his/her investment by performing analyzes and researches, getting consultation, and making appropriate strategies or approaches in this respect. Therefore, confidence is the result and substantiation of practicing skills in the field. Figure 5 shows components of confidence in securities markets.

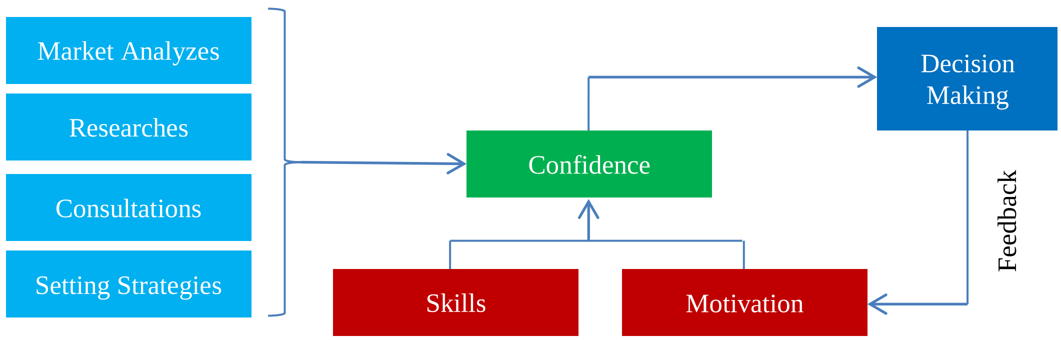

Figure 5- components of confidence in securities markets

Decision Making: the ultimate component of financial literacy definition is decision making which is the result of other components. Albeit it seems the most simplistic factor of financial literacy, there are some points should be considered about decision making in securities markets. Indeed, decision making in the market is not as simple as in other financial markets since investors are faced with risk and uncertainty to somehow. Based on the degree of uncertainty, decisions can be divided into three categories:

1- *Decision making under full certainty*: the results of all alternatives are explicit and the future of each way is predictable. In this situation, investors do not diversify and only concentrate in what they are sure about.
2- *Decision making under risk*: probabilities of alternatives' occurrence are explicit. In this situation, predictability is low and information is uncompleted. Investors diversify to minimize effects in this situation.

3- *Decision making under uncertainty*: the probability of different options are not explicit and investment alternatives are not completely determined. Access to accurate and relevant information is really hard or impossible.

These three categories are illustrated in figure 6 for clarification.

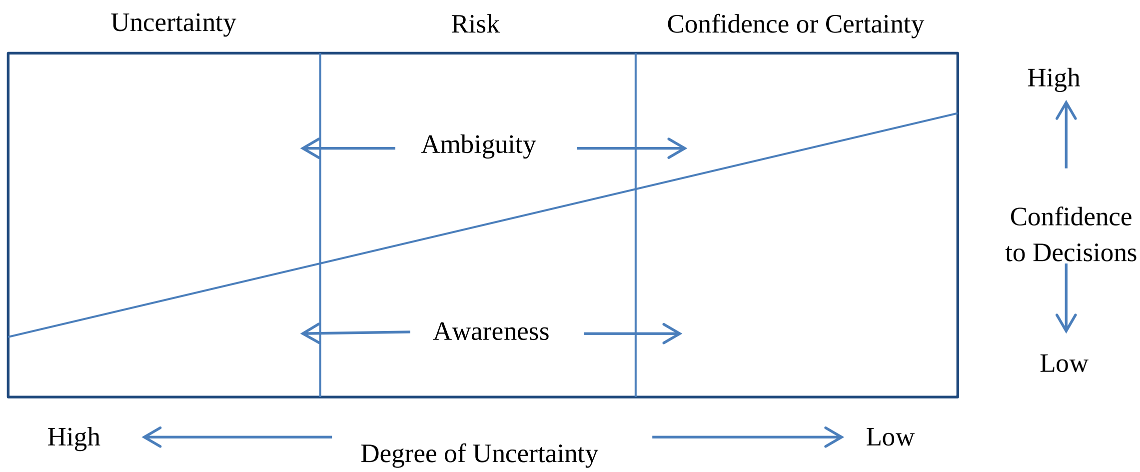

Figure 6- relationship between uncertainty degree and decision making

As it is obvious from the figure, the best situation is when degree of uncertainty is low and confidence to decisions is high. Essentially, financial literacy contributes investors to increase their awareness and make decisions confidently. It shifts decision making from risk situation toward more certainty.

What should be mentioned about decision making in securities market is that investors' decisions are affected based on each area they are. When their awareness is low and ambiguity is high, the probability of making wrong or inappropriate decisions is high. In addition, as it is depicted, even when awareness is in threshold, ambiguity is not removed. Therefore, even an informed investor might make wrong decisions. And ultimately, why effective decision making in OECD definition is changed into informed decision making in the definition of the taskforce is, based on effectiveness definition, because of the ambiguity remains in all decision makings since an investor would be financially literate but make wrong decisions.

Figure 7 depicts all aspects of financial literacy as a whole.

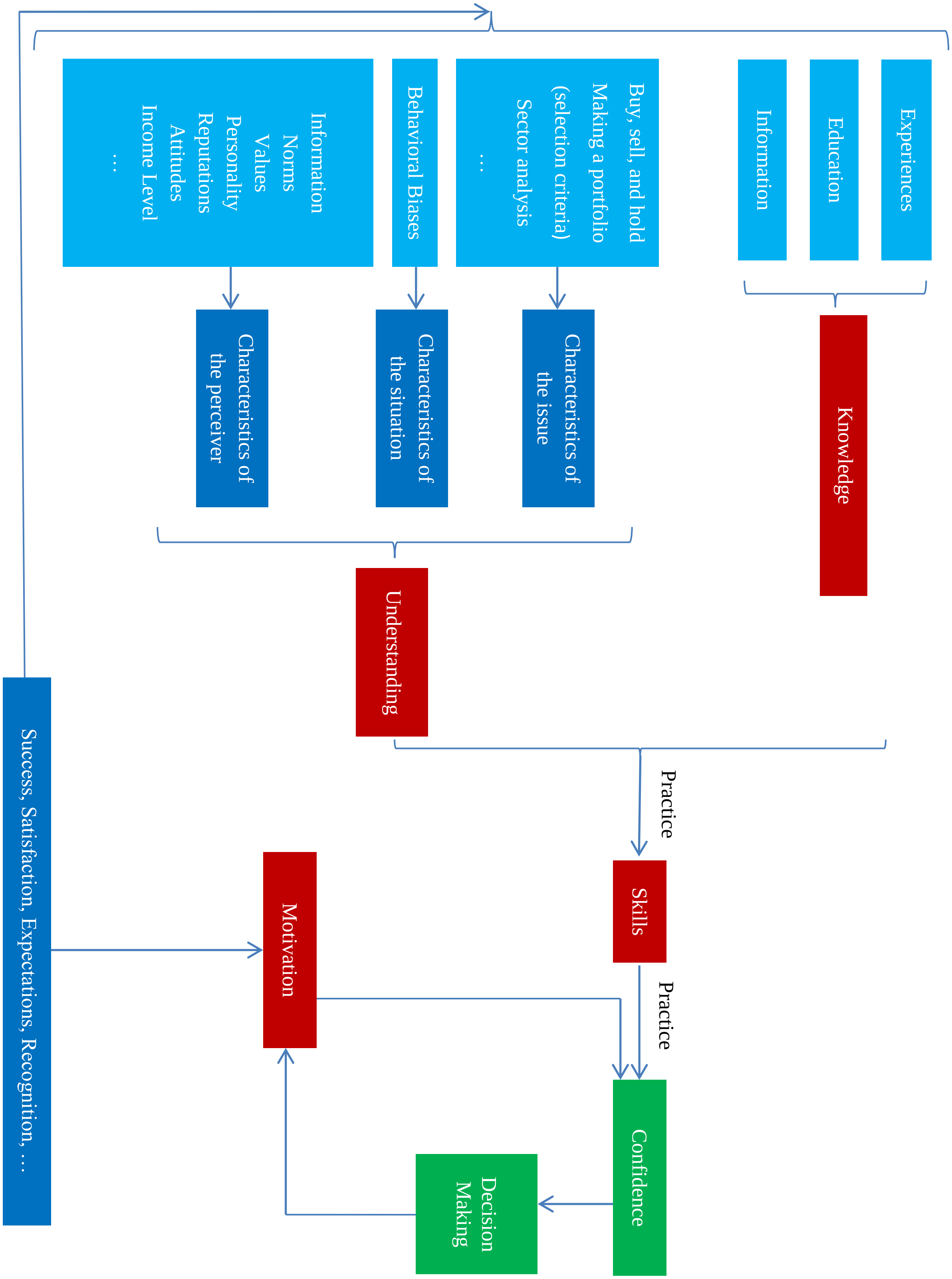

Figure 7- total components of financial literacy definition

REEGULATORS AS CORE OF FINANCIAL LITERACY IMPROVEMENT

Providing investor education and financial literacy programs is mandatory, particularly when viewed as an additional tool available to securities regulators in supporting regulation and supervision. For example, investor education programs can complement regulations that enforce conduct standards, require financial institutions to provide clients with appropriate information, strengthen legal protections for investors or provide for redress. Through rule-making, supervision and enforcement powers, regulators have the unique ability and expertise to "look inside the securities industry" to identify and understand factors that shape market outcomes and business models, including structural and other competition issues, information problems and misaligned incentives. Securities regulators can leverage this experience and insight to develop targeted investor education programs. In addition, education and financial literacy can also help investors better assess the appropriateness and suitability of investment advice, investment products and services. It can also help investors, detect and avoid suspected fraudulent activity, and distinguish between regulated and non-regulated activity, all of which could reduce investor losses.

Ideally, investor education and financial literacy programs, as a complement to securities market regulation and supervision, can help address any misalignment of investor and industry interests, particularly with respect to information asymmetry. This could lead to fewer investor complaints. However, the availability of investor education and financial literacy programs does not guarantee that investors will make better investment decisions or avoid fraud. It is recognized that investor education and financial literacy will only go so far in changing investor behavior. Behavioral economics research identifies a range of barriers that may prevent people from making good financial decisions. As a result, investor education and financial literacy programs will not completely eliminate the need for regulatory intervention in order to achieve desired outcomes for investors.

Ultimately, the most important factor that put regulators in core of financial literacy improvement is based on principle 4, key issue 5 of IOSCO principles which asserts "*Regulators should play an active role in the education of investors and other market participants*."

Overally, the main reasons that regulators are central in financial literacy related initiatives are as follow (these are mainly adapted from "Strategic Framework for Investor Education and Financial Literacy" report of IOSCO):

- ***Independent and unbiased***: Securities regulators are uniquely positioned to provide unbiased investor education, including, for example, information and tools to help retail investors understand investment products, work more effectively with intermediaries and take steps to avoid falling victim to fraud.

- ***Access to expertise and data***: Regulators have extensive expertise and experience in securities, market structure and investment product regulation. They also have access to data on potential market risks and misconduct, and are well placed to leverage existing data gathering methodologies to identify and address investor concerns.

- ***Unique insights into workings of the markets***: Through rule-making, supervision and enforcement powers, regulators have the unique ability and expertise to "look inside the securities industry" to identify and understand factors that shape market outcomes and business models, including structural and other competition issues, information problems and misaligned incentives. Securities regulators can leverage this experience and insight to develop targeted investor education programs.

- ***Direct impact through regulatory action***: A wide range of tools gives securities regulators the flexibility to determine the most appropriate approach to address investor protection, whether it is through investor education and financial literacy programs, and/or regulatory action[1].

- ***Well positioned to take on a leadership role*** – As part of national and local strategies, securities regulators may have opportunities to take on key leadership roles in specific areas of investor education and work in partnership with other organizations. This can help ensure that initiatives are integrated in national strategies, which may contribute to greater efficiencies, a more consistent quality of education and less duplication of effort.

[1] Kristina Erta *et al*., "Applying behavioural economics at the Financial Conduct Authority" (Financial Conduct Authority Occasional Paper No. 1, April 2013), online: Financial Conduct Authority at: http://www.fca.org.uk/static/documents/occasional-papers/occasional-paper-1.pdf.

- ***Recommendation of IOSCO***: the root of financial education and financial literacy components are traced in IOSCO principles and key issues. However, next section reviews key issues related to financial literacy improvement including what IOSCO has recommended in this respect.

KEY ISSUES OF FINANCIAL LITERACY IMPROVEMENT

After conducting two broad researches among member authorities of the COMCEC Capital Market Regulators (CMR) Forum by the taskforce since 2012, it has been revealed that financial literacy of retail investors in member countries is low and even there are no integrated and coherent plans or initiatives in advance to improve financial literacy level of investors (although some countries have initiated something and a few ones is planning to start, majority are in beginning). Meanwhile, participation in *Islamic Capital Market Capacity Building Programme Workshops* conducted by the Islamic Finance Taskforce demonstrated that almost all participants consider lack of awareness and financial literacy as one of the main reasons of Islamic finance instruments underdevelopment in Islamic countries (it should be confessed that lack of awareness is a major problem in all aspects of the market). Therefore, the Financial Literacy Taskforce decided to conduct a broad study among majority of financial literacy related available texts firstly to identify different dimensions of financial literacy in securities markets and secondly to introduce key issues regulators should be aware about and notice regarding their initiatives. These issues are like principles of financial literacy improvement which can be used as a lighthouse for different educational programs or financial literacy initiatives in the market.

These issues are rooted mainly in components of the definition. They start from general issues, encompass IOSCO principles related to financial literacy components and conclude to the market specific issues. Authors have explained each issue for more clarification.

INTRODUCTORY ISSUES

Key Issue 1	**Regulators should play an active role in the education of investors and other market participants.**

It was mentioned that this issue is what asserted by the IOSCO and due to its importance is reasserted in the report. The IOSCO recognizes education and subsequently financial literacy as protection and since the main task of regulators is investors' protection, the organization emphasize on the role of regulators in this respect. Therefore, all regulatory bodies should be prepared to play active role in education of investors. Further issues are rooted in the role of regulators regarding financial education and literacy.

Key Issue2	Regulators should adopt an approach to motivate participation of other practitioners in securities market.

Financial literacy has different stakeholders in securities market. Besides the market regulator, self-regulatory organizations (mainly stock exchanges), financial institutions and companies also benefit from financial literacy improvement. Indeed, any initiatives regarding financial literacy improvement should be a shared work. Therefore, the taskforce think that as an integrated task, the regulator should harmonize and supervise different programs and initiatives in the market but should ask other practitioners to contribute in the improvement process. No one program will reach all groups. No one organization can do it all. Financial literacy for all can be accomplished only with enthusiastic cooperation by all.

Key Issue 3	Regulators should set goals for financial literacy improvement and lead practitioners in this respect.

Setting goals is a fundamental component to long-term success. Goals contribute to focus and allocate time and resources efficiently, and they can keep regulators (and their staff) motivated. Goals and objectives illuminate what regulators want to achieve on future. They treat like signs in the path of improvement not only for regulators but also for all practitioners in the field. Regulators' goals help employees, practitioners and investors to stay aware about what is expected from them and purposes of regulators regarding financial literacy improvement. Below are main considerations that regulators should pay attention in goal setting process:

1- ***Goals should be feasible and specific:*** Regulators should be able to visualize, taste and understand the results of goals they are after.

2- ***Goals should be measurable:*** Success should be measurable. Undoubtedly, there should be some factors which their accomplishment is measures of success. Regulators, when possible, should try to quantify the results they plan to achieve with percentages, money or time. This allows them to measure what they will achieve and readjust accordingly.

3- ***Goals should be accessible:*** This means regulators should be able to achieve goals as a result of their own hard work and determination. If they have no control over the outcome, it does not make for a realistic goal. Unrealistic goals can ultimately lead to depression and low feelings of frustration.

4- ***Goals should be tied in together:*** Regulators should pay attention to how each goal ties in with the others and make sure they are not mutually exclusive.

5- ***Goals should not be too much:*** Setting too much goals can overwhelm regulators and make their staff, practitioners and investors give up altogether. Regulators should recognize their own strengths and weaknesses and plan honestly.

6- ***Goals should be flexible:*** Regulators should assess their progress periodically, provide honest feedback and adjust as they go along. Whenever they encounter barriers on achieving their goals, they should try to alter them to meet their new needs. They should not be rigid in accomplishing something that is no longer relevant to them.

7- ***Goals should be set for long-term and short-term:*** Ideally, regulators should set goals for long-term, and then objectives that are short-term and ultimately tie in with the bigger picture. Long-term goals can take approximately three to five years to achieve, while short-term goals could take anywhere from a couple months to a year or two.

8- ***Goals should be written:*** A written goal represents a real commitment. Commitment is what separates dreams from goals. Regulators should keep a copy of their goals plan in sight and refer to it often. In order to emphasize the importance of written goals, it would be useful to mention an example. There was a fascinating study conducted on the 1979 Harvard MBA program where graduate students were asked “have you set clear, written goals for your future and made plans to accomplish them?” The result, only 3% had written goals and plans, 13% had goals but they weren’t in writing and 84% had no goals at all. Ten years later, the same group was interviewed again and the result was absolutely mind-blowing. The 13% of the class who had goals, but did not write them down was earning twice the amount of the 84% who had no goals. The 3% who had written goals were earning, on average, ten times as much as the other 97% of the class combined (Feinstein, 2014).

9- ***Goals should be set together as a team:*** In order to increase motivation, employees, practitioners and investors need to be allowed to participate in the goal-setting process. Thus, regulators should show their interest and support in this respect. The trick is to achieve a balance between giving all stakeholders total freedom and directing them every step of the way. Most importantly, when approaching completion of a goal, regulators should set a new one.

The best trend toward setting goals is making a strategic plan for financial literacy improvement. Through that way, goals and objectives are set and ways toward achieving these signs are determined. The taskforce has always emphasized that goals and objectives are the same as signs in a route and strategic plan role plays as map and compass which direct regulators step by step.

Key Issue 4	**Regulators should have motivation mechanism to incentivize and obtain cooperation of other stakeholders.**

Regulators, SROs, financial institutions, companies and investors are all stakeholders of financial literacy improvement in securities markets. As it was emphasized, financial literacy improvement is a shared task among all stakeholders since they all benefit in this context. However, regulators as core of the task should provide some incentives to motivate participation of stakeholders in the process. These incentives will align other stakeholders with goals of regulators. One of the best ways to incentives stockholders is allowing them to participate in decision making and planning regarding financial literacy improvement. Through this way, the sense of cooperation and mutual trust would be streamed among them.

As it was mentioned in the ex-explanation about motivation as a component of financial literacy definition, it rooted in needs of investors. Thus, in order to motivate investors to improve their financial literacy level, their need should be strengthened. The method uses to let investor aware about their need is through quizzes (manly on-line quizzes) in different levels which score knowledge and understanding of them. This leads to the fifth key issue:

Key Issue 5	**Regulators should provide a graded program (or method) which gives a snapshot of investors' financial literacy level.**

Majority of regulators or the market SROs possess websites in which a part is dedicated to education or financial literacy related issues. Through these websites regulators can upload some quizzes with different levels which assess financial literacy quickly. Each level contains 4 to 5 question from basic finance to more sophisticated issues. Respondents can get a snapshot of their level and understand their need points. This is like what Financial Industry Regulatory Authority (FINRA) Investor Education Foundation has performed. It has uploaded merely 5 questions related to investors' knowledge and scores them based on their answers. The result of the quiz allows investors to compare themselves based on national and states averages. Through the comparison, investors get a snapshot about their level of knowledge.

Key Issue 6	**Regulators should consider financial literacy improvement process as a continuous task.**

Education and subsequently learning process is not one-shot occurrences that begins and ends quickly. There is no end for education and learning: "learning from cradle to grave". Regulators should notice that investors might encounter new problems and would be challenged by advent of new instruments. In addition, the market always faces some investors entering and some existing that respectively need education and motivation. They should be creative in running education programs to maintain the education atmosphere of learning in the market. Thus, the taskforce recommends all regulatory bodies to establish a think tank of education in the market. The think tank can innovate new ways for freshness of learning atmosphere and recommend them to the regulatory body. Regulators should notice that development roots in education. Continuous education can ensure continues improvement. Therefore, regulators and stakeholders should plan financial literacy improvement as continues task. The continuity of education is depicted in figure 8:

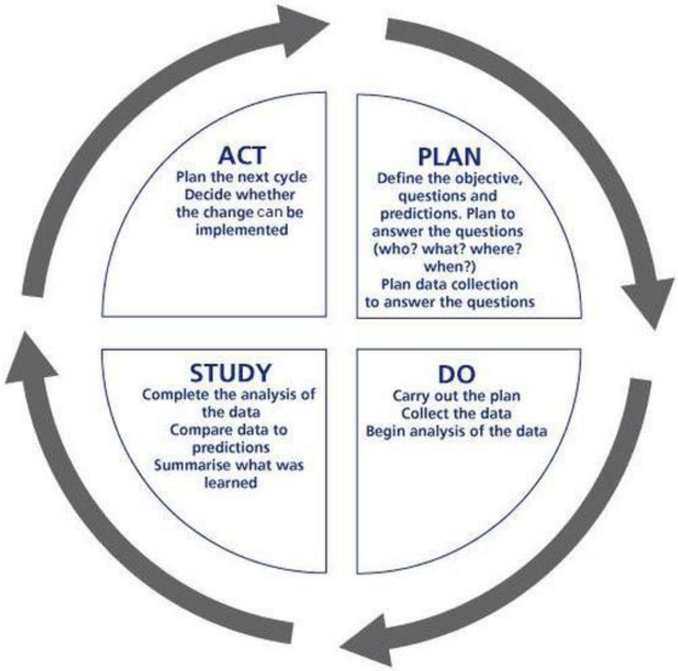

Figure 8- continuity model of education process

The regulator plans education programs (set goals and objectives and determines ways of achieving them), performs education programs and gather related feedbacks, studies feedbacks and analyzes them for corrections and enhancements, and finally implement corrections in education process for the next wave of education initiatives. This cycle exist in lifetime of education initiatives.

Key Issue 7	**Regulators should involve financial literacy in rules and regulation of systematic initiatives.**

Minimum standards and requirements of holding an appropriate education program or course, procedure of obtaining license to hold education programs, requirements of competencies, the mutual cooperation trends between the regulator and conductor are all issues which should be stated clearly in rules and regulations of the regulatory body in order to enhance commitment and attention of all stakeholders in this respect. Clear and written requirements facilitate follow up of appropriateness and competencies of programs or courses by the regulator to avoid non-constructive or non-useful ones.

Key Issue 8	**Regulators should allocate budget and have stable sources of funding sufficient to implement financial literacy improvement initiatives.**

A budget is defined as a quantitative expression of plans for a determined period. Budgeting, when done properly, can serve as a planning and controlling system. It helps regulators to assess their expectations and their real performance. Indeed, the financial literacy budget should be allocated based on goals and objectives; therefore, accurate definition and determination of goals and their components are critical. Regulators, based on their goals and operational performance, should allocate sufficient budget for financial literacy programs funding. They should notice again that development roots in education (and subsequently literacy) and allocating sufficient budget for financial literacy improvement (internally and externally) might save other allocations regarding investors' protection.

INTERMEDIARY ISSUES

Key Issue 9	**Regulators should adopt a mechanism for financial literacy improvement which includes different target audiences.**

Financial knowledge, experience and behaviors vary widely across individuals, households and populations; therefore, programs will look very different depending on who the learners are. It is important to note that many of financial education programs target merely individuals in legal age (18 years old) to access financial services. Others are open to younger people. They have recognized that many young people and the society as a whole (and economy in large scope) will benefit from acquiring financial skills in their teens, if not sooner. They provide financial education for those people who will be informed adults who can decide mainly based on their knowledge and skills. Wise financial education providers or authorities segment target markets or groups to ensure that their programs reflect variances in financial education needs and priorities. Programs should take into account the learners' stage in life, as well as demographic and cultural differences between groups.

Financial literacy is a vital skill that everyone should work at throughout their lifetime. In school and at home, it is important for children to learn skills that will help them become financially responsible adults. Adults who continue to educate themselves throughout their lifetime help build a sound financial future for themselves and their families, and financially secure individuals and families help build a thriving economy. However, individuals are in different life stages. Needs of a teen are different from needs of an adult. Even, despite some similarities, needs of an elderly are different from needs of a young adult. Females' essentials vary males'. Some people accept more risk and some avoid it. Some individuals earn higher and some people cannot even save. Some people are educated and some are not. By looking at varieties, the importance of differentiation would be revealed. This variation among individuals' situations and characteristics shows the necessity of different education programs' existence for different target audiences. Indeed, effective financial programs focus on all people who access financial markets. Therefore, financial education program providers should provide programs which are comprehensive and include variety of individuals in different stages of life.

Different organizations target variety of audiences for their financial education and subsequently financial literacy initiatives (Lusardi, Annamari, 2011). They differentiate audiences based on demographic information, job and some other criteria. However, the Financial Literacy Task Force, based on its previous researches, recognizes three main categories as the basic form of differentiation in securities markets:

1- ***Current Investors (Active and Passive Investors):*** Those investors who possess and trade securities longer than one year. This group consists of both active and passive investors.
2- ***Newcomers (Actual Investors):*** Those investors who has recently started trading (buying and selling) in the market. Actually, it is defined as those investors who have lower than one year experience in the market.
3- ***Potential Investors (Future Investors):*** All people, generally, would be considered as investors. Some people are already in the market but those who have not invested (buy or sell) securities are potential investors.

The task force recommend regulatory bodies to instead of considering different groups with different characteristics, simply divide variety of audiences into these three main categories Particular target groups (like children, students, adult and …) can be considered as subcategories of them. Therefore, regulators should plan education programs or courses specifically for these determined (recommended) categories.

Key Issue 10	**Regulators should have distinguished delivery methods for particular target audiences.**

Most people did not receive financial literacy education in school. Thus, information they gained from family, friends and institutions while growing up may have laid the foundation for financial management practices and habits. Delivery methods consist of techniques, trends, materials and processes used to structure learning experiences and information transference as well.

Financial literacy improvement requires answering an essential question: "How education should be delivered?" Regulators should consider two approaches regarding delivery methods: 1- Self-directed approach and 2- Instructor directed approach. Self-directed approach allows learners to set their own pace for learning and often provides a variety of formats for obtaining materials. This approach allows individuals to access specific information that they might require. Self-directed approach is favored by those who like to learn by their own without any time framework.

In contrast to the self-directed approach, experts generally believe that educational programs are effective when they give participants the opportunity to interact in groups, learn from one another and apply information to their own lives. While self-directed learning offers trainees the opportunity to learn at their own leisure, instructor directed approach is considered effective because it offers trainees the opportunity to receive feedback and interact not only with a facilitator, but also with other students.

Beyond which approach is more appropriate, regulators are responsible to provide alternatives in both which enable investors to refer whatever they prefer. What should be noticed is that regulators should mainly focus on delivery methods which investors think are the most suitable not what they think is the best way. It can be achieved through field research in the market. An interesting example which worth mentioning in this occasion is the survey conducted by the Australia and New Zealand Banking Group (ANZ). Before implementing the survey, organizers assumed the most important source of information for investors with highest financial literacy is internet. But after the survey implementation, they found the most important and reliable source of information for them is newspapers or magazines (ANZ 2008). Therefore, regulators cannot sit behind their desks and decide which method should be focused. They must conduct field researches to understand what investors choose or refer most.

Key Issue 11	**Regulators should ensure that its staff receives adequate ongoing training (IOSCO principle 3, key issue 4).**

The capacity of the regulator is stemmed from capacity of its employees. In essence, financial literacy improvement is not only related to investors but employees, trainers and entrepreneurs are involved too. In-service training has always provided a regular education in organizations.

The first step toward financial literacy improvement is enhancing financial literacy level of stakeholders' employees (mainly the regulator). Thus, regulatory bodies should provide education programs in which employees are trained financially and more importantly, they are trained regarding financial literacy and their role in its improvement. When employees are justified and the regulator goals are explained and clarified, they will be able to devote themselves in the improvement path and role play as facilitators.

Key Issue 12	**Regulators should enhance train the trainer programs to ensure similar approaches and trends toward teaching methods.**

The true success of any educational program or course rests in the capability of its educators or trainers. Without competent trainers, education does not succeed in its most basic function. Indeed, the quality of an education program is in direct correlation with the engagement, enthusiasm, and professional development of trainers. Positive, energetic trainers create dynamic training opportunities by their very nature, and it is these opportunities that produce strong results of a student's performance. Consequently, no results can be achieved without a substantial investment in individual trainers to maximize their full potential. Nevertheless, the fact is that the vast majority of trainers have not internalized the principles of education methods. Specifically, the requirements for preparation, development, and understanding of the methodology of pedagogy and andragogy (which is more important in financial matters since adults are de facto investors) have been ignored.

Abraham Lincoln once said if he were given eight hours to cut down a tree, he would spend six hours sharpening his axe. Indeed, the axe of education is trainer. Therefore, in order to reach the optimum level of educational courses' effectiveness, trainers should be sharpened enough. Without finely sharped skills, even the most engaging trainers will fail to achieve the results they want. Surely, financial trainers are knowledgeable people who update themselves with rapid changes in financial world. Thus, when a trainer is assigned in a course, there may no concern about the materials of education. However, the main concern rests in the method or model of education that trainer chooses for training. It is evident that many trainers have not received any formal instruction or training as educators and consequently they are not familiar with training models. Majority are not aware about cognitive skills for understanding, different learning styles, and training techniques. Obviously, educating huge number of trainers in these issues will be time consuming and costly. However, it could be possible through Train the Trainer model of education. A train the trainer model enables experienced trainers to show less-experienced educators how to deliver courses, workshops and seminars. A train the trainer workshop can build a pool of competent instructors who can then teach the material to other people. Instructors learn to lead discussions, listen effectively, make accurate observations and help participants to link training to their jobs. They learn to maintain eye contact, maintain a positive attitude, speak in a clear voice, gesture appropriately, and maintain interest and dispel confusion. In the train the trainer model, a new instructor typically gets to watch an experienced instructor teach, complete the exercises himself and then practice teaching segments to other participants. High quality train the trainer programs equip trainers with the skills they need to become true educators and not simply lecturers. In addition of train the trainer model, regulators can simply recommend main teaching methods which lead trainers toward more sophisticated approaches.

Key Issue 13	**Regulators should ensure that entrepreneurs are among financial literacy target audiences.**

Entrepreneurs alike individuals are asked to make complex financial decisions in many areas particularly in financing their business. However, they often lack the financial literacy required for the complex financial decisions they face. These small business owners are engaged in intraday management of their own companies. While they face variety of difficulties, the main one is financing their working capital. Practically, even a financial illiterate one, entrepreneurs have understood that working capital can be financed through banking system by taking short term loans. However, they are not aware about other financial products or alternatives exist in financial markets. Particularly, due to its complexity, many entrepreneurs have not considered securities market as a source of funding yet. Many of them are not aware about how to list, contribution of venture capitals to their business, issuance of securities and advantages of the market for the business. Financial literacy, which consists of improving their knowledge and awareness, can contribute to their understanding and consequently, real sectors of the economy and financial markets will be blossomed as well. Entrepreneurs are neglected most in securities market since regulators main focus is on investors' education programs. Thus, regulators should provide opportunities in which entrepreneurs align with other investors are able to improve their financial literacy level and consequently their own business financing.

Key Issue 14	**Regulators should support education programs which promote investment not speculation.**

As the market regulators, one of our main responsibilities is investors' protection. Besides practical actions in this respect, regulators are responsible to warn investors (particularly retail investors) regarding aggressive actions. They should always promote intelligent approaches among investors which simply mean being patient, disciplined and eager to learn. Many investors do not bother learning whether a business is profitable or what goods or services a company produce, or who its management is, or even what the company's name is? All they need to know about securities is their symbols and historical prices. Like casino gambling or betting on the horses, speculating in the market can be exciting or even rewarding. An investor calculates what a stock is worth, based on the value of its businesses but a speculator gambles that a stock will go up in price because somebody else will pay even more for it. However, it is responsibility of regulators to always warn in this respect. To clarify the issue, imagine that two locations are 120 kilometers apart. If an individual observes the 60-kph speed limit, he/she can drive that distance in two hours. But if he/she drives 120-kph, he can get there in one hour. If he/she tries this and survives, is he/she "right"? Should you as police of the market promote it because you got that it "worked"?

It has become a saying in securities markets that individuals who invest make money for themselves but individuals who speculate make money for their brokers. Thus, there would be some financial institutions (mainly brokerages) that promote speculation in the form of education programs or courses. Regulators should monitors their programs and moreover, inform investors to avoid such actions.

Key Issue 15	**Regulators should provide a list of authorized education programs and disseminate it to public and update it periodically.**

Many investors are not aware where they can refer for education and which course or education program is authorized. Regulators should have available mechanism which introduces authorized programs and inform investors about where they can refer for education. Even regulators can grade organizers based on issues and effectiveness of programs. These grades can be obtained through feedback forms collected at the end of each program. In addition of authorized education programs, regulators should identify main education trends like education websites which can contribute to the financial literacy of investors and facilitate their way of learning.

Key Issue 16	Regulators should avoid initiatives which are considered as barriers for competition among education providers.

Regulators should be adhered to fairness criteria. Making monopoly, or giving specific license to a particular institution which privilege it form others, is not fair. All those who provide education programs to the public should be treated equally and those who are competent, similar opportunity should be given. This is right of investors to choose which program or course is appropriate for them. Regulators should be neutral and only trend investors toward authorized education providers in order to avoid mischievous actions and misleading education.

Key Issue 17	Regulators should adopt necessary procedures to oversight education programs or courses.

Controlling involves ensuring that performance of an organization does not deviate from standards and goals. It consists of three steps: 1- creating performance standards, 2- comparing actual performance against standards, and 3- taking corrective action when necessary. Regulators should provide standards of a good education program in order to harmonize education providers with the regulator's goals and objectives. In addition of harmonization, setting standards can facilitate evaluation process which is an important component in conducting financial education programs. Regulators can evaluate the performance of education providers by their deviation from standards. By comparing or evaluating actual performance against standards in respect of financial literacy, regulators can recognize deficits and when is needed, take corrective actions or delist deviated education providers from authorized ones.

Regulators should notice that planning and controlling are interrelated. Goals cannot be achieved properly without an appropriate controlling process. It would be frustrating if a regulator put a lot of time and energy on a project, only to realize that it has failed to meet its goals.

Key Issue 18	Regulators should react countercyclical in the market cycles.

This key issue is not about education but promotion and awareness. It has been observed that when the market is bullish, authorities mainly regulators promote the market as the best trend of investing and earning money and subsequently try to acquire more investors with hope of gaining more profit. In contrast, when the market is bearish, regulators might adopt silence policy (essentially the act of those regulators who take commission of trading conflict with promoting the market as a source of making profit). Since 2007- 2009 crisis, international standard setters for supervision and regulation of financial markets, like Basel Committee on Banking Supervision and IOSCO, have published reports about new approach of prudential regulation include countercyclical regulation (and supervision) in cycles of economy. Regulators should notice that in all aspects of their regulation, they should behave countercyclical. Therefore, in case of promotion and awareness, when the market is increasing, they should warn investors about how risky the market in such a situation is. In contrast, when the market is decreasing, they should take some initiatives to avoid panic in the market and try to buffer possible shocks by informing investors in this regard.

Key Issue 19	Regulators should warn and inform investors about outdated and misleading strategies or formulas.

Through decades, one speculative formula after another was promoted, popularized, and then thrown aside. All of them shared a few traits: This is quick! This is easy! And it won't hurt a bit! In 1996, an obscure money manager named James O'Shaughnessy published a book called "What Works on Wall Street". In it, he argued that "investors can do much better than the market." O'Shaughnessy made a stunning claim: From 1954 through 1994, investors could have turned \$10,000 into \$8,074,504, beating the market by more than 10-fold—18.2% average annual return. How? By buying a basket of 50 stocks with the highest one-year returns, five straight years of rising earnings, and share prices less than 1.5 times their corporate revenues. O'Shaughnessy obtained U.S. Patent No. 5,978,778 for his "automated strategies" and launched a group of four mutual funds based on his findings. By late 1999 the funds had sucked in more than \$175 million from the public—and, in his annual letter to shareholders, O'Shaughnessy stated grandly: "As always, I hope that together, we can reach our long-term goals by staying the course and sticking with our time tested investment strategies."

But "what works on Wall Street" stopped working right after O'Shaughnessy publicized it. Two of his funds stank so badly that they shut down in early 2000, and the overall stock market (as measured by the S&P 500 index) walloped every O'Shaughnessy fund almost nonstop for nearly four years running (Zweig, 2003).

Indeed, these formulas are not categorized as fraud or mischievous actions but the task force assumes what is needed in a healthy securities market is a sound intellectual framework for making decisions and the ability to keep emotions from corroding that framework. Therefore, the task force recommends regulators to take actions in this respect (albeit investors are free and autonomous to choose among different alternatives).

Key Issue 20	**Regulators should inform investors about behavioral traps initially behavioral biases.**

Conventional and modern financial theories, assume that people are, for the most part, rational decision makers and they are predictable. The rationality assumption is mainly applied in the Efficient Markets Theory (EMH) and the Capital Asset Pricing Model (CAPM). In addition, however, there are different occasions and many instances where emotion and psychology influence investors' decisions, causing them to behave in unpredictable or irrational ways. The irrationality of investors showed that theories are subjective and emerged a new concept of *Behavioral Finance* to explain what modern finance had failed. Behavioral finance studies why individuals do not always make the decisions they are expected to make and why markets do not reliably behave as they are expected to behave.

Indeed, it is unlikely to find a 'cure' for the biases or irrationalities, but if investors will be aware of the biases and their effects, they can possibly avoid the major pitfalls. Behavioral finance holds out the prospect of a better understanding of financial market behavior and scope for investors to make better investment decisions based on an understanding of the potential pitfalls. Therefore, besides different issues which regulators consider their promotion and awareness, behavioral biases should be underscored too. The IOSCO introduces key biases would affect investors behavior and irrationality in decision making. Table 1 categorizes these biases.

Table 1- key behavioral biases

KEY BEHAVIOURAL RESPONSES IN FINANCIAL DECISION-MAKING	
Anchoring and adjustment	an initial value or starting point influences the final decision. The anchoring effect decreases but does not vanish with higher cognitive ability.
Choice preference	too many options inhibit or overwhelm selection decision-making
Confirmation bias	people use data selectively to agree or confirm their existing views. Investors with a stronger confirmation bias also exhibit greater overconfidence.
Conflict disclosure	disclosing a conflict of interest may make it more likely that the conflict will actually occur as it increases levels of trust
Inertia	the default option becomes the de facto selection even if it is not the optimal choice
Loss aversion	people more strongly prefer to avoid small losses than acquire larger gains. Loss aversion is not invoked when spending money that is within an intended budget for purchases, but only when operating outside the intended budget. Loss aversion can actually be a motivation to invest to the extent that when people perceive a loss, they become risk-seeking as opposed to risk averse. When assessing a situation from the perspective of a potential loss, "loss framing" will occur. An investor on a losing streak, for example, may well decide that greater risk is necessary to achieve their target. See also "framing effect" in Other biases and effects related to financial decision-making.
Myopic loss aversion	combination of loss aversion and a tendency to evaluate outcomes frequently. This leads investors to be more willing to invest a greater proportion of their portfolio in risky assets if they evaluate their investments less frequently
Overconfidence	people tend to trade frequently and hurt their own investment performance. Investors are more likely to be overconfident when they are less experienced as they learn about their true ability through experience. Investors with biased information-processing behavior in virtual communities are likely to trade more actively and realize worse performance due to their overconfidence. Overconfident investors, who show a better than average bias, trade more frequently.
Temporal framing	people too heavily discount future benefits in lieu of present consumption

Ambiguity aversion	the desire to avoid unclear circumstances, even when this will not increase the expected utility
Availability heuristic	people judge the frequency or probability of some events on the basis of how easily examples or instances can be recalled or remembered
Disposition effect	the propensity of an investor to sell winners too early and hold losers too long
Endowment effect	people demand a higher price to sell something they own than they are willing to pay for acquiring it. This effect may occur for goods whose possession is merely desired. The effect is reduced if a negative mood is induced before the good is acquired.
Framing effect	a decision is influenced by the phrasing or frame in which the problem is presented
Fund-level inattention	the propensity to trade mutual funds around macroeconomic news events
Herding	a phenomenon where many people take the same action.61 Information concerning the number of previous transactions in the market is particularly relevant to explain herding propensity among investors.
Illusion of control	the expectancy of personal success is inappropriately higher than the objective probability would warrant
Inattention to earnings news	degree to which an investor does not trade a particular individual stock around earnings news
Inattention to macroeconomic news	degree to which an investor does not trade any individual stocks around macroeconomic news events
January effect	the tendency for excess share returns in the first few days of January
Local bias	the propensity to select funds or stocks with headquarters close to the investor's geographical location
Lottery stock preference	the propensity to select stocks with lottery-like features (low price, volatile returns and skewed returns)
Narrow framing	the propensity to select investments individually, instead of considering the broad impact on the portfolio
Present bias	the inordinate weight people place on costs and benefits that are immediate.

Regret	a human emotion that can influence decisions
Representativeness	evaluation of the degree of correspondence between a sample and a population, an instance and a category, or more generally, an outcome and a model
Risk aversion	when individuals have the same level of financial education, there is no gender difference in the level of risk aversion
Small-firms effect –	the shares of smaller firms have outperformed those of larger firms over a period of several decades.
Weekend effect	there appear to be abnormal returns on Fridays and relative falls on Mondays.

Source: IOSCO consultation report, "Strategic Framework for Investor Education and Financial Literacy".

Key Issue 21	**Regulators should allocate enough time for investors to get known new instruments or entities in the market before they will be lunched.**

In order to allow investors and even entrepreneurs to make informed decisions, regulators should provide information and education materials regarding new instruments or entities. Without understanding different aspects of an instrument, investment or financing would be blind. Investors should be ripped and have enough knowledge about their investing. Through this way, they know how to invest, understand risk and reward of the investment, get familiar with pillars and structure of an instrument or an entity, and finally accept the responsibility of their decision.

In contrast, entrepreneurs and company owners can understand features of an instrument and how they can finance through it (even in case of an entity, they get familiar with services it can offer and its contribution to their business). This rest period which happens after designation, helps proper maturity of an instrument or an entity.

SPECIFIC ISSUES

Key Issue 22	**Regulators should provide appropriate trends for disclosure and should lead investors toward disclosure resources or databases.**

As an investor protection initiative, regulators should provide necessary facilities and systems which companies will be able to disclose their information. Through these facilities, regulators should enforce timely and accurate dissemination of information and disclosure of significant events or accidents by companies which contribute to investors' awareness. These trends should be promoted by regulators and other stakeholders and methods of their application should be provided for investors. Investors should know where to refer to attain authorized information which can be applied in their decisions.

Key Issue 23	**Regulators should provide accurate, timely and relevant information for investors which enable them to make informed decisions.**

It is about consideration of both financial and non-financial disclosures that are material to investors' decisions. These disclosures may pertain to specified transactions, periodic reports and ongoing disclosure of and reporting of material developments. The disclosure of current and reliable information necessary to make informed investment decisions is directly related to investor protection and to fair, efficient and transparent markets

Regulators should aim to ensure that the public has access to relevant information concerning the licensee or authorized intermediary; such as, the identity of senior management and those authorized to act in the name of the intermediary; the category of license held; its current status and the scope of authorized activities. What should be noticed is that, regulators should prevent bombarding investors with too much information. There should be a filtering mechanism which provides merely useful, accurate, relevant and up to date information. The study required by Section 917 of the Dodd-Frank Wall Street Reform and Consumer Protection Act and published by Securities and Exchange Commission (SEC) of the United States in 2012 indicated that:

- Generally, retail investors prefer to receive disclosures before making a decision on whether to engage a financial intermediary or purchase an investment product or service.
- With respect to financial intermediaries, investors consider information about fees, disciplinary history, investment strategy, conflicts of interest to be absolutely essential.
- ***With respect to investment product disclosures, investors favor summary documents containing key information about the investment product.***
- Investor preferences are mixed with respect to the method of delivery. Some investors prefer to receive certain documents in hard-copy, while others favor online disclosure.

- With respect to the format of disclosure documents, investors prefer that disclosures be written in clear, concise, understandable language, using bullet points, tables, charts, and/or graphs.

- Investors favor "layered" disclosure and, wherever possible, the use of a summary document containing key information about an investment product or service[2].

Retail investors find the following information to be useful and relevant before engaging a financial intermediary:

- Fees/expenses/compensation;
- Investment performance/track record;
- Investment strategy;
- Disciplinary history;
- The identity of the firm and the scope of services offered; and
- Sources and amount of compensation to the financial intermediary.

Retail investors find the following information to be useful and relevant before purchasing an investment product:

- Fees/expenses;
- Investment performance;
- Principal risks; and
- Investment objective (SEC, 2012).

These all issues can be useful not only for the US but for all regulators.

Key Issue 24	**Regulators should provide necessary information regarding fees, commission and conflict of interest in the market.**

Transparency is generally regarded as playing a central role in promoting the fairness and the efficiency of markets. Availability of information is a central factor in strengthening investors' confidence. This confidence should, in turn, increase the incentive to participate in the market. It

[2] Layered disclosure is an "approach to disclosure in which key information is sent or given to the investor and more detailed information is provided online and, upon request, is sent in paper or by e-mail."

can be concluded that transparency helps more appropriate decision making of investors. IOSCO has published variety of reports in this respect but the financial literacy taskforce restricted issues to two most important components of transparency: 1- transparency of expenses and 2- transparency of conflicts of interest. Regulators should notice that fees, commissions and taxes can affect investors' decisions. Thus, this information should be disclosed clearly in a separate section of regulators websites. Moreover, terms and conditions of conflicts of interest in the market and its instances should be declared for awareness of investors and other stakeholders. The Securities and Exchange Commission (SEC) of the US specifies methods to increase transparency regarding expenses and conflicts of interest. These are investors' responses in a survey required by the Dodd-Frank Wall Street Reform and Consumer Protection Act.

"Methods to Increase the transparency of expenses in transactions involving investment services or products include the following:

- Provide both a narrative explanation of fees and compensation and a fee table;
- Present the fee and compensation information in table format only, in table format with examples, in a bulleted format with examples, or in bulleted format only;
- Simplify the wording of the expense disclosure and make the expense disclosure briefer and less detailed;
- For trade confirmations, disclose the composition of a financial intermediary's total compensation, including types of compensation; and
- For a potential point-of-sale disclosure, explain how the financial intermediary is paid in connection with the client's account.

Methods to increase the transparency of conflicts of interest in transactions involving investment services or products include the following:

- Provide specific examples that demonstrate how a potential conflict of interest would operate in relation to the specific advice furnished to the client;
- Present the conflicts of interest disclosure in a bulleted format or in a summary table format;

- Make the conflicts of interest disclosure more specific, even if it results in a lengthier disclosure document;

- Make the conflicts of interest disclosure brief and more general, with more specific information available upon request;

- Disclose whether a financial intermediary (the individual representative) stands to profit if a client invests in certain types of products; whether the financial intermediary would earn more for selling certain specific products instead of other comparable products; and whether the financial intermediary might benefit from selling financial products issued by an affiliated company. (SEC, 2015)"

Key Issue 25	**Regulators should have a mechanism to explain the reasons of decisions that would have significant effects on decision making of investors**

Protection is the result of mutual trust between investors and regulators. Regulators should not behave in a manner that investors perceive them as an intervening body in the market. If they do so, investors' trust might be lost. One aspect of mutual trust is hiding what affect investors' decisions. Regulators should provide a mechanism which discloses their obtained decisions. This information is not categorized as inside information but significant ones that affect investors' decisions. Therefore, regulators should adhere providing accurate, adequate, timely and relevant information to investors. Decisions like the result of a complaint, resolution of an issue, regulatory changes, issuance of a new security and etc. are among them.

Key Issue 26	**The regulator should have a mechanism to warn investors regarding fraud or misleading behavior in the market.**

Fraud or violations robs investors of their earnings. It undermines investors' confidence and creates fear and mistrust. Examples of securities fraud or securities violations include:

- Scam investments or Ponzi schemes
- Accounting fraud
- Stealing customers' funds or securities
- Selling unregistered securities
- Insider trading (trading on non-public information about a security or investment)

- Misrepresenting or omitting important information about securities or investments
- Manipulating the market price of securities

In order to prevent such actions and protect investors and to provide equal opportunity for all investors to make decision in a fair atmosphere, regulators should provide education programs regarding fraud and violations in the market for investors letting them know their terms and conditions. In addition, regulators should establish a whistleblower mechanism to warn regulators and subsequently investors about related cases.

Key Issue 27	**Regulators should provide processes that allows investors to practice what they want to invest in.**

Making processes that enable investors to practice what they have learnt might help them to improve their skills for proper decision making. These processes give investors opportunity to feel real world without losing their money. Games, simulators and mentoring can be considered as tools for practice. There are different games, virtual reality systems in which real time stock exchange information are available for virtual investment and using mentors for investment are among tools that can be applied by investors. Regulators should consider realization of knowledge and understanding into practice as important components of financial literacy improvement. Thus, regulators should provide programs that enable investors practicing their knowledge and understanding in a virtual world.

FINAL ISSUE

Key Issue 28	**Regulators should assess and plan financial literacy periodically.**

How regulators can understand effectiveness of their initiatives? What obvious is that majority of countries where have started financial literacy initiatives, assess financial literacy by conducting field researches periodically. They set goals and objectives (mainly through their strategic planning) and monitor achievement of these goals within 3 to 5 years. However, the first step for planning financial literacy is getting where we are (the present situation). Based on the researches in global scene, financial literacy level of investors and customers is low. Therefore, regulatory bodies, that have a central role in financial literacy improvement, should assess financial literacy level of investors and based on its result plan for future.

CONCLUSION AND SUGGESTIONS

It is around three years the Financial Literacy Taskforce has started working in this context. Through studies and researches, gradually, the importance of financial literacy in securities markets has been reveled for the taskforce. However, its importance despite frequent reports and emphasizes has not been recognized by member countries yet. Our researches (albeit they were in narrow scope) indicated that financial literacy level of even active investors is low (think about other investors). Unfortunately, despite some initiatives conducted by authorities, regulators have not provided sufficient resources and facilities to compensate these deficiencies.

Now, the concept is clear and field works have been completed. That depends on members to determine their portion of contribution to financial literacy improvement. As the chair and co-chair of the Financial Literacy Taskforce, below suggestions are provided to COMCEC Capital Market Regulators Forum to facilitate financial literacy improvement in member countries:

1- ***Establishment of Financial Literacy Improvement Committee in COMCEC CMR Forum or COMCEC related entities***: like what IOSCO has initiated, COMCEC CMR Forum should establish a committee includes variety of member countries and even the market stakeholders like SROs (stock exchanges) to decide further actions regarding financial literacy improvement initiatives. This committee can be established under supervision of other entities related to the COMCEC like SESRIC or anyone else.

2- ***Collaboration With International Organizations In Financial Literacy Context***: there are some well-known international organizations that COMCEC CMR Forum can make a bridge for cooperation. The International Forum for Investor Education (IFIE) and the International Gateway (Network) for Financial Education (INFE) are among these organizations that the COMCEC CMR Forum can have cooperation with and participate in their researches and benefit from their facilities.

3- ***COMCEC Financial Cooperation Working Group***: in general essence, financial literacy is useful for all stakeholders in financial markets. It has always been asserted by financial experts in Islamic countries that retardation of many customers and investors is due to lack of financial literacy. Meanwhile, COMCEC financial cooperation working group, which has broader connections with Islamic countries, can contribute to the issue. The taskforce recommends the COMCEC financial cooperation working group to specify a meeting to financial literacy and invite members to participate to discuss financial literacy related issues for better understanding and more integration initiatives which can increase financial literacy level. The taskforce is ready to present findings and share issues with those interested and discuss further initiatives can be taken place.

The taskforce hopes these three years initiatives and its suggestions contribute effectively to the improvement and promotion of financial literacy in capital market of COMCEC CMR Forum member authorities.

Resources:

1- The Australia and New Zealand Banking Group (ANZ), 2008, ANZ Survey of Adult Financial Literacy in Australia, the Social Research Research Center.

2- OICV-IOSCO, 2014, Strategic Framework for Investor Education and Financial Literacy, www.iosco.org.

3- Feinstei, Ashley, 2014, Why You Should Be Writing Down Your Goals, Forbes Magazine.

4- Lusardi, Annamaria; Mitchell, Olivia S., 2011, Financial Literacy around the World: An Overview, National Bureau of Economic Research.

5- Graham, Benjamin; revised by Zweig, Jason, 2003, THE INTELLIGENT INVESTOR, PerfectBound™.

6- Securities and Exchange Commission (SEC), 2012, Study Regarding Financial Literacy Among Investors, Required by Section 917 of the Dodd-Frank Wall Street Reform and Consumer Protection Act.

7- The World Bank, 2013, Financial Education Programs and Strategies Approaches and Available Resources, Responsible Finance.

8- Grifoni, Andrea and Messy, Flore Anne. 2012. "Current Status of National Strategies for Financial Education: A Comparative Analysis and Relevant Practices." OECD Working Papers on Finance, Insurance and Private Pensions, No. 16, OECD Publishing.

9- OECD (2013), PISA 2012 Assessment and Analytical Framework: Mathematics, Reading, Science, Problem Solving and Financial Literacy, OECD Publishing.

10- IOSCO, 2012, Education and Training Team, supra note 5.