Better Finance - International Investors’ conference

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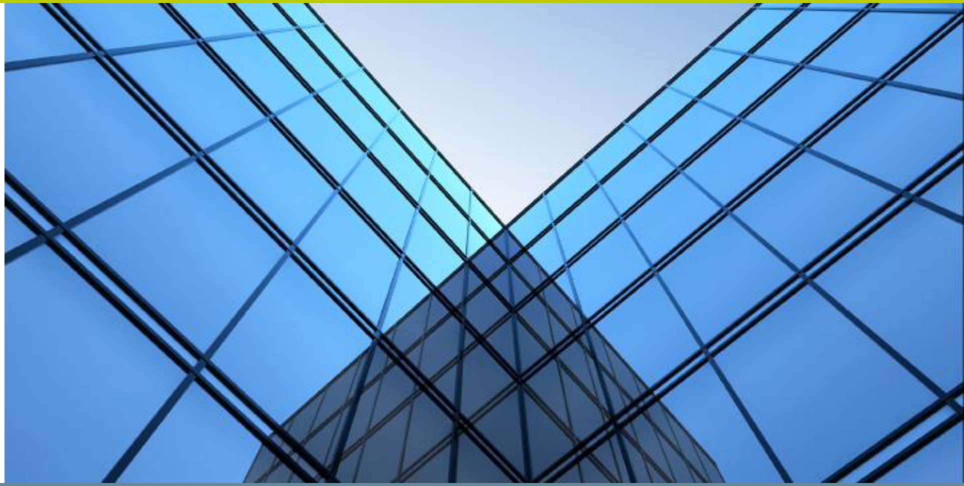
FSMA

FINANCIAL SERVICES AND MARKETS AUTHORITY



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Retail participation in the financial markets (1)

Since March 2020, **increased retail investor trading activity** has been observed in a number of countries. US markets in particular saw consistently higher volumes in equity and options trading and an increase in trading smaller cap stocks (like GameStop).

Increased use of **investment platforms**; such platforms may lower the threshold for retail investors to enter the market, but may also lead to investor protection concerns.

Online brokers' business models (low commissions linked to payment for order flow) and gamification may incentivize the adoption of risky short-term trading strategies by retail investors.

Retail participation in the financial markets (2)

Findings of FSMA studies (2020 & 2021) on retail participation

- During the first lockdown (Feb ‘20 – May ‘20), the number of Belgians who traded in BEL20 shares had increased fivefold compared to the period before the crisis.
- The first lockdown period was characterized by an increase in share purchases; the second lockdown (Nov ’20) started with a spike in share sales.
- Over the entire 2018-2021 period, the trading volume amounted to an average of 625 billion euros per month. From mid February 2020 to the end of March 2021, that amount stood at an average of 933 billion euros per month.

Retail participation in the financial markets (3)

Findings of FSMA studies:

- The number of new investors trading BEL20 shares increased sharply during the first lockdown.
- Young and infrequent investors were much more active during the first lockdown period.
- After the first lockdown, the characteristics of BEL20 investors were similar to those before that period (in terms of age and gender).
- But, at the beginning of 2021, we observed a further increase in both the number of unique investors active in the market and the number of new investors entering the market.

Retail participation in the financial markets (4)

Likely explanations of increased retail participation in financial markets are:

(i) money availability due to decreased spending opportunities during Covid,
(ii) time availability during Covid,
(iii) need to find other sources of income,
(iv) contrarian strategy due to fall in equity prices in March 2020.

These figures are promising, as it is in the interest of consumers to diversify their assets.

The findings underscore the growing importance of investor education and protection.

COVID-19 might have played a role in helping to achieve the objective expressed by the European Commission via the CMU initiative.

Sustainable investing

The FSMA Study on Belgian collective investment schemes (CIS) (2021) demonstrates that sustainability is a game changer

- CIS that come under Article 8 of the SFDR represent more than half of the net assets of Belgian public CIS

- over the period from March 2020 to July 2021, Article 8 and 9 SFDR CIS experienced significant net subscriptions of +26% and +99% respectively (cumulatively over the period), whereas Article 6 SFDR CIS experienced net redemptions (-7%).

Need for appropriate tools and incentives to channel the demand for sustainable investment in the right direction – to help companies and investors know what is green, to **avoid greenwashing** and enable the transition towards sustainability.

Digital investing (1)

The pandemic has accelerated technological change.

New types of products appear, such as crypto-assets.

Challenge: if and how to “match” the existing legal framework and consumer protection with those developments.

G. Gensler: “we just don’t have enough investor protection in crypto. Frankly, at this time, it’s more like the Wild West. If this field is going to continue, or reach any of its potential to be a catalyst for change, we better bring it into public policy frameworks.”

Digital investing (2)

- « Same business, same risk, same rules »
- firms (banks or FinTechs) providing the same types of services or products should be regulated in the same way.
- investors deserve the same level of protection when investing in products that share the same characteristics

- New EU frameworks in preparation: the Markets in Crypto-Assets (MiCA) and Digital Operational Resilience (DORA) proposals of regulation

MiCA

- An opportunity for the EU to take the lead in global standard setting by establishing an ambitious and unique two-fold approach: regulation of (i) issuance of (three types of) crypto-assets and of (ii) services provided in relation to (all types of) crypto-assets.
- To keep this high-level of ambition, it is important to ensure that the final MiCA text:
  - enables to distinguish (digital) financial instruments from crypto-assets that have the same economic characteristics (investors need to know in what they invest, especially if it would appear that the level of protection differs between those products);
  - ensures that investors benefit from an equivalent level of protection for economically similar products, whatever the "legal form" of the product is.

DORA

- Another opportunity for the EU to take the lead by establishing an ambitious set of requirements applicable to all relevant actors of the financial sector:
  - further harmonisation and streamlining of existing rules on ICT risk management and ICT related incident reporting
  - new bespoke rules on digital testing, information sharing and management of ICT third-party risk, including an oversight framework to monitor digital risk of critical ICT third party service providers
- Instrumental to help protecting digital investors: digital investing implies firms that have a sufficient level of digital operational resilience (for example to protect client's data and to ensure continuous provision of services)

SPACs

While Special Purpose Acquisition Companies have long existed, transactions have surged recently, drawing regulatory attention to the issues SPACs raise.

While SPACs may offer alternative sources of funding and provide opportunities for investors, they may also raise regulatory concerns as they are a heterogeneous, complex investment product. This makes it difficult for non-qualified investors to make informed judgments about them.

The financial regulator’s role includes ensuring investors are properly informed about the design structure of SPACs & specific characteristics and risks, such as

- the embedded dilution during the life of a SPAC for ordinary shareholders,
- the governance
- the type of targets.

Financial education (1)

- Financial literacy: empower consumers to benefit from digitalization and sustainable innovation.
- Relevance of key principles of financial education such as diversification underscored by market trends observed during the COVID crisis (increased retail participation in markets; GameStop events).
- Enhanced financial literacy could also contribute to correct the investment biases in favour of saving accounts, at the expense of more long-term investment.

Financial education (2)

- Complementary tool to regulation and supervision to enhance investors’ awareness & critical sense and rational behaviour

- But it should not be used to shift responsibility solely onto the consumer for making sound decisions. Financial literacy must go hand in hand with good consumer protection measures, fair advice, supervision and enforcement of rules.

- By ensuring that investors are financially literate, well protected and treated fairly, we can build up their trust in the markets, and help them meet their long term financial needs.

Consumer trust

Building consumer trust and confidence in the financial markets implies an appropriate mix of

- consumer disclosure/transparency
- conduct regulation
- product governance and intervention
- financial education

CMU should encourage the safe participation of informed, financially literate retail investors.