

**Testimony by**

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**Committee on Financial Services**

**U.S. House of Representatives**

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Chairman Gutierrez, Ranking Member Hensarling and Members of the Subcommittee:

I am John Gannon, Senior Vice President for Investor Education with the Financial Industry Regulatory Authority, or FINRA. On behalf of FINRA, I would like to thank you for the opportunity to testify today.

I commend you, Mr. Chairman, for having today's hearing on the critically important topic of improving financial literacy. In these uncertain financial times the role of financial literacy and investor education is more important than ever. FINRA and the FINRA Investor Education Foundation are committed to expanding the knowledge and confidence of all Americans wishing to build a more secure financial future through saving and investing, and we share your interest in considering how best to promote financial literacy in the context of reforming the U.S. financial regulatory system.

**FINRA**

With a staff of 2,800, FINRA regulates the practices of nearly 4,900 firms, about 174,000 branch offices and more than 650,000 registered securities representatives. As an independent regulatory organization, FINRA provides the first line of oversight for broker-dealers.

FINRA augments and deepens the reach of the federal securities laws with detailed and enforceable ethical rules and a host of comprehensive regulatory oversight programs. FINRA admits to and excludes from the industry both firms and individuals; adopts and enforces rules to protect investors and the financial markets; examines broker-dealers for compliance with its own rules as well as

federal securities laws and rules of the Municipal Securities Rulemaking Board (MSRB); informs and educates the investing public; provides industry utilities and administers the largest dispute resolution forum for investors and registered firms. Significantly, FINRA is funded by regulatory fees – not taxpayer dollars. Yet FINRA's Board of Governors is comprised of a majority of non-industry representatives. The uniquely balanced structure of our Board ensures a paramount focus on investor protection and the opportunity for input from a diverse variety of perspectives.

### **FINRA Investor Education and the FINRA Investor Education Foundation**

Investor education is a potent form of investor protection, and FINRA's Office of Investor Education provides an array of educational opportunities to investors. These include maintaining a prominent investor information area ([www.finra.org/investor](http://www.finra.org/investor)) on the FINRA Web site, providing a comprehensive market data resource for investors (with real-time prices and information on equities, options and a wide range of bonds) and publishing Investor Alerts, brochures and online resource guides on such critical topics as investment fraud, job dislocation and investing in bonds. Interactive tools such as FINRA's Fund Analyzer allow investors to compare fees and expenses among competing investment alternatives, and FINRA's Understanding Professional Designations database helps investors navigate the maze of professional credentials that financial industry participants use. FINRA also reaches investors directly through Investor Forums and other events.

In 2003, FINRA established the FINRA Investor Education Foundation ([www.finrafoundation.org](http://www.finrafoundation.org)), which is the largest foundation in the U.S. dedicated to investor education. The Foundation's mission is to provide Americans with the knowledge, skills and tools necessary for financial success throughout life. Foundation grants are used solely to fund educational programs, publications and research aimed at segments of the investing public that could benefit from additional resources. Recent grants have supported efforts to help low-income individuals build savings and achieve financial goals and guide working Americans as they make the transition to retirement. From inception through 2008, the Foundation has funded over \$40 million in grants and targeted projects.

### **Selected FINRA Investor Education/Consumer Protection Initiatives**

- **Investor Protection Campaign for Older Investors**  
The FINRA Foundation launched a campaign in April 2007 in Florida and Washington State to help seniors identify and resist persuasion tactics common to many types of fraud. The centerpiece of the Foundation's campaign to protect seniors is a 60-minute intensive workshop "Outsmarting Investment Fraud," that reduced responsiveness to fraud appeals by over 50 percent for those that attended. The Foundation,

which partnered with AARP, the Florida Office of Financial Regulation and the Washington Department of Financial Institutions to present the "Outsmarting Investment Fraud" program to seniors, has expanded its fraud-fighting campaign to three additional states in 2009: Colorado, North Carolina and Vermont.

The overall initiative is intended to help older investors understand how they might be susceptible to investment fraud and to replace risky investment behaviors with fraud detection and prevention behaviors. By October, we expect the campaign will be well underway in all five states.

Also, this summer, a DVD documentary of this presentation will be made publicly available. "Tricks of the Trade: Outsmarting Investment Fraud" is a 60-minute broadcast-quality presentation on preventing investment fraud. Using profiles of victims and perpetrators, the video highlights the persuasion tactics that con artists use to defraud their victims and the basic tools investors need to defend against fraud. It includes interviews with regulators, academics and fraud victims.

➤ **Military Financial Education Project**

The FINRA Investor Education Foundation's Military Financial Education Project delivers free, unbiased financial education tools and training to servicemembers, their spouses and on-base financial educators through a variety of programs and public awareness initiatives. A partner in the U.S. Department of Defense Financial Readiness Campaign, our primary goal is to help military families manage their money with confidence.

Using fine money levied against firms for misleading sales practices targeting military personnel, the Foundation launched SaveAndInvest.org in February 2006. The program is grounded in research with military officers and enlisted personnel that showed many members of the military could benefit from additional financial education. In coordination with the Department of Defense and military leaders throughout the United States and overseas, we developed a comprehensive program including public awareness activities, on-base educational forums, training for military spouses and online and printed educational resources. Since 2006, among our most significant achievements to date, the project has:

- Reached more than 19,000 members of the military community face-to-face at 88 Military Financial Education Forums at 47 installations worldwide and at sea in the Persian Gulf—covering topics ranging from credit and debt management to saving and investing for retirement. We have also been invited to the U.S. Naval Academy to address the 4,000 midshipmen in August.

- Provided no-cost access to BrightScore,<sup>™</sup> an online credit management tool, to help more than 58,000 servicemembers and spouses understand and improve their credit scores— nearly 60 percent of those who initially scored below 620 and used the tool a second time saw their scores increase by an average of 27 points;
- Helped severely injured and wounded servicemembers by distributing 13,000 copies of our guide on saving and investing disability benefits and holding forums at military medical facilities, such as the Dwight David Eisenhower Army Medical Center and the National Naval Medical Center;
- Awarded fellowships to nearly 600 military spouses for the Accredited Financial Counselor<sup>™</sup> certificate, offering the chance to earn a career-enhancing credential while providing volunteer financial counseling to the military community—participants have logged more than 131,000 hours of service back to the military community;
- Updated and distributed more than 590,000 copies of *Money and Mobility*, a guide for managing money during duty station changes and deployments; and
- Fielded and released the [2008 Military Financial Confidence Survey](#), which underscored the importance of fostering financial education for servicemembers. While nearly half of U.S. servicemembers reported feeling confident about their ability to retire comfortably, more than 1 in 5 – 22 percent – did not know about the Thrift Savings Plan (TSP). Of those who did contribute, one-quarter (26 percent) said that a finance briefing given by military financial educators encouraged them to participate.

Other key campaign initiatives include: launching and maintaining a comprehensive Web site—[www.SaveAndInvest.org](http://www.SaveAndInvest.org)—that provides tools and information on a wide range of financial topics; developing *Moneytopia*, a financial simulation game for servicemembers and youth; and delivering continuing education programs for military financial educators. The Foundation also provides resources, expertise and funding to key partners, including Military Saves.

➤ **Investor Alerts**

FINRA regularly publishes Investor Alerts to highlight issues, trends, pitches and products where we see danger of jeopardizing the financial future of U.S. investors.

For example, FINRA recently issued an Investor Alert and unveiled two new online tools designed to help investors spot and resist investment fraud. The Alert, *Avoiding Investment Scams*, clearly explains the characteristics of the most commonly used securities frauds, including Ponzi and pyramid schemes, pump-and-dumps and offshore scams. Drawing on research supported by the FINRA Investor Education Foundation, *Avoiding Investment Scams* lays bare the psychological persuasion tactics used by fraudsters to lure in their victims. These persuasion tactics are constant across a wide variety of frauds.

The online tools — a *Scam Meter* and a *Risk Meter* — help investors evaluate the investments they're being offered and determine whether their own personality characteristics make them more vulnerable to investment fraud. The *Scam Meter* asks the user a series of questions about the investment he or she is considering to determine whether that investment might be too good to be true; and the *Risk Meter* asks 12 questions about the user's behavioral traits to determine if he or she shares characteristics that have been shown to make some investors vulnerable to investment fraud.

➤ **FINRA BrokerCheck**

Before an investor does business with an investment professional, he or she should know the background of that broker or firm. FINRA's BrokerCheck Program gives investors convenient access to this information. Through this valuable resource, available at [brokercheck.finra.org](http://brokercheck.finra.org) or by calling (800) 289-9999, investors can learn about the disciplinary history, professional background, business practices and conduct of brokerage firms and brokers with whom they invest. FINRA obtains this information from brokers, securities firms, the SEC and state regulators as part of the securities industry's registration and licensing process.

➤ **Professional Designation Database**

The regulatory landscape can be confusing to investors: Differing rules govern their relationships with broker-dealers, insurance professionals and registered investment advisors. Further complicating the situation has been the recent proliferation of financial professional certifications, which can be used to strengthen a financial professional's credentials or simply to enhance his or her apparent credibility. FINRA's Professional Designation Database, which is accessible through [www.finra.org/investorinformation](http://www.finra.org/investorinformation), is an online tool that investors can use to view the list of professional designations, better understand what education and experience requirements are necessary for a designation—and ensure that a professional designation is more than just a string of letters.

## **Administration Proposals and Issues to Consider in Designing Improved Consumer Financial Literacy**

FINRA commends the Administration's inclusion of recommendations focused on improving financial education and literacy in its proposals for regulatory reform. As discussed in more detail below, the government is uniquely positioned to marshal a vast amount of knowledge, resources and distribution channels to improve consumers' ability to manage their finances and make accurate judgments about financial products and services.

The Administration's proposal to vest financial education authority in its proposed new Consumer Financial Protection Agency signals a commitment to increasing the financial literacy of all consumers. It will be important for all regulators with roles in financial oversight and consumer protection to coordinate and communicate about their financial education initiatives to ensure that the government leverages its resources for maximum impact.

FINRA also supports the Administration's proposal to enact an "Automatic IRA" program with an opt-out. A similar approach has been taken by a number of employers when it comes to administering their 401(k) plans. FINRA has teamed with the Retirement Security Project and AARP to establish "Retirement Made Simpler," an effort to increase participation rates and contribution levels among employees whose companies offer 401(k) plans. A brief issued by the Employee Benefit Research Institute (EBRI) noted that almost one-third of recently hired employees who are eligible to participate in their company's defined contribution plan do not participate, and participation rates for employees earning less than \$20,000 a year is even lower. In addition, a number of academic studies have found that changing the default option to require workers to opt out of, rather than opt into participation in 401(k) plans raises participation rates to more than 90 percent. The goal of the Retirement Made Simpler collaboration is to encourage employers to adopt automatic enrollment and other so-called "automatic" 401(k) features, in whole or in part.

FINRA's work in investor education has provided us with experience in managing the challenges of how to most effectively and efficiently get information out to the investors and consumers. Through funding research and grants as well as our own programs and partnerships, we have learned lessons about how to design our programs for maximum effect. This is a goal that all of us active in financial literacy and investor and consumer protection share.

- **Need for Baseline Data on Financial Capability and Literacy**  
The FINRA Foundation is currently working on a baseline survey of financial capability and literacy in the United States. The survey, recommended by the President's Advisory Council on Financial Literacy, addresses a comprehensive array of financial topics, including retirement planning, investment choices, household budgeting, credit, consumer

protections and use of financial education resources. The initial survey began in May. The survey of over 25,000 Americans is administered in English and Spanish and a state-by-state version of the instrument will go to the field soon. Survey working group partners include the Employee Benefit Research Institute, the American Institute of Certified Public Accountants and Dartmouth Professor Annamaria Lusardi. Having this type of baseline data will help inform the efforts of both public and private entities as they attempt to best structure financial literacy and consumer and investor education initiatives.

➤ **Importance of Distribution Channels in Financial Literacy and Education Efforts**

Recognizing that abundant, high-quality investor education resources already exist, the Foundation and its partners focus on making sure that such resources get into the hands of those who need them the most.

The FINRA Foundation's grants and projects leverage partnerships with membership and other types of organizations and use new and conventional media to widen access to the resources necessary for financial success. We employ the most appropriate distribution channels and help investors obtain reliable information from reliable sources. Sometimes this is via the Internet or through public broadcasting; at other times it's through a counselor, workplace representative or well trained reference specialist at the local public library.

Another mechanism that can lead to increased effectiveness in creating and disseminating investor education and financial literacy information is the public-private partnership. FINRA's foundation uses this approach in a variety of programs.

Two of our programs that reflect our focus on effective distribution as a critical component of investor education are:

- **Smart investing@yourlibrary**

*Smart investing@yourlibrary* is a community-based grant program launched with FINRA Foundation funding in 2008 to build the capacity of U.S. public libraries to provide financial education resources and services to library patrons. These libraries, which reach urban, suburban and rural communities, are helping new investors avoid costly mistakes, while also providing savvy investors with the detailed information they need. Today, 25 libraries and library networks, serving more than 8 million people, participate in *Smart investing@yourlibrary*. Earlier this month, the grant program received an "Award for Excellence" from the American Society of Association Executives.

- **Financial Education in Your Community**

Financial Education in Your Community is the FINRA Foundation's new grant program to build the capacity of regional and local community-based organizations to meet the financial education needs of underserved working individuals and families. In early February, the Foundation and United Way of America (UWA) finalized a partnership agreement to jointly administer the program. On April 8, nearly 150 nonprofit organizations were invited to apply for funding. In June, we received grant proposals from 55 of those organizations.

The government has a variety of existing, robust distribution channels at its disposal. The Social Security Administration, the Internal Revenue Service, the Postal Service and the Federal Citizens Information Center are just some of the potential channels that could be used to promote and advance financial literacy efforts with an extremely wide reach.

- **Need For Funding and Coordination**

As Congress considers how to improve financial literacy, it is vital that whatever agencies or groups given responsibility for financial literacy are funded to carry out that mission in a meaningful way. Further, given that a variety of existing agencies and departments have roles to play in investor and consumer protection and education, those agencies should have a clear mandate to provide financial education, coordinate those efforts with other federal agencies and engage in public/private partnerships to broaden their reach.

## **Conclusion**

FINRA appreciates the opportunity to testify on these important issues and stands ready to work with the Subcommittee as you consider ways to improve consumer financial literacy. I'd be happy to answer any questions you may have.