



**Response: IOSCO Consultation Report on Retail Distribution
and Digitalisation
March 2021**

Background

The World Federation of Exchanges (WFE) is the global trade association for regulated exchanges and clearing houses. We represent over 250 market-infrastructures, spread across the Asia-Pacific region (~37%), EMEA (~43%) and the Americas (~20%). with everything from local entities in emerging markets to groups based in major financial centres. Collectively, member exchanges are home to nearly 53,000 listed companies, and the market capitalisation of these entities is over \$95 trillion, while the 50 distinct CCP clearing services (both vertically integrated and stand-alone) collectively ensure that traders put up \$1 trillion of resources to back their risk positions.

With extensive experience of developing and enforcing high standards of conduct, WFE members support an orderly, secure, fair and transparent environment for investors; for companies that raise capital; and for all who deal with financial risk. We seek outcomes that maximise financial stability, consumer confidence and economic growth. And we engage with policy makers and regulators in an open, collaborative way, reflecting the central, public role that exchanges and CCPs play in an internationally integrated financial system.

If you have any further questions, or wish to follow-up on our contribution, the WFE remains at your disposal. Please contact:

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IOSCO Report on Retail Distribution and Digitalisation

The WFE welcomes the opportunity to comment on IOSCO’s proposed measures to enhance the protection of retail investors, as the main recipients of online offerings and marketing techniques. In recent years, the number of individual investors accessing capital markets has increased across the globe. This was particularly apparent during the pandemic with an estimated 40 million new self-directed investment accounts opened globally since 2020¹. These investors are keen to be able to access financial markets in the same way that they access other services: namely online and through using virtual applications.

Digitalisation across investment services has helped to democratize access to financial markets, and increase competition amongst service providers, as well as reduce costs-- with social media networks and platforms providing an opportunity for the development of best practice and knowledge sharing. However, our members agree that the growth in the use of social media and other digital platforms/products has led to a change in the way in which financial services are marketed and distributed. The WFE conducted an internal survey on retail investment in 2020 during the pandemic, which noted that enhanced educational material as well as new products were key contributors to the rise in retail investor participation in the global capital markets.



Source: WFE

Innovation in this instance has served as a tool for enfranchisement—empowering individual savers to make investment decisions for their future retirement. Whilst we don’t deny this, it is equally right that the international regulatory community look closely at existing industry practices to ensure that adequate levels of investor protection exist. Just because a service is digitally offered, it should not escape the rules that would apply to traditional interactions with investors, especially retail.

¹¹ [Is the Army of Lockdown Traders here to Stay? Financial Times, October 2020](#)

To this end, we welcome the proposed regulatory and policy toolkits that have been developed by IOSCO, and have the following observations to make:

- As highlighted by our survey results, financial literacy has been key to attracting retail participation. The increasing adoption of self-directed investment underscores the need to improve financial literacy among retail investors, to encourage diversification, regular savings habits, and longer-term investment behaviours. This is something which the exchange community supports and has already been assisting IOSCO with, for example through IOSCO's C8 Committee (on retail investors).
- We note the increased interest from retail investors to receive investment advice through semi-automated means, eg, robo-advice. At this stage, however, investors have a preference² for a balance between human interaction and technology when managing money, and this trend is likely to continue over the next few years. Nonetheless, as robo-advisers continue to gain prominence, there may be a role for regulators to better supervise automated advice platforms to ensure that their algorithms are able to respond to clients' risk profiles and needs.
- A number of regulators, including ESMA³ and the SEC have recognized the concerns posed by gamification.⁴ Whilst these techniques can help to convey complex information in a simple and rewarding way, they have been criticised for exploiting behavioural biases to influence retail trading behavior. As an investor protection mechanism, regulators' have frequently suggested limiting retail investors direct access to the market, pushing them towards funds and indirect investment vehicles. These are often more costly and can be equally misleading if there is a lack of financial education around their use. We would propose that any efforts to control gamification and supervise automated advice platforms do not discourage direct trading and access for retail investors to capital markets.
- IOSCO's proposed measure⁵ which notes that firms should be required to review their internal policies and processes on the use of targeting, behavioural techniques and gamification elements will help to address potential financial consumer harm. However, gamification should not be automatically dismissed as a negative practice that cannot be managed. For example robo-advisers have helped to mitigate risk to investors through providing "just in time" disclosures, which inform investors of pertinent risks at the time of making an investment — for example trading in a volatile market.
- The institutional investment⁶ community has flagged concerns where investors have been drawn, through search engines or social media, to fraudulent websites that are posing as legitimate ones. We believe the proposed measure⁷ which encourages regulators to use technology-based monitoring tools

² [People and Money Survey, Blackrock, 2021](#)

³ [Introductory statement, Exchange of views in relation to GameStop share trading and related phenomena, February 2021, ESMA](#)

⁴ [The gamification of investing brings opportunity and risks, Forbes, January 2021](#)

⁵ Measure 1: Firm level rules for online marketing and distribution, Proposed Policy Toolkit.

⁶ [EC Call for Evidence Retail Investor Protection, Schroders](#)

⁷ Measure 1: Proactive technology-based detection and investigatory technique, Proposed Enforcement Toolkit.

should be an effective way to deal with such behavior. Where egregious behavior is identified, management of a firm should be held to account for disclosures and the accuracy of information that is provided to investors on behalf of the firm. Regulators should be alert to illegal digital conduct, and as part of their supervisory and enforcement procedures should be able to: (i) request access to documents, information and explanations relating to misleading promotions or activities; (ii) set up independent channels for complaints to be made to regulators; and be able to appoint a specialist to undertake a review of the firm.⁸ The proposed measure⁹ on surveillance and supervision of online marketing and distribution should be expanded to take account of the latter suggestion.

⁸ This could be similar to a s.166 Review, Financial Services and Markets Act 2000.

⁹ Measure 4: Capacity for surveillance and supervision of online marketing and distribution, Proposed Policy Toolkit.