

Recommendations regarding Minority and Underserved Inclusion in Investment and Financial Services

Background

The SEC Investor Advisory Committee held a “Minority Community Investor Inclusion Panel” during its September 24, 2020 meeting. We heard the perspectives of Ray Boshara from the Federal Reserve Bank at St. Louis Center for Household Financial Stability; George Nichols from The American College of Financial Services; Tricia Edwards from Comer Capital Group, LLC; Randall Eley from the Edgar Lomax Fund; and Lori Schock from the Securities and Exchange Commission’s Office of Investor Education and Advocacy. The discussion focused on how minority community inclusion in investment and financial services is critically important to efforts to close the wealth gap in the United States.

The reaction to the September 2020 panel discussion has been positive. For example, Ray Boshara has received numerous invitations from organizations such as the Capital Group, and American Funds where he spoke to over 700 employees. Mr. Boshara was also invited to speak at an American Savings Education Council event in the spring of 2021. All the panel members received positive feedback on their presentations. Additionally, an engaging question and answer session occurred after the individual presentations.

Former Chair of the Securities and Exchange Commission Jay Clayton expressed interest in finding ways to address the barriers and hurdles that minority communities face in acquiring financial assets. Commissioner Roisman and other SEC Commissioners expressed the need to make the financial markets accessible and offer greater investment opportunities for all Americans.

Over the past 50 years, continuous discussions have taken place in various forums, including in the media, in public policy and research communities, and at financial education symposiums, that focus on the wealth gaps in our country. There is also an acknowledgement that wealth is generally created through the acquisition of homeownership and financial assets. Minorities lag significantly behind Whites and other groups in both areas. The securities industry has yet to demonstrate a commitment to playing a key role in helping minority communities close the wealth gap by making financial products and services easily accessible. The data shows that:

- 6.5% of Black Americans own stocks, bonds, and mutual funds; and
- the average retirement account of Black Americans is \$24,520, compared to \$75,200 for Whites. (Federal Reserve Board Survey of Consumer Finances (2016) and Federal Reserve Bank of St. Louis, Center for Household Financial Stability)

FINRA's October 2020 African American and Hispanic/Latino Responses to Pandemic Related Volatility in the Stock Market report covers market involvement and investment knowledge associated with an increased interest in investing for African Americans and Hispanic/Latino Americans. It is consistent with previous literature examining stock market participation and race/ethnicity (Fontes & Kelly, 2013; Gutter & Fontes, 2006). The report shows that White respondents more frequently owned both retirement and taxable accounts compared to African American and Hispanic/Latino respondents. White investors indicated they held retirement accounts outside of an employer account far more frequently than African American or Hispanic/Latino investors, but differences were smaller when comparing non-retirement taxable accounts.

A Federal Reserve Board at St. Louis, Center for Household Financial Stability report states that building wealth requires keeping demographics at the forefront. The Center goes on to state that solutions aimed at building family wealth should keep demographic differences in mind in order to promote the economic well-being of American families. For example, there are two prominent ways to accumulate wealth:

1. Earn more income, save more income, or both.
2. Own or receive assets that can appreciate in value, such as a home or stocks.

Financial progress has continued when it comes to improving opportunities for groups that historically have had low wealth to earn more. But ownership of appreciating assets that are important to building wealth remains highly uneven, magnifying the role played by demographic factors, such as race.

A survey done by Dr. Pamela Jolly of Torch Enterprises, Inc. shows compelling reasons why financial knowledge for underserved groups is urgently needed. Black respondents who were asked about some of the obstacles to pursuing investing revealed that 53.7% of the sample chose obstacle 2, 3, or 4 (see chart below). These responses indicate there is a strong probability that with increased awareness and education, the demand for acquisition of financial assets would increase significantly and drive new business to the financial industry. This would have cross-generational impact in terms of investing as a foundational aspect of the wealth building process for Black Americans. Further, as the financial industry commits to making financial products more accessible to minority communities, financial products could be customized to meet the needs of individuals and families for each life stage.

Value	Percent	Responses
1. Income constraints	34.9%	191
2. Just not aware of ways to do it	23.5%	129
3. Level of confidence in your ability to assess risk	15.1%	83
4. Lack of business or financial acumen	15.1%	83
5. Just not interested	7.7%	42
6. Other (required) see below	3.6%	20
		Totals: 548

Recommendations

The Investor Advisory Committee recommends that the Securities and Exchange Commission play an active role in the effort to close the wealth gaps in our country. With two of its tri-part mission being to protect investors and facilitate capital formation, the Commission is well positioned to support investor education and outreach to underserved communities, enable regulations that support equitable investment opportunities for all Americans, and champion best practices for registered financial services firms and their representatives.

The Investor Advisory Committee understands well the various funding and legislative constraints the Commission may face in pursuing these opportunities. However, we believe the Commission can, and should, continue to build on its current efforts, and in particular support initiatives that will enable minority communities to gain access to investment in financial assets. Moreover, making provisions for this to happen through review and modification of existing rules and regulations, is imperative. Issuing statements to the financial industry relative to the need to remove barriers and hurdles, such as high initial investment requirements and minimum account balances established by investment firms, could also have a significant impact on the ability of minority communities to acquire and maintain financial assets. The theme of these efforts should be to expand investments and not restrict opportunities.

Our specific recommendations are that the Commission:

- 1. Support regulations, legislation, programs and other steps that increase acquisition of financial assets and services by minority communities.**

We have seen that specific programs can encourage investor communities with traditionally lower assets and financial sophistication to begin the critical step of establishing a saving and investing account.

For example, in November 2015, the U.S. Department of the Treasury rolled out the “myRA” (“My Retirement Account”) program, offering a new retirement savings account for individuals looking for a simple, safe, and affordable way to start saving. Savers were able to open an account with as little as \$25 and contribute \$5 or more every payday. The Department of the Treasury’s myRA accounts were established for employees to accumulate retirement funds in instances where employers did not offer retirement contribution plans. The program had bipartisan support but unfortunately was eliminated in 2017. However, during the 20-month life of the myRA, 30,000 people participated in the program and over \$34 million was deposited into the accounts of contributors. (Politico Magazine, dated 6/7/2018 article written by Danny Vinik). This was achieved without an advertising budget or full marketing program, which limited the Department of Treasury’s ability to promote the product beyond media outreach and news releases. This experience is an indication that low initial investment points can attract investors.

2. Through regulatory oversight of financial services, enable a more hospitable environment for minority investment.

The Commission should undertake a review of existing regulations and guidance to identify and amend those that have the unanticipated impact of acting as barriers to investment by minority communities. When promulgating new rules, guidance or regulations, the Commission should specifically consider whether the proposal will have an adverse, positive, or neutral impact on minority investing. New and existing rules should advance and not hinder minority investment.

Disclosure regulations can be among the most daunting when it comes to investor access to key information. To this end the Commission should continually review disclosure requirements and disclosure documents such as prospectuses to make them easier to understand and provide consistent decision-useful information. These efforts will enhance the financial literacy of minority communities, and increase engagement with investment products and services.

As an example, the Dodd-Frank Act included a provision for the Consumer Financial Protection Bureau (CFPB) to promulgate a rule to simplify the home mortgage disclosure form for normal mortgages to make it easier for homebuyers to understand the nature of the transactions associated with the purchase of home. The rule, commonly called the TRID rule, is a series of guidelines that dictate what information mortgage lenders need to provide to borrowers and when they provide it. The rules also regulate the fees lenders can charge and how these can change as mortgages mature. The actions of the CFPB can serve as a model that the SEC can use to simplify the language found in financial documents issued by investment brokerage fund and mutual fund companies. This may simply include declarative, easy-to-understand language and a glossary of terms. Additionally, this would further the SEC’s cohesive effort to develop more investor-friendly disclosures.

We are aware that the Commission has made significant improvements to disclosures for retail investors in the form of the summary prospectus for mutual funds, updated annual report requirements and the recent adoption of Form CRS in connection with Regulation Best Interest. As the Commission well knows, however, disclosure effectiveness must be continually reviewed

and improved to keep pace with developments in the market and the interests of the investing public.

3. Continue and build upon Commission programs that are directed toward increasing financial literacy and supporting minority investment.

Financial literacy plays an important role in increasing the acquisition of financial assets. The IAC heard from Lori Schock, the Director of the SEC's Office of Investor Education and Advocacy, about a number of interesting Commission activities that are designed to improve financial literacy and engagement in investing by minority communities. Specifically, she described programs that reach out to minority communities to provide and encourage investor education and develop familiarity and confidence when approaching investment opportunities. The Commission should expand the programs Ms. Schock described that concerned partnerships with Historically Black Colleges and Universities (HBCU) and the activities of certain SEC Regional Offices that are regularly performing outreach to underserved communities.

The Commission is uniquely positioned to work with other federal and state agencies to make investor education and outreach to minority communities a national priority. It can also support other agency and department initiatives (such as the myRA program) when they are proposed. As recommended by panelist Tricia Edwards from the Comer Capital Group, the Commission should work with the U.S. Department of Education to make investor education a national common core standard in schools.

4. Help registered financial services firms expand and improve their ability to encourage investment by under-represented communities.

We encourage the Commission to share its own best practices in support of minority investment with the broad community of market participants who also have an opportunity to improve the environment for minority access to investing. In addition to sharing approaches to investor education and direct outreach, the Commission can support the development of strategic marketing plans that directly target minority communities (currently, financial assets are minimally marketed to minority communities).

The Commission should consider whether the Division of Examinations could play a role in supporting minority-owned financial services firms and other firms that are serving minority communities to grow and develop effectively and successfully. At our September meeting, Mr. Eley from the Edgar Lomax Fund made an important point that financial firms serving minority communities typically have smaller customer accounts and often do not have the same resources as larger firms that serve higher net worth clients. He explained that these firms might not have the resources to implement all of the sophisticated and costly compliance systems typically used by larger firms. He suggested that the exam teams be cognizant of this and understand the nature of the firm's business and client base, rather than taking a one-size-fits all approach.

In addition, there have been times when the SEC’s exam teams have taken innovative approaches to focus on collaboration to improve performance, thereby benefitting both the Commission and registrants. It could be useful to implement a type of “mentoring” program to help firms serving minority communities embrace and implement best practices (consistent with their size and business), rather than just seeking to identify deficiencies. The onsite exam program which was instituted for a number of large mutual fund firms in the 2000s is an example of this type of innovation. Under this program, a dedicated team of examiners got wide and regular access to the participating firms in exchange for their agreement to offer recommendations for improvements rather than deficiency letters. Developing a similar program to support the healthy and compliant growth of firms that serve minority communities could be a win-win-win for the firms, their clients, and the Commission.

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The Investor Advisory Committee believes that the Securities and Exchange Commission’s adoption of these recommendations would demonstrate to the financial services industry the Commission’s commitment to addressing systemic wealth gaps in our country and to ensuring that minority communities have greater investment opportunities. It is also the Committee’s belief that opening investment opportunities to all Americans creates a more efficient economy and helps to address and alleviate socio-economic disparities.