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International Organization of Securities Commissions
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IOSCO/MR/20/2014

MADRID, 24 July 2014

IOSCO Surveys Use of Social Media and Automated Advice by Intermediaries

The International Organization of Securities Commissions (IOSCO) today published its *Report on the IOSCO Social Media and Automation of Advice Tools Surveys*. The paper presents the results of four surveys on the use of social media and automated advice tools in capital markets, and how regulators oversee the use of these tools.

IOSCO undertook the project on social media and automated advice tools because technology, particularly the use of the Internet, is changing the ways in which market intermediaries interact with both potential and existing customers. The work represents an important international initiative to obtain data on previously unknown issues and where use and oversight of these mediums continues to evolve.

Social media provides a means to multiply the number of interactions between investors and market intermediaries. From an intermediary's perspective, an automated tool presents an opportunity to formulate and deliver advice to customers in a more efficient and cost effective way. But the growing use of social media and automated tools by intermediaries also presents numerous challenges to regulators.

Social media and automated advice tools have an increasingly diverse range of functionalities that reflect the rapid advance in Internet-based technology.

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During the second half of 2013, IOSCO surveyed market intermediary and regulatory practices in the use and oversight of social media and automated advice tools in order to meet two overarching objectives:

(1) to gather data to understand more fully how market intermediaries are using these mediums today and their plans for future use, and how regulators are overseeing such usage today and;

(2) to determine what unique challenges the use of social media and automated advice tools present to regulators (if any) and whether it is appropriate to devise recommendations or principles that regulators should consider in overseeing market intermediaries that use these mediums.

Results from these IOSCO surveys provide an interesting snap-shot of how regulators and intermediaries use (or do not use) and oversee these technologies.

With respect to social media, key results include:

- The use of social media by intermediaries is in its nascent stage but, across the globe, firms permitting its use prohibit their staff from making recommendations or providing investment advice.
- The most commonly used sites are Facebook, Twitter and LinkedIn.
- Regulators have neither defined social media, nor prohibited its use by intermediary firms.
- Increasingly, regulators are using social media sites in the supervision of firms to identify personal relationships between parties and as a source of general information.

With respect to automated advice tools, key results include:

- The use of automated advice tools is growing around the world. Intermediaries are using these tools to assist with their suitability and **Know Your Customer** (KYC**)** obligations.

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- When making recommendations, the vast majority of firms do so with respect to asset classes. Specifically, collective investment schemes, mutual funds, exchange traded funds and equity classes are the most common products recommended.
- None of the regulators who responded to the survey prohibits the use of automated advice tools, but very few have specific rules or guidance related to their use. Rather, most regulators rely on, inter alia, suitability, disclosure, supervision and record keeping rules.

The report notes that it is too early to identify the unique challenges posed by social media and automated advice. Nor can definitive conclusions be drawn about the best practices in the use and oversight of these mediums. Nonetheless, the exercise has helped regulators understand how intermediaries use these tools and the challenges involved in overseeing them.

Over the coming 12 to 24 months, IOSCO intends to revisit these issues to determine whether further work is warranted.

NOTES TO THE EDITORS

1. IOSCO is the leading international policy forum for securities regulators and is recognized as the global standard setter for securities regulation. The organization's membership regulates more than 95% of the world's securities markets in more than 115 jurisdictions and it continues to expand.

2. The IOSCO Board is the governing and standard-setting body of the International Organization of Securities Commissions (IOSCO), and is made up of 32 securities regulators Mr Greg Medcraft, chairman of the Australian Securities and Investments Commission, is the chair of the IOSCO Board. The members of the IOSCO Board are the securities regulatory authorities of Argentina, Australia, Belgium, Brazil, China, France, Germany, Hong Kong, India, Italy, Japan, Korea, Malaysia, Mexico, Morocco, the Netherlands, Nigeria, Ontario, Pakistan, Peru, Portugal, Quebec, Romania, Saudi Arabia, Singapore, South Africa, Spain, Switzerland, Trinidad and Tobago, United Kingdom and the United States.

3. The Growth and Emerging Markets Committee is the largest Committee within IOSCO, representing 75 per cent of the IOSCO membership. Mr. Ranjit Ajit Singh, Chairman, Securities Commission, Malaysia, and Vice Chair of the IOSCO Board, is the Chair of the GEM. The Committee endeavors to promote the development and greater efficiency of emerging securities and

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futures markets by establishing principles and minimum standards, providing training programs and technical assistance for members and facilitating the exchange of information and transfer of technology and expertise.

4. IOSCO aims through its permanent structures:

- to cooperate in developing, implementing and promoting adherence to internationally recognized and consistent standards of regulation, oversight and enforcement in order to protect investors, maintain fair, efficient and transparent markets, and seek to address systemic risks;
- to enhance investor protection and promote investor confidence in the integrity of securities markets, through strengthened information exchange and cooperation in enforcement against misconduct and in supervision of markets and market intermediaries; and
- to exchange information at both global and regional levels on their respective experiences in order to assist the development of markets, strengthen market infrastructure and implement appropriate regulation.

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