



FINANCIAL PLANNING STANDARDS BOARD

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Re: Submission to Board of the International Organisation of Securities Commissions (IOSCO) on Retail Distribution and Digitalisation

Financial Planning Standards Board Ltd. (FPSB) shares the views of the Board of the International Organisation of Securities Commissions (IOSCO) that growth in digitalization and use of social media is changing the way financial services and products are marketed and distributed. While we welcome the innovations and the opportunity for increased access and participation, we agree that it is essential to build trust and confidence in markets that are facing these new and emerging opportunities and risks. We are supportive of the IOSCO Board's proposed policy and enforcement toolkits.

In furtherance of the IOSCO Board's ambitions, FPSB has identified the following issues for *retail investors*, who are the principal target of increased digitalization and use of social media for the marketing of financial services and products, as being important to the development of trust and confidence in markets:

1. *Retail consumers of financial services* are assuming greater responsibility than ever before for managing their personal financial affairs. One example of this is the replacement globally of defined benefits pension schemes with defined contribution pension schemes. For many individuals and families, this will be their largest asset. To effectively manage this and other assets requires investors to be knowledgeable of financial markets, market forces, financial instruments, financial mathematics etc. Given the increased complexity of financial products and services, and the rapid pace of innovation, deep knowledge is beyond most retail investors, and therefore creates a dependency or need for financial advice and guidance.
2. There is an asymmetry of information between *retail consumers of financial services* and firms or intermediaries selling financial products and services, whether digitally or otherwise.
3. *Retail consumers of financial services* must have a reasonable expectation of *substantially sharing* in the performance of the markets including in the performance of derivative instruments.

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4. *Retail consumers of financial services* should be provided with the necessary information and advice, whether digitally or otherwise, in a suitable format by qualified, competent and ethical professional financial services practitioners, to be able to make an informed decision.

FPSB identifies these issues as a source of tension between the rights of the shareholders of financial services firms and the need for consumer protection, and by extension the preservation of trust and confidence in financial markets. FPSB sees the increasing digitalisation of retail distribution as a potential benefit to retail consumers of financial services as it should deliver economies of scale, a greater diversity of financial products, and increased accessibility to financial markets for most. These benefits are offset by equivalent risks to retail consumers arising from the asymmetry of information with producers of financial products, and risks to consumers arising from fraudulent and criminal actors¹ being afforded greater and easier opportunity to mislead and steal².

In light of the above considerations, FPSB respectfully submits the following suggestions for consideration by the IOSCO Board in the finalisation of IOSCO's policy toolkit to deal with *Retail Distribution and Digitalisation*:

1. Regulate for a stronger obligation on sellers and marketers of financial products, digital and otherwise, to disclose the nature of the service associated with the product (sales? Information? Advice?) and require providers of advice to act in a "client first" capacity with consumers of their financial products. Regulation should consider how to protect consumers from incidences where *information* relating to a financial product or service carries covert advice.
2. Regulate for the complete disclosure of all fees charged against the account of a client, including fees deducted from market returns attributable to a client's capital. The disclosure should be presented to consumers in a standardised and easily understood manner, allowing consumers to easily compare products and services, and ought to be presented in both absolute and percentage terms over the lifetime of a financial product.
3. Sellers and marketers of financial products must fully disclose the exact nature of their relationship to, their obligations to, and benefits to be received from, the parties to a financial transaction. Limitations should also be disclosed.
4. It is noted that some firms who participated in IOSCO's research identified risk profiling to be a difficult task. Equally, some members of IOSCO have, in the past, commented on the limitations of many of the tools used by providers of financial products and services when assessing suitability of products to

¹ <https://asic.gov.au/about-asic/news-centre/news-items/financial-scams-double-in-2021-reporting-up-more-than-200/>

² <https://asic.gov.au/about-asic/news-centre/news-items/scam-alert-asic-sees-a-rise-in-crypto-scams/>

- clients. FPSB recommends that IOSCO members regulate for sellers and marketers of financial products and services to develop a body of financial literacy, including suitability tools, for the benefit of clients and potential clients, and to ensure the client is adequately informed prior to purchase, by embracing the capabilities of digitalisation to maximise the retail client's learning opportunities relevant to the product / service being advertised and/or sold.
5. IOSCO members to regulate for all marketers, manufacturers and sellers of financial products and services to be formally assessed to be minimally competent to do so, with a requirement that marketers of products and social influencers in the financial services space have appropriate credentials/qualifications for the services or products being advertised or recommended. FPSB advocates that those providing financial advice, including related to financial products, directly to consumers should be professionally qualified to a recognised standards that is beyond minimally competent.
 6. While gamification in financial services, when motivated by "client first" principles, has the potential to engage retail investors in a more user-friendly and impactful way to help them achieve their financial goals, when used to pressure retail investors to act hastily or mindlessly and perhaps against their own interests, it has the potential to harm investors and cause them to lose trust and confidence in the market. FPSB opines that gamification should be supported with financial literacy initiatives at a minimum, or better still be ideally guided by a suitably qualified financial professional.

IOSCO members might consider additional research and guidance into how market participants should find the balance between making retail investing fun and engaging while avoiding turning the serious business of investing and financial planning into a game, with the potential to lead to negative outcomes for investors and a loss of trust in the market³. By way of example, many of the new online trading platforms make a deal with users whose portfolios, or a specific asset within their portfolios, goes up to share their success with their peers on social etc. However, platforms do not promote or communicate when a user experiences a loss from a specific asset or within their portfolio. Platforms only ever promote the positive side and the wins, never providing the counter-balance and reality that many of the users will experience losses, thus creating an uninformed environment for risk taking.

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³ <https://ssrn.com/abstract=3971868> or <http://dx.doi.org/10.2139/ssrn.3971868>