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## Investor Bill of Rights: An Earlier, Faster and Safer On-Ramp to Financial Inclusion

The disparate economic outcomes of the COVID-19 pandemic have brought into greater focus the importance of financial inclusion. If a person is not connected to our financial system – for example, by having a bank account -- their ability to participate meaningfully in our society is adversely impacted. Further, without a base level of financial literacy to make informed decisions about credit, savings and investing, their costs will be higher and their benefits lower. And, as economists have recognized, and are beginning to quantify, these added costs and fewer benefits result in dramatically different outcomes both in the short-term and, because the consequences of financial opportunities and choices over time, even worse outcomes over a lifetime.

These are not new observations, but with the ever-increasing pace of global economic activity, it is clear that if we do not address these escalating issues now, the outcome gap between those who benefit from our financial system and those who do not will continue to grow. This is a bad outcome for all.

The key factors driving this problem also are well-known: lack of financial education in our secondary schools, limited opportunities for exposure to personal financial analysis and decision making, and a fear, in part well-founded, of being taken advantage of by those with more resources and knowledge. So, we know the problem and the causes, the question is: what do we do about it. Our answer: connect people early and combine education with access.

On getting connected early, what if at birth a \$500 bank account was established for every child, that grows with interest, and could not be withdrawn or otherwise touched for 21 years? The child would have a tangible interest in personal finance and could, of course, make deposits or withdrawals above that \$500-plus interest threshold, connecting earlier and more easily with our economy. With approximately 4 million births per year, the annual funding cost would be a modest \$2 billion. We expect the return to our economy would be orders of magnitude higher, including providing an effective, personal focal point for financial education in our schools.

More immediately, we encourage brokers and investment advisers to imbed investor education and qualification in their core business and prominent in their service offerings. The Operation Hope “*Investor Bill of Rights*” provides a pragmatic framework for implementing this policy. Some of these protections are included in the SEC’s recently adopted regulation best interest and mandatory client relationship summary, but, importantly, the *Bill of Rights* goes farther, particularly in the areas of education and qualification—further leveling the playing field for all and increasing confidence in the fairness of U.S. financial system.

The costs of these additional steps are modest and there is no need to wait for regulatory or legislative action. With the currently available array of off-the-shelf public and private sector investor education programming, providing investors with on-line access to materials tailored to their circumstances should not be a heavy lift. In addition, requiring completion of certain educational modules before investors are provided access to more complex and riskier products and strategies, such as buying stock on margin and investing in options, would greatly benefit those who do not fully appreciate the risks and costs, and would be of little cost or inconvenience to those who do.

We are heartened by the recent increase in retail investor participation in our markets, especially when considering the magic of compounding—investing thirty years before your retirement date is four times better than fifteen years. So, the more educated younger investors we have the better. However, we are concerned about retail investor involvement in the recent high volatility “meme stock” situations, particularly because the size and breadth of the retail volume suggests inexperience. These are technical trading events, not long-term fundamental investments, where when the dust settles, there will be a few winners and many losers. Data repeated shows that the losers most likely are those with less sophistication and the ability to bear losses. Better investor education and qualifications for margin, options and other leverage surely would limit these unfortunate outcomes without impeding retail investor access.

We call for these measures because we believe in the power of our dynamic economy, which is based on the free flow of capital, innovation and choice. The COVID-19 pandemic has revealed the benefits of advances in communications technology, medical research, production and logistics, however it has also shown the need to address the accelerating economic and societal disparities among Americans. Recognizing the power of capital allocation, innovation and broad participation, we believe that these unprecedented times demonstrate the need to prioritize financial inclusion. Let’s provide all Americans with an earlier, faster and safer on-ramp to participate in our economy and build their financial security.

The Operation HOPE Investors’ Bill of Rights are:

1. Financial institutions shall provide comprehensive investor education programming and investment coaching at no additional cost to the consumer.
2. Individual investors should be given the opportunity to qualify as “educated” investors by passing a Basic Knowledge exam – an investor’s driver’s license – demonstrating an understanding of the basic risks and rules of investing.

3. Financial institutions shall provide financial literacy and investment fundamentals resources for all individual account holders through its communications channels.. Embedded education provisions should include a “pause” while an individual is moving into a new or complex transaction mode—for example, by embedding a pre-trade cautionary checklist that is developed or reviewed by a third-party.
4. Financial institutions shall provide enhanced transparency by requiring all parties involved in the process of trading in any capacity to disclose any investment or interests that would affect their advice to the customer.
5. True costs of transactions shall be disclosed, including costs to the investor from the practice of payments for order flows, thereby ensuring transparent and fair access to markets for individuals as well as institutions.
6. Financial institutions should develop incentive reward systems for consumers who increase their financial literacy and investment fundamentals knowledge base, including, for example, discounted costs and other monetary incentives.
7. The material interests of large investors and institutions shall be clearly and fairly disclosed, including, for example, both short and long holdings, length of investment, and/or advocacy positions taken by professional investors of third-party capital managers and their employees.
8. All public company senior management meetings with large shareholders shall be publicly disclosed in a timely manner.
9. Public reporting of customer utilization of financial literacy and investor education shall be highlighted on company websites.
10. Investor education should be a core, publicly accessible element in a financial institution’s business model, allowing customers and the market to better evaluate the company.