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| **TEXAS CTE LESSON PLAN**[www.txcte.org](http://www.txcte.org) |
| **Lesson Identification and TEKS Addressed** |
| **Career Cluster** | Finance |
| **Course Name** | Securities and Investments |
| **Lesson/Unit Title** | Regulating the Securities Industry |
| **TEKS Student Expectations** | **130.184. (c) Knowledge and skills**(2) The student describes laws and regulations in order to manage personal and business operations and transactions in the securities and investments industry.(A) The student is expected to explain regulation of the securities and investments industry, including the role of the Securities and Exchange Commission(B) The student is expected to understand the legal and ethical considerations in buying and selling securities; and(C) The student is expected to understand the state regulation of the securities and investments industry |
| **Basic Direct Teach Lesson**(Includes Special Education Modifications/Accommodations and one English Language Proficiency Standards (ELPS) Strategy) |
| **Instructional Objectives** | The student will be able to:* Identify major agencies and organizations tasked with regulating the securities industry.
* Understand the components of regulatory provisions.
* Identify organizations that help encourage investment education.
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| **Rationale** | Students will understand the need for and procedures involved in regulating the securities industry. |
| **Duration of Lesson** | This lesson should take 4-5 class period. |
| **Word Wall/Key Vocabulary***(ELPS c1a,c,f; c2b; c3a,b,d; c4c; c5b) PDAS II(5)* | * **Securities and Exchange Commission** – an agency created by Congress in 1934 to provide disciplinary action for individuals and businesses selling securities
* **National Association of Investors Corporation (NAIC)** – set up in 1951 with the purpose of encouraging and supporting investor education
* **National Association of Securities Dealers (NASD)** – an organization that originally regulated the NASDAQ stock market
* **Financial Industry Regulatory Authority (FINRA)** – the agency made up of the former NASD and the regulatory agency of the New York Stock Exchange; created in 2007
* **Securities Investor Protection Corporation (SIPC)** – an organization that reimburses investors their cash or other securities in the event that the investing individual or organization goes out of business
* **Chartered Financial Analysts Institute Code of Ethics and Professional Conduct** – a standards code for investment professionals that emphasizes high ethical standards, professionalism, and competence in investing
* **Blue Sky laws** – laws created by states to protect investors from fraud
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| **Materials/Specialized Equipment Needed** | **Instructional Aids*** Instructor Computer/Projection Unit
* Online Websites
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| **Anticipatory Set**(May include pre-assessment for prior knowledge) | * **Ask** students what they think possible consequences could be if there were no guidelines or regulationsregarding how people and businesses invested their money.
* **Ask** students if they have heard of any cases in the news of famous people who have been convicted ofsecurities fraud. In pairs have students conduct Internet research regarding these types of fraud cases. The instructor may initiate a discussion of Martha Stewart and the particulars involving her case.
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| **Direct Instruction \*** | Outline | Instructor Notes |
| I. Regulating the Securities Industrya. Securities Act of 1933i. “truth in securities” lawii. Requires disclosure of information on securities for saleb. Securities Exchange Act of 1934i. Congress created SECii. Provides disciplinary action for people selling securitiesc. Investment Company Act of 1940i. Discloses information about mutual fundsii. Regulates investment company structureII. Regulations (continued)a. Investment Advisers Act of 1940 requires individuals who sell securities to register with the SECb. Sarbanes‐Oxley Act of 2002i. Created the “Public Company Accounting Oversight Board”ii. Mandates corporate responsibility and ethics in accountingIII. Regulations (continued)a. Dodd‐Frank Wall Street Reform and Consumer Protection Act of 2010‐improves regulatory oversight and disclosure involving investing and other consumer activitiesb. Jumpstart Our Business Startupsi. Makes it easier for small businesses to raise capitalii. Eases security regulations regarding crowd funding (when a group of individuals provide financing for entrepreneurs)IV. Regulations (continued)a. NASDi. Administered exams for securities professionalsii. Presided over NASDAQb. FINRAi. Merged with NASD in 2007ii. Stands for Financial Industry Regulatory AuthorityV. State Regulationsa. Texas State Securities Boardi. Created the Texas Securities Act requiring registrationii. Also provides investor educationb. All states have securities regulations called “Blue Sky Laws”VI. Types of Frauda. Affinity fraudi. Targets a group of peopleii. Scammer tries to empathize with the groupb. Baby Boomer fraud i. Target people caring for elderly parentsii. Also target people at or nearing retirementc. Ponzi or pyramid scheme ‐ only people who invest early (in a fictitious investment) make money, the others lose moneyVII. Unethical Corporate behavior/Fraud a. Enronb. WorldCom c. Tyco | * Although stocks have been traded since the late 1800s, there was not much in the way of regulating the sale of these securities. The SEC was created in 1934 and is still a driving regulatory force in the securities industry today. There are many other acts created to protect the public.
* Search online for details of Martha Stewart’s SEC fraud case and discuss with students.
* The Sarbanes‐Oxley Act was created because of the ever‐increasing incidents of corporate fraud that were harming investors and causing huge financial losses (e.g., Enron). Have students look online for corporate fraud cases and have them volunteer responses.
* This act helps small businesses but it relates to securities in that before it loosened regulations on raising capital, it had to look at the regulations to see what could be done.
* Thanks to regulations, people who sell securities and investments must take exams, be licensed, and registered.
* In addition to federal regulations, state regulations exist as well. All states have regulations and provide investor education as well.
* Show students the North Carolina Secretary of State website and show them the list of publications regarding types of scams and fraud. Ask them if they have heard of any in the news. Have students go online in pairs and search for well‐known cases of fraud and scams. They can also play the Fraud Scene Investigator game online to become aware of how to avoid scams.
* Research the three companies and have students volunteer what is unethical or illegal and write on the board or document camera.
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| **Guided Practice \*** | * In pairs, have students create a list of goals that they each have, regardless of if they involve money or not. Then, have the pairs circle the items that involve money. Of those, ask them to label whether they are goals that are short‐term or long‐term.
* Have students participate in the Investor Scam Games online at the Missouri Secretary of State website above to see if they can recognize investment scams. They will learn more about the different types of investment fraud.
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| **Independent Practice/Laboratory Experience/Differentiated Activities \*** | Go to [http://www.azinvestor.gov/Youth\_and\_Educators\_Teaching\_Guides\_and\_Videos.asp](http://www.azinvestor.gov/Youth_and_Educators_Teaching_Guides_and_Videos.asp%20) to download the Teachers’ Guide with quizzes for this online game. |
| **Lesson Closure** | Ask students the following questions during classroom discussion, exit tickets, or as a quiz.* **Question #1:** What two organizations merged to become one regulatory agency?
* **Answer#1:** NASD and the NYSE regulatory authority
* **Question #2:** What type of fraud targets groups of people with a common interest?
* **Answer#2:** Affinity fraud
* **Question #3:** When was the Securities and Exchange Commission created?
* **Answer#3:** 1934
* **Question #4:** Which act was created after a rash of accounting and investment fraud cases?
* **Answer#4:** The Sarbanes‐Oxley Act of 2002
* **Question #5:** Who benefits from a Ponzi scheme?
* **Answer#5:** The original investors, which usually are very few. Their income is funded by all the later investors who think they are investing in a security.
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| **Summative / End of Lesson Assessment \***  | **Informal Assessment*** Pair‐share activities
* Class discussion and participation

**Formal Assessment - Handout*** **Regulator Acronym Assignment #1** ‐Students will select any two of the many regulatory agencies theyhave learned about in this lesson. Then they will place the initials of that organization on a poster board or on the computer on a word processing document if a lab is available. For each letter, they will create a phrase beginning with that letter that describes an aspect of the agency and what it does.
* **Recognizing Fraud Assignment #2** – **Handout**

In pairs, students will select a brochure relating to frauds andscams located on the North Carolina Secretary of State website. They will create a presentation to present to the class using presentation management software, an online presentation program, or visuals such as posters and handouts explaining the topic and suggested ways to avoid unethical or illegal behavior.* **Letter to the President Assignment #3** – **Handout**

Instruct students to pretend that they are employees of oneof the companies that have been discussed regarding fraud and unethical behavior. You have been hurt by the company’s actions so now you are typing a letter, using proper personal‐business letter format, that 1) states your purpose for writing the letter, 2) explains in detail all the ways the company has hurt you and how you feel about its actions, and 3) a request for some sort of resolution that the company can make to the people who were hurt. |
| **References/Resources/****Teacher Preparation** | * Texas State Securities Board. (n.d.). Retrieved from [www.ssb.state.tx.us/Texas\_Securities\_Act\_and\_Board\_Rules/](http://www.ssb.state.tx.us/Texas_Securities_Act_and_Board_Rules/)
* North Carolina Department of the Secretary of State. (n.d.). Frequently asked questions.
* U.S. Securities and Exchange Commission. (2005). Retrieved from [www.sec.gov/answers/statesecreg.htm](http://www.sec.gov/answers/statesecreg.htm)
* (2001). *Investing in your future*. Southwestern Educational Publishing.
* Missouri Investor Protection Center. (n.d.). Retrieved from <http://www.sos.mo.gov/securities/mipc/>
* Arizona Corporation Commission. (2012). Investor resources. Retrieved from <http://www.azinvestor.gov/Youth_and_Educators_Teaching_Guides_and_Videos.asp>
* Financial Industry Regulatory Authority. (2012). Retrieved from <http://www.finra.org/>
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| **Additional Required Components** |
| **English Language Proficiency Standards (ELPS) Strategies** |  |
| **College and Career Readiness Connection[[1]](#footnote-1)** |  |
| **Recommended Strategies** |
| **Reading Strategies** |  |
| **Quotes** |  |
| **Multimedia/Visual Strategy****Presentation Slides + One Additional Technology Connection** |  |
| **Graphic Organizers/Handout** | Assignment #1/RubricAssignment #2/RubricAssignment #3/Rubric |
| **Writing Strategies****Journal Entries + 1 Additional Writing Strategy** |  |
| **Communication****90 Second Speech Topics** |  |
| **Other Essential Lesson Components** |
| **Enrichment Activity**(e.g., homework assignment) | Invite licensed professional from the financial services industry to come and talk to the class and explain the qualifications for this profession and the regulations and guidelines that are a part of this job. |
| **Family/Community Connection** |  |
| **CTSO connection(s)** | Business Professionals of AmericaFuture Business Leaders of America  |
| **Service Learning Projects** |  |
| **Lesson Notes** |  |

1. Visit the Texas College and Career Readiness Standards at <http://www.thecb.state.tx.us/collegereadiness/CRS.pdf>, Texas Higher Education Coordinating Board (THECB), 2009. [↑](#footnote-ref-1)