Online Imitative Trading Practices: Copy Trading, Mirror Trading, Social Trading

FINAL REPORT

The Board of the
International Organization of Securities Commissions

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EXECUTIVE SUMMARY

The proliferation of online trading platforms and mobile trading apps have reshaped the retail trading landscape. These trading models have made financial markets more accessible to retail investors.

Imitative trading strategies (like copy trading, mirror trading and social trading) are intended to allow retail investors, known as **copy traders**, to automatically replicate the trades of more experienced or professional traders, referred to as **lead traders**. This approach is often marketed as a simple way for retail investors to invest in financial markets without the need for extensive market investment knowledge or active decision-making. However, imitative trading strategies are predominantly associated with short-term, potentially higher-risk trading strategies, often involving more complex or potentially volatile financial products, such as foreign exchange and crypto-assets. This can expose retail investors to significant risks, including losses from leveraged products and erosion of returns due to high transaction fees from frequent trading.

A key concern highlighted in the Online Imitative Trading Practices - Copy Trading, Mirror Trading, Social Trading Final Report (Final Report) is the potential for investor harm due to the automated nature of these strategies. Retail investors may not fully understand the implications of their investments, particularly when they are automatically imitating trades without active monitoring or intervention. This can lead retail investors to imitate strategies that might be not in line with their financial situation (including their ability to bear losses) and their investment objectives (including their risk tolerance) and that might result in significant losses, especially when lead traders engage in high-risk strategies or fail to provide adequate disclosures about the risks and costs involved. The perceived credibility of lead traders, who are often presented as experienced or successful investors, can further obscure the true level of risk, particularly if their qualifications or track records are not independently verified.

Additionally, the Final Report identifies a growing intersection between imitative trading strategies and the activity of financial influencers (so called finfluencers), who promote trading platforms and strategies through social media. This can blur the lines between the provision of authorized and regulated financial advice and the provision of general financial information, creating further risks for retail investors.

In response to these challenges, the Final Report identifies Good Practices as guidance that may be helpful to IOSCO members and market intermediaries. The Good Practices aim to strengthen investor protection in the realm of imitative trading strategies.

For the purposes of this Final Report, the terms "online imitative trading strategies" or "online imitative trading practices" may include copy trading,

mirror trading and social trading as an umbrella term. Most of the regulators responding to the IOSCO questionnaire did not differentiate between copy, mirror, and social trading. The terms are often used interchangeably, partly due to the fact that these trading strategies are not widely offered by market intermediaries in their jurisdictions. Since "copy trading" and "copy trader" are the most commonly used terminology for "online imitative trading strategies" or "online imitative trading practices", these terms are used interchangeably throughout the Final Report.

Good Practices on Online Imitative Trading Strategies

Market intermediaries that provide copy trading should:

1. Examine whether their copy trading services fall into the provision of investment advice and/or individual portfolio management and/or other regulated activities or services requiring registration or licensing, in order to comply with the applicable laws and regulations of the pertinent jurisdiction.

2. Monitor their marketing activities regarding the promotion of copy trading services and marketing activities carried out by lead traders operating on the market intermediary's platform for compliance with jurisdictional regulatory requirements, including, where applicable, as regards disclosure requirements on remuneration and inducements paid or offered by the intermediary to the lead trader and the potential conflicts of interest arising that might negatively impact copy-traders.

3. Set up procedures for the selection and removal of lead traders who operate on the market intermediary's platform, taking into account, among others, their qualification, and their level of knowledge, and competence, and the number and nature of complaints regarding lead traders.

4. Regularly review the conduct of lead traders and the outcomes of copy traders on the market intermediary's platform for compliance with the applicable laws and regulations of the pertinent jurisdictions, employing, if possible, technology for enhanced surveillance.

5. Assess the conflicts of interests that may arise in the provision of copy trading services, including where the market intermediary's remuneration structure of lead traders may generate conflicts of interests between lead traders and copy traders or between the market intermediary and copy traders.

Furthermore, the Final Report emphasizes the importance of promoting investor education as a means of helping investors understand the risks associated with online imitative trading strategies. Educating investors about the potential pitfalls of such practices, including the potential risks of following unverified lead traders and the complexities of the underlying financial products, can empower investors to make more informed decisions. Enhanced investor education initiatives can also help retail investors develop a more critical perspective on the promotional activities of finfluencers and the marketing activities of market intermediaries.

CHAPTER 1: INTRODUCTION

Technological developments are changing the way in which retail consumers interact with financial services and products and act as catalysts 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.

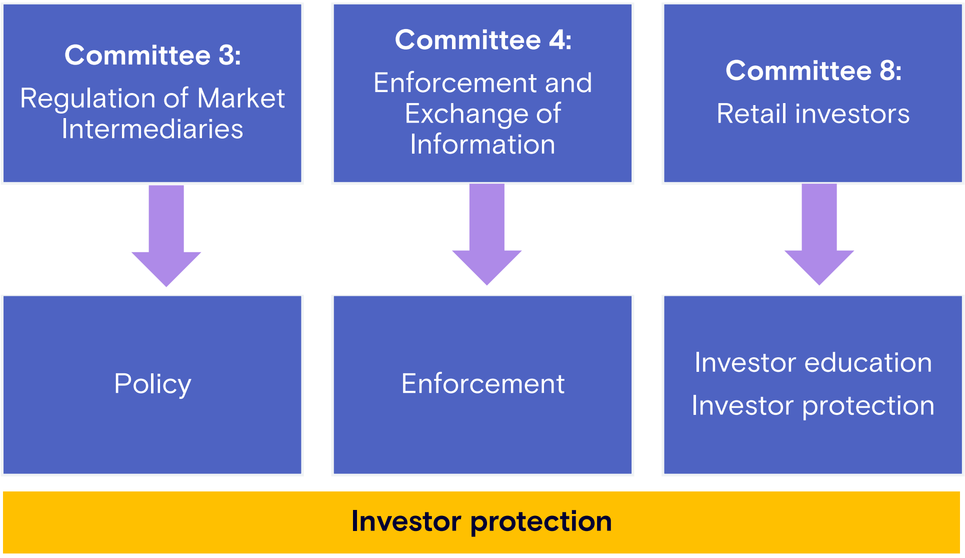
As a result of those developments, in March 2020, the IOSCO Board established the Retail Market Conduct Task Force (RMCTF) to gain a better understanding of the evolving retail trading landscape and to develop measures securities regulators could consider as they seek to address retail market risks and emerging trends.[1]

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 an RMCTF Final Report[2], 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 finfluencers, 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 the Retail Investor Coordination Group (RICG), as shown below.

1 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

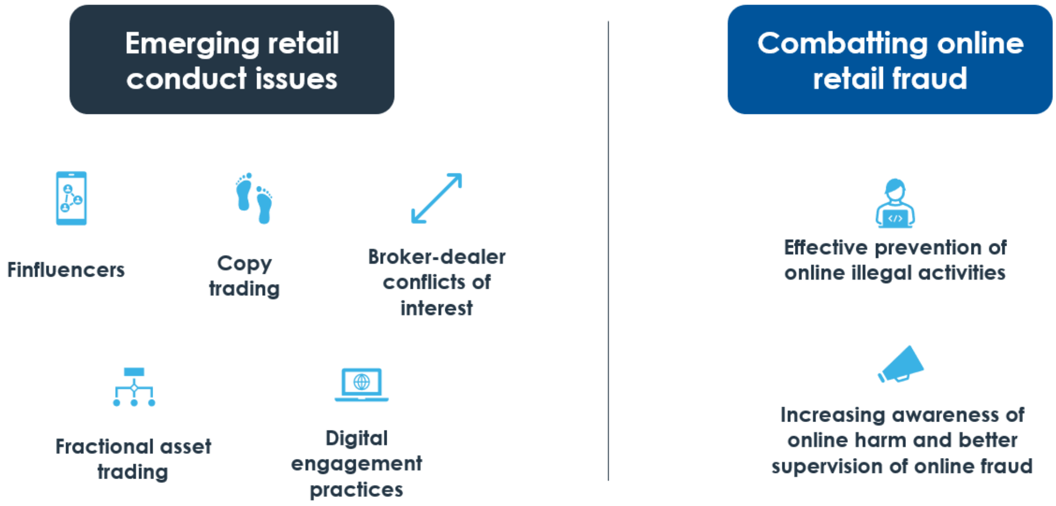
2 Ibid.



The RICG's work is focussed on identifying and mitigating potential harms from 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) Neo-brokers; (d) fractional asset trading; and (e) DEPs.

On the other hand, RICG's enforcement focus is devoted to the enforcement activities securities regulators undertake to deter online harm and fraud**.** These cover two sub-areas: (i) international cooperation for effective deterrence and investigation of online illegal activities; and (ii) increasing awareness of online harm and better supervision of online fraud and mis-selling.[3] The deliverables of the two sub-areas are various enforcement tools to help securities regulators proactively combat online harm and fraud.

3 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 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 Final Report – Online Imitative Trading Practices: Copy Trading, Mirror Trading, Social Trading

This Final Report will specifically focus on copy trading which is the most popular online imitative trading strategy.

Copy trading is an online imitative trading practice that may be described as the strategy that allows a trader (the copy trader) to copy trades executed by one or more other trader(s) (the lead trader[s]), who are usually characterised as "experienced" or "professional". Trade execution is frequently automated to a certain extent, with trades opened and closed without manual intervention and without the copy trader necessarily being aware of each trade that is placed, though other models are possible.

Generally, copy trading is focused on short-term trading (e.g., day and swing trading) and tends to focus on foreign exchange, crypto-assets, and other more complex or potentially volatile and higher risk financial products. Volatile markets and leveraged products may heighten the risk of cumulative losses over time and transaction fees from frequent trading may erode gains or extend losses.

This Final Report aims to assist IOSCO member regulators to assess the adequacy of the regulatory requirements in their respective jurisdictions that apply to copy trading and to consider where amendments may be useful. In doing so, the Final Report proposes a set of Good Practices that regulators could consider, in accordance with their respective mandates and applicable laws and regulations to help mitigate risks that may arise from this type of activity. The Appendix also sets out the consultation questions and summarizes the feedback received, which was taken into account when finalizing the report.

The Final Report is organized as follows: Chapter 2 deals with the regulatory aspects of online imitative trading practices (including copy trading, mirror trading and social trading), the benefits and risks of copy trading for retail investors and the need for good practices. Chapter 3 regards market intermediaries providing copy trading, and focusses on market intermediaries' controls, considering the potential conflicts of interest among intermediaries, lead traders, and copy traders. Chapter 4 delves into supervisory, enforcement, international cooperation, and cross-border aspects. Finally, Chapter 5 illustrates the investor education initiatives adopted by regulators in this matter.

CHAPTER 2: REGULATORY ASPECTS

2.1 General regulatory framework

Copy trading, mirror trading, and social trading are similar practices albeit with subtle but distinct differences. For example, both copy trading and mirror trading rely on automation to different degrees. Therefore, the practices exist on a spectrum and there are jurisdictional differences regarding interpretation. This, coupled with the absence of global definitions, means that the terms can occasionally be conflated or used interchangeably.

For the purposes of this Final Report, the terms “online imitative trading strategies”, “online imitative trading practices”, and “copy trading” are used in instances where reference is made to more than one of the practices at the same time.

Copy trading may be described as an online imitative trading practice that allows a trader (the copy trader) to copy trades executed by one or more other trader(s) (the lead trader[s]), who are usually characterised as “experienced or “professional”. Trade execution is frequently automated to a certain extent, with trades opened and closed without manual intervention and without the copy trader necessarily being aware of each trade that is placed, though other models are possible.

The similar practice of **mirror trading** is typically characterized by a higher level of automation, based on algorithms. It provides less flexibility than copy trading as it does not allow the copy trader to choose among the specific trading recommendations or traders they may want to follow. Instead, the mirror account automatically copies all trades of the chosen “experienced” or lead trader. Certain survey respondents stated that, in some cases, brokers offer artificial intelligence-based and/or programmed algorithms, which play the role of lead traders that send trading signals.

Social trading can involve aspects of copy and mirror trading, whereby investors share information, typically in an online community, about trades they have made or they are following, potentially resulting in less formalized copying of others’ trading ideas and activity. This practice is generally not automated, and it is up to individual traders whether to execute any trades or recommendations.

Most of the regulators responding to the IOSCO questionnaire did not differentiate between copy, mirror, and social trading. As mentioned above, the terms are often used interchangeably, partly due to the fact that these trading strategies are not widely offered by market intermediaries in their jurisdictions,[4] meaning that the nuances are not always necessary for those regulators.

The following table illustrates some use cases experienced by regulators in their jurisdictions.

Table 1

<table>
<tr><th colspan="2">COPY TRADING, MIRROR TRADING, SOCIAL TRADING: USE CASES</th></tr>
<tr><th>JURISDICTION</th><th>USE CASES</th></tr>
<tr><td>Australia (ASIC)</td><td>The Australian Securities & Investments Commission (ASIC) observes copy trading that involves a licensee providing a facility that:
➢ provides details of a lead trader's trading, which may include a combination of their stated trading strategy, current open trades, money invested, recently closed trades, frequency of trading, profit and loss statistics, position on a profit and loss "leaderboard", number of people copying their trades (among other things);
➢ allows a copy trader to select a lead trader whose trades will be copied, choosing how much money to allocate to that trading and whether to copy the lead trader's current open trades or only new trades;
➢ automatically replicates and executes in real time the lead trader's trades on the copy trader's trading account;
➢ provides incentives for lead traders (monetary and non-monetary arrangements (e.g. training courses).
ASIC also sees social trading where investors can view profiles of other traders and analyse their published trades, similar to a social network. An investor's trading decisions may be influenced by the published trades of other traders in the social network, but direct action is required by the investor to place a trade.</td></tr>
<tr><td>Belgium (FSMA)</td><td>In Belgium, a whole range of services commonly referred to as "copy trading" are offered.
These range from signal providers offering paying subscriptions, to "basic" copy trading in which the copy trader freely chooses which trades to copy, to nearly automatic mirror trading in which - once a number of parameters have been set - the copy/trade is done automatically. There is also an increase in finfluencers posting about certain financial products, with ETFs in particular proving popular.</td></tr>
</table>

[4] Based on this Final Report's definition of social trading, the practice may be widespread globally. However, social trading *by market intermediaries* is not widely offered in many jurisdictions.

Brazil (CVM)	In **Brazil**, the degree of discretion offered to investors varies, with a first model of copy trading being more similar to asset management and a second model being a type of "recommended portfolio".
Israel (ISA)	In **Israel**, platforms that provide the social trading services enable their users to register either to an automatic execution (in which every transaction executed by the lead trader will automatically be mirrored and copied to the copy trader's account) or semi-automatic execution (in which the copy trader will receive an online notification regarding every transaction executed by the lead trader, and the copy trader will have full consideration whether to execute the transaction or not).
Japan (FSA)	In **Japan,** pure copy trading is rare. However, there are many online brokers who provide trading algorithmic or expert system services. Social trading, where clients send messages of their transactions, is offered by several neo-brokers who mainly focus on US stocks.
Mexico (CNBV)	In **Mexico**, the form of trading used is social trading platforms, which are stockbrokers that allow users to take advantage of a wide range of "social" features, such as viewing other trading strategies or copying their trades and may have different objectives to copy. In **Mexico**, market intermediaries facilitate social trading through platforms, allowing retail investors, many of whom may have different trading objectives, to take advantage of a wide range of “social” features, such as viewing other trading strategies or copying their trades.
Singapore (MAS)	Copy/mirror trading offered in **Singapore** is rare. Brokers offering copy/mirror trading typically provide facility which allows clients (“trade followers”) to subscribe to a functionality on the platform which allows clients to replicate a certain portfolio of the “trade leaders”, as identified by the broker. When the trade leader executes a trade, it will be automatically and proportionately replicated and executed into the individual portfolios of the trade followers.
Spain (CNMV)	In **Spain**, “portfolio management” is defined as “*managing portfolios in accordance with mandates given by clients on a discretionary client-by-client basis where such portfolios include one or more financial instruments*”. This investment service is characterized by the fact that investment decisions are implemented without any intervention being necessary by the client other than the conclusion of an agreement (“mandate”) between the service provider and the client on the nature and details of the discretionary service to be provided. Considering this feature, where the service described is provided in relation to the Spanish Securities Market Act, it requires the authorization for the provision of the service of portfolio management. On the contrary, where no automatic order execution occurs - because client action is required prior to each transaction being executed - the activity performed will not amount to portfolio management and depending on the interaction with the client, other investment services authorizations may be relevant (e.g. investment advice - in the case of personal recommendations – and/or reception and transmission of clients’ orders).

The Netherlands (AFM)	The Autoriteit Financiële Markten (AFM) have identified the following models of copy trading: ➢ The investor subscribes to a so-called signal platform. This platform collects the signalling trades by lead traders (signal providers) and automatically translates these signals into orders for trade execution by a broker; ➢ The investor installs a software on his own computer, receives the signalling trades by the lead traders (signal providers) and the software translates these signals into orders for trade execution by a broker; The investor receives signalling trades and decides whether to translate the signals into order for trade execution.
UK (FCA)	In the **UK**, firms appear to favour use of the term "copy trading" in marketing, but what is offered may be either **copy trading** or **mirror trading**. One larger firm is offering copy trading rather than mirror trading: this is clear from the options offered to consumers choosing to use the service. Many other "copy trading" offerings may in fact be "mirror trading" offerings. That appears to be the case where "copy trading" has been used in scam activity as a method to manage investments without the required permission or suitability checks. However, the Financial Conduct Authority (FCA) has cautioned that scam activity reported as utilizing copy trading has often in fact been investment management utilizing Multi Account Manager (MAM) or Percentage Allocation Management Model (PAMM) models. These are models that allow sub-allocation of single master account trades.

2.2 The benefits and the risks associated with copy trading

Some regulators responding to the IOSCO survey identified the following benefits of copy trading.

- *Higher retail participation and financial inclusion:* copy trading strategies may make investing seem simple for retail investors, particularly those with limited time, no desire to follow the markets or conduct research before making an investment or lacking financial literacy or experience in the financial markets. This appearance of simplicity may in turn favour higher retail participation in the financial markets, and thereby promote financial inclusion;

- *Educational benefits:* copy trading may, in certain circumstances, serve as an educational tool. For instance, especially when it integrates simulated trading environments and social learning features, copy trading can allow retail investors to better understand the trading behaviours of other market participants that have similar risk profiles.

Survey respondents also highlighted the following additional possible benefits.

- *Improved returns:* depending on the lead trader they are following, for retail clients who are inexperienced, copy trading may provide an avenue through which the client can benefit from the investing strategies of a more experienced trader.

- *Access to more sophisticated strategies and investments diversification:* copy trading practices could expand retail clients' spectrum of investment options. The benefit of this is that clients may be able to replicate the performance of a selected popular investor account without having to make their own investment decisions or having similar investment knowledge.

- *A less expensive alternative to investment advisors or portfolio managers*: copy trading is usually less expensive than the cost of advisory and/or investment management services, and therefore it may be accessible to a wider group of investors. In some cases, it is also possible to copy risk scored portfolios created by the firm, again without the usual charges associated with the provision of individual portfolio management service.

However, as highlighted by survey respondents, copy trading strategies may also result in investor harm. Circumstances where copy trading may be associated with potential harm for retail investors include:

- *Misleading disclosure or lack of transparency:* copy traders may not receive sufficient information about the services offered by the lead trader, related risks, and costs, as well as any potential conflicts of interest, remuneration structures, and usage of copy traders' (personal) data.

- *Poor investor outcomes and excessive risk taking* due to the ease of access for inexperienced investors to see what others are trading and to automatically copy those trades. The findings from academic research carried out for the French securities regulator (The Autorité des Marchés Financiers (AMF)) by the Experimental Economics Laboratory of Strasbourg University highlighted that copy trading creates an environment that leads to more risk-taking behaviour.

- *Mis-selling:*[5] copy trading is usually promoted as simple and profitable despite the potentially complex and risky nature of the

[5] Supra note 3.

arrangement with potentially inexperienced or unlicensed lead traders, including some who may be promoting falsified returns.

- *Poor qualifications of lead traders or misleading presentation of their qualifications:* copy traders may assume that because lead traders have been added to a market intermediary's platform, there is an implied endorsement of the lead traders. The lead traders can be presented as being experienced or successful investors, or knowledgeable or educated about financial markets, which may not always be the case. Even when the copy trader has a contractual relationship with a market intermediary, that intermediary may apply a weaker standard of knowledge and experience to lead traders than to other employees/agents.

- *Inadequate suitability assessment or lack thereof:* copy traders may sometimes be copying trades that may not be suitable to their investment objectives, needs and risk tolerance, knowledge and investment experience, and/or to their financial situation, including their capacity to bear losses. For instance, investors may be copying trades in potentially volatile and/or more complex products (e.g. contracts for difference [CFDs], crypto-assets, and illiquid securities) that may result in significant losses, including losses that exceed an investor's initial investment when leverage is involved. In addition, sometimes the copy trading service is offered as a solution for clients with low financial knowledge and experience, as an easy way to invest, that may encourage more investment or higher risk-taking than is appropriate or suitable for the level of knowledge and experience of the client, the client's financial situation (including its ability to bear losses), and , the client's its investment objectives (including its risk tolerance).

- *Conflicts of interest:* in certain circumstances, lead traders may put their own interests ahead of the copy traders' interests. This may happen, for example, when a lead trader is getting incentives or benefits by investing in specific products or by using specific platforms that may not be in the best interest of the copy trader. Conflicts of interest may also arise when lead traders are used to solicit investors for potentially volatile and/or more complex products (e.g. CFDs, crypto-assets and illiquid securities).

- *Unannounced changes to trading strategies and/or the type of products:* lead traders may sometimes change their trading strategies or buy products that differ from those that were initially anticipated by the copy traders and do so without giving copy traders prior notice.

- *Frequent trading and high turnover ratios:* the lead trader may engage in frequent trading, or in trading activities associated with high turnover ratios, which may accrue considerable transaction fees and quickly erode funds initially invested by the copy trader.

- *Timing and pricing risks:* copy trading may result in timing and pricing risks. For example, if a lead trader has a sizable following, the momentum from the copy traders may move the price and result in some copy traders buying assets at higher prices and or selling assets at lower prices than the lead trader.

- *Operational risk*: similar to online platforms generally, copy trading platforms can be subject to technical glitches or cyber-incidents, resulting in loss for investors. In addition, certain survey respondents stated that when algorithms are involved in *the automation process,* risks associated with these algorithms, such as security vulnerabilities and potential inherent biases*, become prominent*.

- *Corporate management*: prioritisation by market intermediaries of innovation ahead of due consideration of licensing and other regulatory compliance requirements may indicate inadequate governance and controls and poor corporate culture.

- *Risk of rendering enforcement measures more difficult:* trading by copy traders may exacerbate the market impact of market abuse activities and make it more difficult to identify the true perpetrators by generating a flurry of very similar trading activities. Offshore lead traders can be difficult to pursue in enforcement actions.

2.3 The need for good practices

The responses provided by jurisdictions highlighted the general lack of guidance specific to copy trading.

Jurisdictions that responded to the survey noted that copy trading often falls within the provision of investment advice and/or individual portfolio management and/or reception and transmission of investors' orders and therefore those jurisdictions can apply their existing rules.

Some respondents to the survey see merit in developing good practices on the provision of copy trading for the following reasons:

1. The introduction of global definitions for copy trading strategies could enhance regulatory clarity and oversight in the jurisdictions. By doing so, regulators could better understand and address the potential risks associated with copy trading activities.

2. A specific global definition of copy trading could lead to improved investor protection measures through potential tailored regulations.

Targeted rules could be beneficial considering the types of financial products - CFDs - frequently marketed in copy trading practices, which potentially draw in retail investors who would not otherwise contemplate trading complex leveraged derivatives. Similar concerns may apply to other more complex or potentially volatile products.

3. Good practices could also facilitate better communication and coordination among regulatory authorities across jurisdictions. Given the cross-border dimension of copy trading practises, international guidance could be useful to address the risk of forum/jurisdiction shopping. Most IOSCO members generally believe that global regulatory cooperation and coordination is critical to realising the benefits of technological advancements and the associated transformation, which facilitate copy trading. By establishing global standards, market intermediaries can gain clarity on regulatory expectations and compliance requirements, which can reduce uncertainty and mitigate risks associated with cross-border activities.

4. Investors may be mis-matched with lead traders they may not know, who may have limited financial qualifications or knowledge and who may have different investment objectives or risk appetite. Good practices for regulators may facilitate more effective controls and disclosure of information, resulting in better investor protection outcomes.

5. There might be merit in regulating the general operational practices of market intermediaries offering copy trading services to inexperienced investors who may be directed to lead traders they do not know and may not have any financial qualifications, or whose financial situation and objectives may differ from their own, if such regulation is not yet in place.

2.4 Application of existing securities laws rules and jurisdictional initiatives on copy trading

Among the respondent regulators, the Financial Service Authority (FSA) Japan showcased how it applies its registration requirement rules to copy trading.

Based on the Japanese legislation, the lead trader would be subject to registration requirements[6] if the contract between the lead trader and the market intermediary fits the following criteria:[7]

1) conclusion of a contract in which one of the parties promises to provide the other party with investment advice (oral, written or any other form)[8], and

2) the other party promises to pay remuneration for this.

According to the FSA, the registration requirement is probably the reason why copy trading is not widely available in Japan.[9]

Other jurisdictions have no specific rules applicable to copy trading and they did not report jurisdictional initiatives. In general, rules for investment advice, portfolio management and, in some instances, reception and transmission of clients' orders, are applied across all jurisdictions to copy trading practices.

Among others, this is the case of the European Union (EU) jurisdictions, informed by two measures (a Q&A published in 2012, and a supervisory briefing published in 2023),[10] which refer to a case-by-case approach and call for the application of existing legislation and rules on the provision of investment services.

Table 2

APPLICATION OF EXISTING SECURITIES LAWS RULES AND JURISDICTIONAL INITIATIVES ON COPY TRADING	
JURISDICTION	**RULES**
EU jurisdictions (ESMA)	The European Securities and Markets Authority (ESMA) dealt with copy trading in a Q&A published in 2012 and in a supervisory briefing published in 2023. According to the ESMA Q&A and supervisory briefing, copy trading practices must be assessed on a case-by-case basis, taking into consideration the investment service being provided by the firm and the firm-client relationship. The identification of the specific investment service potentially being provided is fundamental to determine which

6 Financial Instruments and Exchange Act (FIEA) 29

7 FIEA 2.8.11

8 Excluding newspapers, magazines, books, or any other written work that is issued for sale to many and unspecified persons and which many and unspecified persons can buy as needed.

9 Only one company in this jurisdiction is providing copy trading service which gives no remuneration to lead traders.

10 ESMA35-42-1428 Supervisory Briefing on supervisory expectations in relation to firms offering copy trading services (europa.eu)

	authorization the firm should obtain and, as a result, the requirements applicable to copy trading practices[11]. The Q&A specifies that automatic execution of orders on financial instruments by a firm based on trade signals issued by a third party falls under the MiFID[12] definition of individual portfolio management where the order execution is automatic and does not require any further action from the client. On the other hand, if client action is required, MiFID investment services other than portfolio management may be identified (e.g., investment advice and/or reception and transmission of orders ("RTO"). The ESMA's Supervisory briefing outlines the common understanding between ESMA and national competent authorities regarding the supervision of firms offering copy trading services. The briefing includes guidance on the qualification of copy trading services as an investment service and it sets out supervisory expectations with regard to MiFID 2[13] requirements on: 1. information requirements (including on marketing communications and costs and charges); 2. product governance; 3. suitability and appropriateness assessment; 4. remuneration and inducements; 5. qualifications of traders whose trades are being copied. Moreover, where the lead trader (i.e. the "signal provider") puts forward their investment recommendations or presents themselves as having financial expertise or experience, the Market Abuse Regulation (EU) No 596/2014 will apply. The ESMA supervisory briefing is also intended to provide guidance to market participants on the compliant implementation of the MiFID 2 requirements applicable to the different forms of copy trading services. The relationship between the lead trader, the copy trader and the intermediary/platform should be analysed on a case-by-case basis. If client action is required, MiFID 2 investment services other than portfolio management may be identified (e.g., investment advice and/or reception and transmission of orders). Investment firms should therefore ensure that all the obligations arising from MiFID 2, depending on the specific relationship, are addressed. In particular, the avoidance and management of conflicts of interest and the protection of clients' best interest.
Hong Kong (SFC)	In Hong Kong as for the **relationship between the intermediary and copy trader**, the SFC's Online Distribution Guidelines and related FAQs set out

11 For instance, while one firm may provide the signals but may not execute them, other firms may provide both the signals and execute them. Therefore, the roles and the obligations of firms involved can differ.

12 In 2012 MiFID Directive was in force, since MiFID 2 entered into force in 2014.

13 Directive 2014/65/EU of the European Parliament and of the Council of 15 May 2014 on markets in financial instruments (the so-called MiFID 2)

	principles and requirements applicable to online distribution and advisory platforms for investment products operated by intermediaries ("Online Platforms"), which included amongst others that: ➢ A licensed or registered person may operate different websites, platforms and other channels such as social media accounts for posting information about investment products and transacting them, and that the SFC will take into account activities targeting Hong Kong investors conducted by a licensed and registered person via all channels in their totality in considering the intermediaries' compliance with the requirements in the Online Distribution Guidelines. ➢ With respect to the posting of any advertisement,[14] research report and other investment product-specific materials on their Online Platforms, Platform Operators[15] should note requirements relevant to the issue of such materials.
Israel (ISA)	The Israel Securities Authority (ISA), which issued an order in 2016 (amended in 2023) to licensees regarding the use of technological tools for provision of services (the "Order"). The Order sets the requirements from supervised investment advisors, investment marketers and portfolio managers that use technological tools for providing services online, either in the pre-contractual phase, or while determining the investment policy and risk level of the investor or providing the ongoing services phase. The Order also outlines the rules for trading platforms providing social trading services. The Order defines the term "**social trading**" as an online platform that enables investors to be exposed to transactions executed by others or to the results of such transactions, while enabling the investor to gain certain information regarding such activity, such as the return of the displayed portfolios; rating the transactions results and segmentation of the composition of the portfolios; or enabling automatic execution of transactions. **The definition does not distinguish between social trading, copy trading and mirror trading, as the term "social trading" includes both copy trading and mirror trading.** However, different rules apply in different types of activities, whether these activities involve automatic, semi-automatic or manual execution. Consistently, the three activities require two different types of licenses to provide financial services (portfolio management and/or investment advice). The Order also outlines general requirements for licensees using technological tools while providing services (investment advice, portfolio management) and specific requirements designed for social trading

14 Under section 102 of the SFO, an advertisement includes every form of advertising, whether made orally or produced mechanically, electronically, magnetically, optically, manually or by any other means.

15 Meaning all licensed or registered persons when conducting their regulated activities in providing order execution, distribution and/or advisory services in respect of investment products via their Online Platforms.

	services. Conversations and interactions between the lead trader and copy trader are limited to the provision of information with respect to an enquiry made by the copy trader relating to assets included in the lead trader's portfolio. The lead trader must not make any representations that the service is personally adjusted or tailored for any individual copy trader. The platform operator is required to monitor that all conversations between lead traders and copy traders comply with these rules.

2.5 Copy trading and finfluencers

Although several jurisdictions reported no experience of any interaction between copy trading and finfluencers, some regulators observed the following linkages, as reported in the table below.

Table 3

COPY TRADING AND FINFLUENCERS	
JURISDICTION	**USE CASES**
Australia (ASIC)	In **Australia**, the use by finfluencers of selected financial services licensees takes various forms, including: • paying finfluencers to promote their products on social media; • investment podcasts hosted by finfluencers (which may be sponsored); • finfluencers and their investment strategies featured in providers' social trading and educational areas of their websites (as outlined in question 1); • leaderboard/performance boards in trading apps. According to ASIC, there is potential for blurring of the lines between copy trading and finfluencers. This has the potential to stray into unlicensed financial product advice where the activity is conducted as a business. In March 2022, ASIC published an Information Sheet[16] about discussing financial products and services online. It outlines how Australian financial services laws administered by ASIC can apply to social media influencers, and the Australian Financial Services (AFS) licensees who use them.
Belgium (FSMA)	In **Belgium,** the Financial Services and Markets Authority (FSMA) has noticed an increase in finfluencers posting about certain financial products.

16 ASIC Information Sheer 269: Discussing Financial products and Services Online, March 2022

	The posts are rather general in nature and do not qualify as investment advice, although in some cases the line is very thin. Given that finfluencers often present themselves as having financial expertise and/or experience and put forward their investment posts/recommendations in such a way that other persons would reasonably believe they have financial expertise or experience, according to the FSMA they could be considered as "experts" within the meaning of Article 1(a) of the EU's Market Abuse Delegated Regulation. The FSMA is currently considering how to deal with this.
Brazil (CVM)	In **Brazil**, the strategies of popular finfluencers are of great appeal to the public and are often shared. However, some platforms restrict the provision on this type of service to registered analysts only.
France (AMF)	In **France**, some finfluencers advertise and promote trading platforms that offer copy trading, mirror trading or social trading. This is a new advertising profession that has yet to be professionalized. There have also been highly damaging instances involving finfluencers who have promoted unauthorized trading platforms or even outright scams aimed at the French public. It is often difficult to identify the trading platform behind the finfluencer post because of the prevalence of private messaging.
Poland (KNF)	In **Poland**, the Komisja Nadzoru Finansowego (KNF) points out that there are many traders or "financial experts" active online, publishing analyses or market updates. Their activity consists of offering webinars or trainings but also providing or promoting trading tools such as robots, algorithms, or trading signals. The pattern does not exactly suit the definition of a "scam" but this is an alarming trend that is connected with unregulated CFD offering.
UNITED KINGDOM (FCA)	In the **UK**, the FCA has considerable concerns about "finfluencers" involved in introducing retail consumers to CFD trading on an advisory or discretionary basis. In many cases, this involves offshore CFD providers rather than UK incorporated firms (although in some cases these offshore entities having "group" links to UK firms). While "copy trading" gets mentioned in consumer reports, the FCA believes that much of the scam activity involves finfluencers either promoting others or operating as unregulated "FX educators" and "signals providers" . Once consumers are introduced into online chatrooms, the product pitched can morph into Multi Account Manager (MAM accounts) marketed with promises of unrealistic returns.

CHAPTER 3: MARKET INTERMEDIARIES AND COPY TRADING

3.1 Current market practices

Most jurisdictions (fifteen) reported the provision of copy trading strategies by market intermediaries to varying degrees. In some jurisdictions, the current state of the market is well understood, in others the picture is either still unclear or the practice is still emerging, and a number of regulators are planning to undertake further work shortly to improve their understanding.

Most jurisdictions that reported instances of copy trading strategies by market intermediaries said they are being offered on a cross-border basis by a small number of firms. This is likely one reason why many jurisdictions lack data on the size of the market. In one jurisdiction, social trading has been enabled through a fintech lab, with one company currently being permitted to undertake the activity.

In those jurisdictions where copy trading is observed, a wide range of products, services and asset classes are being offered by market intermediaries to copy traders, including shares, crypto assets, CFDs, forex, futures and Exchange-Traded Funds (ETFs).

While some individual jurisdictions may not have data to report, in the EU attention was drawn to the previously referenced ESMA Supervisory Briefing that sets out supervisory expectations in relation to firms offering copy trading services. This document sets out examples of copy trading business models observed in the EU.

The UK FCA set out its approach to copy trading in a statement last updated on 9 February 2023.

Meanwhile, in December 2023 ASIC published its findings from a review of online trading providers in Australia which encompasses details on online imitative trading strategies, including social and copy trading.[17]

3.2 Use cases and supervisory engagement

Generally, there has been *ad-hoc* supervisory engagement in jurisdictions, driven by risks and specific concerns identified with firm activities. Supervisory work planned across a few jurisdictions includes reviewing customer outcomes and the conduct of lead traders.

[17] Report REP 778 Review of online trading providers (asic.gov.au)

As one would expect, this engagement is more advanced in those jurisdictions where copy trading strategies by market intermediaries are more established and widespread. In those jurisdictions, issues raised with market intermediaries include:

- **Mis-selling and mismatching of client expectations, outcomes and risk appetite, including cross-selling**: use of leader boards, copy trading, algorithmic trading and marketing promotions by market intermediaries which may promote potentially risky products but be sold as simple and profitable despite their potentially complex and risky nature;
- **Misleading or deceptive representations and marketing:** leader boards and rankings made available by market intermediaries, or finfluencers paid to promote products, may mislead investors about the expertise of lead traders, strategies used, products traded, risk adjusted returns, past returns, incentives received by the lead trader or finfluencer, and performance benchmarks/targets; and
- **Unlicensed conduct**: copy trading services, algorithmic trading activity, and leader boards made available by market intermediaries and advertising or marketing by influencers may involve individuals who are not licensed or registered to provide financial advice or individual portfolio management.

In seeking to address concerns around copy trading strategies, regulators have encountered issues with services being provided on a cross-border basis which means they may lack data, and on occasion have had to request the home regulator to investigate further.

Several regulators are planning supervisory work in the near future, including examining the copy trading practices of market intermediaries and their assessment of consumer harms, as well as the activities of popular lead traders. One regulator has already reviewed copy trading to ensure that lead traders are registered as investment advisors. In that jurisdiction, customer outcomes have not yet been reviewed but will be if investor complaints are received.

One jurisdiction identified relevant supervisory issues that could be examined further, including: terms and conditions of copy trading, the discretion retained by retail investors (is it copy or mirror trading), cross-selling, ongoing suitability monitoring, risk scoring of traders and accounts, execution methodology and trade flows, any market abuse implications, and social feeds/monitoring.

3.3 Copy trading and marketing practices

Where activity has been observed and/or data has been collected, it appears that copy trading is only happening online.

Sourcing clients - Across certain jurisdictions, market intermediaries are engaging in online advertising and marketing campaigns of copy trading services. The service is being marketed both by market intermediaries and by lead traders. One jurisdiction noted a difference in the approach of copy trading marketing between reputable firms - where marketing is done through or by a market intermediary - and less reputable players/potential scams - where marketing is done directly by the lead trader online. Online forums are also used to promote lead trader activity.

Marketing/advertising - In most jurisdictions, general regulations applying to the marketing of financial services also apply to the marketing of copy trading services, and the activity is supervised accordingly.

For example, in the EU, general information requirements apply including that marketing communications by investment firms to investors or potential investors shall be fair, clear and not misleading. In the UK, the financial promotions regime applies, which, amongst other things, provides that communications and financial promotions must be fair, clear and not misleading.[18]

One jurisdiction has a specific regulatory regime for social trading, and therefore specific marketing requirements. This requires all marketing to be done by the intermediary and forbids lead traders from undertaking any marketing activity.

3.4 Market intermediaries' controls, duties and responsibilities

3.4.1 Appropriateness/suitability of copy trading services

Requirements concerning market intermediaries' checks and controls on copy trading vary among jurisdictions and include the following:

- **Australia -** The general requirements to consider the objectives, financial situation and needs of the consumer and retail investors apply to copy trading. This includes preparing a target market determination. In August 2023, ASIC commenced proceedings in the Federal Court of Australia against one online investment platform for not complying with those requirements in copy trading practices regarding CFDs.
- In other jurisdictions, practice varies. As set out in the **FCA's copy trading statement,** [19] ongoing regulatory requirements in the UK including the an assessment of suitability assessment and other conduct of business requirements may apply.
- In several other jurisdictions, such as the EU jurisdictions, where copy trading practices are considered within the scope of investment

18 Ontario Securities Commission fair dealing obligation for registrants (see section 2.1 of OSC Rule 31-505) applies to the firm's marketing practices as well.

19 Copy trading | FCA

advisory activities or portfolio management, suitability obligations do apply on the firm that is involved in (part of) the copy trading service. If, the service provided qualifies as reception and transmission of orders (RTO) or execution of orders, appropriateness requirements can apply. In both cases, the firm in question will need to have adequate policies and procedures in place to perform the suitability/appropriateness assessment.

While laws and regulations applicable to copy trading services vary among jurisdictions, certain respondents noted that regulatory authorities and market intermediaries may wish to provide greater clarity and guidance regarding the following areas:

- investor risk exposure;
- internal controls, policies and procedures, and suitability; and
- duties of all involved parties including lead traders, market intermediaries, and copy traders.

3.4.2 Consistency with target market

In jurisdictions which impose target market identification requirements, expectations for intermediaries to monitor compliance vary.

In one jurisdiction, there is a requirement to take reasonable steps to ensure consistency. In another jurisdiction, it is considered good practice to monitor for compliance.

Most jurisdictions had either not observed this activity, or did not provide any information on it.

3.5 Contractual arrangements among market intermediaries, lead traders and copy traders

There is mixed experience on this aspect, including several jurisdictions where data is not available, so it is challenging to accurately assess contractual arrangements.

Some respondents drew attention to the ESMA Supervisory briefing.[20]

[20] Supervisory Briefing on Copy Trading (europa.eu)

Where observed by survey respondents, contractual relationships have been identified between the market intermediary and the copy trader, as well as between the market intermediary and the lead trader. But no contractual relationships have been identified between lead and copy traders.

Where a contractual relationship has been identified between the market intermediary and lead traders, controls on lead traders have included:

- **Exposure to high-risk trading –** This is performed through an algorithm which calculates a risk rating for each lead trader's trading, and disables copying trading of any lead trader with a risk rating above a certain threshold.

- **Conflicts of interest –** This control envisages that the lead trader will not execute transactions that create conflicts of interest between the lead trader and other users of the platform, such as the copy traders.

- **Monitoring –** The lead trader activity is monitored to detect potentially unsuitable transactions, with the ability to shut off "comment" functions in instances of social trading.

Where controls are in place on lead traders, some regulators identified issues with market intermediaries providing effective oversight of such controls.

3.6 Conflicts of interest in copy trading services

3.6.1 Fees and remuneration

In general, where information on fees is available, survey respondents observed that investors are not charged additionally for copy trading services, but that the usual trading transaction fees apply. In some jurisdictions lead traders are not remunerated, and in others a variety of payment models are used for lead traders.

For example, in some cases the firm offering copy trading services does not charge retail investors and lead traders are paid directly by the firm (either a fixed amount or a percentage of the assets under management (AUM) where higher or of the volume traded). In other instances, there is no evidence of any additional fees for using copy trading services, and costs and charges are generally levied through transactional charges (spread and foreign exchange fees), reflecting the spreads applied when a copy trader trades on a manual/execution only basis.

3.6.2 Conflicts of interest

Certain respondents noted that if fees or remuneration are paid to lead traders based on the volume of trades by copy traders, there may be a potential conflict of interest between the lead traders and the copy traders in terms of trading volume versus the performance or security of the investment. In certain other circumstances, respondents stated that the lead trader may put his own interests ahead of the copy trader's interests, as discussed in Section 2.2.

Potential material conflicts of interest between the market intermediary and the copy trader were also observed by survey respondents. Conflicts of interest can include where the market intermediary internalises the pricing of the product lines traded by its clients, in some cases earning a significant percentage of its gross revenue from the spread on those prices.

CHAPTER 4: SUPERVISION, ENFORCEMENT, INTERNATIONAL COOPERATION AND CROSS-BORDER ASPECTS

4.1 Supervision and enforcement

Section 2.2 outlined some of the conduct by market participants that could result in supervisory engagement and, ultimately, enforcement, related to copy trading. Most survey respondents reported that most complaints relating to copy trading have been classified as complaints relating to the provision of investment advice or recommendations to which copy trading is attributed by the relevant jurisdictions. Therefore, not many enforcement actions explicitly related to copy trading have been taken.

Where cases can be referred specifically to copy trading practices, these frequently resulted in being frauds or scams perpetrated cross-border by unregistered or unlicensed entities.

In the following table some of the most significant supervisory and enforcement actions taken by regulators are reported.

Table 4

SUPERVISORY AND ENFORCEMENT ACTIONS AND OTHER USE CASES		
Jurisdiction	**Supervisory use cases**	**Enforcement actions and other use cases**
Belgium (FSMA)	In FSMA experience, the biggest risk lies in foreign (non-EEA) signal providers aggressively marketing such paying signal subscriptions in Belgium. Once the signal subscription is purchased, the consumer needs to link it to a trading account with an investment firm. In the most problematic scenario, there is no connection at all between the signal provider and the investment firm. In this respect, it proves difficult to target signal providers, as their services do not qualify as investment advice. The investment firm, for its part, holds a licence for the required investment services FSMA also noted the new phenomenon of online training. FSMA found that, mostly	In Belgium, there are no specific rules on copy trading. FSMA assesses whether the copied trader's activities can be qualified as investment services (investment advice or asset management), but this qualification often fails with the requirement that "the recommendation is presented as suitable or based on a consideration of the client's circumstances". Moreover, the investment firms offering copy trading services are regulated firms licensed for activities of investment advice and portfolio management.

	through social media, more and more paid training courses are offered to learn how to trade in financial instruments. Such training is provided using classical course materials, but also via online webinars and 1-on-1 coaching sessions. The risk is that the instructor acts as a copied trader and his trainees become copy traders who copy the instructor's trades. Sometimes the instructor provides investment advice.	
Canada (QAMF + OSC + CIRO)	Investigations were opened following multiple complaints from retail clients. Complaints were mainly centred around the online solicitation of firms, or to confirm if the ongoing activity was legal. In Québec several cases were connected to multi-level marketing (MLM) structures. Family members and friends also contacted the QAMF on behalf of individuals who joined these MLM schemes. All complaints are opened for initial evaluation, and those deemed as potential offenses are then opened for investigation if there are solicitors or administrators in Québec.	In the Kaizen case, subscriptions for robot trading (signals) on forex (illegal trading advice) were being sold in an MLM structure. Alternative measures were put in place: a public warning to investors was published, and formal notices sent to 23 people involved in solicitation. Criminal charges (prison sentence) were brought for the administrator in Ontario for separate securities fraud allegations (https://lautorite.qc.ca/en/general-public/media-centre/news/fiche-dactualites/foreign-exchange-market-forex-amf-cautions-about-solicitations-by-kaizen-global-network-1) In the CashFX case, subscriptions for robot trading (signals) on forex (illegal trading advice) were being sold in an MLM structure. Alternative measures were taken: a public warning to investors was published, and formal notices were sent to people involved in solicitation. The Facebook pages recruiting in Quebec were closed, and Canadians no longer have access to the platform (https://lautorite.qc.ca/en/general-public/media-centre/investor-warnings/investor-warnings-sheet/cash-fx-group). In the BE Factor case, subscriptions for robot trading (signals) on forex (illegal trading advice) were being sold in an MLM structure. Alternative measures were taken: a public warning to investors was published, and formal notices were sent to people involved in solicitation (https://www.quebec.ca/en/news/actualites/detail/beware-of-offers-from-be-factor). In the ITradeCoins case, there was an ICO / sale of subscriptions for automated trading on cryptocurrencies and derived products. Alternative measures were taken, and administrative proceedings are ongoing. A public warning to investors was published, and asset freeze orders targeting the administrators are in place

		(https://www.quebec.ca/nouvelles/actualites/details/gestion-itradecoins-inc-jesuel-albernhe-et-sebastien-lambert-vises-par-des-ordonnances) (https://lautorite.qc.ca/grand-public/salle-de-presse/actualites/fiche-dactualite/gestion-itradecoins-inc-jesuel-albernhe-et-sebastien-lambert-vises-par-des-ordonnances). In the 4xProTrader case, illegal investment advice and services were being promoted to investors. Asset freeze orders were put in place, and administrative proceedings led to $160,000 in penalties for the administrators (https://citoyens.soquij.qc.ca/Decision - Autorité des marchés financiers c. Blouin - 2018 QCTMF 2 (soquij.qc.ca). (https://www.finance-investissement.com/nouvelles/actualites/160-000-de-penalites-administratives-pour-4xpro-trader/)
France (AMF)	From the January 1st of 2021 the AMF has received 22 complaints which turned to be scams. Most of the time copy trading is linked to trading training.	When an investment proposal is made to investors without authorization, the AMF can blacklist the web site. If the investor has suffered damage he can take civil legal action.
Italy (CONSOB)	In the provision of copy trading Consob saw many cases of unlicensed and fraudulent activity. This is provided by domestic and above all non-domestic entities: the first solicitations toward investors are put in place by subjects speaking and writing in Italian, while the remaining part of the activity seems attributable to non-domestic entities (web platforms mentioning entities with declared offices abroad and bank accounts opened abroad). Complaints received from Italian clients of EU investment firms operating under the freedom to provide services are forwarded to the competent home authority. An analysis of complaints against EU investment firms operating in Italy on a cross-border basis covering the period 2020 – 2023 shows that in one case a retail client using copy trading from an EU firm observed that copied investment strategies are always loss-making. Consob received complaints from retail clients about copy trading services consisting in investment services offered by entities not authorized to provide investment services in Italy. In such cases complainants often reported that the	Where, on a case-by-case basis, copy trading services were to be considered as investment services and the subject/entity offering these services was not authorized to provide investment services, Consob ordered: a) to the unauthorized online financial services provider to cease the infringement (the inhibitory order) and b) Internet connectivity services providers to black-out the web domains attributable to the unauthorized online financial services provider (the web domain blackout order).

	trades were decided and automatically executed without any instructions from them, quite always realizing the loss of the capital invested.	

4.2 The cross-border provision of copy trading services

Most survey respondents have reported that they have not observed domestic brokers offering copy trading services in their jurisdictions[21] while some have reported that offshore brokers offer such services, in some cases from tax havens[22] with less restrictive rules and regulations.

Other regulators[23] have reported that domestic brokers offer copy trading services, and only one survey respondent has reported that domestic brokers offer copy trading services to investors outside the jurisdiction.

The EU has specific cross-border regulation within the region. Some EU authorities[24] have reported that brokers from other EU countries are offering copy trading services in their jurisdictions using the Markets in Financial Instruments Directive 2014/65/EU ("MiFID II") passports under the freedom to provide services in EU countries other than the place of registration.

4.3 International cooperation

As observed by many jurisdictions, where copy trading services are available, copy trading is provided on a cross-border basis, and authorities have no supervisory or enforcement powers outside their jurisdiction. As a result, most authorities have not taken any supervisory or enforcement actions against copy trading services in these jurisdictions. International cooperation in this area could assist with supervisory and enforcement efforts in these jurisdictions. In particular, when authorities require enforcement assistance from foreign jurisdictions, they should consider cooperation arrangements such as the IOSCO MMOU and EMMOU. Under the IOSCO MMOU and EMMOU, signatories are expected to provide the fullest assistance permissible to each other in connection with enforcement requests for assistance which

21 CNMV Spain, ASIC Australia, FSMA Belgium, FSA Japan, KNF Poland, QAMF, OSC, and CIRO Canada, SEC Nigeria, SEC and FINRA in USA

22 Cayman Islands, Cyprus, British Virgin Islands

23 ASIC Australia, CVN Brasil.

24 AMF France, CNMV Spain, CONSOB Italy and KNF Poland

in turn collectively strengthens and protects the integrity of our global markets.

The usual method regulators have reported for alerting investors to the cross-border activities of a broker is to add the name of the unregistered broker to an investor alert list, either on the authority's website or on IOSCO's Investor Alerts Portal.[25] However, as brokers may be established in jurisdictions where copy trading services are permitted, it is sometimes difficult to add their name to a global list.

Jurisdictions reported that this practice is different in the EU. As EU jurisdictions are under the MiFID II passport, an EU authority that detects inappropriate activity by brokers in other EU jurisdictions can report such activity and can ask the home EU authority to take the necessary action.

The Belgian FSMA reported one successful case of such intra-EU cooperation. The Italian CONSOB also reported two types of successful cases where it ordered an unauthorized online broker to cease the infringement (the inhibitory order) and an internet service provider to black-out web domains attributable to the unauthorized broker (the web domain black-out order).

[25] https://www.iosco.org/investor_protection/?subsection=investor_alerts_portal

CHAPTER 5: INVESTOR EDUCATION

5.1 Introduction

A complementary survey focused on educational and regulatory aspects related to the practice of copy trading was also circulated to IOSCO members. Responding jurisdictions provided the below input with responses received from 22 regulators in 19 jurisdictions and the results can be summarized as follows:

- Four regulators indicated that copy trading was not a relevant issue in their jurisdictions and therefore had no plans to address the issue with educational materials;

- Nine regulators responded that educational materials should focus on general themes like fraud prevention and excessive risk-taking, and not exclusively on copy trading;

- Seven regulators indicated that there is merit in developing specific educational materials for copy trading but have not yet engaged in efforts to do so;

- Two regulators indicated that they had developed specific materials on copy trading, and provided links to this material (see below);

- Two regulators indicated proprietary research (or third-party research) on copy trading and investor behaviour; and

- The main research findings correlate aspects of gamification with more risk-prone and less conscious investor behaviour.

5.2 Investor education initiatives taken by regulators

On the development and release of educational materials or programs on copy trading and, if relevant, the main communication/delivery channels for such initiatives, only two regulators reported having developed specific material on copy trading. Some regulators dealt with copy trading in the context of general financial education initiatives, while most did not deal with this matter.

Two surveyed regulators conducted or obtained research-based data on the topic of copy trading and retail investors.

5.2.1 General financial education initiatives

General financial education initiatives were cited by the following jurisdictions (with links to the tools):

AFM - Netherlands

- Money Wise Platform - https://www.wijzeringeldzaken.nl/

ASIC - Australia

- ASIC's Moneysmart program - https://moneysmart.gov.au/

FCA - UK

- InvestSmart - www.fca.org.uk/investsmart

5.2.2 Specific financial education initiatives

The jurisdictions where copy trading is a widespread phenomenon cited the following specific financial education initiatives (with appropriate links to the tools):

AMF - France

- Instagram publications:
    - https://www.instagram.com/p/CaSUsIQoj7u/?igsh=MXRja2x1MnhvdngOMw==
    - https://www.instagram.com/p/CWn_UNLoigQ/?igsh=MXJrbjhicnRmdHJzeg==
- Webinar in October 2023:
    - https://youtu.be/Bz32EXM-JMo?si=dw6aZXSqOI7N1bqN
- Campaign about trading on social media in December 2023 (Meta, TikTok) with a video about copy trading and this catchphrase: "he copied everything while understanding nothing."
- The information raised awareness of copy trading risk: "*Unauthorized sites with scams behind them and some Forex and binary options sites with permissions issued by undemanding foreign regulators have questionable practices. Express training in trading, "tips" for investing, copy trading (following the investments of a so-called experienced trader), etc.: this type of method supposed to ensure gains, actually only increases the risk of losses. Trading requires years of experience and even a professional trader is not immune to losses, far from it.*"

- https://www.amf-france.org/fr/espace-epargnants/proteger-son-epargne/forex-options-binaires-un-marche-fuir/forex-options-binaires-trading-haut-risque

Quebec Autorité des Marchés Financiers (QAMF) - Canada

- Website High-Risk Platform – www.lautorite.qc.ca

5.2.3 Research-based data on copy trading

Two respondents have conducted or obtained research-based data on the topic of copy trading and retail investors.

AMF - France

The AMF France cited a laboratory experiment that investigated the individual determinants of copy trading.[26]

OSC - Canada

This regulator stated that OSC Research and Behavioural Insights Team has conducted primary research on the effects of copy trading on investor behaviour. The OSC conducted an experiment where research participants received virtual “money” to invest in fictitious stocks on a made-up trading platform. Participants took part in simulated weeks of trading where some saw certain stocks promoted in different ways. They found that participants who had the option to copy the trades of a “high performing” user made 18% more trades compared to a control group. The findings suggest that socially-based engagement techniques can influence investor behaviour by encouraging trading in specific assets. This influence is likely to have a negative impact, potentially through under-diversification or excessive risk taking.[27]

They also cited a report regarding social interactions that involved research on both US and Canadian platforms that observed social interactions across a range of online digital trading platforms that included the option for retail investors to publicly display their portfolios and share their investment decisions with other users (a US platform) and the ability to follow and copy others’ investment decisions (another US platform).

[26] Gamification and copy trading in finance: an experiment (full report): https://www.amf-france.org/en/news-publications/publications/reports-research-and-analysis/gamification-and-copy-trading-finance-experiment-full-report

[27] OSC Gamification Revisited: New Experimental Findings in Retail Investing: https://www.osc.ca/en/investors/gamification-revisited-new-experimental-findings-retail-investing

5.2.4 Investor education initiatives taken by other regulatory entities or private organizations

Investor education initiatives taken by other regulatory entities were cited by two regulators, as detailed below.

AMF – France

The AMF France reported material on copy trading developed by the French Association for Financial Education (https://www.lafinancepourtous.com/decryptages/marches-financiers/fonctionnement-du-marche/social-trading-et-copy-trading-des-promesses-et-des-risques/).

CHAPTER 6: PROPOSED IOSCO GOOD PRACTICES

This Final Report identifies Good Practices as guidance that may be helpful to regulatory authorities and market participants in addressing some of the potential issues impacting retail investors who invest by way of copy trading.

Ultimately, the good practices aim to promote well-functioning markets where market intermediaries and other market participants engaging with retail investors demonstrate fairness, transparency in their activities, clear rules and/or documentation governing their conduct internally to address potential conflicts of interest and adequate systems to monitor and mitigate abusive, fraudulent or manipulative activities.

IOSCO Members could consider the following good practices as guidance regarding the market intermediaries they regulate that provide copy trading services or other online imitative trading strategies (e.g., mirror trading or social trading), consistent with their relevant legal and regulatory frameworks.

***

Market intermediaries that provide copy trading should:

1. Examine whether their copy trading services fall into the provision of investment advice and/or individual portfolio management and/or other regulated activities or services requiring registration or licensing, in order to comply with the applicable laws and regulations of the pertinent jurisdiction.

2. Monitor their marketing activities regarding the promotion of copy trading services and marketing activities carried out by lead traders operating on the market intermediary's platform for compliance with jurisdictional regulatory requirements, including, where applicable, as regards disclosure requirements on remuneration and inducements paid or offered by the intermediary to the lead trader and the potential conflicts of interest arising that might negatively impact copy-traders.

3. Set up procedures for the selection and removal of lead traders who operate on the market intermediary's platform, taking into account, among others, their qualification, and their level of knowledge, and competence, and the number and nature of complaints regarding lead traders.

4. Regularly review the conduct of lead traders and the outcomes of copy traders on the market intermediary's platform for compliance with the applicable laws and regulations of the pertinent jurisdictions, employing, if possible, technology for enhanced surveillance.

5. Assess the conflicts of interests that may arise in the provision of copy trading services, including where the market intermediary's remuneration structure of lead traders may generate conflicts of interests between lead traders and copy traders or between the market intermediary and copy traders.

CONCLUSIONS

The growth in digitalisation and the increasing use of social media, in both developed and emerging markets, is changing the way financial products are marketed and distributed. Online advertising, marketing and social influencers have broadened the reach of providers of online imitative trading practices. They may make investing by way of copy trading seem simple even for inexperienced retail investors who may not understand the market or products being offered.

Considering the various developments in online imitative trading practices and some of the regulatory concerns raised among regulators globally, this Final Report aims to provide good practices for IOSCO members for how to mitigate the potential risks of those practices, in a way consistent with the IOSCO members' legal and regulatory frameworks.

APPENDIX

List of the IOSCO members that completed the survey

Jurisdiction	Regulatory Authority	
Angola	Comissão do Mercado de Capitais	CMC
Australia	The Australian Securities and Investments Commission	ASIC
Bahamas	The Securities Commission of The Bahamas	SCB
Belgium	Financial Services and Markets Authority	FSMA
Brazil	Securities and Exchange Commission of Brazil	CVM
Canada Ontario	Ontario Securities Commission	OSC
Canada Quebec	Autorité des marchés financiers (Quebec)	QAMF
China	China Securities Regulatory Commission	CSRC
France	Autorité des marchés financiers	AMF
Hong Kong	Hong Kong Securities and Futures Commission	HKSFC
India	Securities and Exchange Board of India	SEBI
Israel	Israel Securities Authority	ISA
Italy	Commissione Nazionale per le Società e la Borsa	CONSOB
Japan	Financial Services Agency	FSA
Korea	Financial Supervisory Service	FSS
Kuwait	Capital Markets Authority	CMA
Mexico	Comisión Nacional Bancaria y de Valores	CNBV
Netherlands	Authority for the Financial Markets	AFM
Nigeria	Securities and Exchange Commission	SEC
Poland	Komisja Nadzoru Finansowego	KNF
Saudi Arabia	Capital Market Authority	CMA
Singapore	Monetary Authority of Singapore	MAS
Spain	National Securities Market Commission	CNMV
Taiwan	Financial Supervisory Commission	FSC
Thailand	The Securities and Exchange Commission	SEC

Türkiye	Capital Markets Board of Türkiye	CMBT
United Kingdom	The Financial Conduct Authority	FCA
United States of America	Commodity Futures Trading Commission	CFTC
United States of America	National Futures Association	NFA
United States of America	Securities and Exchange Commission	SEC
United States of America	Financial Industry Regulatory Authority	FINRA

Consultation Questions for Online Imitative Trading Practices Report

IOSCO requested feedback on 6 questions, which are listed below:

QUESTION 1 - Do you see merit in distinguishing among copy trading, mirror trading and social trading? Please elaborate. How would you define each individual practice? What should the scope of these definitions cover?

QUESTION 2 - Given the nuanced differences and potential for confusion as a result, do you agree with the development of an umbrella term for these practices? If so, what would an appropriate term be?

QUESTION 3 - Do you agree with the findings of the Consultation Report and the proposed Guidance? Are there any missing issues or gaps that are not and should be highlighted in the Consultation Report?

QUESTION 4 - Do you expect use cases copy trading or other online imitative trading strategies (like mirror trading and social trading) to evolve in the future? If yes in which direction? What would be the regulatory implications?

QUESTION 5 - Are there any further risks or benefits of copy trading or other online imitative trading strategies? Does existing regulation adequately respond to such risks?

QUESTION 6 - In your opinion, which measures would ensure to harness the potential benefits of copy trading or other online imitative trading strategies for investor protection and education purposes?

Summary of Feedback and IOSCO responses

On 19 November 2024, IOSCO consulted on a set of good practices and considerations regarding Online Imitative Trading Practices: Copy Trading, Mirror Trading, Social Trading. The feedback period closed on 20 January 2025, with a total of 7 responses received from a range of stakeholders falling into these broad categories:

1. Industry association (2)

2. Market regulator (4)

3. Exchange operator (1)

The IOSCO Board is grateful for the responses and took them into consideration when preparing the Final Report for Online Imitative Trading Practices: Copy Trading, Mirror Trading, Social Trading. The rest of this chapter summarizes the replies received on the consultation questions.

Feedback received summarised as following:

Question 1: Do you see merit in distinguishing among copy trading, mirror trading and social trading? Please elaborate. How would you define each individual practice? What should the scope of these definitions cover?
Summary of feedback: There were 7 respondents to this question. There is an overall consensus among the respondents approving of the definitions presented in the Consultation Report, as they can address important technical differences from a regulatory perspective. Respondents noted, in particular, that depending on the degree of automation linked to the imitative practice, the appropriate regulatory framework may vary, since each modality entails specific obligations. There is also a general agreement by the respondents on the need for distinguishing among copy trading, mirror trading, and social trading. Respondents noted that distinctions drawn in the paper are considered useful. Indeed, there is a strong consensus from respondents on the Consultation Report's proposal of these definitions based on the degrees of client discretion, direct/indirect control over client assets and levels automation. Thus, respondents noted that each practice should be distinguished and addressed separately when creating regulations to mitigate the risks posed by each. There is a comment from one respondent to be highlighted. That respondent noted their belief that. copy trading may not fulfil all the characteristics of discretionary portfolio management. They believe that the regulatory framework for discretionary portfolio management should be evaluated on a case-by-case basis, since understanding the specificity of each practice is essential to adequately address the different issues and risks. Another respondent noted that there is no need to develop new definitions, as doing so would imply a significant distinction between these services and traditional investment advice or portfolio management. Another respondent cautioned IOSCO against defining nuanced areas too prescriptively as the market is still evolving. This respondent stated their belief that, as of now, it may not be necessary to delineate between the three frameworks at this time.

IOSCO's response:

IOSCO considers that no change in the report is needed based on respondent feedback.

Question 2: Given the nuanced differences and potential for confusion as a result, do you agree with the development of an umbrella term for these practices? If so, what would an appropriate term be?

Summary of feedback:

There was broad support for the development and inclusion of an umbrella term for these practices. There was no objection to or alternative proposed to replace IOSCO's suggested term, "online imitative trading practices".

While all respondents supported the inclusion of an umbrella term, some responses were slightly more nuanced than others. Four respondents gave unequivocal support for the use of the suggested umbrella term, with one respondent saying it was sufficiently broad not only to include copy, social, and mirror trading, but also to include any future similar practices that might emerge. Another respondent said that the umbrella term accounted for the sometimes ambiguous nature of the nuances between the practices in question.

Whilst still supportive, two respondents provided possible issues for consideration. One respondent said that mirror trading should be excluded from the umbrella term as it lacked the social aspect of both copy and social trading. Another said that even if the differences between some practices and models are minor, that different regulatory approaches might be relevant to foster the benefits of these practices and mitigate the risks indicated in the Consultation Report. However, this latter point may be better dealt with under either Consultation Question 5 or 6.

IOSCO's response:

IOSCO considers that no change in the Final Report is needed based on respondent feedback.

As highlighted, one respondent suggested excluding mirror trading from the umbrella term of online imitative trading practices. However, an umbrella term is one used to cover a broad category of things rather than a single specific item – therefore, despite not having a social element similar to copy trading and social trading, there are still more similarities than differences between these two practices and mirror trading and it is appropriate to include all three of them under one term.

Notwithstanding this, it may be helpful for regulators, market intermediaries and retail investors to be aware of the various nuances and subtle differences. For regulators in particular, these differences could result in different regulatory approaches being taken by different jurisdictions– this is something that is already emphasised in the Consultation Report.

Question 3: Do you agree with the findings of the Consultation Report and the proposed Guidance? Are there any missing issues or gaps that are not and should be highlighted in the Consultation Report?

Summary of feedback:

All the stakeholders who provided a response to Q.3 agreed with the findings of the Consultation Report. Similarly positive was the feedback on the proposed good practices, which the majority supported with additional comments and proposals.

One respondent noted that some lead traders might develop algorithms that they then deploy through an intermediary's infrastructure for the use of their copy traders. The respondent queried who, in that scenario, would own the algorithm and noted that the report does not address the governance of this technology. This respondent stated that more clarity may be needed to protect investors.

The same respondent commented that the report does not discuss whether the regulatory perimeter in certain jurisdictions is sufficiently wide to cover lead traders as their activities might not be able to be captured as investment advice or portfolio management, for example.

Relatedly, a respondent commented that a potential limitation of the Consultation Report and of its proposed good practices is its focus on intermediaries when often lead traders provide services such as training and mentoring to "teach investors how to trade" which don't squarely fall into typical definitions of copy trading and are not immediately connected to an authorised intermediary. Suggestions by the respondent to address this perceived lacuna included exploring these services in further detail insofar as they blur the boundary between copy-trading and other activities such as finfluencing.

One respondent noted that supervision and enforcement of imitative trading practices can present practical challenges when lead traders operate through private social networks thus bypassing more structured and visible social trading models.

A respondent commented that the report could further discuss the delineation between the respective responsibilities of the lead trader and the platform, as well as the structure of their remuneration, with a view to providing more colour on the conflicts of interest inherent in different approaches (e.g., fixed versus variable fees, discounts provided to the lead trader).

Another respondent echoed this last point, adding that models of remuneration are closely tied to the diverse range of securities businesses and their associated licensing requirements.

A respondent referenced academic literature that links the increased popularity of copy trading to heightened risks of price distortions and market inefficiency.

In the same vein, it was noted by respondents that there may be a risk that imitative trading practices could lead to market abuse, including price manipulation and churning. Similar points were made by a market infrastructure provider that argued that abusive practices could also include front running, layering, and money laundering. Guidelines regarding imitative trading practices and fraudulent market manipulation conduct could assist supervisory bodies in addressing these risks. Similar views were expressed by another respondent which recommended clear guidance to address potential misconduct, such as market manipulation, and to effectively mitigate conflicts of interest that may arise when lead traders engage with multiple securities companies.

One respondent argued that the Consultation Report puts more emphasis on the risks associated with copy trading than on its benefits. They considered that the benefits of copy trading should be better highlighted because well-designed imitative trading could contribute to the development of financial and securities markets, particularly where these markets have substantial growth potential.

Another respondent stressed that it is essential to provide further details on how intermediaries offering copy trading services should oversee lead traders. Guidance to that effect could include recommending that intermediaries implement a thorough selection and due diligence process for lead traders, such as verifying their qualifications, trading history, and strategies, as well as establishing ongoing monitoring and robust risk management measures to protect investors.

A respondent also recommended including further guidance to emphasize the importance of aligning the risk profiles and trading preferences of copy traders with those of the lead traders they follow.

IOSCO's response:

IOSCO considers that no change in the Final Report is needed based on respondent feedback.

However, sometimes the boundary between copy trading and finfluencing could be blurred and therefore pertinent links between the two have been highlighted in the Final Report.

Question 4: Do you expect use cases copy trading or other online imitative trading strategies (like mirror trading and social trading) to evolve in the future? If yes in which direction? What would be the regulatory implications?

Summary of feedback:

Respondents generally perceived copy trading, as an umbrella term, to be in the early stages of development and expected the use cases to expand and evolve in the future. Given the rapid evolution of technology and investor behaviour, respondents did not share a unanimous perspective on the future direction. They highlighted various potential paths for development, including the types of products to be offered, the nature of lead traders and algorithms, and the methods used to market strategies.

As a result of the uncertainty surrounding future developments, the regulatory implications will also vary. Respondents suggested a flexible approach to respond to unforeseen developments while ensuring the primary objective of investor protection is maintained.

<u>The evolution of copy trading</u>

- Investor acceptance: Several respondents expressed the expectation of broader investor acceptance of copy trading, driven by advancements in technology, the development of social networks, the continuing trend toward self-directed investing, and the evolving need for lower-cost investment advice and management.
- Target products: Some respondents expected copy trading to be adopted in wider range of products. According to a respondent, copy trading is currently most prevalent in potentially volatile or more complex products like FX, CFD and crypto assets, potentially leading to significant investor losses. The respondent believed that investors

may, as a result, turn to safer assets like gold. Another respondent showed an expectation in potential high growth in equity-based crowdfunding.

- New players offering copy trading: One respondent raised concerns about potential investor harm from newer and smaller intermediaries as well as copy trading directly between a lead trader and a copy trader without an intermediary.
- AI and algorithms: The same respondent further stated that such investor harm could lead to a potential evolution of trained and digital "AI bots" as lead trader.

The regulatory implications

- Suitability obligation and appropriate transparency: One respondent highlighted the importance of an appropriate regulatory framework that takes into account suitability obligations and appropriate transparency in order to protect the risk profile of investors using copy trading.
- Conflicts of interest and market abuse: The same respondent cautioned that the popularization and development of such strategies may amplify the conflicts of interest and lead to market abuses and potential systemic risks.
- Principles-based regulation approach: One respondent emphasized the importance of a principles-based regulatory approach to adapt to unforeseen developments while ensuring that the primary objectives of investor protection is maintained. Another respondent supported technology-neutral and future-proof guidance from IOSCO rather than specific rules as the market is still evolving rapidly.
- Difference between imitative trading strategies: One respondent recommended a comprehensive regulatory framework that acknowledges the differences between imitative trading strategies, while establishing boundaries and guidelines to ensure investor protection. The respondent recommended levels of intervention corresponding to the level of discretion exercised by retail investors.

IOSCO's response: Good practices apply to newer and smaller intermediaries, as well as larger and more established intermediaries. As for lead traders offering copy trading services directly and without an intermediary, this may become an unlicensed financial business, and it would be helpful for securities regulators to monitor such activities in accordance with applicable laws and regulations.

Regarding the possible transition to AI and algorithms, there are already brokers offering AI-based and/or programmed algorithms as trading signals. In a broader sense, such algorithms can be categorized as imitative trading strategies. We have amended the description of mirror trading in Section 2.1

(General regulatory framework) to clarify this. IOSCO did not receive sufficient evidence of investor harm or conflicts of interest to include such algorithms offered by brokers in the scope of good practices. Nevertheless, the good practices can help monitor activities using AI and algorithms. Regarding the suitability obligation, the obligation is discussed in Section 2.2 (The benefits and the risks associated with copy trading). Such obligation is also separately discussed in the good practice section of IOSCO DEPs Final Report, which covers the broad topic of digital marketing which has relation to copy trading. Regarding the regulatory implications on conflicts of interest, Section 3.6 (Conflicts of interest in copy trading services) and Good Practice number 5 deal with such conflicts of interest. As for market abuse, IOSCO has discussed this risk in Section 2.2 (The benefits and the risks associated with copy trading). Regarding the principles-based regulation approach, the report's Good Practices should be understood as principles-based guidance, even though regulators could implement a rules-based approach in accordance with applicable laws and regulations in their jurisdiction. Regarding the difference between imitative trading strategies, IOSCO members have the flexibility in how they treat different imitative trading strategies in their jurisdictions. However, IOSCO has noted that the definition of each strategy varies across jurisdictions and considers it preferable to base good practices on principles that cover imitative trading strategies in general.

Question 5: Are there any further risks or benefits of copy trading or other online imitative trading strategies? Does existing regulation adequately respond to such risks?
There were 7 respondents to this question, there is consensus about the main risks and benefits addressed in the Consultation Report. In addition to the consensus on the risks and benefits described in the Consultation Report, there are respondents that suggest specific risks to this type of activity. Some of them would be inherent to those already described, others have been included in the proposal, either as part of some point or with a specific section. For instance, respondents stated that when algorithms are involved in the automation process, risks associated with algorithms, such as safety, security

vulnerabilities, and biases, become prominent. Thus, respondents stated that addressing these risks will be of paramount importance.

A respondent noted that another area which can carry risks may be the connection between some copy trading activities and market manipulation and/or insider trading, which is different from copying "professional" or "expert" lead traders that the paper mainly focuses on. It is related to risks of conflicts of interest identified in the paper but is not identical and more specific.

Another respondent has also seen a recent rise in multi-level marketing (MLM) schemes operating in New Zealand that provide copy trading services, usually through their offerings of investment "education packages", "training" and "mentoring" (e.g. using the MLM's software and sometimes investing the additional "fees" charged for the "training" or "mentoring"). This respondent stated that MLMs can present or exacerbate several risks:

- Copy trading services are often deliberately and specifically provided for assets such as crypto assets or spot foreign exchange where there is potential for regulatory arbitrage if they fall outside the definition of regulated financial products in certain jurisdictions.
- The operations of these entities can be opaquer, and this can increase the risk of fraud, scams, and poor conduct associated with some copy trading services and the targeting of vulnerable communities.
- Risks associated with MLMs, and potential for pyramid selling and scams.
- Risks of mis-selling.
- Another key concern is the global or international nature of copy trading providers and services, that can lead to difficulty in information-gathering and enforcement.

A respondent indicated that attention should be drawn to the possibility of market bubbles being created through these imitative practices. The trend observed on platforms that provide these services is that a few lead traders concentrate most copy traders. In other words, a significant portion of the market would be positioned in the same strategy, subjecting itself to the same risks. However, no data is provided to support such a trend.

It is noted that many jurisdictions can address most of the identified risks through existing regulatory norms, but certain points require specific treatments, which is why the recommendations for good regulatory practices proposed by IOSCO are pertinent and very welcome in the current context.

IOSCO's response:

As indicated above, in addition to the consensus on the risks and benefits described in the Consultation Report, there are responses that suggest specific risks for this type of activity. Some of them would be inherent to those already described, others have been included in the report, either as part of some item or with a specific section.

The Final Report was changed to add additional specific risks indicated by respondents.

Question 6: In your opinion, which measures would ensure to harness the potential benefits of copy trading or other online imitative trading strategies for investor protection and education purposes?

Summary of feedback:

While there was no expressed objection to online imitative strategies, there were general concerns about the level of risk assumed by retail investors and suggestions by respondents for more objective regulatory approaches.

There was a strong consensus from respondents on the importance of educating investors about the risks, mechanics, and potential conflicts of interest in copy trading. Also, some respondents advocated for specific, tailored regulations that address the unique aspects of imitative trading while ensuring investor protection without stifling innovation.

In addition, some respondents proposed enhanced policies to ensure transparency and accountability showing past lead traders' performance, strategies, and conflicts of interest, and subjecting them to regulatory authorities if they did not comply with rules of transparency.

Two respondents proposed standardized disclosure formats for all trading activities by lead and copy traders, including historical performance data, risk profiles, and potential conflicts of interest, particularly in remuneration structures for lead traders. One of them also stated that retail investors should have access to all information related to lead traders' behaviour, including usage data and past services (data privacy standards are one way to ensure that).

Furthermore, some respondents were supportive of developing educational materials specifically focused on copy trading. One of the respondents suggested the development and promotion of educational programs specifically tailored to the risks and mechanics of imitative trading, potentially including simulated trading environments for learning and social features such as peer learning and forums that could enable retail investors to discuss strategies and share lessons learned.

One respondent proposed that regulatory authorities could work on licensing platforms that meet regulatory objectives, ensure transparency and accountability, and implement standards and guidance such as disclosures around details on the traders being copied. The authorities would have to deal with the centralized platforms.

IOSCO's response:

IOSCO agrees that laws and regulations applicable to copy trading services must ensure investor protection without stifling innovation.

While acknowledging that laws and regulations applicable to copy trading services vary among jurisdictions, there are aspects where regulatory authorities and market intermediaries could provide greater clarity and guidance in the area of investor protection. In this regard, item 3.4.1 has been updated with aspects proposed by respondents.

IOSCO has also revised the wording of "Good Practice Number 4" (chapter 6) to include the employment of technology, where appropriate, for enhanced market surveillance.

IOSCO has also updated the wording in section 2.2 to: "<u>Misleading disclosure or lack of transparency:</u> copy traders may not receive sufficient information about the services offered by the lead trader, related risks and costs, **remuneration structures and usage of copy traders' (personal) data**".

Developing educational programs specifically tailored to imitative trading could help equip investors with skills to understand and navigate the risks and mechanics of such practices. IOSCO has changed the wording in section 2.2 to: "<u>Educational benefits</u>: copy trading may, in certain circumstances, serve as an educational tool, **especially when it integrates simulated trading environments and social learning features**, as **copy trading** can allow retail investors to better understand the trading behaviours of other market participants that have similar risk profiles".