

The Financial Label White Paper

Premise

No one financial model is better than another. No one enters the business thinking that they are going to do what's bad for the client. There are good people doing good work in every distribution channel. The model through which an intermediary chooses to build their career has nothing to do with how well they serve the clients. Clients are better off receiving financial advice from a knowledgeable professional than going it alone.

Client needs

Clients vary greatly in their ability to understand financial services offerings. The different terms and designations given to financial services providers, and the type of advice and the products they offer can be confusing to even sophisticated investors.

Clients need to know that the financial professional they consult will:

- Put their best interests first
- Act with the skill, care, due diligence and good judgment of a professional
- Will be honest in providing fair, accurate and complete disclosure of all important facts
- Will go beyond disclosure in providing fair, accurate and complete transparency of all fees and any potential conflicts of interest
- Communicate in a clear, concise and understandable (Plain English) manner

Plain English and Consumer Education

A June, 1998 directive from President Clinton stated that the Federal Government's writing must be in plain language, and that using plain language saves the Government and the private sector time, effort, and money.

In August, 1998 the SEC released its *Handbook on Plain English* which states:

Plain English means analyzing and deciding what information investors need to make informed decisions, before words, sentences, or paragraphs are considered. A plain English document uses words economically and at a level the audience can understand. Its sentence structure is tight. Its tone is welcoming and direct. Its design is visually appealing. A plain English document is easy to read and looks like it's meant to be read.

One federal agency that has done a good job with Plain English is the Food and Drug Administration, which evaluated how it was sharing important health information with the public and adjusted its communications accordingly. One noteworthy example was the FDA's requirement that information on over-the-counter (OTC) drug labels be easier for consumers to understand. These labels no longer contain medical jargon, are in larger type with more white space and bullets, and have bolded headings that make it much easier to locate important information such as "warnings." Another FDA success is that everyone is now familiar with food labels, which are found on all grocery items, and are easy to read and understand.

These labels are more than easy to read and understand—they are also a form of consumer education. What were the desired outcomes?

- Transparency about the risks and interactions of OTC drug products, or the contents of the food being sold
- A better informed consumer who can make healthier choices

The labels also met the three standards proposed by leaders at a planning meeting for the Center for Plain Language in 2002. They said that people who use documents written in plain language can quickly and easily:

- Find what they need
- Understand what they find
- Act on that understanding

Financial Literacy and Transparency

What are the desired outcomes of regulatory reform in the financial services industry?

What the industry – and any reform created for it – needs is more clarity, not more complexity. Learning from the success of the FDA, one goal of any financial regulatory reform should be better informed investors who understand:

- **Who** they are working with (What type of professional?)
- **What** they are getting (Product? Advice? Under what circumstances?)
- **How** they are paying for what they are getting (Commission? Fee?)
- **How much** they are paying and when they are paying it (Complete transparency)
- **Conflict of interest** potential (Is product marked up? Is it proprietary product? Does the professional's firm make a market in the product?)

Just as the FDA has managed to provide clear, concise information to educate consumers to make better choices, so too can this be done for investors by the financial industry.

An financial “label” provided with any product or service an investor uses can give the information investors need to make informed decisions. This label would clearly and concisely include the who, what, how, how much and conflict of interest potential in an easy-to-read and understandable format. It would be accompanied by clear and concise definitions of the terms used.

Just as food labels have evolved over the years to include more specific educational information, so too could this financial label evolve. Nevertheless, for the present a label containing only the information described above would create the following desired outcomes:

- Transparency about the investments and services being sold
- A more financially literate investor who can make educated choices

Any successful financial industry regulatory reform will address two major issues: Financial literacy and transparency. A financial label in plain English would be an excellent way to begin addressing both.