



# 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

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# The Outline

- The task force previous initiatives;
- Definition of Financial Literacy
- Conceptual model of financial literacy (map of FL);
- IOSCO and the role of regulators in financial education;
- Key issues in financial literacy improvement;
- Conclusion & Suggestions.

# Mandates of the Task Force

- Determining Current State of Status for Financial Literacy of COMCEC Member States;
- Possible Co-operation Proposals
- Strategies and Policy Recommendations for Enhancing Financial Literacy of COMCEC Member States

# What the Task Force Has Done

- 2012-2013: Enhancing Financial Literacy in Capital Market;
- 2013-2014: Financial Literacy Orientation (Assessment of financial literacy level among retail active investors);
- 2014-2015: Key Issues for Financial Literacy Improvement in Securities Markets (Policies Regarding Financial Literacy Improvement).

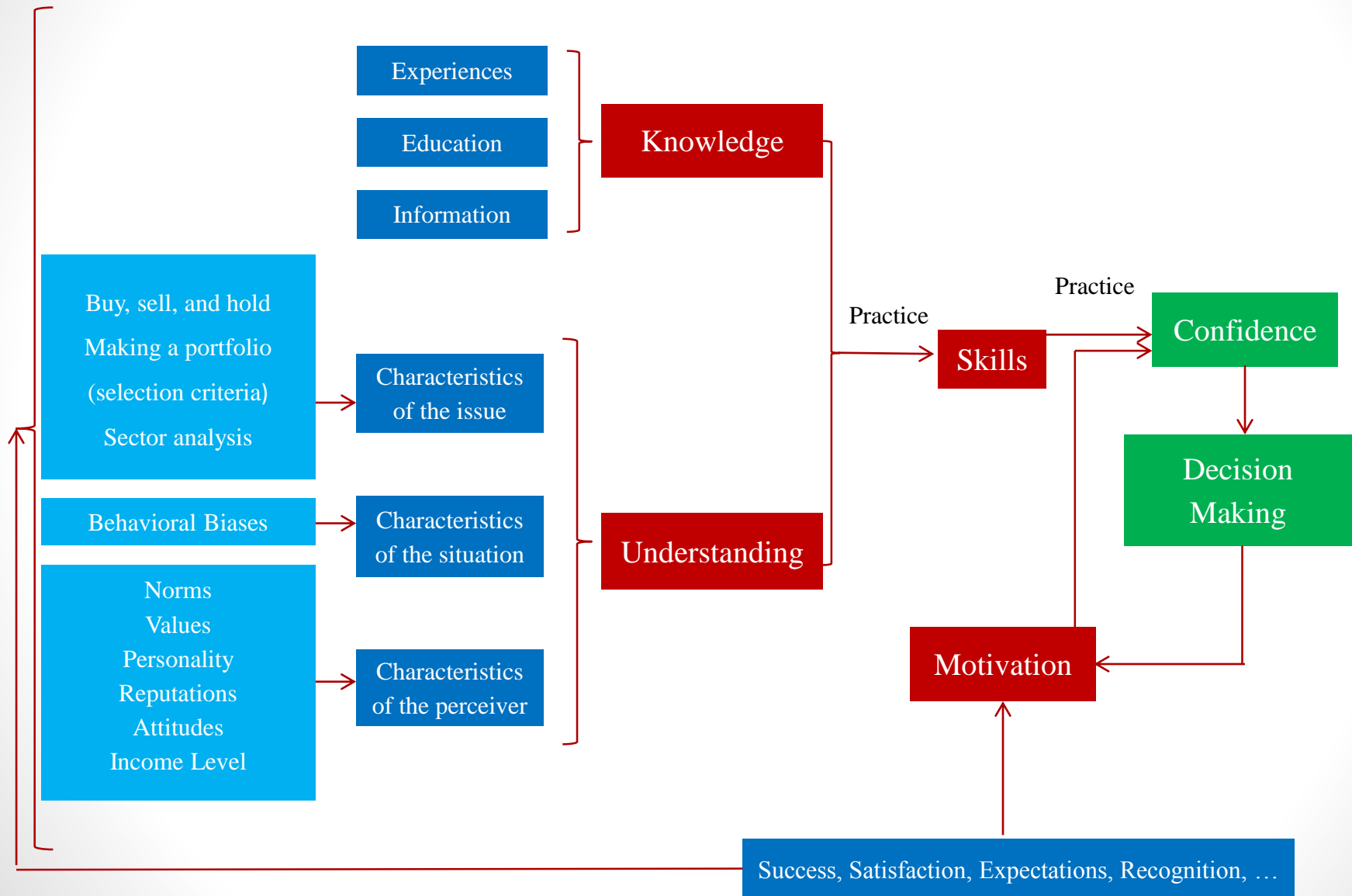
# Definitions of Financial Literacy

- **OECD:** “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”
- **IOSCO:** “understanding ordinary investors have of market principles, instruments, organizations and regulations”

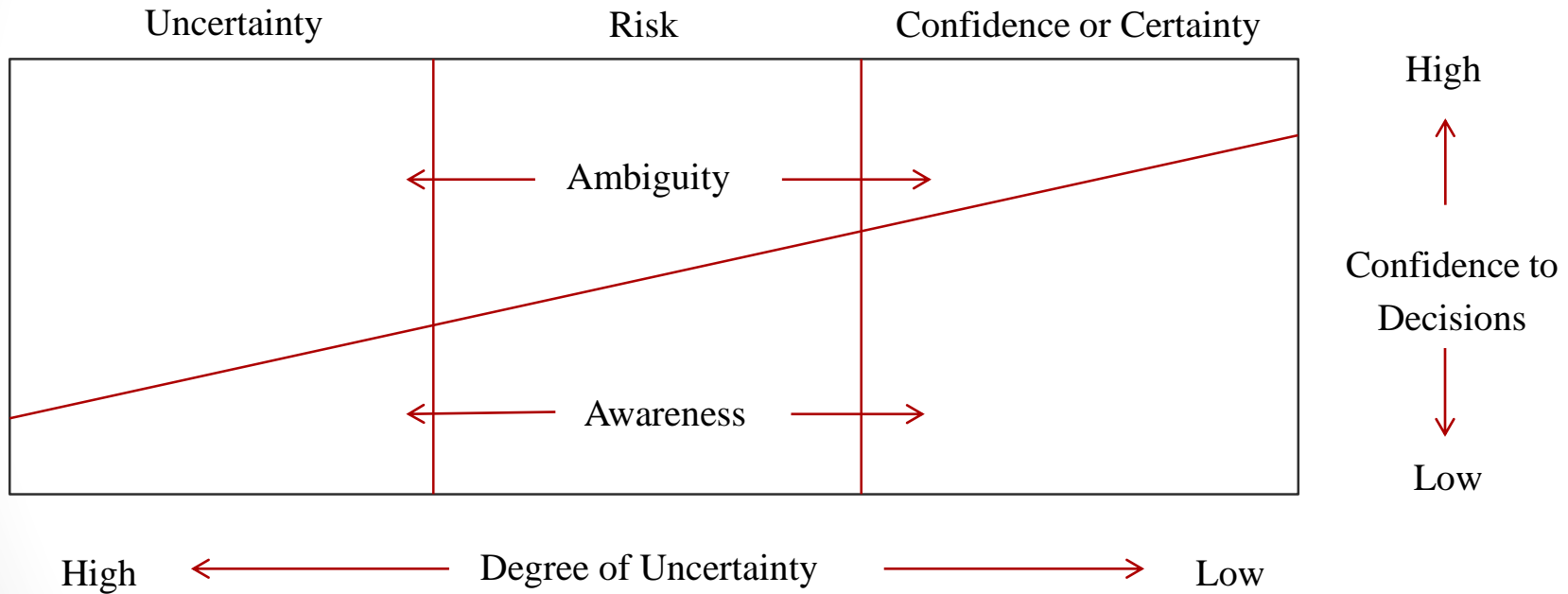
# Financial Literacy Definition in Securities Market: The TF Definition

- the financial literacy taskforce has made a mixed definition (with some changes) which is based on combination of OECD and IOSCO definitions.
- Mixed Definition of Financial Literacy:  
“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 effective decisions.”

# Decomposition of Financial Literacy: A Conceptual Model



# Atmosphere of Decision Making in securities Market





# Regulators Role in Financial Literacy Improvement

- 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.

- **principle 4, key issue 5** of IOSCO principles:

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

# Why Regulators are Central in Financial Literacy Related Initiatives?

IOSCO publication: strategic framework for Investor Education/Financial Literacy

- Independent and unbiased;
- Access to expertise and data;
- Unique insights into workings of the markets;
- Direct impact through regulatory action;
- Well positioned to take on a leadership role;

# The structure of key issues

- General Issues;
- Education Based Issues;
- Information based issues;
- Understanding Based Issues;
- Skill Based Issues;

# GENERAL ISSUES

# Key Issues: General

Key Issue 1	Regulators should play an active role in the education of investors and other market participants.
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IOSCO recognizes education and subsequently financial literacy as protection and since the main task of regulators is investors' protection, the organization emphasizes on the role of regulators in this respect.

# Key Issues: General Issues

## Key Issue 2

Regulators should adopt an approach to acquire participation of other practitioners in securities market.

- different stakeholders in securities market
- self-regulatory organizations (mainly stock exchanges), financial institutions and companies also benefit from financial literacy improvement.
- Financial literacy initiatives are shared works;
- Regulator's role is *Harmonization*

# Key Issues: General Issues

Key Issue 3	Regulators should allocate budget and have stable sources of funding sufficient to implement financial literacy improvement initiatives.
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- budget is defined as a quantitative expression of plans for a determined period;
- budgeting can serve as a planning and controlling system;
- Performance assessment.

# Key Issues: General Issues

## Key Issue 4

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;
- mutual cooperation trends.



# Key Issues: General Issues

## Key Issue 5

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

- Setting goals is a fundamental component to long-term success;
- treat like signs in the path of improvement;
- Goals should have some traits (Feasible, Measurable, accessible, tied together, flexible, long and short time, written...).

# Key Issues: General Issues

## Key Issue 6

Regulators should have motivation mechanism to incentivize and obtain cooperation of other stakeholders.

- incentives will align other stakeholders with goals of regulators;
- Allow others participate in planning and decision making;
- Investors are the first stakeholders that should be motivated;

# Key Issues: General Issues

## Key Issue 7

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

- Education providers should be treated equally and those who are competent, similar opportunity should be given.

# Key Issues: General Issues

## Key Issue 8

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

- 1- creating performance standards;
  - 2- comparing actual performance against standards; and
  - 3- taking corrective action when necessary.
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- planning and controlling are interrelated.

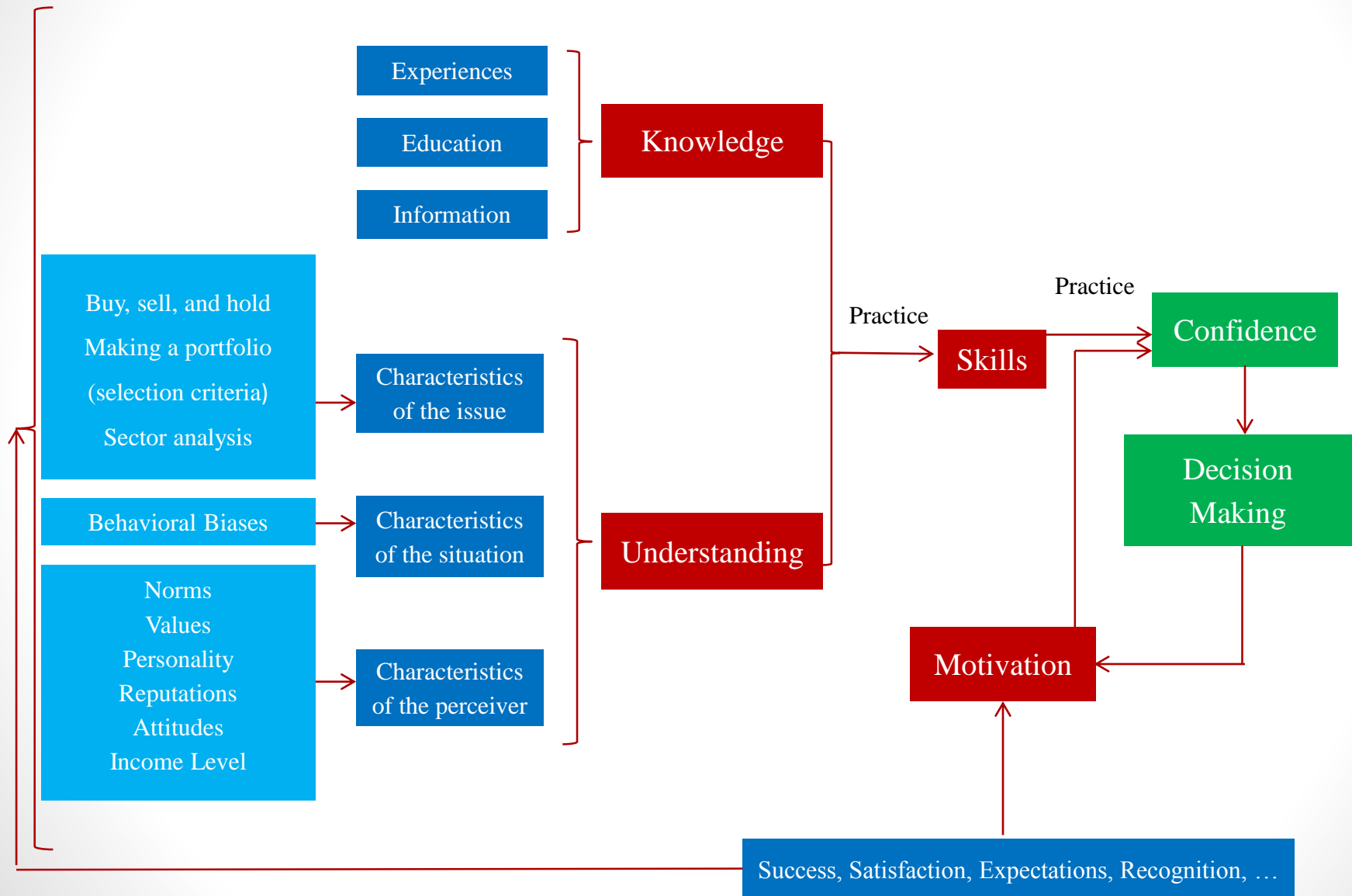
# Key Issues: General Issues

Key Issue 9	Regulators should assess and plan financial literacy periodically.
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- set goals and objectives and then monitor achievement of these goals within 3 to 5 years;
- Firstly, get known where you are.

# EDUCATION BASED ISSUES

# Decomposition of Financial Literacy: A Conceptual Model



# Key Issues: Education Based Issues

## Key Issue 10

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

- Investors should get a snapshot of their level and understand their need points;
- What FINRA has done (5 questions was asked in all states and provide opportunity for comparison);



# Key Issues: Education Based Issues

## Key Issue 11

Regulators should adopt a mechanism for financial literacy improvement which includes different target audiences.

- Different investors have different needs;
- 1- Current Investors (Active and Passive Investors);
- 2- Newcomers (Actual Investors);
- 3- Potential Investors (Future Investors).

# Key Issues: Education based Issues

## Key Issue 12

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.;
- Let your staffs know your goals in financial literacy improvement.

# Key Issues: Education Based Issues

Key Issue 13	Regulators should ensure that entrepreneurs are among financial literacy target audiences.
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- Entrepreneurs alike individuals are asked to make complex financial decisions in many areas particularly in financing their business;
- Growth of capital market rooted in growth of businesses.

# Key Issues: Education Based

**Key Issue 14** | Regulators should have distinguished delivery methods for particular target audiences.

- Delivery methods consist of techniques, trends, materials and processes used to structure learning experiences and information;
- How education should be delivered?
  - 1- Self-directed approach;
  - 2- Instructor directed approach;
- The different approaches should be adapt based on field studies: case of Australia and New Zealand Banking Group

# Key Issues: Education Based Issues

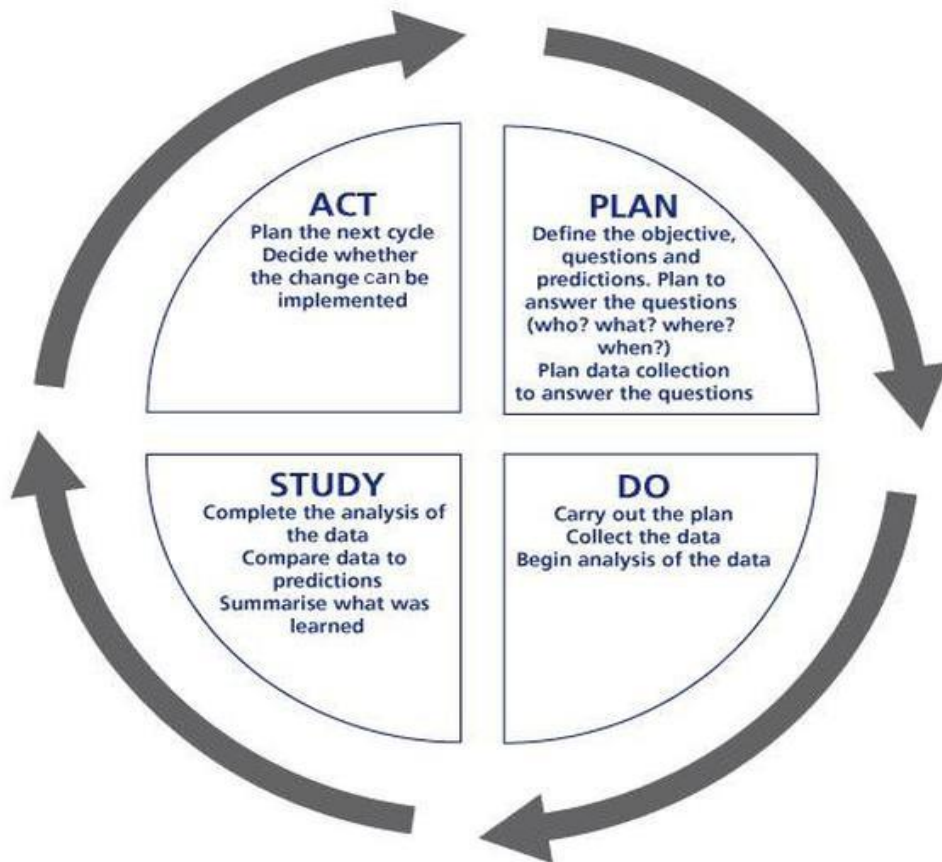
Key Issue 15	Regulators should enhance train the trainer programs to ensure similar approaches and trends toward teaching methods.
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- The true success of any educational program or course rests in the capability of its educators or trainers;
- A train the trainer model enables experienced trainers to show less-experienced educators how to deliver courses, workshops and seminars

# Key Issues: Education Based Issues

## Key Issue 16

Regulators should consider financial literacy improvement process as a continuous task.



- There is no end for education and learning;

# INFORMATION BASED ISSUES

# Key Issues: Information based Issues

**Key Issue 17**

**Regulators should react countercyclical in the market cycles.**

**When market is bullish**

warn investors about speculation;

**When market is bearish**

encourage investors for correct decision making and accurate valuation



# Key Issues: Information Based Issues

## Key Issue 18

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

- When a successful and secret formula is publicized, relying on that investment strategy won't work in future.

# Key Issues: information Based Issues

Key Issue 19	Regulators should provide appropriate trends for disclosure and should lead investors toward disclosure resources or databases.
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- As an investor protection initiative, regulators should provide necessary facilities and systems which companies will be able to disclose their information;
- Investors should know where to refer to attain authorized information which can be applied in their decisions.

# Key Issues: Information based Issues

Key Issue 20	Regulators should provide accurate, timely and relevant information for investors which enable them to make informed decisions.
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Key Issue 21	Regulators should provide necessary information regarding fees, commission and conflict of interest in the market.
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- What should be noticed is that, regulators should prevent bombarding investors with too much information;
- Only useful, accurate, relevant and up to date information is necessary.

# Key Issues: Information Based Issues

Key Issue 22	Regulators should provide a list of authorized education programs and disseminate it to public and update it periodically.
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- Regulators should have available mechanism which introduces authorized programs and inform investors about where they can refer for education;
- Assessment of courses should be conducted by regulators.

# UNDERSTANDING BASED ISSUES

# Key Issues: understanding based Issues

Key Issue 23	Regulators should allocate enough time for investors to get known new instruments or entities in the market before they will be launched.
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- Prior to launching a new instrument, facility, services and etc. regulators should allocate enough time for its recognition.

# Key Issues: Understanding Issues

## Key Issue 24

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

- Regulators should not behave in a manner that investors perceive them as an intervening body in the market;
- Transparency starts from regulators.

# Key Issues: understanding based Issues

## Key Issue 25

Regulators should support education programs which promote investment not speculation.

- regulators are responsible to warn investors (particularly retail investors) regarding aggressive actions;
- 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.



# Key Issues: Understanding Based Issues

## Key Issue 26

Regulators should inform investors about behavioral traps initially behavioral biases.

- The important role of behavioral finance;
- Different biases are introduced by IOSCO;
- Regulators should promote awareness of investors in this respect.

# Key Issues: Understanding Based Issues

Key Issue 27 | Regulators should have a mechanism to warn investors regarding fraud or misleading behavior in the market.

- 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

# SKILL BASED ISSUE

# Key Issues: Skill Based Issue

## Key Issue 28

Regulators should provide processes that allows investors to practice what they want to invest in.

- As it was explained in the definition of financial literacy, practice plays an important role in decision making of investors;
- There should be methods allow investors to practice their skills with no risk.

# Suggestions:

- Establishment of Financial Literacy Improvement Committee in COMCEC CMR Forum or COMCEC related entities (like Financial Cooperation Working group or in SESRIC);
- Specification of the issue by COMCEC Financial Cooperation Working Group meeting;
- Collaboration With International Organizations In Financial Literacy Context(such as: International Forum for Investor Education (IFIE) or International Gateway (Network) for Financial Education (INFE) ;

THANKS FOR  
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