

**MEMO# 35761**

July 2, 2024

## **SEC Investment Advisory Committee Discusses Two Recommendations**

[35761]

July 02, 2024

TO: Broker/Dealer Advisory Committee

Investment Adviser and Broker-Dealer Standards of Conduct Working Group

Investment Advisers Committee

Retail SMA Advisory Committee RE: SEC Investment Advisory Committee Discusses Two Recommendations

The SEC's Investor Advisory Committee ("IAC") held a meeting on June 6, 2024<sup>[1]</sup> which featured a discussion on the draft recommendations of its Disclosure Subcommittee regarding the protection of self-directed investors when trading complex products and utilizing complex strategies. The meeting also featured a discussion on the draft recommendations of its Investor as Purchaser Subcommittee regarding financial literacy and investor education. The IAC voted to approve both recommendations.

### **Protection of Self-Directed Investors when Trading Complex Products and Utilizing Complex Strategies**

The IAC had previously hosted a panel on December 7, 2024, entitled "Examining the use of Complex Investment Products and Strategies by Self-Directed Investors - Is the Current Approach Working?" At that meeting, the panelists discussed the use of complex investment products and strategies by self-directed investors with a focus on whether investors are adequately protected by the account approval process and disclosures required by the existing regulatory structure. The IAC's Disclosure Subcommittee subsequently drafted recommendations that were discussed at the June 6, 2024 IAC meeting.<sup>[2]</sup>

In an effort to better protect self-directed investors who are trading complex investment products or products using complex strategies online and on trading apps, the IAC's Disclosure Subcommittee provided the following recommendations for the SEC and FINRA:

- I. The SEC and FINRA should clarify and supplement the account approval process when self-directed customers wish to trade complex products or utilize complex strategies:

- a. FINRA should amend its rule governing the approval of options accounts to explicitly state that the determination required in approving an options account is comparable to the best interest standard under Regulation BI;
  - b. The SEC or FINRA should define the term, "complex product," and adopt similar account approval rules for any product that meets the definition;
  - c. The SEC or FINRA should publicize best practices for firms to utilize when offering complex products and strategies;
- II. The SEC or FINRA should require increased disclosure and/or interactions when self-directed customers wish to trade complex products and utilize complex strategies, such as enhanced risk disclosures at the time a trade is placed;
- III. The SEC and FINRA should continue to initiate enforcement actions when brokerage firms do not meet the diligence standards when approving options accounts under the current rules; and
- IV. The SEC and FINRA should increase education focused on self-directed investors who wish to trade complex products or utilize complex strategies.

The IAC discussion at the June 6th meeting started by emphasizing that the committee encourages access for investors, but believes the current framework is inadequate to protect those who are not financially savvy with respect to the use of complex investment products and strategies. Most of the IAC members agreed the recommendations do not place an unnecessary burden on firms or sophisticated investors, and they recognized the value this will have for those investors who are in need of more guidance. One IAC member questioned whether the recommendations were the best course of action as opposed to educating investors on complex products, but other IAC members thought that would be more burdensome on the investors. All but one of the IAC members voted to approve the recommendation.

## **Financial Literacy and Investor**

At the December 7, 2024 meeting the IAC also held a panel discussion entitled "Practical Applications for Enhancing Financial Literacy," which involved experts who confirmed the need for more accessible investor education for various life stages. The draft recommendations applaud the SEC's commendable steps to promote financial literacy through its Office of Investor Education and Advocacy (OIEA) but recommends an expansion of these efforts to address the evolving needs of the public in an increasingly complex financial market.

The Investor as Purchaser Subcommittee proposed the following recommendations:

1. Seek to increase funding and staffing for investor education at the SEC;
2. Amplify the availability and usefulness of the SEC investor education materials;
3. Support efforts to prioritize high school financial literacy courses;
4. Support efforts to increase financial literacy and investor education of students at colleges and universities;
5. Require financial services firms to provide access to investor education in real time; and
6. Work with the Department of Labor to encourage employers to provide financial education and resources to employees.

The IAC overwhelmingly supported these recommendations. At the meeting, members

discussed whether education on financial literacy should begin before high school. Because high schoolers are starting their first jobs, making their own money, and becoming more independent, the committee believed this was the ideal start time for education. The IAC members additionally agreed that it would be preferable if there were curriculum standards set in high schools that required financial literacy education (like there are for math, history, science, etc.). There was a unanimous vote of approval for these recommendations.

## **Other Topics Discussed at the IAC Meeting**

Other topics covered by the IAC at the June 6th meeting included a discussion on the new frontier of investment advice and a panel on artificial intelligence (AI). With respect to investment advice, the IAC explored how newer investors are accessing investment advice in non-traditional ways, specifically through social media and "influencers." The panel discussion on AI focused on the advancement of AI and the integration of this technology into financial services. The panel also discussed the critical aspects around AI and how the SEC should balance the risks and benefits of AI. There was a discussion regarding whether the currently regulatory framework is sufficient to address rapidly evolving AI technologies and that included a discussion of potential disclosure rules around AI.

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### **Notes**

[1] The SEC Investor Advisory Committee meeting agenda for June 6, 2024 is available at <https://www.sec.gov/advocate/iac060624-agenda>. More information about the Committee is available at <https://www.sec.gov/about/advisory-committees/investor-advisory-committee>.

[2] The draft recommendation is available at <https://www.sec.gov/files/iac-060624-rec-re-self-directed-investors.pdf>.

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