



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

CONSULTATION REPORT

*The Board of the
International Organization of Securities Commissions*

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Foreword

The Board of the International Organization of Securities Commissions (IOSCO) is seeking comments on this consultation report on Online Imitative Trading Practices: Copy Trading, Mirror Trading, Social Trading.

How to Submit Comments

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

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

If you require technical assistance on completing the survey, please contact:
itsupport@iosco.org

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

Questions for Consultation

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

QUESTION 1: 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?

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

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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, high-risk trading strategies, often involving complex and 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 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 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 general financial information, creating further risks for retail investors.

In response to these challenges, the 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 Report, the term “online imitative trading strategies” 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, meaning that the nuances are not always necessary for those regulators. Since “copy trading” and “copy trader” are the most commonly used terminology for “online imitative trading strategies”, these terms are used interchangeably throughout this report.

Good Practices on Online Imitative Trading Strategies

Market intermediaries that provide copy trading could:

- 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, 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 regulatory requirements.**
- 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.**
- 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 consultation report emphasizes the importance of promoting investor education as a means of mitigating any risks associated with 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 influencers 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 catalyst in bringing more retail investors to capital markets. The emergence of online trading platforms and mobile trading apps have made trading and stock markets more accessible to retail investors with minimal physical touch points. Similarly, there is an increasing use of these online trading platforms and mobile apps, and of social media generally, to promote the offerings of securities and other financial products.

As a result of those developments, in March 2020, the IOSCO Board established the Retail Market Conduct Task Force (RMCTF) to gain a better understanding of the evolving retail trading landscape and to develop measures regulators could consider as they seek to address retail market risks and emerging trends.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, a 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 influencers, and the increasing use of Digital Engagement Practices (DEPs) by market intermediaries in their distribution channels – directly or through third parties – to communicate and engage with retail investors.

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

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>, page 5

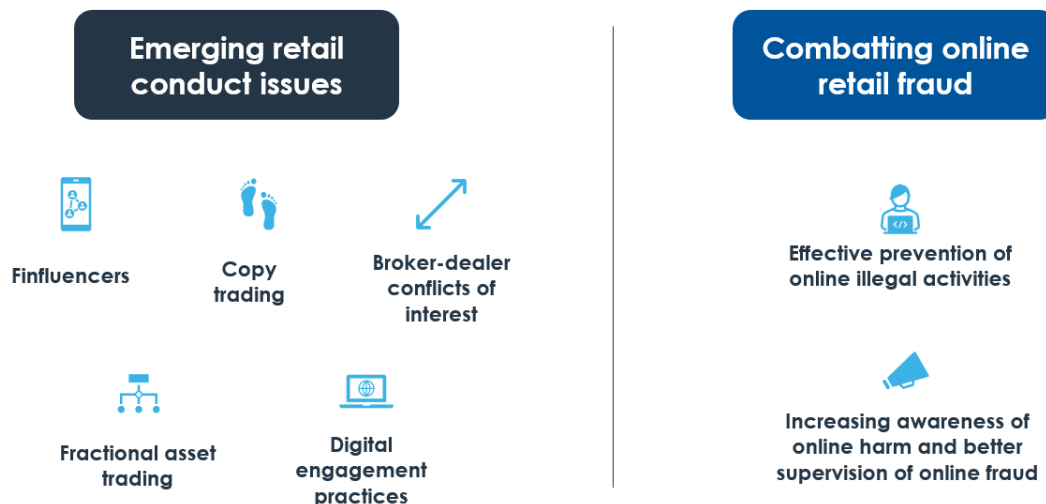
² See International Organization of Securities Commissions, Retail Market Conduct Task Force Final Report, March 2023, available at: <https://www.iosco.org/library/pubdocs/pdf/IOSCOPD730.pdf>



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

On the other hand, RICG’s enforcement focus is devoted to the enforcement activities regulators undertake to prevent online harm and fraud. These cover two subareas: (i) international cooperation for effective prevention and investigation on online illegal activities; and (ii) increasing awareness of online harm and better supervision of online fraud and mis-selling.³ The deliverables of the two sub-areas are various enforcement tools to help 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 a financial product for the purpose of making a sale. Mis-selling may involve the deliberate omission of key information, the communication of misleading advice, or the sale of an unsuitable or inappropriate financial product or service based on the customer’s expressed needs and preferences.



1.1 Objectives of this consultation report – online imitative trading (copy trading, mirror trading, social trading)

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

Copy trading is an 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 complex or volatile 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 Consultation 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 Consultation 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 Consultation Report is organized as follows: Chapter 2 deals with the regulatory aspects of imitative trading (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 focuses 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 Report, the terms “online imitative trading strategies” 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 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.

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

COPY TRADING, MIRROR TRADING, SOCIAL TRADING: USE CASES	
JURISDICTION	USE CASES
The Netherlands (AFM)	<p>The Autoriteit Financiële Markten (AFM) have identified the following models of copy trading:</p> <ul style="list-style-type: none"> ➤ 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.
Australia (ASIC)	<p>The Australian Securities & Investments Commission (ASIC) observes copy trading that involves a licensee providing a facility that:</p> <ul style="list-style-type: none"> ➤ 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 leader trader's trades on the copy trader's trading account; ➤ provides incentives for lead traders (monetary and non-monetary arrangements (e.g. training courses). <p>ASIC also sees social trading where investors can view profiles of other traders and analyze their published trades, similar to a social network. An investor's trading decisions may be influenced by the published trades of</p>

⁴ Based on this 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.

	<p>other traders in the social network, but direct action is required by the investor to place a trade.</p>
Mexico (CNBV)	<p>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.</p>
Brazil (CVM)	<p>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".</p>
UK (FCA)	<p>In the UK, firms appear to favor use of the term 'copy trading' in marketing, but what is offered may be either copy trading or mirror trading.</p> <p>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.</p> <p>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 (PAMM allowing this on a percentage basis).</p>
Israel (ISA)	<p>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).</p>
Spain (CNMV)	<p>In Spain, "portfolio management" is defined as <i>"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"</i>.</p> <p>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.</p>

	<p>Considering this feature, where the service described is provided in relation to Spanish Securities Market Act, it requires the authorization for the provision of the service of portfolio management.</p> <p>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).</p>
Belgium (FSMA)	<p>In Belgium, a whole range of services commonly referred to as 'copy trading' are offered.</p> <p>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 influencers posting about certain financial products, ETFs in particular proving popular.</p>
Japan (FSA)	<p>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.</p>
Singapore (MAS)	<p>Copy/mirror trading offered in Singapore is rare. Brokers offering copy/mirror trading typically provide facility which allows clients ("trade followers") who to subscribe to the copy trading a functionality on the platform which allows clients will be able to access the trading strategies of certain clients who are identified as high performers ("trade leaders") and replicate these strategies to their own accounts. Trade followers will have to select to replicate a certain portfolio of the "trade leaders", as identified by the broker and deposit the amount of money they wish to invest. When the trade leader executes a trade, it will be automatically and proportionately replicated and executed into the individual portfolios of the trade followers.</p>

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 as it 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 and related risks and costs.
- 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 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 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 where 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, its financial situation (including its ability to bear losses) and its investment objectives (including its risk tolerance).
- Conflicts of interest: in certain circumstances, the lead trader may put his own interests ahead of the copy trader's interests. This may happen, for example, when the 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 the lead traders are used to solicit investors for potentially volatile and/or complex products (e.g. CFDs, crypto-assets and illiquid securities).

⁵ Mis-selling can be defined as a sales practice in which a financial product or service is deliberately negligently mis-represented 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.

- 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 securities at higher prices and selling securities 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.
- 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 crypto assets.
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 efficient disclosure of information, resulting in better investor protection outcomes.
5. There might be potential merits 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.

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 requirement⁶ 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 do not report about 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	<p>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.</p> <p>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</p>

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 \(europa.eu\)](https://www.esma.europa.eu/press-material/press-conferences-and-news/esma35-42-1428-supervisory-briefing-on-supervisory-expectations-in-relation-to-firms-offering-copy-trading-services)

firm-client relationship. The identification of the specific investment service potentially being provided is fundamental to determine which authorization the firm should obtain and, as a result, the requirements applicable to copy trading practices¹¹.

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 MiFID¹² 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 2¹³ 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 analyzed 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

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)

	<p>relationship, are addressed. In particular, the avoidance and management of conflicts of interest and the protection of clients' best interest.</p>
<p>Israel (ISA)</p>	<p>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").</p> <p>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.</p> <p>The Order also outlines the rules for trading platforms providing social trading services.</p> <p>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.</p> <p>However, different rules apply in different types of activities, whether these activities involve automatic, semi-automatic or manual execution.</p> <p>Consistently, the three activities require two different types of authorization to provide financial services (portfolio management and/or investment advice).</p> <p>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 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.</p>
<p>Hong Kong (SFC)</p>	<p>In Hong Kong as for the relationship between the intermediary and copy trader, the SFC's Online Distribution Guidelines and related FAQs set out principles and requirements applicable to online distribution and advisory platforms for investment products operated by intermediaries ("Online Platforms"), which included amongst others that:</p> <ul style="list-style-type: none"> ➤ 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 advertisement¹⁴, research report and other investment product-specific materials on their Online Platforms, Platform Operators¹⁵ should note requirements relevant to the issue of such materials.

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)	<p>In Australia, the use by finfluencers of selected financial services licensees takes various forms, including:</p> <ul style="list-style-type: none"> • 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. <p>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.</p>

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.

	<p>In March 2022, ASIC published an Information Sheet¹⁶ 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.</p>
Brazil (CVM)	<p>In Brazil, the strategies of popular influencers 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.</p>
Belgium (FSMA)	<p>In Belgium, the Financial Services and Markets Authority (FSMA) has noticed an increase in influencers posting about certain financial products.</p> <p>The posts are rather general in nature and do not qualify as investment advice, although in some cases the line is very thin.</p> <p>Given that influencers 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.</p> <p>The FSMA is currently considering how to deal with this.</p>
France (AMF)	<p>In France, some influencers 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.</p> <p>There have also been highly damaging instances involving influencers who have promoted unauthorized trading platforms or even outright scams aimed at the French public.</p> <p>It is often difficult to identify the trading platform behind the influencer post because of the prevalence of private messaging.</p>
Poland (KNF)	<p>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.</p>
UK (FCA)	<p>In the UK, the FCA has considerable concerns about 'influencers' involved in introducing retail consumers to CFD trading on an advisory or discretionary basis. In many cases, this involves offshore CFD providers</p>

¹⁶ [ASIC Information Sheet 269: Discussing Financial products and Services Online, March 2022](#)

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 influencers either promoting others or even operating themselves as unregulated 'FX educators' and 'signals providers' (these signals often constituting advice and thus a breach of FCA perimeter).

Once consumers are introduced into online chatrooms, the product pitched can morph into Multi Account Manager (MAM accounts) marketed with 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 2023.¹⁷

¹⁷ See [Copy trading | FCA](#), where FCA defines the differences between copy trading, mirror trading and portfolio management. Namely, according to the FCA, mirror trading is like copy trading but with minor differences. Mirror trading, an evolution of automated trading, simply implements fixed strategies based on trading preferences. Mirror trading may involve copying experienced and successful traders. Copy trading typically involves setting a proportion of funds to execute the trades of the copied trader from the allotted funds. Platforms vary in their minimum copy trading amounts and the proportions between copied and copying accounts. Some also allow traders to control their risk through Stop Loss orders. The copying trader may disconnect their funds and manage their investments – in other words, closing the copy relationship. Mirror trading and copy trading have both led to ‘people-based portfolios’ – portfolios that invest funds in other investors rather than watch the market. As for the relationship between copy trading and portfolio management, the FCA support the approach set out by the ESMA (see table 2).

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.¹⁸

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.

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 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 influencers 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 influencer, 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 unlicensed conduct including 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.

¹⁸ [Report REP 778 Review of online trading providers \(asic.gov.au\)](#)

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 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 an 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.¹⁹

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

¹⁹ 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.

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**,²⁰, ongoing regulatory requirements in the UK including the 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 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.

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.

²⁰ [Copy trading | FCA](#)

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, makes it challenging to accurately assess contractual arrangements.

Some respondents drew attention to the ESMA Supervisory briefing.²¹

Where observed by survey respondents, contractual relationships have been identified between the intermediary and the copy trader, as well as between the 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

²¹ [Supervisory Briefing on Copy Trading \(europa.eu\)](https://www.esma.europa.eu/press-news/esma-news/2018-09-19-supervisory-briefing-on-copy-trading)

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 volume). 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

Potential material conflicts of interest between the intermediary and the copy trader were 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
Italy (CONSOB)	<p>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).</p> <p>Complaints received from Italian clients of EU investment firms operating under the freedom to provide services are forwarded to the competent home authority. An</p>	<p>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:</p> <ul style="list-style-type: none"> 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).

	<p>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 a EU firm observed that copied investment strategies are always loss-making.</p> <p>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 trades were decided and automatically executed without any instructions from them, quite always realizing the loss of the capital invested.</p>	
Belgium (FSMA)	<p>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</p> <p>FSMA also noted the new phenomenon of online training. FSMA found that, mostly 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.</p>	<p>In Belgium, there are no specific rules on copy trading. FSMA assess 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'.</p> <p>Moreover, the investment firms offering copy trading services are regulated firms licensed for activities of investment advice and portfolio management.</p>
Canada (QAMF + OSC + CIRO)	<p>Investigations were opened following multiple complaints from retail clients. Complaints were mainly centered around the online solicitation of firms, or to confirm if the ongoing activity was legal.</p> <p>In Québec several cases were connected to multi-level marketing (MLM) structures.</p>	<p>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</p>

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.

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-iesuel-albernhé-et-sebastien-lambert-vises-par-des-ordonnances>) (<https://lautorite.qc.ca/grand-public/salle-de-presse/actualites/fiche-dactualite/gestion-itradecoins-inc-iesuel-albernhé-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 OCTMF 2 \(soquij.qc.ca\).](https://citoyens.soquij.qc.ca/Decision - Autorité des marchés financiers c. Blouin - 2018 OCTMF 2 (soquij.qc.ca).) <https://www.finance-investissement.com/nouvelles/actualites/160-000-de-penalites-administratives-pour-4xpro-trader/>)

France (AMF)	From the January 1 st 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.
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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 jurisdictions²² while some have reported that offshore brokers offer such services, in some cases from tax havens²³ with less restrictive rules and regulations.

Other regulators²⁴ 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 authorities²⁵ 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

²² CNMV Spain, ASIC Australia, FSMA Belgium, FSA Japan, KNF Poland, QAMF, OSC, and CIRO Canada, SEC Nigeria, SEC and FINRA in USA

²³ Cayman Islands, Cyprus, British Virgin Islands

²⁴ ASIC Australia, CVN Brasil.

²⁵ AMF France, CNMV Spain, CONSOB Italy and KNF Poland

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 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.²⁶ 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).

²⁶ 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 copy trading in the context of general financial education initiatives, while most of 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 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/CaSUslOoj7u/?igsh=MXRja2x1Mn_hvdngOMw==
 - https://www.instagram.com/p/CWn_UNLoiqO/?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 increasing 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.²⁷

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.²⁸

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).

²⁷ 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>

²⁸ OSC (Expected Publication 2024, Oct) Gamification Revisited: New Experimental Findings in 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 Consultation 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 imitative trading services (e.g., mirror trading or social trading), consistent with their relevant legal and regulatory frameworks.

Market intermediaries that provide copy trading could:

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.
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.

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 Consultation 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.

CONSULTATION QUESTIONS

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?

Appendix

List of the IOSCO members that completed the survey

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

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