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## **STRATEGIC FRAMEWORK FOR INVESTOR EDUCATION AND FINANCIAL LITERACY**

The Association Française de la Gestion financière (AFG)<sup>1</sup> is grateful to have the opportunity to answer the consultation report issued by IOSCO on the topic of financial literacy. We totally support the idea that it is of paramount importance for investors' protection that they can achieve a proper analysis and reach informed decisions when investing. In that respect the general level of knowledge in finance in general and investment solutions more specifically has to be enhanced. AFG takes direct action to participate to this gigantic effort to promote clear understanding of funds and mandates managed by its member firms.

We take the opportunity of this consultation to share some views that experience has taught, to comment on the proposed ideas and to suggest some further developments. These will be

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<sup>1</sup> The Association Française de la Gestion financière (AFG) is the professional body representing the asset management industry: over 610 asset management companies are based in France. AFG members manage assets with over 3,000 billion euros : 1500 billion Euros in the form of investment funds and 1500 billion euros in the form of discretionary mandates and funds domiciled abroad , making the Paris fund industry a leader in Europe for the financial management of collective investments. AFG main targets are : represent and promote the interests of asset management industry, inform, help and train its members; establish rules of conduct for the profession. AFG has a key role at European and international levels . It participates actively in the works and consultations of European institutions and industry bodies such as the European Fund and Asset Management Association (EFAMA) and Pensions Europe. AFG is also an active member of the International Investment Funds Association (IIFA).

presented with reference to the main chapters of the consultation report, even if they may sometimes have a more transverse impact.

## 1. Introduction:

If we totally share the evidence for the urgent need to develop Investor Education and Financial Literacy (IE and FL), we have **a different view on the fact that “investment products are becoming increasingly complex”**. The asset management industry is devoted to making life easier for the individual investor through products such as UCITS that enable investors to access relatively complex instruments in a safe and strictly regulated framework. Some of the underlying instruments we use, such as securitized ABS or OTC derivatives might be mysterious to the investor but are embedded within the assets a fund that follows a clear investment strategy allowing for a limited level of risk that the investor must understand and agree upon. The objective is not to make the investor master each of the instruments in the fund before investing, exactly as a driver has not to be an expert in mechanics before running the engine of his car. It is large enough an objective to aim at a proper understanding by the investor of the collective fund his advisor recommends.

## 2. Background:

We like the clarification that IOSCO brings on the difference of FL which is a broader concept and IE that relates to the basics needed when taking day to day investment decisions. However, we underline the fact that IE is not expected to be the same when accessing the securities market **directly or through a collective investment scheme** professionally managed. We would like IOSCO to focus on the need to **develop savings for retirement and old age needs** and to stress that it is the major area where efforts should be made in terms of IE. Against this background, AFG is fully committed to enhance/promote IE to help all population categories choose the right savings products and better understand the economics of the asset management industry and the purpose of long term saving. AFG has supplied information on a range of issues, particularly employee savings schemes .

The question raised in paragraphs C and D about the equilibrium between regulation and IE and FL is most interesting. There are two possible ways towards investor protection and as a consequence investor education: the liberal attitude concludes that every individual should care for himself and hence make the necessary efforts to either gain personal knowledge of financial products or choose a seasoned advisor to help him reach proper decisions; the opposite school of thoughts considers that the investor is a feeble creature that has to be protected any way, even when he knows exactly what he wants to do, simply because the mis-use of financial product may cause his ruin. In the first stream of thoughts the focus of regulation will certainly be placed on information, transparency and education; in the second, the stress will be put on authorized/forbidden operations, regulation of all actors and especially those in contact with the end client and education will concern more directly intermediaries and advisors. At the end of the day this latter route leads to a stronger responsibility for regulators which implicitly guarantee that authorized products are safe and can only be properly sold. We think that **regulators have to choose one option or the other and should not add on regulations that do not better protect the end investor** as they lack clear internal logic before taking initiatives in matter of education.

We would like to introduce in §C that the ideal of IE and FL is to bring the investor to such a level of knowledge and understanding that he will be in a position to **entrust his advisor**

**with total confidence.** Confidence is the key concept for financial stability and a smooth functioning of financial markets as well as the economy at large. It has to be the key objective of IE and FL: being able to place one's confidence on somebody worthwhile.

### **3. Role of IOSCO in investor education and financial literacy (IE and FL) :**

AFG agrees that the position of IOSCO is unique and particularly good for leading international efforts on IE and FL. Our personal experience as a professional association very active in education programs is that the need for independent and unbiased approach is key to success as is the need to limit commercial greed of educators. Hence, public or private-not-for-profit organizations are better placed in that field. For instance, AMF, the French regulator also worked with the national consumer association, INC (<http://www.conso.net>) on a series of TV programmes broadcast in late 2013 to help retail investors acquire the right reflexes before purchasing or putting money in a financial product.

### **4. Global focus on IE and FL :**

We consider as very useful that IOSCO liaise with existing initiatives in matter of financial education and recommend that specificities of securities markets and asset management be considered. We feel that EFAMA's work on behalf of European investment management firms is important as it is one of the only places where the **original position of the asset management industry** can be evidenced. Investors education is a permanent concern of our industry and efforts done, partly under the pressure of the regulators, on information documents must be considered as educational.

### **5. Role of research in IE and FL:**

As a way to illustrate the importance of research in the field of education, AFG attaches in annex a short list of major articles and books that were published in French and are considered as references.

AFG also plays a significant part in university-level programmes through a variety of actions, including consultancy, design, sponsorship and instruction . AFG staff takes part in university courses on a regular basis in different universities.

However, pragmatism is more within the mandate of IOSCO than large conferences on educational research in order to effectively develop initiatives with measurable impact. As mentioned in the paper, empirical testing for example is also a topic for research.

### **6. C8's strategic approach to IE and FL:**

This paragraph is in our view the core of the consultation document as it indicates the way C8 organizes its work around three themes: investment knowledge and understanding, financial skills and competence, program design, delivery and measurement.

We would like to suggest that IOSCO pay a closer attention to the reality of the investment process for a retail investor. We think that a **mapping of all actors** and their principal role would greatly help in identifying where the critical points are located, who is concerned and how they could be addressed. We have started that work and found the following:

- Retail investor **investing directly**, through internet for example: the most difficult channel to regulate, but the most powerful instrument to inform, communicate and research.

**Analysis and suggestions:** an investor keen to move rapidly and used to zapping, gaming, forwarding and sharing ; place for quiz with explanation when failed, for forum and open debate; place for MOOC. Among other things the financial literacy institute IEPP (l'Institut pour l'Education financière du Public), a public interest organization approved by the national education authorities has opened a website [http:// www.lafinancepourtous.com](http://www.lafinancepourtous.com) (Finance for everybody), a website offering instruction of finance and money matters complete with quizzes, games, practical information and special areas for kids, for teachers and for consumers .

- Retail investor investing through an **intermediary**, bank, asset management company, insurance company or private advisor ; most intermediaries are regulated, some like private advisors are probably less controlled;

**Analysis and suggestions:** importance to ensure that the seller with whom the retail investor is in contact will himself be well educated (minimum level of financial literacy requirement such as introduced by AMF in France in 2010 <sup>2</sup> is of prime importance) and able to provide good advice (i.e. unbiased, suitable and appropriate); educational role of the clerk in charge of clients; controls effectively lead by regulators; level playing field and comparable controls whatever the type of intermediary; quality of the documentation which is provided, add some pop ups in the documentation to introduce educational comments on key words or concepts; complaint procedure available . AFG in partnership with the bank industry training centre CFPB created this examination in 2010 . In particular, we produced an e-learning tool that enables users to acquire knowledge in a straightforward and easy-to-understand format. AFG has paid special attention to students' education. To date 4 400 students passed the AFG/CFPB exam, in addition to 3 300 professionals .

More generally we consider that the environment is fundamental to assess the gaps in financial education. Investor are able to access information provided by the issuers of securities but generally rely on the press to get informed. Thus **journalists**, be they specialists or not, are definitely a key public that should be educated as very few have invested enough time to comprehend financial reality and produce informative papers... that will not be on the headlines devoted to scandals that unfortunately do occur in finance as well. **School education** is the common basis where everybody learns about the world he will live in. Unfortunately the two most common operations in everyday life, law (or contract) and finance (or money), do not appear in schools curriculum in most countries. If mathematics exercises took some examples in the world of finance, this latter would be more familiar and might create some curiosity. Some **University programs** as well should be dedicated to financial expertise but should avoid jargon and prone to encourage communication understandable to the public. IOSCO could organize a challenge among students specializing in finance, level Master degree, in order to obtain suggestions for plain language explanation of financial concepts or events. In their communications, **issuers** also should

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<sup>2</sup> The AMF certification is an exam to ascertain a minimum level of knowledge about the regulatory and financial environment. Supervised by the French financial regulator , AMF, the exam seeks to ensure that professionals working with the savers and retail investors are all familiar with the regulatory and financial environment in which they operate

insist on being didactic and bring explanation on either key industrial and economical items or on financial concepts they refer to. In that respect web masters and communication agencies should consider how to improve the comprehension by the public of share price movements on the market when presenting charts of historical prices.

Of course we consider that professional associations and national competent authorities should be among the front runners of IE and FL programs. Authorities present the double advantage of being independent and unbiased on one hand and able to fine-tune the balance between education and regulation (or possibly regulatory education and educational regulation) on the other hand. Associations are very close to the day to day reality that their members face when soliciting retail investors and can federate their members in order to produce programs of good quality and identify people to share their expertise and present them.

### **7. Current practices of C8 members for IE and FL programs:**

The list of examples that is provided in the report is very instructive and illustrative. It could be complemented by a recommendation of best practices and a denunciation of poor ones. We know that there is no one-size-fits-all model and that it depends very much on specific circumstances. Nevertheless, we think that once a mapping is done and objectives are determined, it is possible to find a suitable action. The **best practices list would then be organized by head title**: how to educate journalists? Do issuers properly manage their financial communication? What is basic maths in finance? How explain risk return relationship in simple terms? Is it possible to assess the quality of an investment advisor ? of a banker when coming to investment management? What does the insurance agent tell clients before they invest in life insurance?... IOSCO world challenge of finance students (mentioned in the preceding comments) could be organized around a different question every year.

The 7 practices that are listed evidence the following points that we consider as highly relevant:

- Beyond a common ground of basic financial concepts, there are different needs in matter of education **for different audiences and to serve different purposes**; in that respect we consider that develop education to help investors in preparing for **retirement and old age is of prime importance**;
- A good program is one that brings results that can be measured and not only on a scholar basis of MC Questionnaire; in that respect we feel that the first step is to properly assess the target and develop a program that is not too ambitious and well suited to the subject/audience that is targeted ; means of **measurement of the success must be included in the project from the start**;
- Every government has a Minister in charge of education; he is a key partner for all the projects that we may have; but the staff of **professors and teachers** should first become themselves less ignorant of the economic and financial life in order to accept to introduce example taken from this context in their classes, be it maths, history, literature or geography, not to mention arts... We have to confess that too often there is at best a lack of curiosity at worst a strong animosity against finance and securities markets; the worst is that **politicians** too tend to consider finance as an enemy...

These remarks simply outline that the way ahead in matter of IE and FL is very long and somehow steep and tiring. Not enough to stop us.

Would you need any further information, please feel free to contact me at +33 1 44 94 94 17/26 (d.pignot@afg.asso.fr)

Sincerely yours

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ANNEX

Date	Reference
2014	<p><b>Les Clés de la banque</b> : ensemble de guides à l’usage des particuliers – FBF – 2014 : <i>La lutte contre le blanchiment des capitaux et le financement du terrorisme / Quelle garantie pour vos dépôts et vos titres ? / La sécurité des opérations bancaires ...</i></p>
2014	<p><b>Abrégé des Marchés Financiers</b> – AFG / AFTI / ASF / IFCAM – CFPB - 2014</p>
2014	<p><b>Gestion collective : Gérant et dépositaire face à la maîtrise des risques</b> - Landier-Juglar Anne et Bompaire Frédéric - RB Edition / Collection Marché-Finance - Juin 2014</p> <p><i>Cet ouvrage de référence est utile aux professionnels; il est indispensable aux étudiants, et s’adresse plus généralement aux épargnants grand public ou investisseurs institutionnels désireux de mieux appréhender leurs risques.</i></p>
2014	<p><b>Le Cri de l’épargnant : Les clefs de la sécurité et de la performance dans l’épargne individuelle</b> - Thierry Foucart et Benoît Rama – L’Harmattan – Avril 2014</p> <p><i>L’épargne n’est pas un jeu, c’est une nécessité soumise à une fiscalité lourde, compliquée et changeante. L’épargnant peut faire appel à un professionnel, mais celui-ci est avant tout un commercial dont les propositions méritent d’être analysées. Ce manuel donne les outils nécessaires à cette analyse, illustre la démarche de gestion de patrimoine par des études de cas et donne la possibilité, dans les cas simples, de gérer son épargne soi-même de façon efficace et prudente.</i></p>
2012	<p><b>Les cent mots de la gestion d’actifs</b> - Boulier Jean-François et Pardo Carlos - Presse Universitaires de France / Collection “Que sais-je?”- Novembre 2012</p>
2011	<p><b>La culture financière des Français</b> - Bigot R. et Croutte P. et Müller J. – Rapport du CREDOC - N° R277 - Novembre 2011</p> <p><i>La culture financière des Français laisse à désirer. Nos concitoyens peinent à maîtriser des concepts pourtant élémentaires en la matière. Ils ont également des difficultés à faire des calculs financiers simples : par exemple, seule une personne sur deux sait que 100€ placés à 2% par an conduisent à un capital de 102€ au bout de un an. Une personne sur quatre parvient à trouver, dans une liste de trois réponses possibles, la définition d’une obligation, seulement 45% savent ce qu’est un fonds commun de placement et 52% connaissent les principes d’un dividende. Ces lacunes nourrissent un sentiment d’incompétence : 80% de la population reconnaissent qu’ils sont un peu perdus en matière de placements financiers. Nombreux sont ceux qui, d’ailleurs, aimeraient être mieux formés : 79% souhaiteraient en apprendre davantage en matière de finance au cours de leur scolarité et 77% sont réceptifs à la possibilité de suivre une formation dans leur entreprise. Ces attentes sont sans doute amplifiées par les inquiétudes que génèrent actuellement les menaces autour de la zone euro et la dette des Etats.</i></p>
2011	<p><b>L’épargnant dans un monde en crise : Ce qui a changé</b> – Arrondel Luc et Masson André – CEPREMAP - 2011</p>
2011	<p><b>Finance de marché</b> - Portait Roland et Poncet Patrice - Collection “Daloz gestion” – 2011 <i>Présentation progressive, exhaustive et cohérente de l’ensemble des outils de la finance de marché.</i></p>

2008	<p><b><u>Les enjeux et impacts pour les épargnants français des mesures proposées par la Commission européenne touchant aux placements financiers</u></b> CCSF - Janvier 2008</p> <p><i>Le CCSF a demandé à EUROFI une étude sur les enjeux et impacts pour les épargnants des mesures communautaires touchant aux placements financiers. Les placements en bourse sont longtemps restés en France l'apanage d'une clientèle avertie ou fortunée compte tenu des risques potentiels qu'ils impliquent et de la culture financière qu'ils nécessitent...</i></p>
2005	<p><b>Sicav et FCP, apprenez à choisir les meilleurs</b> - Frédéric LORENZINI - L'ABC de la gestion Collective- Gualino Editeurs - 2005</p>
2005	<p><b>Pour l'éducation économique et financière des épargnants : Rapport du groupe de travail sur l'éducation des épargnants</b> présidé par Mothié JC et Fabre C. – AMF – 18 mai 2005</p>
2001	<p><b>Le guide de l'investisseur</b> - Novello Pierre et Guillaume Philippe - Les Echos - Septembre 2001</p> <p><i>Pour tous ceux qui souhaitent placer de l'argent en Bourse mais qui se sentent trop novices pour le faire en toute confiance, Pierre Novello a écrit, en collaboration avec Philippe Guillaume, ce guide qui se présente comme la bible de tout investisseur. Vous y découvrirez, sous forme de doubles pages au style clair et concis, tout ce que vous devez savoir avant de vous lancer dans l'aventure boursière. Vous apprendrez notamment comment choisir les instruments appropriés à vos besoins et à votre profil de risque. Partant du plus général ( Le monde des Obligations , Les krachs boursiers ), les auteurs donnent ensuite des conseils pointus sur la façon de gérer un portefeuille multidevises, ou encore de choisir un OPCVM. Témoinnant d'un réel souci pédagogique, ils abordent notamment les questions de l'analyse technique, de l'analyse fondamentale, du risque de change, de la gestion obligataire et du courtage en ligne, et dressent la liste des sites Internet à connaître.</i></p>