



Setting the global standard for investment professionals

21 March 2012

Elizabeth M. Murphy
Secretary
Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549-1090

**Re: Comment Request for Study Regarding Financial Literacy Among Investors--
File No. 4-645**

Dear Ms. Murphy:

CFA Institute¹ appreciates the opportunity to provide comments on the types of information that retail investors need in order to make informed investment decisions and some of the methods that can best provide it.

CFA Institute represents the views of investment professionals before standard setters, regulatory authorities, and legislative bodies worldwide on issues that affect the practice of financial analysis and investment management, education and licensing requirements for investment professionals, and on issues that affect the efficiency, integrity and accountability of global financial markets.

Executive Summary

CFA Institute strongly supports the creation of an investor literacy program that would seek to provide investors with the information they need to make informed investment decisions. In order to meet these goals, information must be focused, relevant and presented in readable plain English. Investors must also be provided the information that allows them to distinguish between different service providers, including the range of services provided, potential conflicts of interest and most importantly, the standard of care applicable to each provider.

¹ CFA Institute is a global, not-for-profit professional association of nearly 109,000 investment analysts, advisers, portfolio managers, and other investment professionals in 139 countries, of whom nearly 100,000 hold the Chartered Financial Analyst® (CFA®) designation. The CFA Institute membership also includes 135 member societies in 58 countries and territories.



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Discussion

CFA Institute believes that informed and empowered investors are needed for maintaining integrity in our financial marketplace. To ensure this, investors must have the information that fosters an understanding of the investment decision-making process, including the range and costs of investment options. We are concerned that many retail investors do not fully understand their investment options, the standard of care required of various service providers and the costs associated with each.

Under current regulations, the average retail investor receives a range of information from service providers about investment products, yet the form and volume of this information often interferes with the investor's thorough understanding. To be effective, information should be presented in plain English and provide disclosures that investors need to make informed decisions about relevant investment offerings, financial products, and service providers. The information must be focused, relevant and readable.

1. Reasonable investor education resources

Many retail investors need access to an effective investor education program that identifies and makes readily available information that forms basic building blocks that broaden their understanding of investing fundamentals.

Investors also should become well-versed in fundamental asset-allocation decisions. In order to work effectively with a service provider and actively participate in making investment decisions, investors need to understand the effects of diversification and the risks of investing in different types of instruments.

Similarly, investors need to understand the parameters, as well as the relative advantages and disadvantages, of active versus passive investing. Given the numbers of households investing in mutual funds, investors also need direct and understandable information about mutual fund expenses, including management fees and tax consequences, and the differences between mutual funds, index funds and exchange-traded funds.

The sheer volume of information provided in these areas may not only confuse investors but also obscure certain factors that are fundamental to the investing process. This overabundance of information may leave investors searching for a place to begin or even for the first questions to ask. We therefore recommend easily accessible resources that give retail investors information on the basics of investing and investment insights and can then serve as a continuing investor guide.

As an example, CFA Institute provides on its website information on a number of topics that should comprise any such investor literacy program



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(www.cfainstitute.org/about/investor/Pages/index.aspx). Materials that are provided give investors a starting place to acquaint themselves with the basics of investing and alert them to the types of questions they should consider. Topics that we recommend be covered in any retail investor education program, and that are covered on our website include:

- Where Do I Begin?
- What Should I Ask Myself?
- How Do I Choose an Investment Services Provider?
- Where Can I Find More Information?
- So You Think You Understood the Financial Crisis?

While this type of information is central to any investor literacy program, investors also need a more thorough understanding of the investment process to allow them to take a more active role in their investing.

As an example of the types of information that would be needed, an additional section on the CFA Institute website is dedicated to enhancing investor understanding of the investment decision-making process. Entitled “Investor Tools” and providing additional readings and multimedia resources, this section provides over 25 resource documents that have been written with retail investors in mind. Categorized into three broad groups—Evaluating Investments, Investment Advice, and Making Plans—the areas addressed through readable and plain English documents include:

- Alternative Investments
- Municipal Bonds
- Five Things about Bond Funds
- Avoiding Investment Fraud
- Having Difficult Discussions with Your Financial Adviser
- Offshore Investing
- Planning your Parents’ Retirement
- Working with an Adviser
- Socially Responsible Investing
- Reassessing Your Portfolio
- Due Diligence after Madoff
- Saving for College, and
- Planning for Family Transitions



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Also provided are guides on long-term care insurance and planning for college expenses. All of these complementary documents and guides are designed to address various phases and subject areas of an investor's life and portfolio.

In addition, CFA Institute offers investors the ability to customize their own education through the Forbes/CFA Investment Course (http://www.cfainstitute.org/about/investor/forbes/Pages/index.aspx?intCamp=forbes_course), along with multimedia supplements (consisting of webcasts/podcasts, articles and quizzes). This resource, which provides more in-depth information, can be accessed from the CFA Institute Website and contains various chapters addressing the following areas:

- Building Capital
- How Securities Markets Function
- Selecting a Broker and Trading
- Tax-Favored Investment Strategies
- Reading Financial Statements
- Sources for Investment Information
- Common Stocks and Economic Indicators
- Fundamental Analysis
- Technical Analysis
- Fixed Income
- Derivatives
- Mutual Funds
- Rules of Thumb and Key Phrases

In addition to identifying and providing the information that is needed, creating a central location is important. We thus recommend that investor materials be catalogued in one place so that investors of all levels will know where to go online to locate relevant information. A centralized/dedicated and well-publicized place where investors know they can have their basic questions answered, with the opportunity to find other levels of information, would provide a needed resource for investor education. Ideally, the SEC would continue to house its investor education area on its website with links to additional information.

Of course, even the most insightful information is not helpful if the investor does not know where to go to find it. Thus, we urge the SEC to consider requiring even a one-line statement in prospectuses, proxy statements, and sales materials informing the reader that investor education is available on the SEC website, with a link to the site.



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2. Before purchasing an investment product or service

Given the complexity and sophistication of today's investment options, investors need straightforward information that allows them to become well-versed in making fundamental asset-allocation decisions.

To that end, we suggest that any changes to current disclosure requirements foster a method that streamlines the salient points for investors in a prominent and clear manner. Providing investors with the information that would be contained in a summary prospectus or similar to what is presented in the Key Investment Information Document that is used in the European Union would be a positive step in that direction. We also suggest consideration of revisions to current regulations that would allow more straightforward and simplified information in offering documents/prospectuses with hyperlinks or references to where additional information may be found. We also encourage that required information be presented in the same format so that investors may easily make comparisons between similar products and services.

3. Before engaging an intermediary

Given the complexity and sophistication of today's investment options, the average retail investor needs to be able to identify the type of service provider it may need. Yet, the myriad of designations confronting investors add to the confusion of matching need with provider. Investors need straightforward information on how to choose an adviser, including a discussion of the standards of care offered by different service providers and the potential conflicts of interest between financial services providers and financial products.

To that end, we recommend the creation of a specific location where investors can find succinct descriptions for each type of provider, including at a minimum: (1) the services provided, (2) the standard of care required of that type of provider, (3) the expenses relating to each service provided (both direct and indirect), (4) potential conflicts of interest, including those between the provider and issuers of certain financial products, (5) where additional information can be found on each individual (e.g., FINRA's BrokerCheck), and (6) references to the location of additional information on the individual or firm offering investment services.

Conclusion

It is important to provide retail investors with all of the information they need to become informed and empowered decision-makers. CFA Institute seeks to provide retail investors



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with a range of informational tools with which they can understand the fundamentals of investing and build their knowledge base over time. We hope that references in this letter may serve as a viable example of the kinds of information we believe are most helpful to the individual investor in navigating the investment arena.

We recognize the challenge in assimilating the types of information needed by retail investors. We would be pleased to help by providing materials that the Office of Investor Education can use or modify in filling out its investor information site. Should you have any questions about our positions, please do not hesitate to contact Kurt N. Schacht, CFA at kurt.schacht@cfainstitute.org or 212.756.7728; or Linda L. Rittenhouse at linda.rittenhouse@cfainstitute.org or 434.951.5333.

Sincerely,

/s/ Kurt N. Schacht

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