

ESMA makes recommendations to improve investor protection



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Verena Ross, ESMA Chair, said:

“Increased retail participation in financial markets provides opportunities both for savers and for companies seeking financing, and we are encouraged to see that digital trends and new business models are contributing to making investing more accessible to the general public.

These developments do not however come without risk. Gamification techniques in trading apps and personal recommendations on social media may cause retail investors to engage in trading behaviour without understanding the risks involved. We are therefore setting out a number of proposals to ensure that these developments do not compromise investor protection in the EU”.

The proposals put forward aim at maintaining a high level of investor protection, while ensuring that retail investors can benefit from digitalisation opportunities. The recommendations relate to, among others:

requiring machine readability of disclosure documents to facilitate the development of searchable databases available to the public;

addressing information overload by proposing to define what is vital information and by using digital techniques such as layering of information;

development of a standard EU format of information on costs and charges and aligning the disclosures under MiFID and the PRIIPs KID;

possibility for NCAs and ESMA to impose on firms the use of risk warnings for specific financial instruments;

addressing aggressive marketing communications; and

addressing issues related to misleading marketing campaigns on social media and the use of online engagement practices, such as the use of gamification techniques by firms or third parties.

In addition, ESMA also supports the Commission's proposal to prohibit the receipt of PFOF to adequately address the serious investor protection risks arising from this practice.

Next steps

The advice has been submitted to the European Commission.

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