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I am commenting in regard to Section 917 of the Dodd-Frank Wall Street Reform and Consumer Protection Act which requires that the Securities and Exchange Commission study the level of financial literacy among retail investors and report to Congress on the best ways to improve it in order to bring about a positive change in investor behavior.

As a former regulator – New York State's first woman Superintendent of Banks – I know how difficult it is for regulators to keep up with product and market innovation in a highly technological industry. It is even more difficult for retail investors.

Financial products and markets have changed dramatically since the 1950's when individual investors owned 90% of the shares in public companies. Today, they are estimated to own 30% or less. In the interim, the world has seen the genesis of complex products such as collateralized debt obligations, structured notes, leveraged exchange traded funds and a variety of derivatives whose risks are not well-understood by most retail investors, despite the fact that they may have signed similarly-complex suitability disclosures attesting otherwise. Add to these product complexities the surge in high frequency trading and the proliferation of private dark pool trading venues and it is apparent that markets as well as products have become more obscure and less accessible to retail investors.

For them, the playing field has become far from level. With computerized high-frequency trading accounting for an estimated 50%-80% of trading in U.S. equities and futures, with complex products they cannot understand and with venues offering prices they cannot access, I believe retail investors are justified in having lost confidence in a system that places them at a decided disadvantage.

Today's markets have even removed the advantages of diversification in reducing risk and increasing the potential for profit able returns in markets of any kind. Last October, stocks in the S&P 500 traded at the highest correlations ever, about .86, meaning that 86% moved almost in perfect lockstep with the overall index. With increasing correlation among stocks and resulting market reactivity to news events, the retail investor's ability to research and study companies and make judicious investment decisions based on fundamentals and their own estimates of potential increases in price almost does not matter anymore.

The overall state of mind – and of financial literacy – of retail investors as a group is the worst I have seen in more than 44 years in the securities business. Many of the self-directed, discount brokerage investors we served for decades at Muriel Siebert & Co., Inc., have fled the markets entirely or been pushed into seeking advice from more expensive full service brokerage firms due to the confounding complexity, lack of transparency and resulting loss of confidence in their own investing capabilities. I am not sure they will fare better at full service firms, but the evolution of today's financial markets has made it almost a *fait accompli* that many choose this alternative.

I know that, in managing progress, regulators walk a very fine line between overburdening intermediaries and protecting consumers, and I applaud the current regulatory focus on transparency and risk reduction in a financial system that has become global and substantially riskier. I believe that this progression makes it imperative that we develop global securities regulation, taking national imperatives into consideration but ensuring retail investors are protected and encouraged to participate.

However, I also believe that until our retail investors are provided a level playing field and assured that the opportunities that led to past misuses have been eliminated, they will continue to be wary of markets and, sadly, fewer and fewer will participate in the greatest capital raising system in the world.

Beyond leveling the playing field, how then can our government best work with the private sector to help retail investors cope with ongoing changes and become more financially savvy?

Today, stock brokers are mandated to "know their customers" and regulators examine them to ensure they do, but investors are not mandated, other than by the principle of *caveat emptor*, to know their stock brokers or the businesses in which those brokers are involved – and no one examines them on their level of knowledge.

Retail investors are required to state objectives for their investments and brokers are required to act in a manner suitable to each client, based on those goals, as well as the client's income, tax bracket, net worth, investable assets, risk tolerance, investment time horizon, stated level of investment and product knowledge and other pertinent information available to the broker.

This requires retail investors to complete applications and other forms that question them about these factors. More complex products require other disclosures and attestations by retail investors. While they are supposed to guarantee that investors do not involve themselves in investments inappropriate for them, some of today's disclosures have become so confusing that they often complicate rather than enlighten, leading many investors to simply check the box that says, "I agree" or "I have read the prospectus" without really understanding the potential risk involved.

I believe today's retail investors and regulators could benefit from a new way of managing disclosures and related documents. Today, each intermediary is charged with creating its own disclosures in relation to its responsibility to guarantee that investors know what they are purchasing beforehand and are not offered unsuitable choices. FINRA, just last month, issued guidance regarding heightened supervision of complex products that discusses the fact that some firms have developed plain English investor qualification agreements explaining features and risk that clients must read and attest to understanding prior to investing.

This is all to the public good, but unfortunately documentation is often created with an eye on protecting the intermediary from potential legal action after-the-fact, rather than the customer before. Continuing to require each intermediary to develop its own disclosures for existing products is inefficient, does not allow consumers to easily compare among products or intermediaries and will do nothing to enhance financial literacy of investors.

The centralization of functions related to timing, content and format of disclosures could help both investors and examiners if the centralized regulator were to provide simple English prototype disclosures, investor qualification agreements and short quizzes that intermediaries were required to employ. The standardized disclosures and qualification agreements could cover general investing at the time of application and, for each product, would explain features and risks as well as the potential impact of various economic/market scenarios, with examples. A standardized five to ten question "quiz" would demonstrate that the investor truly knew the risks involved prior to investing. (Don't we all learn a little better when we know there will be a test, even if the only consequence is that we may have to take it again to demonstrate we really do understand what we are buying?)

Such a regulator-developed disclosure, qualification agreement and testing process would require any intermediary coming up with a new product to modify existing documents and send these to the centralized regulator for approval before introducing the product or, if it were something never seen in the marketplace before, work with the regulator to develop appropriate documents. The system would not stifle innovation in the marketplace, although it could add another step in the new product approval process. The trade-off, I believe, would be well worth it.

Financial writers who regularly explain complex products and developments to average consumers, detailing potential outcomes under a variety of scenarios, might work with regulators to create the kind of explanatory “what you need to know before you choose” documents and mini-exams.

This new process would act to make the system more efficient in multiple ways. It would simplify matters for investors, allowing for easier comparisons among providers/products, and would improve their level of financial literacy in a way that would have a positive impact on their behavior; reduce the burden on intermediaries to draft their own disclosures (except in the case of new complex products) and to defend groundless lawsuits, and simplify regulators’ oversight responsibility for reviewing forms, documents and disclosure schedules. At the same time, it would provide a mechanism for demonstrating pre-purchase investor knowledge that could serve as the basis for establishing baselines, goals and standards for investor financial literacy and a means of measuring progress toward enhancing it.

Take open-end investment company prospectuses, for example. These are so complex as to be largely incomprehensible to the average investor. Yet, every investment firm must require anyone buying mutual fund shares to ensure that he or she has read the prospectus in advance. If regulations require this level of complexity, then perhaps regulators can produce the equivalent of “CliffsNotes” study guides for consumers. It would be best if the regulations were written in simple English; then, disclosures would already be simpler. If there were a quiz that asked the client to choose, for example, among several choices for the likely impact of a global economic recession on a Latin American equity mutual fund, investors might think twice about buying it without researching and thinking further, and certainly would be less likely to buy it solely on the recommendation of a brokerage firm. If statistics were required of each firm demonstrating how many clients taking the "mini exam" failed the first time and what questions they got wrong, specific educational solutions for investors and registered representatives might suggest themselves.

I believe that this kind of centralized description/disclosure and testing can help today's investors and today's regulators. Unfortunately, it would not get to the core of the problem in raising financial literacy of retail investors. To do that, we must address what I believe is a serious failing in our educational system.

After more than 44 years in the business, I have come to believe that raising the level of knowledge among investors must start with teaching basic financial literacy, including the importance of saving and the difference between saving and investing, to every American young person before they graduate from high school. The skills of how to create a budget, save and invest money, open a bank account, balance a check book, use credit responsibly and protect assets with insurance are all fundamental life skills, and I believe that competence in them should be considered a requirement for high school graduation.

While serving as New York State's Superintendent of Banks in the late 1970's and early 1980's, I became aware that financial literacy often does not begin at home and it certainly was not being taught in America's schools, a failure I considered serious. I learned that many Americans have only the most rudimentary knowledge of financial matters needed for making some of life's most profound decisions. I met young people who accepted credit cards for which they were solicited and did not realize how long it would take to pay back what they borrowed if they only paid the minimum due each month. I learned that people who did not have a bank account used check-cashing services that levied excessive fees. I saw that the people who could afford it least often paid the most for financial services. This was distressing to me, and I vowed to do something about it.

That is why, through the Muriel F. Siebert Foundation, I launched a free and comprehensive financial literacy education program for high school students, those people who were about to become independent, for whom learning basic financial skills is critical. The *Siebert Personal Finance Program: Taking Control of*

Your Financial Future prepares our young people to become smart about money so that they have a solid foundation for – and experience in – making the kinds of financial decisions required of all of us.

It teaches them to question and not just accept, as so many investors did in the stock market run-up pursuant to the dot com boom in the late 1990's and again in the heyday of the housing bubble whose bursting led to the 2008 financial crisis. Had completion of such a financial literacy program been an education requirement for young adults across the nation, I believe fewer people would have fallen victim to the "irrational exuberance" of markets in the late 90's and fewer would have taken any opportunity – or mortgage loan – to purchase homes, as residences or to flip, in the housing bubble. They would have learned how important it is to consider an investment in a variety of economic scenarios. They could have better understood how much housing they could afford and what their long term obligations would be. Thus armed, they might not have bought a second home or even a first one, been misled by confusing loan contracts that obfuscated higher rates to come, or fallen victim to hidden mortgage fees or other unfair practices.

While it is not the only such program in existence, the *Personal Finance Program* is the one I know best and the one I consider to be a thorough and orderly presentation of all topics necessary for a firm grasp of key concepts. Developed in association with the New York City Department of Education, and amended to meet standards in other states, it contains detailed lesson plans for educators, including objectives, materials, helpful Web sites, questions for teachers to focus on and step-by-step procedures for presenting the content, including suggested teaching strategies, student hand-outs and extension activities to enhance and expand upon the topics being presented. There are seven modules, or lessons, that can be easily incorporated into a general economics curriculum or act as a standalone course, and a final section with Appendices and a Glossary. The core lessons are: Money & Income, Budgeting & Planning, Banks & Banking, Credit & Bankruptcy, Saving & Investing, Protecting Your Assets/Insurance and Taxes.

The segment on Saving & Investing provides a solid foundation in the principles involved in building wealth and choosing among basic investments, including stocks, government, corporate and municipal bonds, certificates of deposit, money market accounts and more. It details the importance of financial objectives, risk tolerance and time factors in choosing among investments and contains an introduction to the stock market and stocks as one investment option to consider. Students are taught about the role of stock markets in bringing buyers and sellers together. They learn about risks and rewards of saving in various types of instruments versus investing in others. They discover that making an informed stock investment decision means becoming knowledgeable about specific companies as well as knowing one's own financial goals and tolerance of risk. They become competent in reading stock tables and analyzing data from them, and can track news related to investments they have selected to see how the news may move stock prices.

Today, the *Personal Finance Program* is being used by schools in 10 states, including New York, Florida and New Jersey, where, by 2014, high school students will be required to demonstrate proficiency in financial literacy in order to graduate. I am proud of New Jersey's commitment to financial literacy and also proud that in 2009 the New Jersey Coalition for Financial Education chose me as the first recipient of its Lifetime Achievement Award for Promoting Financial Literacy, which they named after me.

It also has been modified to create MONEY$TARS, a program appropriate for 7th and 8th graders so that students who drop out after eighth grade will have some basic economic knowledge and will not be disadvantaged by their lack of financial literacy. Like the original *Personal Finance Program*, there is also no charge to schools, teachers or students for MONEY$TARS.

It is my goal that personal financial education will be required nationally in all states, in all school districts, so that all students before graduation receive a basic education in the essential financial and economic skills they will need in the real world.

I hope that you agree that the required teaching of financial literacy in the nation's schools as I have suggested would provide a necessary and solid foundation for future generations of investors. Should you desire copies of the *Siebert Personal Finance Program: Taking Control of Your Financial Future,* I will be more than delighted to provide them in hard copy and/or CD.

Thank you for allowing me the honor of considering my comments.