



# *Digital Engagement Practices (DEPs)*

CONSULTATION REPORT

*The Board of the  
International Organization of Securities Commissions*

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CR/09/24

November 2024

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# *Foreword*

The Board of the International Organization of Securities Commissions (IOSCO) is seeking comments on this consultation report on Digital Engagement Practices (DEPs).

## *How to Submit Comments*

Comments may be submitted through the following survey: [LINK](#) - on or before 20<sup>th</sup> January, 2025.

**Important:** All comments will be made available publicly, unless anonymity is specifically requested. Comments will be converted to PDF format and posted on the IOSCO website. Personal identifying information will not be edited from submissions.

**If you require technical assistance on completing the survey, please contact:** [itsupport@iosco.org](mailto:itsupport@iosco.org)

If you have questions about the report or the consultation, please contact Alp Eroglu, Senior Policy Advisor ([alp@iosco.org](mailto:alp@iosco.org)) and Flavio Bongiovanni, Policy Advisor ([f.bongiovanni@iosco.org](mailto:f.bongiovanni@iosco.org)).

## *Questions for Consultation*

A complete list of the questions for consultation is provided below. IOSCO invites comments generally on the proposed guidance in this report, as well as views regarding the specific consultation questions listed below and set out in the report. The consultation questions are intended to solicit very targeted points of feedback that will be helpful to consideration of the final guidance, with supporting details where requested or relevant.

**QUESTION 1:** How would you define DEPs? What should the scope of this definition cover?

**QUESTION 2:** Do you agree with the findings of the Consultation Report and the proposed Guidance? Are there any significant issues, gaps, or emerging risks that should be further explored in the report?

**QUESTION 3:** Are there any other types of DEPs deployed by market intermediaries that are not covered in this report? Please elaborate providing examples and describing their impact on investor behaviour.

**QUESTION 4:** How do you expect DEPs use cases to evolve in the future? What would be the regulatory implications?

**QUESTION 5:** What additional risks or benefits of DEPs should be considered? In your opinion, does the existing regulatory framework sufficiently address these risks, or are new measures needed?

**QUESTION 6:** In your opinion, how should market intermediaries best avoid potential conflicts of interests when they are using DEPs? What should the best practices be in this respect? Please elaborate by highlighting the areas of conflicts of interests and how they can best be addressed/mitigated.

**QUESTION 7:** How can market intermediaries maximize the potential benefits of DEPs to improve investor outcomes and enhance financial literacy? How should regulators effectively leverage DEPs to advance regulatory goals, such as investor protection and education? In your opinion, how can potential benefits of DEPs be achieved for better investor outcomes and investor education purposes? How should regulators best leverage from the use of DEPs for regulatory objectives?

**QUESTION 8:** How can regulators better coordinate across jurisdictions to address the cross-border use of DEPs, particularly in cases where different regulatory standards apply? What mechanisms could enhance global regulatory alignment?

You can find the survey clicking [HERE](#)

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# *EXECUTIVE SUMMARY*

Digital Engagement Practices (DEPs) can improve access and enhance choice for retail investors. When used well, DEPs (e.g., digital engagement techniques such as notifications, nudges, gamification) can be a powerful tool for engagement, building financial literacy, and driving positive outcomes. In the financial services context, gamification can attract new audiences, such as younger retail investors, to investing. The increase in trading activity because of DEPs could improve liquidity and could reduce transaction costs.<sup>1</sup>

However, DEPs may also result in investor harm, as they can encourage retail investors to trade more often when it may not be in their best interest. They may also steer retail investors to invest in higher risk products or change their investment strategy without being aware of or understanding the risks. Likewise, DEPs can create potential conflicts of interest when market intermediaries use them aim to influence retail investor behaviour to drive revenue growth to the detriment of retail investors.

As a result of DEPs' potential impact on retail investors, both positive and negative, IOSCO deems that it would be beneficial to develop a common understanding of DEPs; to review the emerging DEPs techniques and associated conduct and retail investor protection issues, and to understand the impact on retail investors from increased use of DEPs by market intermediaries.

To this purpose, the Consultation Report considers the existing IOSCO work; members' regulatory approaches to DEPs; and other international standards and guidance to identify potential issues and gaps, with a caveat that there is currently no global standard on how regulators and other stakeholders should consider addressing any challenges that may stem from the increased use of DEPs by market intermediaries.<sup>2</sup>

<sup>1</sup> See CFA Institute, "Fun and Games Investment Gamification and Implications For Capital Markets", p.1., November 2022, available at: <https://rpc.cfainstitute.org/en/research/reports/2022/investment-gamification-implications>

<sup>2</sup> A number of jurisdictions are in the process of considering their regulatory approach to the use of DEPs by market intermediaries. However, there is currently limited guidance on the regulation of DEPs and regulators are considering how existing securities laws apply to the use of DEPs by market intermediaries.

# CHAPTER 1: INTRODUCTION

Technological developments are changing the way in which retail consumers interact with financial services and products, and act as catalyst in bringing more retail investors to capital markets. The emergence of online trading platforms and mobile trading apps have made trading and stock markets more accessible to retail investors with minimal physical touch points. Similarly, there is an increasing use of these online trading platforms and mobile apps, and of social media generally, to promote the offerings of securities and other financial products.

As a result of those developments, in March 2020, the IOSCO Board established the Retail Market Conduct Task Force (RMCTF) to gain a better understanding of the evolving retail trading landscape and to develop measures regulators could consider as they seek to address retail market risks and emerging trends.<sup>3</sup>

IOSCO's RMCTF delivered a short-term report in December 2020 with a specific focus on retail conduct implications of COVID-19 and in March 2023, a Final Report<sup>4</sup> noting the surge in self-directed trading, and more frequent offerings of higher risk (including leveraged) products made available to retail investors via technological means resulting in significant retail investor losses. This surge can, in part, be explained by key trends such as the rise of influencers, and the increasing use of Digital Engagement Practices (DEPs) by market intermediaries in their distribution channels – directly or through third parties – to communicate and engage with retail investors.

To explore the key trends identified in the RMCTF Final Report, the IOSCO Board established a new mechanism to coordinate activities across policy, enforcement, and investor education, bringing together representatives from key IOSCO Committees under a holistic umbrella of investor protection. This mechanism was set up in June 2023 and named Retail Investor Coordination Group (RICG), as shown below.

<sup>3</sup> See International Organization of Securities Commissions, "Retail Market Conduct Task Force Final Report", March 2023, available at: <https://www.iosco.org/library/pubdocs/pdf/IOSCOPD730.pdf>, page 5

<sup>4</sup> See International Organization of Securities Commissions, Retail Market Conduct Task Force Final Report, March 2023, available at: <https://www.iosco.org/library/pubdocs/pdf/IOSCOPD730.pdf>

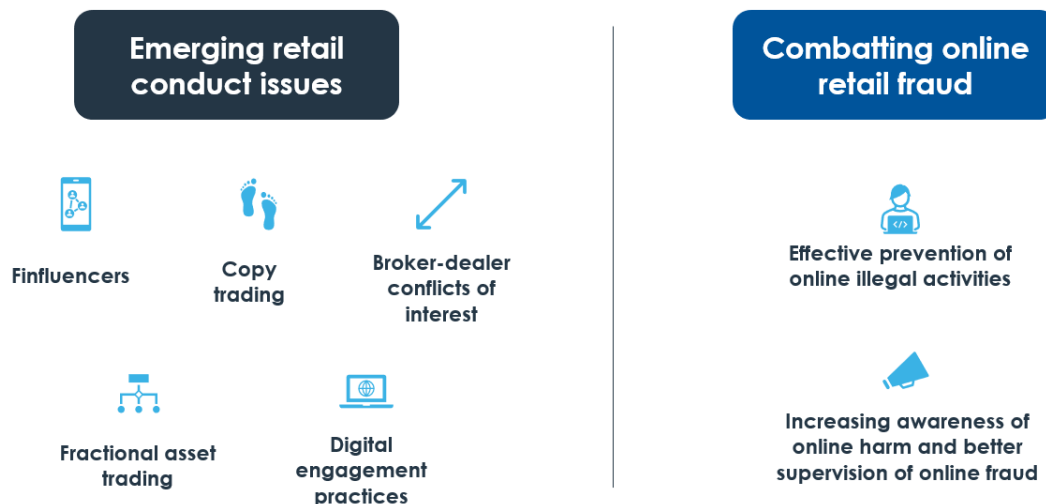




The RICG's work is focussed on identifying and mitigating emerging retail conduct issues on the one hand, with both policy and financial education sets of initiatives focused on (a) Finfluencers; (b) Copy Trading; (c) Broker-Dealers Conflicts of Interest; (d) Fractional Assets Trading; and (e) Digital Engagement Practices (DEPs).

On the other hand, RICG's enforcement focus is devoted to the enforcement activities regulators undertake to prevent online harm and fraud. These cover two subareas: (i) international cooperation for effective prevention and investigation on online illegal activities; and (ii) increasing awareness of online harm and better supervision of online fraud and mis-selling.<sup>5</sup> The deliverables of the two sub-areas are various enforcement tools to help regulators proactively combat online harm and fraud.

<sup>5</sup> Mis-selling can be defined as a sales practice in which a financial product or service is deliberately or negligently misrepresented or a customer is misled about its suitability or appropriateness for a financial product for the purpose of making a sale. Mis-selling may involve the deliberate omission of key information, the communication of misleading advice, or the sale of an unsuitable or inappropriate financial product or service based on the customer's expressed needs and preferences.



## 1.1 - Objectives of this Consultation Report - DEPs

This report builds on the findings of the IOSCO RMCTF Final Report and the IOSCO Report on Retail Distribution and Digitalisation.<sup>6</sup> It mainly aims to identify the types and uses of DEPs, potential benefits and risks in use of DEPs by market intermediaries, potential regulatory issues and gaps, and the potential impact of DEPs on retail investor behaviour and decisions.

The Consultation Report proposes good practices as guidance in relation to market intermediaries' use of DEPs. Hence, it aims to facilitate international alignment in this area. It identifies the issues and gaps in regulation of DEPs and provides good practices as guidance for IOSCO members so as to facilitate regulatory alignment in the supervision and regulation of DEPs. This consultation report also analyses how DEPs can be used to promote investor education and educational material and provides some good practices in this context.

The Report is based on a comprehensive survey by RICG of IOSCO members, extensive academic research, IOSCO members' experiences and various interactions with the financial industry via roundtables and other means. Appendix A to this report contains a list of the 30 IOSCO regulatory authorities, from 26 jurisdictions, that responded to the IOSCO RICG survey on DEPs.

The report is set out as follows: Chapter 2 talks about academic and regulatory research on the use of DEPs. Chapter 3 deals with the regulatory landscape

<sup>6</sup> See International Organization of Securities Commissions, Report, "Report on Retail Distribution and Digitalisation", October 2022, available at: <https://www.iosco.org/library/pubdocs/pdf/IOSCOPD715.pdf>

and the rules applicable to the use of DEPs by market intermediaries. Chapter 4 covers the benefits and risks associated with the use of DEPs. Chapter 5 illustrates the current global state of play in the use of DEPs. Chapter 6 talks about the market intermediaries' governance and conflicts of interest management related to DEPs. Chapter 7 deals with the enforcement practices and the international cooperation and the cross-border aspects. Chapter 8 focusses on DEPs and investor education. Chapter 9 proposes some good practices on DEPs.

# CHAPTER 2: ACADEMIC AND REGULATORY RESEARCH ON THE USE OF DEPs

The use of DEPs by market intermediaries is a relatively new phenomenon, which emerged with the recent advancement of technology, particularly via the use of mobile apps and online trading platforms, into the retail trading sphere. Hence, there is currently limited academic and regulatory research on DEPs. For this reason, one of the initial purposes of this Consultation Report is to lay out findings of some relevant academic and regulatory research and studies on DEPs.

## *2.1 - Definition*

While there is no agreed definition of DEPs, in general terms, DEPs may be defined as “*behavioural prompts, differential marketing, game-like features (commonly referred to as “gamification”), and other design elements or features designed to engage retail investors when using a firm’s digital platforms (e.g., website, portal, app) for services such as trading, robo-advice, and financial education*”.<sup>7</sup>

## *2.2 - Explaining The Rationale Behind the Use of DEPs & Findings on The Impact of The Use of DEPs on Retail Investor Behaviour*

### ***Deviation from standard rational models of behaviour***

Research findings from some IOSCO members (e.g., AMF Quebec, 2022; Dutch AFM, 2021; UK FCA, 2013; US SEC, 2010) highlight that retail investors’ behaviour in response to the use of DEPs may deviate from standard rational

<sup>7</sup> See US SEC, Press Release, “SEC Requests Information and Comment on Broker-Dealer and Investment Adviser Digital Engagement Practices, Related Tools and Methods, and Regulatory Considerations and Potential Approaches; Information and Comments on Investment Adviser Use of Technology”, August 2021, available at: <https://www.sec.gov/newsroom/press-releases/2021-167>

models of behaviour.<sup>8</sup> For instance, these findings point out that retail investors tend to have a biased focus on the present relative to the (near) future, making them sensitive to immediate gratification. The findings also show that people's attention and capacity to process information is limited, leading to misjudgements about what is and what is not important when making decisions.

### ***Perception of uncertainty and risk***

One research paper has stated that people have a biased perception of uncertainty and risk, making it difficult to properly evaluate possible outcomes in the distant future.<sup>9</sup> As a result, behaviour and choices are often affected by the context and environment. The presentation of choices and choice options, the design of information, and social cues all have an impact on what people do and choose. This same research paper states that push notifications, reminders, newsletters, and app design features, can be used to grab investors' attention and steer them towards short-term stock movements or certain investment products.

### ***Design features to capitalise on investor bias***

Some regulators found that DEPs on online trading platforms may be designed to capitalise on the biases of investors (OSC, 2024 & 2022; AFM, 2023; ASIC, 2023; FCA, 2022).<sup>10</sup> Most of the reports on DEPs cited earlier voice concerns

<sup>8</sup> See AFM study, "AFM: gebruik gedragsinzichten om verstandige financiële keuzes te bevorderen", March 2021, available at: <https://www.afm.nl/en/sector/actueel/2021/mrt/principes-consumentengedragsinzichten> (in Dutch);

See Quebec AMF, Issues Paper, "Insights into the risks and benefits of digital financial services for consumers", available at: [https://lautorite.qc.ca/fileadmin/lautorite/grand\\_public/publications/professionnels/doc-reflexion-consos-tech\\_an.pdf](https://lautorite.qc.ca/fileadmin/lautorite/grand_public/publications/professionnels/doc-reflexion-consos-tech_an.pdf)

See UK FCA, Occasional Paper, "Applying behavioural economics at the Financial Conduct Authority", April 2013, available at: <https://www.fca.org.uk/publication/occasional-papers/occasional-paper-1.pdf>

See US Federal Research Division, Library of Congress under an Interagency Agreement with the US SECSEC, Paper on "Behavioral Patterns And Pitfalls of US Investors", August 2010, available at <https://www.sec.gov/investor/locinvestorbehaviorreport.pdf> (The findings of the author, based on research and analysis adhering to accepted standards of scholarly objectivity. The findings do not necessarily reflect the views of the US SEC, its Commissioners, or other members of the US SEC's staff.)

<sup>9</sup> Banerji, Kundu & Alam, 2022, The Impact of Behavioral Biases on Individuals' Financial Choices under Uncertainty: An Empirical Approach, available at: [https://www.researchgate.net/publication/360841130\\_The\\_Impact\\_of\\_Behavioral\\_Biases\\_on\\_Individuals'\\_Financial\\_Choices\\_under\\_Uncertainty\\_An\\_Empirical\\_Approach](https://www.researchgate.net/publication/360841130_The_Impact_of_Behavioral_Biases_on_Individuals'_Financial_Choices_under_Uncertainty_An_Empirical_Approach)

<sup>10</sup> See Ontario Securities Commission SC, Research Report, "Digital Engagement Practices in Retail Investing: Gamification & Other Behavioural Techniques", November 2022, available at: [https://www.osc.ca/sites/default/files/2022-11/inv\\_research\\_20221117\\_gamification-of-retail-investing\\_EN.pdf](https://www.osc.ca/sites/default/files/2022-11/inv_research_20221117_gamification-of-retail-investing_EN.pdf); and "Digital Engagement Practices: Dark Patterns in Retail Investing", February 2024, available at: [https://www.osc.ca/sites/default/files/2024-02/inv\\_research\\_20240223\\_dark-patterns.pdf](https://www.osc.ca/sites/default/files/2024-02/inv_research_20240223_dark-patterns.pdf)

about how these practices may negatively impact investor behaviour and decisions. These concerns stem from research that comes from domains other than financial investing. For instance, reports by the UK FCA (2022)<sup>11</sup> and the OSC (2022)<sup>12</sup> include evidence from casino and lottery gambling, online education, rideshare driving, and online health and exercise programs in explaining the impact of gamification on investor behaviour. The OSC report and a subsequent FCA report<sup>13</sup> also refer to experimental techniques including randomized controlled trials (RCT) of retail investors.

### ***Increasing user engagement***

Some academic literature also suggests that DEPs can effectively increase user engagement (e.g., Huang et al., 2021; Kim & Castelli, 2021; Baptista & Oliveira, 2019; Looyestyn et al., 2017; Johnson et al., 2016; Hamari et al., 2014)<sup>14</sup> Certain

See Dutch AFM findings, “More carefully considered design of online investment platforms needed”, February 2023, available at: <https://www.afm.nl/nl/-/sector/actueel/2023/februari/bewustere-inrichting-online-beleggingsplatform#:~:text=Fen%20keuzeomgeving%20kan%20overstandige%20belegging,skeuzes.de%20inrichting%20van%20hun%20platform>

See ASIC, Report, “Review of online trading providers”, December 2023, available at: <https://download.asic.gov.au/media/lgsfve5v/rep778-published-6-december-2023.pdf>

See UK FCA, Research Articles, “Gaming trading: how trading apps could be engaging consumers for the worse”, November 2022, available at <https://www.fca.org.uk/publications/research-articles/gaming-trading-how-trading-apps-could-be-engaging-consumers-worse>

<sup>11</sup> See Ibid 14, <https://www.fca.org.uk/publications/research-articles/gaming-trading-how-trading-apps-could-be-engaging-consumers-worse>

<sup>12</sup> Ibid, [https://www.osc.ca/sites/default/files/2022-11/inv\\_research\\_20221117\\_gamification-of-retail-investing\\_EN.pdf](https://www.osc.ca/sites/default/files/2022-11/inv_research_20221117_gamification-of-retail-investing_EN.pdf)

<sup>13</sup> See FCA, “Research Note: Digital engagement practices: a trading apps experiment”, 2024, available at: <https://www.fca.org.uk/publications/research-notes/research-note-digital-engagement-practices-trading-apps-experiment>

<sup>14</sup> Baptista & Oliveira, 2019, Gamification and serious games: A literature meta-analysis and integrative model, available at: <https://doi.org/10.1016/j.chb.2018.11.030>

Johnson, Deterding, Kuhn, Staneva, Stoyanov & Hides. 2016, Gamification for health and wellbeing: A systematic review of the literature, available at: <https://doi.org/10.1016/j.invent.2016.10.002>

J. Hamari, J. Koivisto and H. Sarsa, 2014, Does Gamification Work? -- A Literature Review of Empirical Studies on Gamification, available at: <https://ieeexplore.ieee.org/document/6758978>

Bai, Hew & Huang. 2020, Does gamification improve student learning outcome? Evidence from a meta-analysis and synthesis of qualitative data in educational contexts, available at: <https://doi.org/10.1016/j.edurev.2020.100322>

See Johnson, Deterding, Kuhn, Staneva, Stoyanov & Hides “Gamification for health and wellbeing: A systematic review of the literature” <https://www.sciencedirect.com/science/article/pii/S2214782916300380>

DEPs, including gamification techniques – such as badges, rewards, and celebratory messages – can provide immediate gratification for investors, thus potentially encouraging them to trade more frequently when it may not be appropriate for them to do so.<sup>15</sup>

## *2.3 - Gamification Techniques Used By Market Intermediaries*

According to the research cited above, below are some of the DEP techniques that may be used to increase user engagement:

### **Push Notifications**

Several studies have examined the effect of DEPs on investor behaviour and decisions. Arnold et al. (2022)<sup>16</sup> found that “**push notifications**” induced investors of an online trading platform to trade more and to take on more risk. Moss (2022)<sup>17</sup> studied the effect push notifications sent to investors on one trading app when their portfolio moved +/-5% intraday. In the fifteen minutes following a push notification, investors traded at least 25% more frequently than they would typically trade.

### **Top Traded Lists**

“**Top-traded lists**” are another example of a DEP that may impact investors by steering their attention towards certain stocks or products. For instance, Barber

See IEEE Paper “Does Gamification Work? -- A Literature Review of Empirical Studies on Gamification”

<https://ieeexplore.ieee.org/abstract/document/6758978>; <https://link.springer.com/article/10.1007/s11423-020-09807-z>;

See Bai, Hew & Huang “Does gamification improve student learning outcome? Evidence from a meta-analysis and synthesis of qualitative data in educational contexts” at <https://www.sciencedirect.com/science/article/abs/pii/S1747938X19302908>

<sup>15</sup> See Ontario Securities Commission SC, Research Report, “Digital Engagement Practices in Retail Investing: Gamification & Other Behavioural Techniques”, November 2022, available at: [https://www.osc.ca/sites/default/files/2022-11/inv\\_research\\_20221117\\_gamification-of-retail-investing\\_EN.pdf](https://www.osc.ca/sites/default/files/2022-11/inv_research_20221117_gamification-of-retail-investing_EN.pdf); and “Digital Engagement Practices: Dark Patterns in Retail Investing”, February 2024, available at: [https://www.osc.ca/sites/default/files/2024-02/inv-research\\_20240223\\_dark-patterns.pdf](https://www.osc.ca/sites/default/files/2024-02/inv-research_20240223_dark-patterns.pdf)

<sup>16</sup> Arnold, Pelster & Subrahmanyam, 2022, Attention triggers and investors’ risk taking, available at: <https://doi.org/10.1016/j.ifineco.2021.05.031>

<sup>17</sup> Moss, 2022, How do Brokerages’ Digital Engagement Practices Affect Retail Investor Information Processing and Trading? available at: [https://austinsmoss.github.io/austinmoss.me/Moss\\_JMP\\_How-Do-DEPs-Affect-Retail-Investor-Information-Processing-and-Trading.pdf](https://austinsmoss.github.io/austinmoss.me/Moss_JMP_How-Do-DEPs-Affect-Retail-Investor-Information-Processing-and-Trading.pdf)

et al. (2022)<sup>18</sup> found that users of one specific trading app were more likely to buy stocks on the app's 'Top Movers' list.

The OSC (2022)<sup>19</sup> conducted an RCT experiment with 2,430 investors on a simulated trading platform. Participants who were randomly assigned to a platform that included a list of top-traded stocks were 14% more likely to buy and sell the stock on that list, as compared to participants in the control group with no top-traded list.

### **Peer Information**

Andraszewicz et al. (2023)<sup>20</sup> used a similar method – a simulated trading platform – to test the effect of “**peer information**”. Participants who were shown information about top performing peers held more risky assets in their portfolio and traded more actively. Apesteguia et al. (2020)<sup>21</sup> found a similar effect of providing peer information on risk-taking, as well as an even larger effect when participants could directly copy the trades of others.

### **Achievement Badges and Points**

Some studies have tested the effect of other gamification elements, such as “**achievement badges**” and “**points**”. The OSC (2022)<sup>22</sup> found that participants on a simulated trading platform made almost 40% more trades if they were rewarded with points, even when those points held a negligible economic value. Similarly, the FCA (2024)<sup>23</sup> found that investors on a simulated trading platform made 11% more trades if they were rewarded with points linked to a prize-draw. They also increased the proportion of trades they traded in that were risky

<sup>18</sup> BARBER, B.M., HUANG, X., ODEAN, T. and SCHWARZ, C., 2022, Attention-Induced Trading and Returns: Evidence from Robinhood Users, available at: <https://onlinelibrary.wiley.com/doi/abs/10.1111/jofi.13183>

<sup>19</sup> See Ontario SC, Research Report, “Digital Engagement Practices in Retail Investing: Gamification & Other Behavioural Techniques”, November 2022, available at: [https://www.osc.ca/sites/default/files/2022-11/inv\\_research\\_20221117\\_gamification-of-retail-investing\\_EN.pdf](https://www.osc.ca/sites/default/files/2022-11/inv_research_20221117_gamification-of-retail-investing_EN.pdf)

<sup>20</sup> Andraszewicz, S., Kaszás, D., Zeisberger, S. et al. 2023, The influence of upward social comparison on retail trading behaviour, available at: <https://doi.org/10.1038/s41598-023-49648-3>

<sup>21</sup> Jose Apesteguia, Jörg Oechssler, Simon Weidenholzer, 2020, Copy Trading, available at: <https://doi.org/10.1287/mnsc.2019.3508>

<sup>22</sup> See Ontario SC, Research Report, “Digital Engagement Practices in Retail Investing: Gamification & Other Behavioural Techniques”, November 2022, available at: [https://www.osc.ca/sites/default/files/2022-11/inv\\_research\\_20221117\\_gamification-of-retail-investing\\_EN.pdf](https://www.osc.ca/sites/default/files/2022-11/inv_research_20221117_gamification-of-retail-investing_EN.pdf)

<sup>23</sup> See FCA, “Research Note: Digital engagement practices: a trading apps experiment”, 2024, available at: <https://www.fca.org.uk/publications/research-notes/research-note-digital-engagement-practices-trading-apps-experiment>



investments by 6%. The study found that this was the case, even though the expected return from the prize-draw was very low.

### **Default Settings**

Another prominent example of DEPs cited by some regulators is “**default settings**”, which can be used to influence the amount investors invested and the amount of leverage used, by using investors’ tendency to follow the path of least resistance.

Other design features of trading apps and investment platforms can also impact investor behaviour. An experiment by Grant (2024)<sup>24</sup> showed that participants made larger investments when they could execute trades using a swipe, versus a click, and when firm information was coloured green versus red. Moss (2022)<sup>25</sup> concluded that the way in which one specific trading app displays earnings information affected how investors incorporated that information in their trades.

## *2.4 - The Impact of The Use of DEPs on Retail Investor Behaviour May Depend On Different Factors*

The impact of DEPs on investor behavior may depend on the type of DEPs that are used as well as characteristics of the investors, such as financial literacy and past experiences. In an experiment on a simulated trading platform carried out by the Experimental Economics Laboratory of Strasbourg University for the AMF (2023),<sup>26</sup> the academic research<sup>27</sup> found that achievement badges, information on the success of other traders, and the possibility to directly copy trades of others led to more risk-taking, whereas a visualisation of falling confetti and encouragement messages had no significant effect.

<sup>24</sup> Stephanie M. Grant, Jessen L. Hobson, Roshan K. Sinha, 2023, Digital Engagement Practices in Mobile Trading: The Impact of Color and Swiping to Trade on Investor Decisions, available at: <https://doi.org/10.1287/mnsc.2023.00379>

<sup>25</sup> Moss, 2022, How do Brokerages’ Digital Engagement Practices Affect Retail Investor Information Processing and Trading? available at: [https://austinsmoss.github.io/austinmoss.me/Moss\\_JMP\\_How-Do-DEPs-Affect-Retail-Investor-Information-Processing-and-Trading.pdf](https://austinsmoss.github.io/austinmoss.me/Moss_JMP_How-Do-DEPs-Affect-Retail-Investor-Information-Processing-and-Trading.pdf)

<sup>26</sup> AMF (2023). Experiment Report: Gamification and copy trading in finance. Available at: <https://www.amf-france.org/en/news-publications/publications/reports-research-and-analysis/gamification-and-copy-trading-finance-experiment-full-report>

<sup>27</sup> See AMF, Report/Study, “Experiment Report: Gamification and copy trading in finance”, November 2023, available at: <https://www.amf-france.org/en/news-publications/publications/reports-research-and-analysis/gamification-and-copy-trading-finance-experiment-full-report>

FCA (United Kingdom) conducted an RCT to evaluate the effect of four DEPs on retail trading behaviour in a simulated trading environment.<sup>28</sup> The four features were:

- **Flashing prices:** Real-time price changes being indicated with red and green flickers and directional arrows;
- **Push notifications:** Frequent pop-up messages about price movements;
- **Trader leaderboard:** A table of traders with the highest returns which participants could attempt to climb; and
- **Points & prize draw:** A lottery to which participants received an increased chance of winning if they traded more.

The FCA found that participants who received push notifications or were offered the points & prize draw increased the number of trades made, by 11% and 12% respectively. Push notifications and points & prize draw also increased the proportion of trades that were made in risky investments by 8% and 6%, respectively.

Subgroup analysis found that DEPs had a larger effect on certain sub-groups. In particular, those with low financial literacy increased their trading by more than those with high financial literacy in the presence of some DEPs (flashing prices and trader leaderboards).

In terms of gender behaviour and demographics, female participants increased their trading frequency by more than men in the presence of some DEPs (push notifications and points & prize draw), and younger participants (18-34) increased their end-of-trading portfolio riskiness by more than older participants (35+) across all DEPs (except flashing prices).

Chapkovski et al. (2023)<sup>29</sup> recruited participants for a simulated online trading platform designed for the purpose of the experiment. In the study, the effect of certain gamification elements, such as confetti and achievement badges, was primarily driven by self-selection: investors with lower financial literacy preferred a platform with these elements and traded over 20% more than investors who opted for a platform without gamification elements. Gamification elements did not lead to more trading mistakes.

Most studies so far have focused on the link between DEPs and investment decisions that are potentially harmful, such as excessively frequent trading and investing beyond one's risk appetite. However, as several reports point out,

<sup>28</sup> See FCA, "Research Note: Digital engagement practices: a trading apps experiment", 2024, available at: <https://www.fca.org.uk/publications/research-notes/research-note-digital-engagement-practices-trading-apps-experiment>

<sup>29</sup> Chapkovski, Philipp and Khapko, Mariana and Zoican, Marius, 2023, Trading Gamification and Investor Behavior, available at: <http://dx.doi.org/10.2139/ssrn.3971868>

DEPs can also be employed to the benefit of investors (e.g., Chapkovski, 2023<sup>30</sup>; AMF Quebec, 2022<sup>31</sup>; Cato Institute, 2021<sup>32</sup>), similar to how behaviourally informed choice architecture and information design have been used to help consumers with other financial decisions regarding retirement saving, insurance, mortgages, and consumer credit (e.g., AFM, 2021<sup>33</sup>). Direct evidence on how DEPs may be used for the benefit of investors is sparse. However, according to an experiment by the AMF (2023)<sup>34</sup>, in some cases DEPs helped retail investors to find their appropriate level of risk. Such experiment demonstrates how DEPs can potentially be used to the benefit of retail investors.

### **Regulatory Concerns Regarding the Disproportionate Use of DEPs Resulting in Poorer Financial Returns**

The regulatory concern about trading frequency is based on research that has demonstrated that trading more – and so incurring more fees and being more likely to be impacted by behavioural biases – like selling winning investments whilst holding losing investments – leads to poorer financial returns.<sup>35</sup>

<sup>30</sup> Ibid

<sup>31</sup> Quebec AMF (2022): Issues Paper: Insights into the risks and benefits of digital financial services for consumers. Available at: [https://lautorite.gc.ca/fileadmin/lautorite/grand\\_public/publications/professionnels/doc-reflexion-consos-tech\\_an.pdf](https://lautorite.gc.ca/fileadmin/lautorite/grand_public/publications/professionnels/doc-reflexion-consos-tech_an.pdf)

<sup>32</sup> See comment by CATO Institute on US SEC Broker-Dealer and Investment Adviser Digital Engagement Practices, Related Tools and Methods, and Regulatory Considerations and Potential Approaches; Information and Comments on Investment Adviser Use of Technology to Develop and Provide Investment Advice. Available at: <https://www.sec.gov/comments/s7-10-21/s71021-9315859-260057.pdf>

<sup>33</sup> See AFM study, “AFM: gebruik gedragsinzichten om verstandige financiële keuzes te bevorderen”, March 2021, available at: <https://www.afm.nl/en/sector/actueel/2021/mrt/principes-consumentengedragsinzichten> (in Dutch)

<sup>34</sup> See AMF, “GAMIFICATION AND COPY TRADING IN FINANCE AN EXPERIMENT”, November 2023, available at [h https://www.amf-france.org/en/news-publications/publications/reports-research-and-analysis/gamification-and-copy-trading-finance-experiment-full-report](https://www.amf-france.org/en/news-publications/publications/reports-research-and-analysis/gamification-and-copy-trading-finance-experiment-full-report)

<sup>35</sup> SHEFRIN, H. and STATMAN, M. 1985, The Disposition to Sell Winners Too Early and Ride Losers Too Long: Theory and Evidence, available at: <https://doi.org/10.1111/j.1540-6261.1985.tb05002.x>; Barber, B.M. and Odean, T., 2000, Trading Is Hazardous to Your Wealth: The Common Stock Investment Performance of Individual Investors, available at: <https://doi.org/10.1111/OO22-1082.OO226>; Barber, B.M. and Odean, T., 2013, The Behavior of Individual Investors, available at: <https://doi.org/10.1016/B978-0-44-459406-8.00022-6>; Antonio Gargano, Alberto G Rossi, 2018, Does It Pay to Pay Attention?, available at: <https://doi.org/10.1093/rfs/hhy050>

In an earlier study, the FCA<sup>36</sup> found an association between the number of DEPs on a trading app and the likelihood of users investing beyond their risk appetite and being at risk of problematic gambling behaviour.

<sup>36</sup> See UK FCA, Research Articles, "Gaming trading: how trading apps could be engaging consumers for the worse", November 2022, available at <https://www.fca.org.uk/publications/research-articles/gaming-trading-how-trading-apps-could-be-engaging-consumers-worse>; UK FCA, Press Releases, "FCA keeps trading apps under review over gaming concerns", June 2024, available at: <https://www.fca.org.uk/news/press-releases/fca-keeps-trading-apps-under-review-over-gaming-concerns>; UK FCA, Research Note, "Digital engagement practices: a trading apps experiment", available at: <https://www.fca.org.uk/publication/research-notes/research-note-digital-engagement-practices-trading-apps-experiment.pdf>

# CHAPTER 3: REGULATORY LANDSCAPE & RULES APPLICABLE TO USE OF DEPs BY MARKET INTERMEDIARIES

## 3.1 - Definitional Considerations

No jurisdiction currently provides a legal definition of DEPs. There are several common elements which can be drawn together to establish a common understanding of DEPs. The common elements of the definitions and descriptions of DEPs include:

- the use of technology or digital platforms;
- influencing investor behaviour, and
- use of differential marketing or customisation.

The following table presents some of the definitions or descriptions presented by IOSCO members:

**TABLE 1**

SOME DEFINITIONS OR DESCRIPTIONS OF DEPs	
Regulator	Definition/Description
US SEC	DEPs may include behavioural prompts, differential marketing, game-like features (commonly referred to as “gamification”), and other design elements or features designed to engage retail investors when using a firm’s digital platforms (e.g., website, portal, app) for services such as trading, robo-advice, and financial education. <sup>37</sup>
ESMA (EU)	Digital engagement practices (DEPs) are defined as the tools including behavioural techniques, differential marketing, gamification, design elements or design features that intentionally or unintentionally engage

<sup>37</sup> See US SEC, Press Release, “SEC Requests Information and Comment on Broker-Dealer and Investment Adviser Digital Engagement Practices, Related Tools and Methods, and Regulatory Considerations and Potential Approaches; Information and Comments on Investment Adviser Use of Technology”, August 2021, available at: <https://www.sec.gov/newsroom/press-releases/2021-167>

	with retail investors on digital platforms as well as the analytical and technological tools and methods <sup>38</sup>
National Futures Association (NFA) (USA)	Use of technological tools to attract retail investors to investing and encourage them to trade more frequently.
AFM NETHERLANDS	All elements of an online choice environment <sup>39</sup> that could influence consumer behaviour.
AMF Quebec	The various engagement techniques used with retail investors in a digital environment.
FCA	The use of the term “DEP” is not extensively used in UK, although was referred to in recent FCA research <sup>40</sup> . UK typically refers to terms such as ‘nudge’, ‘sludge’ and ‘deceptive design (dark pattern)’ rather than DEPs. The FCA had also used a defined term to denote that consumer harm may be occurring from the use of design features with ‘ <i>design features of concern</i> ’.
ASIC (AUS)	ASIC outlined that DEPs include: <ul style="list-style-type: none"> <li>➤ gamified incentives (e.g. prizes and giveaways);</li> <li>➤ social trading (e.g. finfluencer marketing, education communities and copy trading); and</li> <li>➤ the design of trading apps, websites and marketing materials.</li> </ul>

### 3.2 - Applicable Legislation and Rules

Building on the academic findings regarding the behavioural impact of DEPs, it is important to consider how these insights translate into regulatory frameworks. The use of DEPs by firms is subject to regulatory frameworks under existing jurisdictional laws and guidance that aim to ensure investor protection and market integrity. Several regulators cited sections within their local regulatory regimes, which can be used to protect consumers from harmful DEPs, such as rules that relate to online distribution, advertising and

<sup>38</sup> See ESMA, Discussion Paper, “MiFID II investor protection topics linked to digitalisation” para 83, December 2023, available at: [ESMA35-43-3682\\_Discussion\\_Paper\\_on\\_MiFID\\_II\\_investor\\_protection\\_topics\\_linked\\_to\\_digitalisation\).pdf](https://www.esma.europa.eu/press-material/press-conferences-and-events/discussion-paper-on-mifid-ii-investor-protection-topics-linked-to-digitalisation)

<sup>39</sup> Referring to the environment in which consumers interact online.

<sup>40</sup> See FCA, “Research Note: Digital engagement practices: a trading apps experiment”, 2024, available at: <https://www.fca.org.uk/publications/research-notes/research-note-digital-engagement-practices-trading-apps-experiment>

communications, and the use of technology such as AI and algorithms in the provision of services to consumers.

In this context, IOSCO members either:

- have a range of regulatory tools that can be applied to DEPs, which includes general rules used to address DEPs’ challenges; and/or
- may consider potential development of DEPs-specific legislation and rules for market intermediaries.

As a general extraction from IOSCO survey findings, although not specific to DEPs, all jurisdictions have in place other legislation or rules that could be used to address misconduct relating to DEPs and marketing. Such rules relate to misleading or deceptive conduct; unconscionable conduct; obligations to provide financial services efficiently, honestly and fairly; and obligation to have adequate arrangements for the management of conflicts of interest, as reported in the following table, according to some of the responses received.

**TABLE 2**

<b>LEGISLATION AND RULES APPLICABLE TO THE USE of DEPs BY MARKET INTERMEDIARIES</b>	
<b>Regulator/Jurisdiction</b>	<b>Content of the legislation and rules</b>
EU Jurisdictions	<p>Among others, articles from 44 to 51 (“Information to clients and potential clients”) of, European Union (EU) Commission Delegated Regulation No. 2017/565 are relevant.</p> <p>Furthermore, European Union (EU) jurisdictions have product governance legislation and rules in place, applicable both to the manufacturers and to the distributors of financial products.<sup>41</sup> Product governance legislation and rules apply horizontally to all manufacturers and distributors of financial products, regardless of DEPs usage by intermediaries.</p> <p>According to the product governance requirements introduced by the EU directive MiFID II financial instruments and structured deposits (“products”) are only manufactured and/or distributed when this is in the best interest of retail investors. In accordance with Article 16(3) and 24(2) of MiFID II, firms that manufacture products for sale to retail investors or distribute products to retail investors shall maintain, operate and review adequate product governance arrangements. As part of these arrangements, a target market of end retail investors shall be identified and periodically</p>

<sup>41</sup> See articles 16(3), 16(6) and 24(2) of the DIRECTIVE 2014/65/EU OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL of 15 May 2014 on markets in financial instruments (so called, MiFID II); articles 9 and 10 of the COMMISSION DELEGATED DIRECTIVE (EU) 2017/593 of 7 April 2016; ESMA Guidelines on MiFID II product governance requirements (27 March 2023 ESMA35-43-3448).

	<p>reviewed for each product, and a distribution strategy must also be consistent with the identified target market. The MiFID II product governance requirements should therefore ensure that firms act in their retail investors' best interests during all stages of the product's life cycle.</p> <p>The EU intermediaries are also subject to European Union legislation as regards financial services contracts concluded at a distance.<sup>42</sup></p>
AFM (NED)	<p>Besides the rules and regulation on product governance and provision of information, there is a general duty of care for financial service providers (4:24 Wft (Financial Supervision Act)). It states that a financial service provider must carefully consider the legitimate interests of a consumer or beneficiary. The AFM can only intervene in the event of obvious abuses. Based on the Unfair Commercial Practices Act (in Dutch: Wet oneerlijke handelspraktijken), the AFM has the task of monitoring compliance with consumer rules. In specific cases, the AFM could use the Unfair Commercial Practices Act, to intervene.</p>
CMA (Kuwait)	<p>In article 1-27 (CMA bylaw), duties of the Investment Advisor include, but are not limited to, the following:</p> <ol style="list-style-type: none"> <li>1. Evaluating securities.</li> <li>2. Providing consultation, issuing reports and analyses for others or through the media and means of communication in relation to one or more activities that include but not limited to the following: <ol style="list-style-type: none"> <li>a. Invest, purchase or sale of Securities and investment products.</li> <li>b. Subscribe, offer, issue or list Securities.</li> <li>c. Practice any right attached to the possession of Securities.</li> </ol> </li> <li>3. Providing Digital Financial Advisory services.</li> </ol> <p>In addition to providing any consultation or advice that may affect investors' or potential investors' decisions in disposing Securities and investment products.</p>
CNBV (Mexico)	<p>Fintech Law and other provisions in specific sections, such as the Investment Services Provisions, regulate the websites of Financial Institutions.</p>
CMBT (Turkey)	<p>The first article of the Capital Market Law states the purpose of the Law as; to regulate and supervise capital markets to ensure the functioning and development of the market in a reliable, transparent, efficient, stable, fair and competitive environment and to protect the rights and interests of investors.</p>

<sup>42</sup> See the DIRECTIVE (EU) 2023/2673 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL of 22 November 2023 amending Directive 2011/83/EU as regards financial services contracts concluded at a distance.



CNMV (Spain)	National regulation on marketing communications.
CVM (Brazil)	<p>Some of the relevant legal provisions include:  CVM RESOLUTION N° 19, OF FEBRUARY 25TH, 2021, for the activity of investment advice.  Section I - General Rules  Art. 17. The provision of securities advisement service with the use of automated systems or algorithms is subject to the obligations and rules provided for in this Resolution and does not mitigate the responsibilities of the advisor regarding the guidance, recommendations, and advising performed.  The source code of the automated system or algorithm must be available for inspection of the CVM at the company headquarters in an uncompiled version.</p>
FCA (UK)	<p>Legislation under section 21 of Financial Services and Markets Act 2000 (FSMA), known as the financial promotion restriction. Authorised persons must comply with rules when communicating or approving financial promotions. For investment business there are rules in the COBS section of the FCA handbook regarding communications with retail investors or prospective retail investors. This includes rules that require that communications are fair, clear and not misleading and fairly provide information about the risks where there are benefits referenced, can be understood by the average member of the group that is directed to or those that are likely to receive it. The Consumer Duty Consumer Understanding outcome also places requirements on firms to ensure their communications support consumer understanding to meet their information and inform their decision making.</p> <p>For firms in scope of the product governance regime (PROD in the FCA handbook) applies, and the Consumer Duty rules also set several relevant cross-cutting obligations, and outcomes that firms must meet for their products and services. The Consumer Duty requires firms to act in good faith towards retail investors as a cross-cutting obligation, and there is guidance in the rules which calls out that manipulating and exploiting retail investors behavioural biases or emotions to mis-lead or create demand would be an example of not acting in good faith. The design of the product must not adversely affect group of retail investors in the target market, including retail investors with characteristics of vulnerability. FCA would generally expect this would include assessing and if appropriate testing how the use of DEPs could impact different retail investor segments. The FCA's Consumer Duty considers intermediaries to be manufacturers of a service, which would put a broader set of obligations on them than PROD when using DEPs. Rules also exist generally for financial promotions to ensure they are fair, clear, and not misleading.</p>
FSA (Japan)	The Financial Instruments Exchange Act (FIEA) has restrictions on how market intermediaries can market their

	<p>products in general. For Crypt Asset Service Providers (CASPs), the Payment Services Act (PSA) also has a list of restrictions on the prohibited acts in relation to marketing.</p>
SEC (Nigeria)	<p>Advertisements and marketing materials are required to be truthful and not misleading. The use of models, celebrities, fictional characters, etc. is prohibited. Market intermediaries are not to employ manipulative or deceptive devices and contrivances. Rules 97, 284 SEC Rules.</p>
SFC (Hong Kong)	<p><u>For Securities:</u></p> <ul style="list-style-type: none"> <li>• Under section 300 of the Securities and Futures Ordinance (“SFO”), a person commits an offence if the person, directly or indirectly, in a transaction involving securities: (i) employs any device, scheme or artifice with intent to defraud or deceive, or (ii) engages in any act, practice of course of business which is fraudulent or deceptive, or would operate as a fraud of deception.</li> <li>• Under sections 107 and 108 of the SFO, a person commits an offence (civil and/or criminal) if the person makes any fraudulent misrepresentation or reckless misrepresentation or negligent misrepresentation to induce others to invest in securities, structured products or CIS.</li> </ul> <p>The disclosure of false or misleading information inducing transactions may constitute market misconduct which is subject to civil or criminal liability under the SFO;</p> <p><u>For Virtual Assets:</u>  For Virtual Assets, the equivalent provisions of the above can be found in Under section 53ZRF and 53ZRG of the <u>Anti-Money Laundering and Counter-Terrorist Financing Ordinance</u> (“AMLO”).</p> <p>SFC (Hong Kong) have specific rules applicable to Online Platforms operated by intermediaries. According to the Online Distribution Guidelines and related FAQs, in respect of the posting of any advertisement, research report and other investment product-specific materials on their Online Platforms, Platform Operators should note in particular, but without limitation, the following requirements relevant to the issue of such materials:</p> <ul style="list-style-type: none"> <li>• The issue of advertisements in respect of investment products is regulated by the. Certain misrepresentations made by a person may attract civil and/or criminal liability and the disclosure of false or misleading information inducing transactions may constitute market misconduct which is subject to civil or criminal liability under the SFO.</li> <li>• The contents of advertisements must also comply with relevant advertising guidelines, offer awareness guidelines, marketing materials guidelines and/or SEHK Listing Rules where applicable.</li> <li>• The requirement to ensure that advertisements do not contain information that is false, biased, misleading or deceptive.</li> </ul>

	<ul style="list-style-type: none"> <li>• For research reports, the conflicts of interest requirements and the applicable requirements under paragraph 16 (Analysts) as well as the General Principles of the Code of Conduct; and</li> <li>• The requirement to act with due skill, care and diligence in expressing any opinion.</li> </ul>
MAS (Singapore)	<p>Regulation 46, 46AA, 46AC and 46AD of the Securities and Futures (Licensing and Conduct of Business) Regulations set out requirements for advertisements (“Advertisement Rules”), which apply to all licensed intermediaries regardless of the medium utilised for the advertisements.</p> <p>Under the Advertisement Rules, licensed intermediaries are required to ensure that –</p> <ol style="list-style-type: none"> <li>a) the advertisements are not false or misleading.</li> <li>b) all product advertisement, amongst others, is presented in a clear manner, provides a fair and balanced view of the capital markets products, and is approved by the senior management of the licensed intermediaries.</li> <li>c) all non-product advertisement does not contain, amongst others, any exaggerated statement which is calculated to exploit an individual’s lack of experience or knowledge.</li> </ol>
ASIC (AUS)	<p>The Australian legislative framework has in place rules on product governance, misleading and deceptive conduct, and unsolicited contact with retail investor (hawking provisions). These are:</p> <ul style="list-style-type: none"> <li>➤ Design and distribution obligations – Corporations Act, Pt 7.8A:</li> </ul> <p>The design and distribution obligations are intended to help consumers obtain appropriate financial products by requiring issuers and distributors to have a consumer-centric approach to the design and distribution of products. In particular:</p> <ul style="list-style-type: none"> <li>• issuers must design financial products that are likely to be consistent with the likely objectives, financial situation and needs of the consumers for whom they are intended.</li> <li>• issuers and distributors must take ‘reasonable steps’ that are reasonably likely to result in financial products reaching consumers in the target market defined by the issuer; and</li> <li>• issuers must monitor consumer outcomes and review products to ensure that consumers are receiving products that are likely to be consistent with their likely objectives, financial situation and needs.</li> </ul> <p>The design and distribution obligations require issuers and distributors to develop and maintain effective product governance arrangements across the life cycle of financial products to improved outcomes for consumers of these products.</p> <ul style="list-style-type: none"> <li>➤ Misleading and deceptive conduct – ASIC ACT 2001, s12DA:</li> </ul>

	<p>A person must not, in trade or commerce, engage in conduct in relation to financial services that is misleading or deceptive or is likely to mislead or deceive.</p> <ul style="list-style-type: none"> <li>➤ Hawking provisions - s992A and 992AA, Corporations Act:</li> </ul> <p>Under the hawking prohibition, a person must not, during, or because of, an unsolicited contact with a retail investor:</p> <ul style="list-style-type: none"> <li>• offer financial products for issue or sale; or</li> <li>• request or invite the retail investor to ask or apply for financial products.</li> </ul> <p>The objective of the prohibition is for consumers to have greater control over their decisions to purchase financial products—the prohibition allows them to determine how they want to be contacted and the kinds of financial products they are offered.</p>
<p>Canadian Securities Administrators and CIRO (Canada)</p>	<p>Registered firms are required to have a compliance system in place to provide reasonable assurance that the registered firm and each individual acting on its behalf complies with securities legislation. Securities legislation requires the registered firm:</p> <ul style="list-style-type: none"> <li>• to act fairly, honestly and in good faith with clients;</li> <li>• to identify and address material conflicts of interest in the best interests of clients;</li> <li>• to ensure that either an action taken for a client is suitable or, in the case of an order-execution-only platform, that the account is appropriate for the client;</li> <li>• prohibit any person or company from making statements that are untrue or omitting information that is necessary to prevent the statement from being false or misleading;</li> <li>• to provide certain disclosures with information that a reasonable investor would consider important about the client's relationship with the registered firm; and</li> <li>• to have a system of controls in place sufficient to provide reasonable assurance that the firm and each individual acting on its behalf complies with securities legislation and manage the risks associated with its business.</li> </ul> <p>Specific to conflicts of interest, registered firms are required to identify material conflicts of interest and address those material conflicts via avoidance or control or through disclosure to the investor. If those conflicts include or relate to the use of DEPs, the registered firm is expected to identify it as material and address the conflict in the best interest of the client.</p> <p>Furthermore, if those DEPs relate to the use of specific marketing strategies or techniques, CSA and CIRO staff have published "Staff Notice 21-330 Guidance of Crypto Trading Platforms: Requirements relating to Advertising, Marketing and Social Media Use" to address issues raised in respect of advertising activities and marketing strategies by crypto trading platforms.</p>

SEC Thailand	<p>Firms that use algorithms to provide retail investor service have defined supervisory duties for personnel, such as: (a) the board of directors or senior executives recognize and approve the policy for using technology to provide retail investor services, including evaluating the overall process and risk management; and (b) a designated person must know and understand the technology or algorithms used, which can realize rationale, principles, and risk.<sup>43</sup> As a result, any use of DEPs to provide services to retail investors requires securities companies to ensure that it is in the best interest of the retail investors.</p>
US SEC/FINRA	<p>In addition to the regulations discussed in the table below, broker-dealers and investment advisers are currently subject to extensive obligations under this jurisdiction's federal securities laws and regulations, and in the case of broker-dealers, rules of self-regulatory organizations ("SROs") (in particular, the Financial Industry Regulatory Authority, Inc. ("FINRA")).<sup>44</sup></p> <p><u>Existing Broker-Dealer Obligations:</u></p> <p>Under the anti-fraud provisions of the federal securities laws and SRO rules, broker-dealers are required to comply – among others – with the following rules:</p> <ul style="list-style-type: none"> <li>• <u>Communications with the Public Rules.</u> Broker-dealers are subject to several rules governing communications with the public, including advertising or marketing communications. These rules apply to broker-dealers' written (including electronic) communications with the public and are subject to obligations pertaining to content, supervision, filing, and recordkeeping. All communications must be based on principles of fair dealing and good faith, be fair and balanced, and comply with a number of other content standards. Through its filings review program, FINRA's Advertising Regulation Department reviews communications submitted either voluntarily or as required by FINRA rules. In the case of communications relating to options, broker-dealers are subject to certain heightened obligations.</li> <li>• <u>Disclosure Obligations.</u> Broker-dealers are subject to a number of customer disclosure obligations.</li> <li>• <u>Supervision Obligations.</u> Broker-dealers must "establish and maintain a system to supervise the activities of each associated person that is reasonably designed to achieve compliance with applicable securities laws and regulations, and with applicable FINRA rules."</li> </ul> <p><u>Existing Investment Adviser Obligations:</u></p>

<sup>43</sup> Notification of the Office of the Securities and Exchange Commission Sor Thor. 30/2561.

<sup>44</sup> FINRA rules only apply to broker-dealers that are members of FINRA.

The Investment Advisers Act of 1940 (“Advisers Act”) establishes a federal fiduciary duty for investment advisers, regardless of whether they are registered with the U.S. SEC, which is made enforceable by the anti-fraud provisions of the Advisers Act. The fiduciary duty is broad and applies to the entire adviser–client relationship and must be viewed in the context of the agreed-upon scope of that relationship.

Rules adopted under the Advisers Act also impose various obligations on registered investment advisers (and investment advisers required to be registered with the U.S. SEC), including, among others:

- Disclosure Requirements. Registered investment advisers are subject to a number of client disclosure obligations, including disclosures that must be provided before or at the time of entering into an advisory contract, annually thereafter, and when certain changes occur.
- Compliance Programs. Under rule 206(4)-7, a registered investment adviser must adopt and implement written policies and procedures reasonably designed to prevent violation of the Advisers Act and the rules thereunder by the firm and its supervised persons.
- Supervision Obligations. Registered investment advisers have a duty to reasonably supervise certain persons with respect to activities performed on the adviser’s behalf.

Moreover, some jurisdictions have a full set of rules in relation to how financial products are marketed and distributed to retail investors by market intermediaries using DEPs.

### *3.3 - Potential Development of DEPs-Specific Guidance for Market Intermediaries*

Most responding regulators do not have rules applicable to market intermediaries that are specific to the use of DEPs; however, as noted above, they have other existing rules that apply to market intermediaries and their activities, including potentially the use of DEPs by such intermediaries. Hence, IOSCO has discussed with its membership to analyse the need for global guidelines for DEPs and the benefits and challenges thereof. Below are some of the important IOSCO membership feedback, highlighting the pros/cons in this regard:

- Several regulators (CMA/Kuwait, CNBV/Mexico, CMBT/Turkey, CONSOB/Italy, FCA/UK, OSC/Canada, SEC/Nigeria, MAS/Singapore) would favour the development of global guidance. As noted by one regulator (CVM Brazil), this could be challenging, given the limited information and understanding regarding the effects and practices

associated with the use of DEPs in the financial market within the concerned jurisdiction.

- AFM (NED) believe that regulation should focus on promoting that DEPs are used in the best interest of the consumer (positive steering) instead of banning the use of (specific) DEPs. This could contribute to a level playing field.
- According to the FCA (UK), their rules under Consumer Duty should shift the approach of firms in how they design their products/services, sufficiently test these products/services throughout their lifecycle and monitor the outcomes that retail investors receive. This should lead to better practice for the use of DEPs but will require more testing of firm approaches to these new requirements.
- The UK FCA's approach under the Consumer Duty is to focus on this outcomes-based regulation, including for DEPs. Where poor outcomes are identified, the FCA expects firms to be proactive in resolving these. In this regard, the FCA has identified possible improvements, requirements, limitations, or prohibitions that would reduce potential harm to retail investors from a specific DEP or DEPs in general. The Consumer Duty principles require firms, among other things, to avoid foreseeable harm, act in good faith and to consider how products and services impact different groups of retail investors and retail investors with characteristics of vulnerability.
- The types of actions that firms should consider to meet their obligations under the Consumer Duty include:
  - 1) knowing their retail investor base better, for example using indicators regarding a retail investor's ability to bear losses or a retail investor's expected trading activity;
  - 2) where problematic retail investor behaviour is identified (through activity monitoring or otherwise), to take appropriate action;
  - 3) removing 'gamification' techniques which may exploit retail investor biases.
- According to CONSOB (ITA), considering the quick pace of technology developments also in the area of the provision of investment services, it would seem appropriate to consider if/what additional specific rules could be implemented to ensure that investors continue to benefit from an adequate level of protection in this fast-evolving environment. Given the possibility for DEPs to be used on a cross-border basis, CONSOB see merit in developing a consistent and coordinated approach from all competent Authorities potentially involved.
- Although supportive of global guidance, OSC (Canada) believe that specific prohibitions and requirements relating to the use of DEPs may

quickly become outdated. Existing investor protection measures apply equally to activities conducted digitally and those conducted through other more traditional means. Thus, OSC feel that a principles-based and technology neutral approach of applying existing rules would address many of the concerns.

- OSC’s approach seems consistent with the one expressed by ESMA in its technical advice to the European Commission regarding digital disclosures.<sup>45</sup> ESMA conclusion is that the overarching principles set by the MiFID II legislative framework apply to the provision of investment and ancillary services irrespective of the channel and the communication means. The evolving nature of different forms of interaction between firms and their retail investors or potential retail investors suggest not to crystallise changes at the legislative level and rather rely on more flexible “Level 3” guidance (i.e., guidelines and Q&As).

### *3.4 - IOSCO Members’ Rules and Initiatives Related to DEPs*

Various IOSCO members have reported a rise in the use of DEPs by market intermediaries to interact with retail investors. In addition to research mentioned above, some IOSCO members have conducted research, launched public consultations or issued guidance and recommendations to better identify the challenges raised by DEPs and address them more effectively.

#### **The US SEC**

For example, the US SEC issued in August 2021 a request for information and public comment on topics related to the use of DEPs by broker-dealers and investment advisers, among other things. In this information request, the US SEC noted that when interacting with retail investors via digital platforms, broker-dealers and investment advisers use a range of DEPs. Through this initiative, the SEC aimed, in part, to develop a better understanding of market practices associated with the use of DEPs by firms, to facilitate the assessment of existing regulations and to determine whether regulatory action was warranted.<sup>46</sup>

<sup>45</sup> 29 April 2022 | ESMA35-42-1227, page 45.

<sup>46</sup> See US SEC, “Request for Information and Comments on Broker-Dealer and Investment Adviser Digital Engagement Practices, Related Tools and Methods, and Regulatory Considerations and Potential Approaches; Information and Comments on Investment Adviser Use of Technology to Develop and Provide Investment Advice”, August 2021, available at: <https://www.sec.gov/files/rules/other/2021/34-92766.pdf>  
In July 2023, the US SEC proposed new rules that would require broker-dealers and investment advisers (collectively, “firms”) to take certain steps to address conflicts of interest associated with their use of predictive data analytics and similar technologies to



A subcommittee of the Investor Advisory Committee for the US SEC released draft recommendations regarding DEPs in December 2023, which were updated in February 2024 and approved by the Investor Advisory Committee in March 2024.<sup>47</sup> The subcommittee observed that whereas DEPs have increased investors' participation in the securities markets, they have also raised new challenges regarding the need to adequately inform and protect those investors. Various recommendations were provided to the US SEC and USA's Financial Industry Regulatory Authority (FINRA) so that they can better address the challenges raised by DEPs.

## ESMA

The European Securities and Markets Authority (ESMA) released a call for evidence on certain aspects relating to retail investor protection in October 2021.<sup>48</sup> In this call for evidence, ESMA noted that the COVID-19 pandemic has accelerated the digitalization of financial services. ESMA also asked for contributions related to the appropriateness of the current regulatory framework about digital tools and channels and welcomed input on the impact of information shared on social media on retail investors' behavior.

ESMA stated that, while the use of gamification techniques can help to convey complex information in a simple and rewarding way, the wrong use of these techniques can push investors to take actions based on emotions rather than through rational decisions.

ESMA released a discussion paper on various topics related to the protection of investors in the context of the digitalization of financial markets<sup>49</sup> in

interact with investors to prevent firms from placing their interests ahead of investors' interests. Depending on their use, certain DEPs may fall within the scope of the rules, if finalized. As of the date of this report, the US SEC is considering public comments on the proposal, available at: <https://www.sec.gov/files/rules/proposed/2023/34-97990.pdf>

<sup>47</sup> Disclosure Subcommittee of the Investor Advisory Committee of the Securities and Exchange Commission, "Recommendation of the SEC Investor Advisory Committee's Disclosure Subcommittee Regarding Digital Engagement Practices", available at: <https://www.sec.gov/files/approved-20240214-draft-recs-use-dep.pdf>. See also US SEC Staff, "Prepared Remarks Before the Investor Advisory Committee", March 2022, available at: <https://www.sec.gov/news/speech/gensler-iac-2022-03-10> and US SEC Staff, "Remarks on Digital Engagement Practices, before the Investor Advisory Committee (IAC)", December 2023, available at: <https://www.sec.gov/news/speech/lizarraqa-remarks-iac-20231207>. These publications represent the views of the authors. They are not rules, regulations, or statements of the US SEC.

<sup>48</sup> On February 17, 2021 ESMA also issued a Statement urging retail investors to be careful when taking investment decisions based exclusively on information from social media and other unregulated online platforms, if they cannot verify the reliability and quality of that information, available at: [https://www.esma.europa.eu/sites/default/files/library/esma70-155-11809\\_episodes\\_of\\_very\\_high\\_volatility\\_in\\_trading\\_of\\_certain\\_stocks\\_0.pdf](https://www.esma.europa.eu/sites/default/files/library/esma70-155-11809_episodes_of_very_high_volatility_in_trading_of_certain_stocks_0.pdf)

<sup>49</sup> See ESMA, Discussion Paper, "MiFID II investor protection topics linked to digitalisation" para 83, December 2023, available at: <https://www.esma.europa.eu/sites/default/files/2023->

December 2023. In this discussion paper, ESMA seeks comments on these various topics, which include DEPs and gamification.

### Ontario Securities Commission (Canada)

The Ontario Securities Commission (OSC) released a staff notice on DEPs in retail investing<sup>50</sup> in November 2022. The OSC stated in this staff notice that it has seen a wave of digital mobile-friendly investing platforms that employ DEPs. The notice also looked at how investor conduct is influenced by gamification and other behavioral techniques. This involved assessing the impact of two gamification techniques on investing behaviors in a simulated trading environment. The OSC staff notice included recommendations that the OSC and other regulators gather more data on the impact of different behavioral techniques on retail investors behaviors and decisions, and that regulators seek to leverage data collected by digital investing platforms.

### The CFA Institute

The CFA Institute published in November 2022 a report regarding gamification in the capital markets.<sup>51</sup> In this report, the CFA Institute noted that gamification and other behavioral techniques are being used increasingly in the financial services sector. The CFA Institute also outlined several recommendations aimed at regulators and industry stakeholders on how they could shape their approach to address the challenges raised by gamification.

**TABLE 3**

<b>CONSULTATIONS/PUBLICATIONS ON DEPs BY SOME IOSCO MEMBERS</b>	
<b>IOSCO member</b>	<b>Summary of research</b>
US SEC	<ul style="list-style-type: none"> <li>➤ August 2021: US SEC request for information and public comment on topics related to the use of DEPs, to develop a better understanding of market practices associated with the use of digital engagement practices by firms. In July 2023, the US SEC proposed new rules that would require broker-dealers and investment advisers (collectively, "firms") to take certain steps to address conflicts of interest</li> </ul>

[12/ESMA35-43-3682 Discussion Paper on MiFID II investor protection topics linked to digitalisation.pdf](https://www.esma.europa.eu/press-material/press-conferences-and-events/discussion-papers-and-consultations/12/esma35-43-3682-discussion-paper-on-mifid-ii-investor-protection-topics-linked-to-digitalisation.pdf)

<sup>50</sup> See Ontario Securities Commission, "OSC Staff Notice 11-79 – Digital Engagement Practices in Retail Investing: Gamification and Other Behavioural Techniques", November 2022, available at: [https://www.osc.ca/sites/default/files/2022-11/sn\\_20221117\\_11-796\\_gamification-report.pdf](https://www.osc.ca/sites/default/files/2022-11/sn_20221117_11-796_gamification-report.pdf)

<sup>51</sup> See CFA Institute, "Fun and Games: Investment Gamification and Implications for Capital Markets", November 2022, available at: <https://rpc.cfainstitute.org/-/media/documents/article/industry-research/investment-gamification-implications.pdf>

	<p>associated with their use of predictive data analytics and similar technologies to interact with investors to prevent firms from placing their interests ahead of investors' interests. Depending on their use, certain DEPs may fall within the scope of the rules, if finalized. As of the date of this report, the US SEC is considering public comments on the proposal.</p> <ul style="list-style-type: none"> <li>➤ March 2024: US SEC's Investor Advisory Committee subcommittee recommendations regarding DEPs approved by Investor Advisory Committee. The subcommittee observed that whereas DEPs have increased investors' participation in the securities markets, they have also raised new challenges regarding the need to adequately inform and protect investors.</li> </ul>
ESMA (EU)	<ul style="list-style-type: none"> <li>➤ October 2021: ESMA's call for evidence on certain aspects relating to retail investor protection. ESMA stated that, while the use of gamification techniques can help to convey complex information in a simple and rewarding way, the wrong use of these techniques can push investors to take actions based on emotions rather than through rational decisions.</li> <li>➤ December 2023: ESMA's discussion paper on various topics related to the protection of investors in the context of the digitalization of financial markets, including DEPs and gamification.</li> </ul>
Ontario Securities Commission (OSC) (CANADA)	<p>November 2022: OSC's staff notice on DEPs in retail investing. A wave of digital mobile-friendly investing platforms that employ DEPs was observed. The notice also looked at how investor conduct is influenced by gamification and other behavioral methods and included recommendations that the OSC and other regulators gather more data on the impact of different behavioral techniques on retail investors behaviors and decisions, and that regulators seek to leverage data collected by digital investing platforms.</p> <p>February 2024: The OSC issued a research report "Digital Engagement Practices: Dark Patterns in Retail Investing" that examined the use of dark patterns, dark nudges, sludge and targeted advertising and how those techniques are being used by online trading platforms.<sup>52</sup></p>
CFA INSTITUTE (global)	<p>November 2022: report regarding gamification in the capital markets. The report noted that gamification and other behavioral techniques are being used increasingly in the financial services sector. The CFA Institute report encompasses recommendations on how regulators and industry stakeholders could shape their approach to address the challenges raised by gamification.</p>

<sup>52</sup> See [https://www.osc.ca/sites/default/files/2024-02/inv-research\\_20240223\\_dark-patterns.pdf](https://www.osc.ca/sites/default/files/2024-02/inv-research_20240223_dark-patterns.pdf)

# CHAPTER 4: BENEFITS & RISKS ASSOCIATED WITH THE USE OF DEPs

## 4.1 - Benefits

DEPs may be used in ways that benefit retail investors. For instance, DEPs may promote enhanced portfolio diversity and increase retail investors' participation in the financial markets, while also encouraging the development of their financial literacy and helping them to set and monitor progress towards long-term retirement savings goals.<sup>53</sup>

The following table provides some examples of the benefits of DEPs observed by some IOSCO members:

**TABLE 4**

DEPs POTENTIAL BENEFITS	
Jurisdiction/Regulator	Observed potential benefits
AFM (NED)	The use of chatbots or the use of defaults to prevent retail investors from defaulting to the riskiest option can be beneficial for retail investors.
AMF (Quebec)	DEPs may benefit retail investors, including the promotion of sound financial behaviours and heightening of investor's vigilance toward frauds and scams. By nudging investors to take actions, DEPs may help consumer break poor financial habits.
ASIC (Australia)	DEPs, where orders are placed for the retail investor automatically based on the retail investor's own parameters, might be useful. This kind of DEP has the potential to help retail investors reach their investment goals faster and drive positive investing habits.
FCA (UK)	In-app educational materials; help or feedback functionality; visualisations, graphs and examples to show costs or returns over time can be presented in a simplified manner; risk warnings can be displayed clearly.

<sup>53</sup> See Ontario Securities Commission, "OSC Staff Notice 11-79 – Digital Engagement Practices in Retail Investing: Gamification and Other Behavioural Techniques", November 2022, available at: [https://www.osc.ca/sites/default/files/2022-11/sn\\_20221117\\_11-796\\_gamification-report.pdf](https://www.osc.ca/sites/default/files/2022-11/sn_20221117_11-796_gamification-report.pdf)

## 4.2 - Risks

However, in many circumstances, the growing use of DEPs, often coupled with other digital features/practices like AI & ML, marketing by finfluencers, and copy trading, may also result in retail investor harm.

According to research conducted by some regulators and based on members' feedback, DEPs may potentially present the following risks:

### ***Lack of disclosure and information asymmetries***

Leaderboards, copy trading and differentiated marketing may promote risky or complex products that may be cross-sold and presented to retail investors as simple and profitable.

### ***Misleading or deceptive disclosures***

Leaderboards and rankings may mislead/misguide retail investors about their expertise level, strategies, products traded, risk-adjusted returns, past returns, incentives and performance benchmarks/targets.

### ***Increased trading frequency by Retail Investors***

The incentivization mechanism may lead to the use of DEPs encouraging retail investors to trade more frequently to the benefit of the firm when it may not be in investors' best interest to do so, therefore creating a potential conflict of interest between the firm and the investor. Hence, retail investors may also invest in products that may be unsuitable for them, may be steered by the intermediary to products that are more profitable to the intermediary, or change their investment strategy without full consideration or awareness of the risks involved.<sup>54</sup>

### ***Absence or deficiency in the maintenance of the technology used, with possible detrimental effects on retail investors (technology-related risks)***

Market intermediaries using DEPs may not be able to properly manage and maintain the technology supporting the DEPs to ensure that technology and the related DEPs do not place the interests of the market intermediary above the interests of retail investors.

### ***Failure of market intermediaries to understand the DEPs used by them and data quality (technology-related risks)***

<sup>54</sup> See FCA, "Research Note: Digital engagement practices: a trading apps experiment", 2024, available at: <https://www.fca.org.uk/publications/research-notes/research-note-digital-engagement-practices-trading-apps-experiment>

DEPs may be based on complex or outsourced technologies and market intermediaries may not be able to adequately evaluate the quality of the data on which the technology relies. Consequently, market intermediaries may not be able to adequately understand or there might be explainability problems as regards to why DEPs are promoting certain products to retail investors.

***Data Confidentiality Concerns Regarding the Collection of Data***

DEPs may gather data from retail investors to be used for more frequent marketing activity and there might be data confidentiality concerns around the safeguarding of this data.

***Lack of proper due diligence in online selling, marketing practices, and onboarding***

Market intermediaries that have online trading platforms with poor product design and inadequate corporate governance frameworks may fail to have safeguards in place to avoid aggressive distribution and marketing practices, especially when promoting high-risk financial products. Furthermore, inadequate onboarding practices of market intermediaries for retail investors may result in failures in monitoring target market compliance and in investor complaints, and while not an obligation, may not enable the market intermediary to have a clear vision of retail investor losses or turnover, which would allow the firm to take action where required under jurisdictional regulatory frameworks.

# CHAPTER 5: CURRENT GLOBAL STATE OF PLAY IN THE USE OF DEPs

## *5.1 - Increasing Use of DEPs by Market Intermediaries*

In recent years, mobile apps and websites used by market intermediaries have become increasingly digitalized. Various factors are in play on both the supply and demand sides.

On the demand side, multiple factors, most of which emerge from technological developments, seem to have led many retail investors to manage their finances through online applications and websites. Today, retail investors are engaging with a wide range of online trading platforms and apps offering quick and easy access to many types of products including equities, complex retail OTC leveraged products and cryptocurrencies.

On the supply side, firms are using a range of DEPs in the marketing and distribution of financial products and services to retail investors. DEPs are a key tool for providers to attract retail investors, keep those retail investors engaged and to influence retail investor behaviour and decisions, whether intentionally or unintentionally. Additionally, recent growth in artificial intelligence (AI) & machine learning (ML) may mean the increased deployment of such technologies in the design and implementation of DEPs to engage with retail investors.

## *5.2 - Types of DEPs Being Used by Market Intermediaries*

Retail investors who use online trading platforms and mobile applications are increasingly exposed to a wide range of DEPs. The broad categories of DEPs used by market intermediaries may include, among others:

- Gamified incentives, e.g. games, streaks, contests with prizes, giveaways and celebrations for trading;
- Copy/mirror/social trading and networking, education communities and leaderboards;
- Online trading app design and websites;
- Differential marketing; and
- Nudging techniques, such as notifications and some types of goal and progress feedback.

As highlighted, the growth in the use of AI & ML merits some careful consideration, as it can result in an increase in the speed of distribution of DEPs. IOSCO believes that it is a best practice for regulators to keep pace with the

developments in DEPs and fine-tune their technology infrastructure and regulatory approach due to the increasing use of DEPs by firms in their online distribution and marketing efforts. One specific possible regulatory/legal challenge for IOSCO members in the future would be to prove the causation between DEPs and retail investor harm, if retail investor harm occurs because of product offerings/trading that is facilitated via use of DEPs by market intermediaries.

Table 5 below ranks the most commonly observed DEPs by IOSCO members in their respective jurisdictions. Complementary to Table 5, Table 6 then ranks the prevalence of the DEPs from Table 5 observed by members in their jurisdiction. Note that some regulators do not consider all the options listed in the tables below to be DEPs. See Table 1 for a list of jurisdictional definitions or descriptions of DEPs.

**TABLE 5**

<b>TOP 10 OBSERVED DEPs</b>	
<b>Type of DEP</b>	<b>Observed</b>
Websites, portals and applications or 'apps'	10.3%
Notifications	9.0%
Social networking tools	9.0%
Most popular or top stocks (social norms)	6.5%
Contests with prizes	5.8%
Chatbots	5.2%
Subscriptions and membership tiers	5.2%
Behavioural prompts	4.5%
Leaderboards	4.5%
Differential marketing	4.5%

**TABLE 6**

<b>TOP 10 PREVALENCE OF DEPs</b>	
<b>Type of DEP</b>	<b>Prevalence</b>
Websites, portals and applications or 'apps'	14.0%
Contests with prizes	10.0%
Social networking tools	10.0%



Behavioural prompts	8.0%
Notifications	8.0%
Chatbots	6.0%
Most popular or top stocks (social norms)	6.0%
Leaderboards	6.0%
Badges	4.0%
Subscriptions and membership tiers	4.0%

### 5.3 - Use Cases by Market Intermediaries

In their response to the IOSCO survey, regulators have identified a wide range of DEPs use cases (over 20). Table 7 reports the top 10 DEP uses cases ranked by IOSCO member regulators.

**TABLE 7**

DEPs USE CASES	
DEP use cases	Ranking by most observed
Accounts openings	8.8
Online Trading	7.2
Increasing engagement with the app or platform	4.1
Retail investor education	2.2
Funding of accounts <sup>55</sup>	1.7
Retail investor onboarding and account openings	1.7
Trigger behaviour changes to trade more or trigger a call to action	1.3
Increasing trading frequency	1.0
Account management through app	0.7

<sup>55</sup> Funding accounts offer investors to start trading without making an initial deposit. The deposit is provided by a third-party. This makes this practice risky for retail investors.

Examples of use cases identified by one regulator during a review of DEPs are set out below.

**Practical example from regulator** - Use case - Online Trading - ASIC (Australia)

“In our review we found that the DEP use case for 'trading (online)' involved practices which were designed to induce investors to trade more frequently. This practice had the potential to result in excessive trading (“churning”) and was accompanied by active promotion of low-cost trading and zero brokerage, which had the potential to mask the true cost of trading. We believe this was creating a conflicted business model, which was likely to contribute to poor retail investor outcomes.

Furthermore, the marketing campaign material we have reviewed the language included:

- ‘push the retail investor to purchase’
- ‘encourage existing retail investors to increase their trading volumes’
- ‘move them from consideration to action’
- ‘drive habitual behaviour change’
- ‘make investing front of mind’.

Whilst establishing the causal link between the DEP types (and their associated use cases), and increased trading by targeted retail investors is a challenge (and is a focus for us in 24/25 FY), in the example above, we are actively testing the application of certain areas of our law, such as the ones related to “misleading or deceptive conduct” and “providing financial products and services efficiently, honestly and fairly”, to take action to address misconduct”.

## 5.4 - Personalisation and Tailoring of DEPs

Some IOSCO members have observed personalisation or tailoring by firms of DEPs by using retail investor data. Such personalisation and tailoring include the use of risk profiling to display tailored product lists to those retail investors.

**Practical example from regulator** – Personalisation in use of DEPs – One regulator has observed the following:

“We have observed certain firms shortlist and display a tailored list of products for retail investors, e.g. “product of risk rating X or below may suit you or match your risk tolerance level” or “these products may suit you or match your risk tolerance level” immediately after the retail investors completed their risk profiling exercises”.

Other observed personalisation practices used by firms include:

- Third party behavioural science techniques combined with sophisticated analytics (sometimes using AI/ML) to profile investors to design DEPs to influence their behaviour, [ASIC (Australia)]

<sup>56</sup> Cross-selling practice means the offering of an investment service together with another service or product as part of a package or as a condition for the same agreement or package (in this sense, EU Directive 2014/65, art. 4, point (42)).

- Limiting the options that a retail investor has available when copy trading. That is, the retail investor’s suitability assessment is used to restrict the array of lead traders a retail investor can copy. [FCA (United Kingdom)]
- Using a DEP to tailor services offered to investors such as account opening and trading triggers based on investor information from chatbots [CMB (Turkey)]
- Different online choice environments provided by firms considering different types of investors. [AFM (Netherlands)].

Most examples of DEPs referenced were in connection with a potentially harmful conduct, such as influencing the frequency of trading or trading in riskier products.

That being said, the FCA noted two examples where DEPs were used by firms for positive retail investor outcomes:

**Practical example from regulator** – Using DEPs for positive retail investor outcomes – FCA (United Kingdom).  
 We are aware of firms that are pro-actively reaching out to consumers (through banner notifications) when it appears that retail investors are displaying potentially problematic or erratic trading behaviour (e.g., gambling-type). The firm can send access to helpful materials to help prevent gambling-type behaviour or even, with the user’s discretion, blocking access the app”.  
 “We’re aware of some firms that have sent e-mails to retail investors with a significant level of cash in their stocks and shares individual savings account (ISA), with the intention of reducing the amount of money they hold in cash. We’re also aware of firms that have sent notifications to consumers to encourage them to consider diversifying their portfolio if they are invested entirely in one asset class.

## *5.5 - Demographics and Investor Profile/Characteristics in DEPs Targeting*

Some regulators noted that firms that used DEPs had a younger retail investor demographic. For example, the FCA noted that the average retail investor age on trading app firms that are extensively using DEPs is around 30 years old, compared to investment platforms that do not use DEPs – or use minimal DEPs – of around 40 years old.

A few regulators also noted that firms are using DEPs to market their business and proposition as different than others to differentiate themselves from other firms in a competitive environment and to attract particular demographics and profiles of retail investors.

**Practical example from regulator 1** – Point of difference marketing – ASIC (Australia)  
 “Beyond age groups, we observed that intermediaries often had different narratives to describe their business to position themselves to have different value propositions and points

of difference to appeal to certain types of consumers due to the highly competitive market with so many new entrants.

One neo-broker stated that they designed their marketing campaigns (which included the use of DEPs) to attract minority groups, including women. This neo-broker mentioned that they feel minority groups were traditionally left out of trading.

Another intermediary stated that they targeted investors seeking access to the US market, which by virtue of this characteristic, was a younger more digitally savvy audience”.

**Practical example from regulator 2** – Retail investor profiles and differentiated marketing of services and products – CSRC (China)

“A major difference between different brokerages comes from their brand image and service specialties, leading to variations in their retail investor base. Some brokerages excel in serving high-net-worth retail investors, giving rise to wealth management digital products, FOF (Fund of Funds) services, and investment research support tailored for these retail investors. Others are adept at mass retail business, generating convenient trading options and low-cost digital services for this type of retail investor”.

## 5.6 - Use of DEPs & Provision of Investment Services

The use of DEPs may have certain tangential elements that equate to the provision of investment services, which may require specific authorisation. In certain jurisdictions this is particularly relevant for the potential interactions of DEPs with investment advice rules. Regarding this observation, the responding regulators were split, as reported in the following table.

The US SEC noted that, under the jurisdiction’s existing federal laws and regulations, the use of a DEP by a broker-dealer may, depending on the relevant facts and circumstances, constitute a recommendation for purposes of Regulation Best Interest (“Reg BI”).<sup>57</sup> Broker-dealers satisfy their obligations under Reg BI by complying with four specified component obligations:

- a disclosure obligation;
- a care obligation;
- a conflict of interest obligation; and
- a compliance obligation.<sup>58</sup>

Also, investment advisers have a fiduciary duty to eliminate, or at least to expose all conflicts of interests, including those that arise from their use of DEPs, which might incline them—consciously or unconsciously—to render advice that is not disinterested.<sup>59</sup>

<sup>57</sup> See Section 4.1.

<sup>58</sup> See RFI at 31-32.

<sup>59</sup> See Proposed Rule at 84.

The US SEC also reported in its survey response that in 2023 the Commission issued the Proposed Rule (discussed in section 7.3, table 10).<sup>60</sup>

**TABLE 8**

<b>DEPs AND PROVISION OF INVESTMENT ADVICE</b>	
<b>Jurisdiction</b>	<b>Relevant observation</b>
AFM (NED)	AFM did not observe DEPs that explicitly contain advice or recommendations. However, they observed DEPs or elements of the choice environment that may reasonably be interpreted as an (implicit) advice or recommendation by retail investors. In a study on online investment platforms, AFM observed differences in the default option and other elements of the choice environment, such as the way in which options are ordered and structured. Investors may be drawn to investment products that are listed at the top or at the home screen of the app. This may in part be due to investors following the path of least resistance (i.e., inertia); however, it may also be due to investor interpreting these design choices as implicit recommendations. For instance, when an option presented prominently on the landing page of a website or app, it may be interpreted by investors as the recommended option.
AMF (FRANCE)	AMF France observed cases, where the suitability tests took the form of online quiz. In this way, investors tended to consider the test a game to assess their knowledge, rather than a test to evaluate whether the product was suited to their knowledge and experience. Cases like the above were seen in the provision of robo-advising by a private bank. Where the use of DEPs translates into the provision of investment service, it must comply with the EU regulatory framework, in particular with MiFD II Directive and Market Abuse Regulation (MAR).
CMB (Turkiye)	CMB conducted investigations upon the use of certain programs/applications by intermediary institutions that enable investors to create their own signals and strategies, and programs with similar working principles that generate scenarios regarding the results of technical analysis with the help of graphics. As a result, CMB has determined that the service provided by the applications could be considered as general recommendations, which do not fall under the framework of investment advisory activity. Investment advisory services may only be provided by investment firms who have obtained a licence from the CMB under the regulatory framework related to provision of investment advisory services. General recommendations and provision of financial information activities may be carried out without obtaining authorisation from the Board, provided that they are in compliance with the legislation.
CNMV (Spain)	CNMV observed some firms offering online advice via web or apps usually on noncomplex products (UCITS). CNMV also observed one firm offering a suggestion of a portfolio (including graphs and simulations of future returns),

<sup>60</sup> See US SEC, Proposed Rule, Comments on Conflicts of Interest Associated with the Use of Predictive Data Analytics by Broker-Dealers and Investment Advisers, available at: <https://www.sec.gov/comments/s7-12-23/s71223.htm>.

	based on the answers of the retail investor to a set of simple questions (risk profile). This element was part of the marketing materials in relation to an advice service offered by the firm, but it included a disclaimer that the preliminary suggestion will need to be confirmed with a complete suitability test.
CONSOB (Italy)	Currently, transactions involving DEPs in Italy are carried out within the context of pure execution services, without any provision of investment advice.
FCA (United Kingdom)	The FCA consider the use of DEPs are often associated with “execution-only” services. The FCA have explored the use of DEPs with some firms in their supervisory work and research. However, the FCA do not have an exhaustive population of firms that use DEPs. Moreover, FCA do not specifically know the reasons why those firms use those DEPs. The FCA do observe the use of educational materials integrated into online trading platforms of some firms. This can include explainer videos or articles about general investment education, or more specific information about products/services available on the platform. The FCA also have observed social/community features such as forums in online platforms where retail investors can participate in open discussions to share insights and trading strategy, or even comment on trades that other traders have executed (e.g., a trade by a lead trader - copy trading), to initiative a conversation among investors about this action.
FSC (Taiwan)	As of now, DEPs used by securities firms in Taiwan usually provide investment information only.
NFA (USA)	NFA recently began a project to review mobile applications used by their members. NFA also conducted a review of members’ websites and other on-line advertising, whereby the exchanges offer smaller-sized futures contracts to attract more retail investors. These projects are still on-going.
OSC (Canada)	OSC published two reports on Gamification and Dark Patterns. <sup>61</sup> These two reports observed the use of DEPs to steer or direct users towards certain choices, some of which can be beneficial (e.g., opening an account) while others can be harmful (e.g., investing in riskier assets). The use of DEPs may steer or direct investors towards certain products (e.g., top traded lists being prominently featured, or a prominent display to direct investors to “explore crypto” when they are in their investment account).
SFC (Hong Kong)	SFC observed the use of robo-advice.
US SEC (USA)	<u>Existing Investment Adviser Obligations</u> . The Investment Advisers Act of 1940 (“Advisers Act”) establishes a federal fiduciary duty for investment advisers,

<sup>61</sup> See Ontario Securities Commission, “OSC Staff Notice 11-79 – Digital Engagement Practices in Retail Investing: Gamification and Other Behavioural Techniques”, November 2022, available at: [https://www.osc.ca/sites/default/files/2022-11/sn\\_20221117\\_11-796\\_gamification-report.pdf](https://www.osc.ca/sites/default/files/2022-11/sn_20221117_11-796_gamification-report.pdf) and See Ontario SC, Research Report, “Digital Engagement Practices: Dark Patterns in Retail Investing”, February 2024, available at: [https://www.osc.ca/sites/default/files/2024-02/inv-research\\_20240223\\_dark-patterns.pdf](https://www.osc.ca/sites/default/files/2024-02/inv-research_20240223_dark-patterns.pdf)

regardless of whether they are registered or required to register with the U.S. SEC. The fiduciary duty is made enforceable by the anti-fraud provisions of the Advisers Act. The fiduciary duty is broad and applies to the entire adviser-retail investor relationship and must be viewed in the context of the agreed-upon scope of that relationship.<sup>62</sup>

As a fiduciary, an investment adviser owes its investors, including retail investors, a duty of care and a duty of loyalty.<sup>63</sup> An adviser's duty of care includes, among other things:

- (i) a duty to provide investment advice that is in the best interest of the retail investor, based on a reasonable understanding of the retail investor's objectives;<sup>64</sup>
- (ii) a duty to seek best execution of a retail investor's transactions where the adviser has the responsibility to select broker-dealers to execute retail investor trades (typically in the case of discretionary accounts); and
- (iii) a duty to provide advice and monitoring at a frequency that is in the best interest of the retail investor, considering the scope of the agreed relationship.<sup>65</sup>

Rules adopted under the Advisers Act also impose various obligations on registered investment advisers (and investment advisers required to be registered with the U.S. SEC), including, among others:

- Disclosure Requirements. Registered investment advisers are subject to a number of retail investor disclosure obligations, including disclosures that must be provided before or at the time of entering into an advisory contract, annually thereafter, and when certain changes occur.<sup>66</sup>
- Compliance Programs. Under rule 206(4)-7, a registered investment adviser must adopt and implement written policies and procedures reasonably designed to prevent violation of the Advisers Act and the rules thereunder by the firm and its supervised persons.<sup>67</sup>

<sup>62</sup> For example, to the extent that an adviser provides investment advice to a client through or in connection with a DEP, then all such investment advice must be consistent with the adviser's fiduciary duty.

<sup>63</sup> This fiduciary duty "requires an adviser to adopt the principal's goals, objectives, or ends." See Commission Interpretation Regarding Standard of Conduct for Investment Advisers, Advisers Act Release No. 5248 (June 5, 2019) [84 FR 33669, 33671 (July 12, 2019)] ("IA Fiduciary Duty Interpretation") (internal quotations omitted). This means the adviser must, at all times, serve the best interest of its client and not subordinate its client's interest to its own. See *id.*

<sup>64</sup> In order to provide such advice, an investment adviser must have a reasonable understanding of the client's objectives. See *id.* at 33672-73.

<sup>65</sup> See *id.* at 33669-78.

<sup>66</sup> See, e.g., 17 CFR 275.204-3 (requiring an adviser to deliver a Form ADV Part 2A brochure to advisory clients); 17 CFR 275.204-5 (requiring an adviser to deliver Form CRS to each retail investor).

<sup>67</sup> See 17 CFR 275.206(4)-7.

- Supervision Obligations. Registered investment advisers have a duty to reasonably supervise certain persons with respect to activities performed on the adviser's behalf.<sup>68</sup>

Existing Broker-Dealer Obligations

- Standard of Conduct. Regulation Best Interest ("Reg BI") requires broker-dealers that make recommendations of securities transactions or investment strategies involving securities (including account recommendations) to retail investors to act in their best interest, and not place the broker-dealer's interests ahead of the retail investor's interest.<sup>69</sup> The use of a DEP by a broker-dealer may, depending on the relevant facts and circumstances, lead to a recommendation for purposes of Reg BI.<sup>70</sup> Broker-dealers satisfy their obligations under Reg BI by complying with four specified component obligations: a disclosure obligation;<sup>71</sup> a care obligation;<sup>72</sup>

<sup>68</sup> See Advisers Act section 203(e)(6), 15 U.S.C. 80b-3(e)(6).

<sup>69</sup> 17 CFR 240.15l-1; Regulation Best Interest: The Broker-Dealer Standard of Conduct, Exchange Act Release No. 34-86031 [84 FR 33318 (July 12, 2019)] ("Reg BI Adopting Release"). Following the adoption of Reg BI, which, among other things, incorporated and enhanced the principles found in FINRA's suitability rule (Rule 2111), FINRA amended Rule 2111 to, among other things, state that the rule does not apply to recommendations subject to Reg BI. See Exchange Act Release No. 89091 (June 18, 2020) [85 FR 37970 (June 24, 2020)].

<sup>70</sup> Reg BI Adopting Release, *id.*, at 33337. The determination of whether a recommendation has been made turns on the facts and circumstances of a particular situation. *Id.* at 33335 ("Factors considered in determining whether a recommendation has taken place include whether a communication 'reasonably could be viewed as a "call to action"' and 'reasonably would influence an investor to trade a particular security or group of securities.' The more individually tailored the communication to a specific customer or a targeted group of customers about a security or group of securities, the greater the likelihood that the communication may be viewed as a 'recommendation.'") (citation omitted); see also NASD Notice to Members 01-23 (Apr. 2001) (Online Suitability—Suitability Rules and Online Communications) (providing examples of electronic communications that are considered to be either within or outside the definition of "recommendation"). To the extent that a broker-dealer makes a recommendation, as that term is interpreted by the SEC (US) under Reg BI, to a retail customer through or in connection with a DEP, Reg BI would apply to the recommendation.

<sup>71</sup> The disclosure obligation requires the broker-dealer to provide certain required disclosure before or at the time of the recommendation, about the recommendation and the relationship between the broker-dealer and the retail customer. 17 CFR 240.15l-1(a)(2)(i).

<sup>72</sup> The care obligation requires the broker-dealer to exercise reasonable diligence, care, and skill in making the recommendation. 17 CFR 240.15l-1(a)(2)(ii).



a conflict of interest obligation;<sup>73</sup> and a compliance obligation.<sup>74</sup> Additional suitability obligations are imposed on broker-dealers when recommending transactions in certain types of securities, such as options, to any retail investor.<sup>75</sup>

In 2021 the Commission issued a “Request for Information and Comments on Broker-Dealer and Investment Adviser Digital Engagement Practices, Related Tools and Methods, and Regulatory Considerations and Potential Approaches; Information and Comments on Investment Adviser Use of Technology to Develop and Provide Investment Advice”, requesting comments on, among other issues, the use of DEPs by market intermediaries. The Commission issued the request for information (RFI), in part, to develop a better understanding of the market practices associated with firms’ use of DEPs and related analytical and technological tools and methods. The Commission was also hoping to learn what conflicts of interest may arise from optimization practices and whether those optimization practices affect the determination of whether DEPs are making a recommendation or providing investment advice.<sup>76</sup> Comment letters were submitted in response to the RFI. In 2023 the Commission proposed rules that would require broker-dealers and investment advisers to take certain steps to address conflicts of interest associated with their use of predictive data analytics and similar technologies in certain investor interactions to prevent firms from placing their interests ahead of investors’ interests.

<sup>73</sup> The conflicts of interest obligation requires the broker-dealer to establish, maintain, and enforce written policies and procedures reasonably designed to address conflicts of interest associated with its recommendations to retail customers. Among other specific requirements, broker-dealers must identify and disclose any material limitations, such as a limited product menu or offering only proprietary products, placed on the securities or investment strategies involving securities that may be recommended to a retail customer and any conflicts of interest associated with such limitations, and prevent such limitations and associated conflicts of interest from causing the broker-dealer or the associated person to place the interest of the broker-dealer or the associated person ahead of the retail customer’s interest. 17 CFR 240.15l-1(a)(2)(iii).

<sup>74</sup> The compliance obligation requires the broker-dealer to establish, maintain, and enforce written policies and procedures reasonably designed to achieve compliance with Reg BI. 17 CFR 240.15l-1(a)(2)(iv).

<sup>75</sup> See, e.g., FINRA Rule 2360(b)(19).

<sup>76</sup> See US SEC, “SEC Requests Information and Comment on Broker-Dealer and Investment Adviser Digital Engagement Practices, Related Tools and Methods, and Regulatory Considerations and Potential Approaches; Information and Comments on Investment Adviser Use of Technology”, available at: <https://www.sec.gov/news/press-release/2021-167>.

# CHAPTER 6: MARKET INTERMEDIARIES' GOVERNANCE AND CONFLICTS OF INTEREST MANAGEMENT RELATED TO DEPs

## 6.1 - Internal Governance, Management of Conflicts of Interest, Fiduciary and Conduct Obligations

In their feedback to the IOSCO survey, most IOSCO members stated that they did not observe unique or dedicated supervisory tools set up by intermediaries to supervise the use of DEPs. Intermediaries adapted their supervisory framework to the different ways DEPs were incorporated into their business model.

For example, ASIC (AUS) identified varying levels of controls put in place by intermediaries in their review of social media influencers in 2021 and their DEPs review in 2022/23.<sup>77</sup> Following ASIC's inquiries, one intermediary - who had promotional arrangements in place with 20 finfluencers - ceased its relevant activity.

According to ASIC, some intermediaries operating in Australia and using the suite of social trading DEPs such as copy trading, leaderboards, news feeds and social trading (which have the potential to stray into investment advice or recommendations) did state that they had controls in place to supervise the use of DEPs, although some appeared to be a light touch approach.

The examples ASIC observed included:

- Copy trading - The intermediaries' compliance team assess both what the copied traders/popular investors are trading and where and what amount of money from those who are following them flows to. The intermediary also used algorithms to monitor stock fluctuations and the copied traders trading behaviours in these stocks.
- Newsfeed (described as being like a Facebook page) - The intermediary moderates the content of the feed.

<sup>77</sup> In relation to intermediaries' use of finfluencers in this jurisdiction, some market intermediaries stated they were not prepared to engage finfluencers due to the moral hazard and regulatory risk being too high. Others had arrangements in place with up to 40 finfluencers and relied on a set of selection and monitoring criteria to manage their risk.

- Social trading – The intermediary offered the ability for retail investors to follow “best stock traders”. The intermediary ranked these traders by performance, concentration and risk and used filters to remove some traders based on the ranking results. The intermediary also had a back office (in house built) system to identify any suspicious market abuse activity and used a dedicated team for review. ASIC note that since their review, this provider does not appear to offer social trading anymore to Australian retail investors.

From the regulators’ side, most IOSCO members reported that they do not specifically monitor DEPs since they consider the activities of the firm holistically – thus including DEPs – in their compliance reviews. If there are concerns relating to specific DEPs that come to their attention, they may review and consider appropriate regulatory action (e.g., discussions with the specific firms, issuing guidance).

Certain regulators, such as the AFM (NED) and FCA (UK) seem to be developing a more proactive supervisory approach that considers how firms are using DEPs. For example, the AFM carried out general risk analyses on market developments in the field of digitalization. Namely, they studied the online choice environment in investment apps by opening trading accounts.<sup>78</sup>

According to the AFM’s conclusions, firms should be aware that the way in which choices are presented to investors in the choice environment does influence investor behaviour. A well-designed choice environment can promote sensible investment decisions, such as investing in financial instruments that suit the investor’s investment goals (e.g., not too risky) and sufficiently diversifying the portfolio. AFM therefore encourages investment firms to develop an online investment platform that aligns with both their investment services and the interests and needs of their client base. For example, if the investment firm offers investment services that allow customers to fulfill their need for long-term asset accumulation, it should consider using a preset timeframe for the displayed historical returns that aligns with this philosophy. Or if the investment firm serves inexperienced investors, it should consider visually limiting the product set available to that investor. Since it is difficult to predict the (exact) effect of specific elements in the online choice environment on investor behaviour, this regulator noted that it is very important that investment firms test whether specific elements in their online choice environment have the desired effect – preferably by means of behavioural experiments.

Similarly, the FCA (UK) is keeping trading apps under review to make sure that retail investors can make investment decisions that suit their needs and is

<sup>78</sup> See AFM, Report, “Observing online investment platforms An exploratory study into guiding investor behaviour”, available at: [https://www.afm.nl/~/\\_profimedia/files/publicaties/2023/report-observing-online-investment-platforms.pdf](https://www.afm.nl/~/_profimedia/files/publicaties/2023/report-observing-online-investment-platforms.pdf)

seeking to be more proactive in its approach through targeted supervisory engagement. FCA (UK) identified that firms in its jurisdiction are required to identify and mitigate potential conflicts of interest, including where the firm can make a financial gain at the expense of the retail investor. Firms are responsible for assessing whether the use of DEPs would lead to a conflict that cannot be mitigated and therefore would need to be disclosed. In addition, under UK Consumer Duty rules, firms need to meet requirements under a cross-cutting obligation to act in good faith and avoid causing foreseeable harm. As these rules are outcomes based, the FCA (UK) is not prescriptive on what steps firms need to take to meet these requirements.<sup>79</sup>

## *6.2 - Platform Design and Related Governance and Conflicts of Interests*

Certain regulators stated that their jurisdictions had governance structures or noted governance structures put in place by market intermediaries specifically related to the operation of online trading platforms.

For example, according to AFM (Netherlands), most investment firms the regulator spoke with had governance structures in place for decision making on the design of online platforms, which would include the design and use of DEPs. The firm's compliance function was usually involved in the decision making and would monitor whether the investors' interests had been sufficiently taken into account. Regarding monitoring DEPs and other elements of the online choice environment that may steer investor behaviour, several investment firms in the jurisdiction indicated they engaged in A/B testing.<sup>80</sup>

<sup>79</sup> FCA (UK) ("In recent times, we are taking steps to ask firms about the DEPs that they are using more proactively and how they ensure that DEPs do not cause foreseeable harm under the Consumer Duty rules.").

<sup>80</sup> A/B testing refers to running a learning model on two different datasets with a single change between the two, which can help identify causal relationships and, through understanding how changes affect outcomes, gain a better understanding of the functionality of a model. See Seldon, *A/B Testing for Machine Learning* (July 7, 2021) ("Seldon"), <https://www.seldon.io/a-b-testing-for-machine-learning>. This regulator also stated in the survey response that it has not specifically spoken to investment firms on the governance structure with regards to the use of AI/ML in DEPs. See also FCA (UK) (noting that, for some of the firms that the regulator engaged with on trading application design features, some did carry out A/B testing for DEPs and monitored the different impact on investor behavior. This regulator noted that the level of detail applied to this testing could vary, and the regulator saw inconsistencies where some firms were not carrying out this type of testing at all.); SEC (Thailand) (the Regulatory Framework for the use of Artificial Intelligence and Machine Learning in the Capital Market ensures that the use of AI/ML must be in accordance with the regulations and principles, such as AI/ML must be fair and transparent and be monitored on an ongoing basis).

In Hong Kong (SFC) market intermediaries have specific obligations as Platform Operators, including that the Online Platform is properly designed and operated in compliance with all applicable laws and regulations. There are specific obligations for Platform Operators regarding information for client, including making clear and adequate disclosure of relevant material information on its Online Platform.<sup>81</sup> This regulator also has relevant regulation related to robo-advisors.<sup>82</sup> In addition, the regulator's Code of Conduct has rules related to conflicts of interest, including independence and disclosure and fair treatment.<sup>83</sup> Market intermediaries are expected to comply with the core principles with regards to governance, capabilities, and resources, including the following details from the regulator's "Online Distribution Guidelines":

- A Platform Operator should ensure that there are robust governance arrangements in place for overseeing the operation of its Online Platform as well as adequate human, technology, and financial resources available to ensure that the operations of its Online Platform are carried out properly.
- A Platform Operator should establish and implement written internal policies and procedures on the operation of its Online Platform, including about overall management and supervision; a formalized governance process; clearly identified reporting lines; and managerial and supervisory controls.
- A Platform Operator should conduct regular reviews to ensure that these internal policies and procedures are in line with regulatory developments and promptly remedy any deficiencies identified.
- In operating its Online Platform, a Platform Operator should ensure that it has sufficient technology resources to, for example, safeguard data integrity, including confidential retail investor information, and meet current and projected operational needs.

<sup>81</sup> Online Distribution Guidelines (Core Principle 2, Information for clients). These disclosures include, among other things, providing clients with access to up-to-date product offering documents or information; providing clients with material information as soon as reasonably practicable; communicating any information in plain language; informing clients of the scope and limitations of services and investment products that are provided; disclosing to clients any remuneration to be paid by the client or other persons to the Platform Operator and any other monetary benefits received or receivable by the Platform Operator; and providing clients with the Platform Operator's contact details.

<sup>82</sup> Online Distribution Guidelines (Paragraphs 4.2 to 4.4, Robo-Advice, information for clients). In this jurisdiction, robo-advice (sometimes referred to as digital advice or automated advice) involves the provision of financial advice in an online environment using algorithms and other technology tools.

<sup>83</sup> Code of Conduct General Principle 6 (Conflicts of interest); Paragraph 10.1 (Disclosure and fair treatment); and Paragraph 10.2 (Independence).

In addition, the Online Distribution Guidelines for Hong Kong also include guidelines around certain core principles of proper design<sup>84</sup> information for clients<sup>85</sup> risk management<sup>86</sup> review and monitoring,<sup>87</sup> and record keeping.<sup>88</sup>

<sup>84</sup> Ensuring the Online Platform is properly designed and operated in compliance with all applicable laws and regulations.

<sup>85</sup> Making clear and adequate disclosure of relevant material information on its Online Platform.

<sup>86</sup> Ensuring the reliability and security (including data protection and cybersecurity) of its Online Platform.

<sup>87</sup> Appropriate reviews of all activities conducted on the Online Platform should be performed by a Platform Operator as part of its ongoing supervision and monitoring obligation.

<sup>88</sup> Maintaining proper records in respect of its Online Platform.

# *CHAPTER 7: ENFORCEMENT PRACTICES, INTERNATIONAL COOPERATION AND CROSS-BORDER ASPECTS*

As highlighted at the onset, IOSCO's work program on retail market conduct embraces a holistic approach looking at policy, enforcement, and investor education as complementary to each other. As new retail trends, such as the use of DEPs, increase, the potential for misconduct affecting retail investors continues to rise.

Online fraud is often based on impersonation and the use of behavioural techniques on the retail segment, whereby fraudulent activities are accompanied by intense digital marketing and promotions. Retail investors increasingly turn to higher risk products, sometimes with high degrees of leverage and without the benefit of financial advice. Firms who wish to defraud investors can manipulate these retail patterns through systematic targeting and certain techniques, such as the gamification of the trading environment, to the disadvantage of uninformed and inexperienced retail investors.

Increasingly, the on-line (and cross-border) nature of product offerings may not only increase the risk of mis-selling, but also exacerbate "herd behaviour" promoted by way of social media. Lack of financial education and regulatory oversight in certain spot markets (such as crypto assets), may further exacerbate the potential risks.

Taken all together, IOSCO members face an environment where retail investors can incur unexpected losses as a result of trading that is inconsistent with their risk tolerance levels or financial capacity, or invest in fraudulent offerings or offerings by unregistered entities. In such an environment, a core question is whether retail investors are induced into the trading of products beyond their risk tolerance/financial capacity and/or more frequently than appropriate for them. Moreover, investors may also engage in different investing strategies (such as use of margin or option trading) than they otherwise would have. In this context, the further question is what IOSCO should do to address these retail investor risks.

## 7.1 - Enforcement Actions Regarding Harmful Activities Involving DEPs

In their response to the IOSCO survey, three regulators reported harmful activity related to the use of DEPs. Among those, one regulator<sup>89</sup> reported market intermediaries fraudulently using platforms with DEPs features.

For example, the US SEC reported two publicly available cases where conflicts of interest related to a firm's use of DEPs resulted in harm to investors. In the first case, a “no-fee” robo-adviser was required to hold a certain percentage of assets in cash, resulting in lower returns for investors and additional revenue for the brokerage group. In the second case, a broker-dealer agreed to remove certain gamification features from its platform and to pay \$7.5 million to a government agency. These two US cases are discussed in more detail in the Enforcement Actions section, below. Similarly, OSC (Canada) highlighted that firms may be using inappropriate DEPs, which could be identified as “dark patterns,” “dark nudges,” or “sludge”, as reported in the table below.<sup>90</sup>

Table 9 presents commonly observed patterns of potentially inappropriate DEPs techniques that may result in retail investor harm, which IOSCO members have observed.

**TABLE 9**

POTENTIALLY INAPPROPRIATE DEPs (DARK PATTERNS, DARK NUDGES, SLUDGE)	
Dark patterns	
Technique	Definition
<b>Prompts and reminders</b>	“ <b>Prompts</b> ” are brief visual, graphic, or auditory stimuli that grab the user’s attention to encourage specific behaviors or choices. “ <b>Reminders</b> ” are a specific type of prompt that follow up on a previous interaction or engagement.
<b>Intermediate Currency</b>	“ <b>Intermediate currencies</b> ” obscure the price of an item by providing it in a currency other than the normal, predominant currency.

<sup>89</sup> ASIC Australia

<sup>90</sup> See Ontario SC, Research Report, “Digital Engagement Practices in Retail Investing: Gamification & Other Behavioural Techniques”, November 2022, available at: [https://www.osc.ca/sites/default/files/2022-11/inv\\_research\\_20221117\\_gamification-of-retail-investing\\_EN.pdf](https://www.osc.ca/sites/default/files/2022-11/inv_research_20221117_gamification-of-retail-investing_EN.pdf); and “Digital Engagement Practices: Dark Patterns in Retail Investing”, February 2024, available at: [https://www.osc.ca/sites/default/files/2024-02/inv-research\\_20240223\\_dark-patterns.pdf](https://www.osc.ca/sites/default/files/2024-02/inv-research_20240223_dark-patterns.pdf)



<b>Ranking</b>	<b>“Ranking”</b> refers to setting the order that options are presented on a user interface in a way that privileges or promotes certain choices.
<b>Sensory manipulations</b>	<b>“Sensory manipulations”</b> refer to changes to the user interface that focus the user’s attention on one thing to distract them from something else.
<b>Social norms and interactions</b>	<b>“Social norms and interactions”</b> refer to two related sets of techniques that leverage how people look to the behaviour of others for cues on their own choices.
<b>Scarcity claims</b>	<b>“Scarcity claims”</b> are statements that a product or service will not be available for long due to limited supply, pending price increases, or other factors.
<b>Hidden fees / information</b>	Information about fees or other important platform features like privacy protections can be <b>“hidden”</b> through outright omission, delayed disclosure, or complex language, among other means.

### Dark nudges

Technique	Definition
<b>Removal of process steps</b>	Practices that make it easier for users to make inadvertent or ill-considered decisions by removing the requirement for one or more actions (e.g., confirmations).
<b>Defaults</b>	A default is a preselected setting that automatically takes effect unless users actively change it.

### Sludge

Technique	Definition
<b>Process frictions</b>	People tend to procrastinate or avoid tasks when they are deemed challenging, tedious, or boring. Sludge plays to this tendency by creating ‘psychological fences’ that impede an individual’s ability to get things done.
<b>Complex language</b>	The use of technical, overly complex (e.g., ‘legalese’), or lengthy language to confuse or distract the user.

## 7.2 - Enforcement Actions

In their feedback to the IOSCO survey, some IOSCO members have presented the enforcement actions/cases they have taken in relation to the use of DEPs by market intermediaries.

For example, the US SEC reported two cases, in which conflicts of interest associated with a firm’s use of DEPs resulted in harm to investors.

One enforcement action involved allegations that an adviser marketed that its “no fee” robo-adviser portfolios were determined by a “disciplined portfolio

construction methodology” when they were allegedly pre-set to hold a certain percentage of assets in cash because the adviser’s affiliate was guaranteed a certain amount of revenue at that level. The action states that The adviser did not disclose its conflict of interest in setting the cash allocations; that this conflict resulted in higher cash allocations, which could negatively impact performance in a rising market; and that the cash allocations were higher than other services because the retail investors did not pay a fee.<sup>91</sup> While the focus of this action was on the alleged disclosure failure, it also highlights the potential for DEPs to be used in ways that advance a firm’s interests at the expense of its investors’ interests.<sup>92</sup>

In another case<sup>93</sup> a market intermediary and the Massachusetts Secretary of the Commonwealth entered into a settlement in January 2024 relating to certain gamification features relied on by the firm, pursuant to which the firm paid \$7.5 million and must, among other things, remove all emojis from the lifecycle of a transaction, cease future use of certain waitlist tapping features, cease future use of certain confetti or other celebratory imagery directly tied to frequency of trading, cease future use of certain generalized push notifications, and cease future use of certain features that mimic games of chance.<sup>94</sup>

Other authorities also reported enforcement cases related to DEPs in a broader context.

By way of example, the UK FCA has taken supervisory action to prevent potential harm to consumers that has been caused by a lack of robust systems and management of information at firms to monitor and act on detrimental consumer behaviour when using their products. They have also engaged with firms about new products and services being launched to ensure that they meet the rules and guidance under the Consumer Duty regulations.

Ontario OSC (Canada) contacted market intermediaries about marketing practices that encouraged increased and quick trading of crypto asset. Additionally, intermediaries were also asked to remove messaging that implied OSC approval of their fitness or conduct or to comply with requirements when

<sup>91</sup> In re Charles Schwab & Co., Inc., et al., Exchange Act Release No. 95087 (June 13, 2022) (settled order).

<sup>92</sup> See US SEC, Proposed Rule, Comments on Conflicts of Interest Associated with the Use of Predictive Data Analytics by Broker-Dealers and Investment Advisers at I.B.3 (pages 21 through 27), available at: <https://www.sec.gov/comments/s7-12-23/s71223.htm>.

<sup>93</sup> In re Robinhood Financial LLC vs. Secretary of the Commonwealth, 214 N.E.3d 1058 (Mass. Sup. J. Ct. Aug. 25, 2023) (<https://law.justia.com/cases/massachusetts/supreme-court/2023/sic-13381.html>).

<sup>94</sup> In re Robinhood Financial, LLC, [Docket Nos. E-2020-0047 and E-2022-0006], Consent Order dated Jan 18 2024, available at: <https://finqfx.thomsonreuters.com/gfx/legaldocs/akvemqyznvr/O1182024robinhood.pdf>

using another registered firm's name. The OSC has also actively updated its investor warning and alerts list to name unregistered market intermediaries that may be engaging in fraudulent activities, often using DEPs to mislead investors. The public may check to see if a market intermediary appears on the list.

Poland KNF investigated fraudulent trading platforms engaging with retail investors and submitted notifications of suspected criminal offense to the public prosecutor. They also issued public warnings about "forex" platforms.

Hong Kong SFC reprimanded and fined a firm HK\$4.8 million for regulatory breaches and took action against two of its responsible officers of the firm. SFC monitored the virtual asset trading platform (VATP) space and took preliminary action against misleading and exploitative finfluencer activity. The SFC also noted social media ramp-and-dump market manipulation schemes and conducted investigations into suspected syndicates.

### *7.3 - Investor Complaints*

Most regulators do not have statistics on investor complaints related to DEPs.

The Thai SEC also reported having received complaints on DEPs.

The US SEC received a wide variety of comments in response to their request for information (RFI) on DEPs,<sup>95</sup> and some of the comments<sup>96</sup> included negative statements related to DEPs.

<sup>95</sup> See US SEC, "Request for Information and Comments on Broker-Dealer and Investment Adviser Digital Engagement Practices, Related Tools and Methods, and Regulatory Considerations and Potential Approaches; Information and Comments on Investment Adviser Use of Technology to Develop and Provide Investment Advice", August 2021, available at: <https://www.sec.gov/files/rules/other/2021/34-92766.pdf>

In July 2023, the US SEC proposed new rules that would require broker-dealers and investment advisers (collectively, "firms") to take certain steps to address conflicts of interest associated with their use of predictive data analytics and similar technologies to interact with investors to prevent firms from placing their interests ahead of investors' interests. Depending on their use, certain DEPs may fall within the scope of the rules, if finalized. As of the date of this report, the US SEC is considering public comments on the proposal, available at: <https://www.sec.gov/files/rules/proposed/2023/34-97990.pdf>

<sup>96</sup> See US SEC, Comments on Request for Information and Comments on Broker-Dealer and Investment Adviser Digital Engagement Practices, Related Tools and Methods, and Regulatory Considerations and Potential Approaches; Information and Comments on Investment Adviser Use of Technology to Develop and Provide Investment Advice, available at: <https://www.sec.gov/comments/s7-10-21/s71021.htm>

## 7.4 - International Cooperation and Cross-Border Aspects

As markets are global and interconnected in nature, regulators should have the ability to share information and cooperate with regulators and relevant authorities in other jurisdictions.

According to the results from the IOSCO regulators' survey, most IOSCO members do not have information on whether DEPs targeting local investors are carried out by domestic or overseas market intermediaries. However, IOSCO members note that intermediaries, wherever located, may need to register with local authorities prior to providing services in their jurisdiction, thereby subjecting those firms to local rules and jurisdiction. The registration requirement may limit the "transnational" problems faced in dealing with use of DEPs by market intermediaries.

As few regulators reported fraudulent activity in relation to the use of DEPs, they were not able to share evidence on the need for cross-border cooperation, nor on the obstacles encountered.

One regulator<sup>97</sup> shared that, generally, when cross-border cooperation is needed, securities regulators are able to rely on the IOSCO EMMoU and the bilateral Memorandum of Understanding to work with the correspondent regulator to launch a joint investigation on a pump-and dump scam.<sup>98</sup>

<sup>97</sup> The Hong Kong Securities and Futures Commission ("Hong Kong SFC"), the Monetary Authority of Singapore ("MAS"), and the Commercial Affairs Department of the Singapore Police Force have launched a joint investigation into a syndicate suspected of operating pump-and-dump scams on stocks listed on the Hong Kong Stock Exchange. Refer to the press release on this topic in the following link: <https://apps.sfc.hk/edistributionWeb/gateway/EN/news-and-announcements/news/doc?refNo=21PR125>.

MAS: <https://www.mas.gov.sg/news/media-releases/2021/singapore-hong-kong-joint-operation-against-suspected-cross-border-pump-and-dump-syndicate#:~:text=The%20Monetary%20Authority%20of%20Singapore,the%20Securities%20and%20Futures%20Act%20>.

<sup>98</sup> In a pump-and-dump scam, the syndicate would artificially pump up the price of a company's shares by buying up the shares and spreading false positive news about the company via social media and messaging applications to induce unwary victims to buy the shares. When prices are sufficiently high, it dumps by selling the stocks to the victims. The victims are left holding stocks with plummeted value and end up suffering substantial losses while syndicate members profit from the scam.

# CHAPTER 8: DEPs & INVESTOR EDUCATION

## 8.1 - Investor Education About DEPs – Good Practices

DEPs can be a useful tool in promoting investor education and educational material. Based on IOSCO survey feedback, a relatively small proportion of regulators released retail investor educational material or campaigns specifically related to DEPs. Some regulators also indicated that use of DEPs is not included in their investor education efforts at the time of the survey.

Among the few specific initiatives linked to DEPs, the AMF France launched [a video on Instagram](#) to explain the principles of DEPs and shared main results of [a laboratory experience on gamification](#).<sup>99</sup>

The CMB Türkiye discussed the issue of digitalization in its 2022 and 2023 IOSCO-World Investor Week (WIW) programs to raise awareness and increase financial education ([panel held online](#) during the WIW 2023 regarding digitalisation, among others).

The Belgium FSMA published an article about trading apps<sup>100</sup> on its [www.wikifin.be](http://www.wikifin.be) and in its monthly Wikifin Newsletter. In its article, the FSMA highlighted that “Investing is not a game. Some banks and investment firms offer you a “trading app”, an application on your smartphone or tablet that allows you to trade investment products at any time. Some apps prompt you with advanced gaming techniques to be as active as possible. You receive messages with unmissable opportunities of the moment and see the scores of other investors. This blurs the line between information and publicity. Some apps offer crypto currencies in addition to traditional shares, bonds and funds. These are not considered financial instruments and therefore the MiFID rules protecting investors do not apply. Want to know more about trading apps? Read the article on the Wikifin website”.

The Ontario OSC’s [GetSmarterAboutMoney](#) publishes different articles exploring topics related to behavioural science and social media. During the pandemic, the OSC also explored innovative ways to reach investors on social media.<sup>101</sup> The OSC continues to create targeted approaches to reach investors through its social media channels using organic and paid promotions.

<sup>99</sup> <https://www.instagram.com/reel/C1XN3MSI6ZG/?igsh=aXRhd29hNnMzNTRp>

<sup>100</sup> See Wikifin, “Investing via a trading app”, available at: <https://www.wikifin.be/nl/sparen-en-beleggen/hoer-beleggen-en-risicospreiding/hoer-beleggen/beleggen-een-trading-app>

<sup>101</sup> According to the OSC article, “Our paid campaigns incorporate the targeting mechanisms available through social media platforms for reaching investors effectively and one recent

The Office of Investor Education and Advocacy of the US SEC issued Investor Alerts and Bulletins to warn investors of possible fraudulent schemes and to educate investors on a range of topics.<sup>102</sup>

In 2021, USA FINRA issued a Special Notice to request comment on effective methods of educating newer investors. Since that time, FINRA has undertaken an extensive “search engine optimization” (or SEO) effort to increase the likelihood of FINRA content being returned when investors search for information on the internet. FINRA also has piloted a paid search campaign. FINRA is refining existing content and launching other new educational content on social media (including on new channels) to counteract the emotions DEPs often stir up and slow decision-making.<sup>103</sup>

The FCA (UK) launched the InvestSmart campaign in 2021 aimed at helping consumers, especially those that are less experienced, to make better-informed investment decisions. A range of information has been developed to promote positive investment principles, including spotting the signs of hype and managing the fear of missing out (FOMO) which might be associated with DEPs that put investors under pressure to act quickly. Several content channels are used to promote the campaign, including a dedicated website, and social media.

campaign of note is our Reddit PSA campaign that highlighted the risks of relying only on information found on social media. This campaign was developed during the GameStop and meme stock event when investors were trading on specific stocks based on the information found in Reddit forums. The campaign also included our key message of always checking registration and the entire campaign was viewed over a million times covering both campaign key messages”.

<sup>102</sup> See, e.g., Social Media and Investment Fraud: Investor Alert, available at: <https://www.investor.gov/introduction-investing/general-resources/news-alerts/alerts-bulletins/investor-alerts/social-media>; Automated Investment Tools: Investor Bulletin, available at: <https://www.investor.gov/introduction-investing/general-resources/news-alerts/alerts-bulletins/investor-alerts/investor-56>; Social Sentiment Investing Tools – Think Twice Before Trading Based on Social Media: Investor Alert, available at: <https://www.investor.gov/introduction-investing/general-resources/news-alerts/alerts-bulletins/investor-bulletins-18>; Excessive Trading at Investors’ Expense: Investor Alert, available at: <https://www.investor.gov/introduction-investing/general-resources/news-alerts/alerts-bulletins/investor-alerts/investor-42>; Robo-Advisers: Investor Bulletin, available at: <https://www.investor.gov/introduction-investing/general-resources/news-alerts/alerts-bulletins/investor-bulletins-45>. These Investor Alerts and Bulletins represent the views of the staff of the US SEC’s Office of Investor Education and Advocacy. They are not rules, regulations, or statements of the US SEC. The US SEC has neither approved nor disapproved this content. These Investor Alerts and Bulletins, like all staff statements, have no legal force or effect: they do not alter or amend applicable laws, and they create no new or additional obligations for any person.

<sup>103</sup> See FINRA, Investor Insights, “Following the Crowd: Investing and Social Media”, March 2023, available at: <https://www.finra.org/investors/insights/following-crowd-investing-and-social-media>; FINRA, Special Notice, “FINRA Requests Comment on Effective Methods to Educate Newer Investors”, June 2021, available at: <https://www.finra.org/rules-guidance/notices/special-notice-063021>.

The Investor and Financial Education Council (IFEC), a subsidiary of the Securities and Futures Commission of Hong Kong, China used animated video, web content and social media posts to offer an overview of the latest products and services provided by online investment service providers, reminding investors on on cybersecurity and to be aware of their rights and responsibilities when engaging in online investment activities. Furthermore, IFEC, CFA Institute and CFA Society Hong Kong co-hosted a webinar on “Macroeconomic outlook and trends in Fintech, online platforms gamification” in 2023 to discuss the latest online investment trends, including the proliferation of online investment platforms and the impact of gamification on retail investors.

The CMC Angola creates content for social media on different topics, some related to social media and DEPs. During the IOSCO World Investor Week, 5 webinars were conducted (2,619 participants), and a dedicated website was made available. As far as gamification, three educational games (Russian Roulette, Word Search, Hangman) were created and incorporated into the website for World Investor Week. The CMC Angola anticipates creating at least five more similar games in 2024. They also conduct surveys via QR codes to gather data on investor satisfaction, and to guide their actions.

Additionally, some regulators are aware of initiatives on DEPs set up by other regulatory or private sector groups. For instance, UK FCA noted that the Competition and Markets Authority in the UK have carried out research into online choice architecture more broadly, that considers the digital design and how this can harm competition and consumers.<sup>104</sup>

## *8.2 - Use of DEPs by Market Intermediaries to Facilitate Investor Education*

A few regulators highlighted direct examples of tools provided by market intermediaries (through visual insights, game environment, quiz formats, mobile applications, trading simulators and, more in general, by an academy or education materials) to engage and attract retail investors. If properly used, these tools can facilitate retail investors' education.

<sup>104</sup> See UK Government Research and Analysis: Online Choice Architecture: How digital design can harm competition and consumers. Available at <https://www.gov.uk/government/publications/online-choice-architecture-how-digital-design-can-harm-competition-and-consumers>



# CHAPTER 9: Proposed IOSCO Good Practices

IOSCO Members could consider the following good practices as guidance regarding the use of DEPs by the market intermediaries they regulate, consistent with their relevant legal and regulatory framework.

## Design Factors and Respecting Investor Best Interest

1. Market intermediaries should ensure that DEPs used for investment advice or recommendations do not influence retail investor behaviour to the benefit of the market intermediary and detriment of the retail investor. Market intermediaries should test whether DEPs used for investment advice or recommendations are in the best interest of the retail investor.

2. When designing DEPs, market intermediaries should ensure that DEPs used for investment advice or recommendations are not solely intended to increase transaction volume and fees for the market intermediary.

## Monitoring the use of DEPs & Investment Advice

3. Where the use of DEP entails provision of investment advice or recommendations, market intermediaries that use DEPs should hold the relevant licence/regulatory status and comply with the rules pertaining to the provision of those investment services.

4. Market intermediaries should put in place risk management systems to ensure that the use of any DEPs does not potentially result in the provision of any investment services without the required license and is consistent with the relevant jurisdictional regulatory frameworks and requirements.

## Suitability

5. Market intermediaries should ensure that the use of DEPs for investment advice or recommendations is in line with the relevant jurisdictional regulatory frameworks

6. Market intermediaries should ensure that DEPs used for investment advice or recommendations are not used for products and services that are inconsistent with the retail investor profile. DEPs used for investment advice or recommendations should be tailored to promote products that align with the knowledge and experience, risk



profile and financial objectives of the targeted retail investor and should ensure that the offering and selling of financial products and services is suitable to the targeted retail investors.

7. Market intermediaries should carry out regular monitoring - including the analysis of retail investor complaints - as to whether the market intermediary's DEPs used for investment advice or recommendations put the interests of the market intermediary above the interests of the retail investor, and if so, the market intermediary should take corrective actions.

### Governance and management of conflicts of interests

8. Market intermediaries should have procedures in place and take appropriate steps to identify, prevent or manage any conflicts of interest between themselves and their retail investors arising from the use of DEPs for investment advice or recommendations, in line with the relevant jurisdictional regulatory frameworks. Market intermediaries should consider periodically reviewing their DEPs to identify, prevent, and manage any potential conflicts of interest.

### Disclosure

9. Market intermediaries using DEPs for investment advice or recommendations should provide adequate disclosures to the retail investor, such as disclosure of material facts at the point of transaction, including fees and costs, remunerations and benefits and material conflicts of interest, in line with the applicable rules in their jurisdiction. For jurisdictions that include finfluencers and / or external partners as DEPs, market intermediaries should include material information on payments to finfluencers and / or external partners.

### Investor education

10. IOSCO members should consider making use of DEPs for investor education purposes. IOSCO members are encouraged to leverage DEPs as educational tools, helping to improve financial literacy and promote responsible investment behaviours among retail investors, including helping retail investors understand the difference between a digital platform's educational and promotional content.

# *CONCLUSION*

The digital transformation in retail markets brings about various novel regulatory challenges, potential benefits and potential conduct risks. The growth in the use of DEPs merits careful consideration, as it can result in an increase in the speed of distribution of financial products. The DEPs phenomenon is expected to grow in combination with other technological developments, such as deployment of more advanced AI & ML technologies, an issue which may require specific regulatory attention in the future.

Notwithstanding the potential and benefits from DEPs, particularly in improving retail market segment access to financial products and services and enriching investor choice, DEPs may result in investor harm. They may encourage investors to trade more often than is suitable or appropriate, invest in higher risk products or change their investment strategy without being aware of, or fully understanding, the risks. Similarly, DEPs can create potential conflicts of interest as market intermediaries may use them to influence retail client behaviour to drive revenue growth to the detriment of retail investors.

This report aims to lay out potential risks (and benefits) from the use of DEPs by market intermediaries. It provides good practices to enhance investor protection against these potential risks from the use of DEPs by market intermediaries.

It is crucial that regulators keep pace with the developments in DEPs and fine-tune their regulatory approach to address the increasing use of DEPs by market intermediaries in online distribution, onboarding and marketing efforts. One important consideration in this context is how to use DEPs for regulatory purposes as regulators, to enhance retail investor education and improve investor knowledge.

# CONSULTATION QUESTIONS

## QUESTION 1

How would you define DEPs? What should the scope of this definition cover?

## QUESTION 2

Do you agree with the findings of the Consultation Report and the proposed Guidance? Are there any significant issues, gaps, or emerging risks that should be further explored in the report?

## QUESTION 3

Are there any other types of DEPs deployed by market intermediaries that are not covered in this report? Please elaborate providing examples and describing their impact on investor behaviour.

## QUESTION 4

How do you expect DEP use cases to evolve in the future? What would be the regulatory implications?

## QUESTION 5

What additional risks or benefits of DEPs should be considered? In your opinion, does the existing regulatory framework sufficiently address these risks, or are new measures needed?

## QUESTION 6

In your opinion, how should market intermediaries best avoid potential conflicts of interests when they are using DEPs? What should the best practices be in this respect? Please elaborate by highlighting the areas of conflicts of interests and how they can best be addressed/mitigated.

## QUESTION 7

How can market intermediaries maximize the potential benefits of DEPs to improve investor outcomes and enhance financial literacy? How should regulators effectively leverage DEPs to advance regulatory goals, such as investor protection and education? In your opinion, how can potential benefits of DEPs be achieved for better investor outcomes and investor education purposes? How should regulators best leverage from the use of DEPs for regulatory objectives?

## QUESTION 8

How can regulators better coordinate across jurisdictions to address the cross-border use of DEPs, particularly in cases where different regulatory standards apply? What mechanisms could enhance global regulatory alignment?

# APPENDIX A

## List of IOSCO members that responded to the IOSCO survey

Regulatory Authority		Jurisdiction
Authority for the Financial Markets	AFM	Netherlands
Autorité des Marchés Financiers	AMF	France
The Australian Securities and Investments Commission	ASIC	Australia
The Securities Commission of The Bahamas	SCB	Bahamas
Securities and Exchange Commission of Brazil	CVM	Brazil
Financial Services and Markets Authority	FSMA	Belgium
Capital Markets Board of Turkey	CMBT	Turkey
Commodity Futures Trading Commission	CFTC	United States of America
National Securities Market Commission	CNMV	Spain
Commissione Nazionale per le Società e la Borsa	CONSOB	Italy
The Financial Conduct Authority	FCA	United Kingdom
Hong Kong Securities and Futures Commission	HKSF	Hong Kong
The Financial Services Agency	FSA	Japan
Capital Markets Authority	CMA	Kuwait
Comisión Nacional Bancaria y de Valores	CNBV	Mexico
National Futures Association	NFA	United States of America
Securities and Exchange Commission	SEC	Nigeria
Ontario Securities Commission	OSC	Canada Ontario

Autorité des marchés financiers (Quebec)	QAMF	Canada Quebec
Capital Market Authority	CMA	Saudi Arabia
Komisja Nadzoru Finansowego	KNF	Poland
Securities and Exchange Commission	SEC	United States of America
Financial Industry Regulatory Authority	FINRA	United States of America
Financial Supervisory Commission	FSC	Taiwan
Financial Supervisory Service	FSS	Korea
Monetary Authority of Singapore	MAS	Singapore
Securities and Exchange Board of India	SEBI	India
China Securities Regulatory Commission	CSRC	China
The Securities and Exchange Commission	SEC	Thailand
Comissão do Mercado de Capitais	CMC	Angola