

THE ROLE OF FINANCIAL REGULATORS IN SHAREHOLDER EDUCATION

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The Role of Financial Regulators in Shareholder Education

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The need for investor education

Risk and return go hand in hand. Although securities markets provide opportunities for investors, there are also risks associated with investments. And because securities markets are more complex and volatile than markets for most other goods and services, many people may not know how to assess the risks of securities investments or choose an investment professional, or where to turn for help.

Like all major securities markets in the world, Hong Kong operates a disclosure-based regulatory system. The merits of a listed company or financial product are not matters for the regulators to determine; these are matters reserved for investors and investment professionals. Our primary objective is to ensure that investors receive sufficient information in order to make judgement for themselves. Investors need to take responsibility for their decisions.

Investor education aims to ensure that investors have the ability to understand and question the information and advice given to them. Education helps to improve financial literacy of investors. If investors could obtain assistance from an independent, authoritative source to help them clarify their objectives, get the relevant information, understand the risks, their rights and obligations, identify what sort of investment or service may best meet their needs, they would be better equipped to consider various options and eventually make an informed decision on a particular investment or service.

Ultimately, the quality of the market depends on the quality of the investor. However good the regulation, market risks and pitfalls cannot be completely eliminated. It is important to empower investors to safeguard their own interests and manage the risks. Indeed, the most effective investor protection starts with an informed, educated investor.

The role of the regulator

Our statutory educational roles are “to promote understanding by the public of the securities and futures industry and the benefits, risks and liabilities associated with investing in financial products; and the importance of making informed decisions regarding transactions or activities related to financial products and of taking responsibility therefore.”

As a regulator, it is not our role to recommend what and when to invest, or how much investors ought to set aside for investing – that is the job of investment professionals.

However, we can help investors get the key facts, and understand the nature of different financial products and services, the choices available to them, and the pros and cons of alternative types of product or service. The impartiality of the regulator is particularly important when investors receive asymmetrical information from various interested parties in the market – more on rewards, benefits and opinions, and less on risks, downsides and facts.

It is our job as a regulator to give health warnings, to help explain the risks, and to point to potential issues. All too often, uneducated investors chase rumours and follow the herd, resulting in huge losses that may even go beyond their risk tolerance level. Typical examples in the past include the red chip fever in 1997 and the tech stock frenzy in 2000. That said, regulators should not stand in the way of growth. Indeed, we have tried to facilitate positive development where we could. There is no denial, however, that there are new risks. Hence regulators have to walk a tight rope between facilitating change and investor protection.

Apart from normal investment risks, unwary investors sometimes fall victim to different types of market misconduct, i.e. integrity risks. Regulators can help empower investors to safeguard their own interests, and educated investors can in turn help improve regulatory efficiency. To this end, we issue warning messages through the Investor Alert on our corporate website. For instance, to combat boiler room scams, we post a warning list of unlicensed overseas companies.

We also encourage investors to properly exercise their rights. Stock investors have to realise that they have a stake in the company they invest in through the holding of share units, and know their rights as a shareholder. We encourage investors to closely monitor the performance of the company they invest in by reading financial reports and company announcements, and to play an active role in corporate activities, such as exercising their voting rights at shareholder meetings. Indeed, shareholder activism is good for the market as it imposes greater discipline on companies and protects minority interests.

Investors have to understand the rules of the game before they know their rights and obligations. A level playing field cannot be achieved unless every player knows the rules. However, market rules are often drafted in legal terms that are difficult to understand by and may not be all relevant to the layman. To make the rules more “investor-friendly”, we use plain language to highlight and explain to investors the relevant parts of the rules and the implications to them.

Last but not least, it is also our objective to promote proper attitude towards investing. Uneducated investors only look for what and when to buy or sell, but never step back and ask why they invest and whether an investment is suitable for them. We encourage investors to set clear, realistic objectives, assess their risk tolerance, do their homework, ask the right questions, and choose the investments that suit their needs – in a nutshell, to invest wisely.

The education strategy

When devising our education strategy and programmes, we focus on “impact” rather than “output”. Given that we have scarce resources versus a whole array of issues, we

need to focus our attention on issues where the risks are greatest. We have to make sure that our messages really address the issues concerned and effectively reach the target audience. We also have to be innovative and sensitive in communicating with investors as they have too many choices in the information age. Furthermore, we have to plan ahead, not just react to problems, and balance long-term and short-term goals of raising the financial literacy of the public.

Based on the above, we adopt a “stratified approach” with specific plans for different sectors of the investing community. We conduct regular surveys to gauge their socio-economic profile, education needs and preferred communication channels, and design a variety of structured programmes accordingly. For examples, we

- produce radio segments, TV programmes, and roll out Announcements of Public Interest campaigns on television and radio;
- broadcast video dramas on public transportation to disseminate key investor protection messages;
- publish free brochures, cartoon leaflets and articles in print media on investment-related issues for the general public;
- operate an Electronic Investor Resources Centre (eIRC) to help Internet users learn about investing and carry out their own research; and
- organise different outreach activities to raise investors’ understanding of the markets and promote proper attitudes towards investing.

In response to topical issues in the markets, we also launch different “thematic campaigns” from time to time, which may cover new investment products, changes in rules and trading mechanism, and market misconduct.

To achieve the long-term goal of raising the financial literacy of the public, it is better to start investor education at high school levels and throughout the period of formal education. To this end, we have run various preventive education programmes for students to promote a proper attitude towards investing. To train the trainers, we have organised workshops for high school teachers to encourage them to share with students the importance of investing properly.

Finally, investor education cannot be effectively carried out by the regulator alone. To achieve larger impact, we have to deliver investor education messages through market intermediaries and the media that investors know well and get in touch every day. As such, we invest in collaborative partnerships with market intermediaries and the media, and give support to each other on educating investors.

In the way forward, we will continue to explore new channels to effectively communicate with investors and to proactively launch education programmes to reflect market development and investor needs.