

Towards More Transparent and Resilient Securities Markets:

A Framework to Support Retail Investor Participation

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Introduction

Supporting investors and ensuring market efficiency are some of the primary objectives pursued by securities market regulators. Recent market events have drawn attention to the growing participation of retail investors in equity markets and cast a spotlight on the adequacy of existing market structures in ensuring market efficiency and fairness.

Various secular catalysts are supporting the growth of retail trading, including the prevalence of low-cost technology, use of social media, and a broader investor demographic. With this shift comes the need to revisit the rules governing financial markets, in order to further empower retail investors.

Executive Summary

In this paper we introduce a set of guiding principles which provide a holistic foundation for assessing retail market structures and informing future rule proposals from regulators. Policymakers should also consider how regulations need to adapt to the continuous evolution of market structures to uphold these objectives.

- Investor education which is consistent in approach but tailored to the needs of different cohorts to effectively empower retail investors and support their interests.
- Fair and impartial access to competitive markets for retail investors.
- An ethos of best execution at each stage of the investment process to ensure that retail investors continue to receive the most favourable terms of execution.
- Market transparency which is fundamental to building retail investors' confidence and encouraging participation over the long-term.

In line with the above principles, we also recommend certain reforms to make global securities markets more transparent and resilient for retail investors:

- Define minimum standards for education, guidance and account opening.
- Distinguish between different types of exchange-traded products ("ETPs").
- Improve access of retail investors to market data.
- Make targeted enhancements to market efficiency through calibration of trading increments and sizes.
- Increase transparency of broker execution quality and routing practices.

All source information can be found in the [Endnotes](#) section. The opinions expressed are as of October 2022 and may change as subsequent conditions vary.

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Policymakers globally are examining existing industry practices with the goal of enhancing retail investor experience, promoting competition, and modernising market structures.¹

Part I of this paper defines a set of principles which we believe should form the basis for making public markets more inclusive and further empowering retail investors. In Part II, we outline our recommendations for market structure enhancements in line with these principles.

The rise of retail investors

A major secular change is underway in the global investing landscape. Millions of retail investors – individual savers who allocate their own money and make their own investment decisions, typically by buying and selling securities through online brokerage platforms or in retirement accounts – are now participating in financial markets.³ Increasingly, these investors are using apps which allow them to buy and sell a wide range of financial instruments with the same ease as sending an online message. During 2020-21, 46 million new brokerage accounts were opened by individual investors in the US – an increase of nearly 80% over a two-year period.⁴ This growth means almost 105 million individual Americans – a staggering 32% of the population – directly participate in securities markets as retail investors. Similarly, across Europe, retail investor participation hit record highs recently.⁵ In Germany, for example, the retail investor base grew to a 19-year high in 2020, as 2.7 million individuals started investing for the first time.⁶

An important aspect of this growth is reflected in the rising contribution of retail investing to overall trading flows. According to industry estimates, retail investors' share of all US equity trading went from a quarter of volumes in 2018 to a third in 2020 and peaked at over 40% in early 2021.⁷ Retail trading now accounts for nearly as much volume as US mutual funds and US hedge funds combined.⁸ While the scale may differ in comparison to the US, similar trends have also emerged across Europe and Asia-Pacific, where retail investors' enthusiasm for investing has reached new heights.⁹

We believe there are several reasons why so many individuals have recently embraced investing. Socioeconomic events surrounding the global pandemic of 2020 – notably, stay-at-home measures coupled with higher savings and elevated stock market volatility across the world – contributed to a fertile market environment for retail traders. However, retail investors' growing participation had roots in various structural factors over the past several years. An increasingly digital consumer economy paved the way for growth of online platforms that lowered barriers to retail investing by offering accounts

Understanding retail investors

In As policy makers seek to adapt financial markets to better address the increasing participation of retail investors, it is also important to understand what motivates this growing class of market participants.

Retail investors are often generalised based on common traits such as non-professional investors who use their own money for direct participation in financial markets, having fewer assets and dealing in smaller investment sizes compared to institutional investors. However, this generalisation ignores several distinctive characteristics including the level of wealth and risk tolerance, age and experience, investing knowledge and sophistication, investment goals and horizons, types of exposures and investment products used, trading frequency and systems and information needs. These factors have an important bearing not just on investors' vulnerabilities but also their differentiating impact on financial markets.

Having a better understanding of retail investors' investment objectives would help regulators design and deliver policies that translate into more robust market structures which will support investor participation over time. For example, in the US, the current degree of educational engagement with retail is uneven, but we believe that it should be tailored to the sophistication and experience of individual investors. In Europe, regulators must assess factors driving different levels of market participation by European households.²

We believe there is a need to examine the objectives of different types of retail investors. While 'retail investors' can be viewed as a continuum, there is room for policy discussions on the adequacy of products and advise rules for different groupings of individual investors.

with no minimums, zero commissions, and fractional share trading. This made low-cost, direct investing more accessible to individuals who previously found it difficult or expensive to access financial markets. In addition to this democratising influence of digital technology on market access, another catalyst driving retail participation has been the constant evolution of communication technology, with social media platforms and online networks enabling greater information sharing among non-professional investors. Finally, the emergence of many first-time investors who – despite the diversity of their age and social backgrounds – remain unified in their objective to achieve their financial goals independently. The confluence of these factors suggests a sustainable trend of growing retail investing.¹⁰

This shifting investment landscape has also prompted policymakers around the world to re-evaluate the suitability of the current regulatory environment, the underlying structure of the market, and existing industry practices for supporting the interests of individual investors and maintaining market stability. For example, IOSCO is conducting a consultation to gather views and feedback on issues relevant to the development of a regulatory toolkit for jurisdictions to consider as they continue evaluating and addressing emerging retail market conduct issues.¹¹ The Securities and Exchange Commission (SEC) is examining certain aspects of US securities trading considering increased retail investor activity.¹² In Europe, one of the key pillars of the Capital Markets Union Action Plan (CMU) is to accelerate retail investor participation in the EU securities markets, with ESMA recently consulting on the implications of the increasing availability of digital tools and the increasing levels of direct investor participation via online trading platforms and robo advisors.¹³ Regulators are focusing on assessing and addressing any potential market inefficiencies arising from the increase in off-exchange trading, lack of competition for retail order flow, potential conflicts of interest arising from the payment of inducements by market makers to retail brokers, and information discrimination from the lack of affordable market data. Various policymakers are also determining whether reforms are needed to support retail participation in a fair, orderly, and efficient market.

Part I: Key principles for retail market structure governance

We believe that a prudent regulatory approach to the rapidly changing environment for retail investors should be based on a set of core principles centred on supporting investors. The principles we outline below collectively seek to deliver a market environment that is fair, efficient, and robust. These principles can provide a rubric or fundamental basis for global regulators to consider when evaluating future policy changes aimed at modernising market structures. We believe no single objective is sufficient by itself and they all need to be achieved collectively for an ideal outcome.

I. Investor Education

Financial education complements market regulation. An educated investor is not just an informed decision maker but an overall better protected consumer as well. Regulators should take into consideration various aspects of retail investor education, which is of paramount importance to this segment, given their varying levels of investing experience and sophistication. This is also important considering the availability of increasingly complex instruments including options, cryptocurrencies, levered and inverse ETPs, and margin-based trading. We

support and encourage regulatory efforts to strengthen retail investor education, including a consistent framework of investor training and education materials across retail platforms, to reduce the risk of any unintended consequences that can stem from broad market access.

Educational engagement with retail investors is an ongoing process covering a wide array of topics including financial literacy and financial health checks,¹⁴ identification of standard information and labelling of financial instruments, understanding the role of various market participants involved in order execution (including any potential conflicts of interest), and access to investor grievance redressal mechanisms. From a regulatory perspective this may also involve distinguishing between traditional forms of investment advice and more generic forms of advice and support to assist investors in developing effective long-term trading strategies.

II. Market Access

Market access can be defined as retail investors' ability to buy and sell securities on equal terms with other investors. An equitable market structure should be based on the principles of fair and impartial access to publicly traded securities, encourage the development of low-cost trading platforms, ensure retail orders benefit from all available sources of liquidity, and ensure competition amongst market centres and firms offering execution services to retail investors.

We believe a diverse and competitive marketplace must allow retail investors the choice of multiple trading venues and counterparties while also making sure they receive the most beneficial terms of execution across those choices, as further discussed below. Furthermore, where divergence in rules limit retail investors' ability to transact on different trading venues, steps must be taken to address such differences. For example, better calibration of tick-sizes and volatility control mechanisms to specific stock characteristics may go a long way towards improving the trading experience of investors.

III. Execution Quality

A key element for supporting retail investors must be to ensure securities markets continue to deliver the most favourable terms of execution for retail orders. It is important to ensure retail orders receive fair and equitable treatment considering the increasing complexity and continued evolution of market structure. In this regard, we encourage regulatory actions to strengthen best execution by augmenting reporting obligations, as well as identifying and resolving potential conflicts of interest.

We support a regulatory framework that nurtures a competitive market landscape, and believe future reforms should be carefully balanced so as not to have any

detrimental effect on those existing structural features which have so far proved beneficial to retail investors at large. Recent concerns around conflict of interests and retail order handling under Payment for Order Flow (PFOF) arrangements between investment platforms and wholesale market makers warrant further analysis and discussion.¹⁵ However, mechanisms such as exchange rebates incentivise liquidity provision and consequently have a beneficial impact on the market quality of certain securities (e.g., thinly-traded securities). As such, regulators should weigh the positive effects of fees and rebates against any negative consequences to determine what modifications to the existing incentive model would best support execution quality. Market structure enhancements such as mandatory public disclosure of execution quality and order routing practices (e.g., SEC Rules 605 and 606 in the US) can also enable retail investors to make more informed decisions about the quality and competitiveness of investment platforms handling their orders.

IV. Transparency

Transparent markets lay the foundation for building investor trust and confidence, which in turn drives the efficiency of markets, increases competition and lowers prices for end-investors. Regulation should support market practices and structures that ensure informed decision making by retail investors, and a reliable price formation process which ultimately lays the foundation for all trading activity. This includes the requirement of an appropriate pre- and post-trade transaction reporting system that is easily accessible by retail investors, retail charges and transaction costs disclosure requirements for brokerages and market makers, along with safeguards around the use of privileged information pertaining to retail investor activity. Such disclosures must also be regularly assessed and enhanced to ensure relevant information remains available to retail investors.¹⁶

Current transparency requirements provide retail investors access to some of these aspects, but we feel there is room for further improvements. These can include delivery of consolidated tapes for EU and UK securities underpinned by data licensing and market access reforms, further enhancements to details around price improvements on retail order flows in the US, and improving real-time transparency of accessible liquidity for better price formation.

Part II: Policy recommendations for building more transparent and resilient markets for retail investors

BlackRock believes that financial markets must continuously evolve to be able to serve the interests of investors. We support efforts by policy makers to encourage growth of retail investor participation in markets, and recommend targeted recalibration of the existing regulatory and legislative framework.

In this section, we outline technical recommendations for global regulatory frameworks to address certain shortcomings of existing market structures towards supporting the interests of individual investors. We make suggestions for targeted enhancements to market structures across the US, Europe, and Asia-Pacific regions. Underlying these recommendations are the four principles governing retail market structure discussed above: Investor Education, Market Access, Execution Quality, and Transparency.

- **Define minimum standards for education and due diligence processes on a country-by-country basis.** Currently, platforms across US, Europe and Asia-Pacific lack consistency in their account opening processes and the educational materials provided to retail investors. Establishing a “minimum standard” in each region would help create a more uniform experience for retail investors. For example, in the US, adding consistency to the requirements to open an options trading account as part of due diligence processes would ensure that investors with similar objectives, trading experience, and financial situations are treated equally across platforms, thereby eliminating the possibility of due diligence “arbitrage”.

With regards to educational materials, an example could be requiring brokerages to educate clients on best trading practices, such as different types of orders, total cost of ownership of financial instruments, and transparency on agreements between brokerage firms and executing parties. In Asia-Pacific, exchanges can also offer training programs on the latest innovation in listed products for retail investors.

Additionally, in Europe, early education aiming to increase retail investors’ financial literacy can foster a better understanding and long-term participation in capital markets. For example, setting policy-driven minimum standards of investor education across the EU can ensure a level-playing field for investor preparedness in different jurisdictions. Implementing uniform account opening requirements across investment platforms would ensure investors with similar objectives, trading experience, and financial situations are treated equally.

- **Distinguish between different types of ETPs.** As low-cost, transparent investment vehicles, exchange-traded funds (“ETFs”) are becoming increasingly popular with retail investors globally. An estimated 40% of retail investors in the US use ETFs, while in Europe, ETFs account for up to 20% of all retail investments.¹⁷ The term “ETF”, however, is often used to describe ETPs with a wide range of risks and structural features. Suitability of risks embedded in these products must be carefully understood by retail investors and assessed against their investment objectives.

Educating investors on the risks and considerations that more complex ETPs, such as levered and inverse ETPs, pose, will help investors make better informed decisions. A clear categorisation of different types of ETPs would empower investors and the professionals who engage with them (including advisers and broker-dealers) to complete a more thorough due diligence process when investing in these products.¹⁸

In Australia, ASIC’s recent consultation on ETP naming convention was a positive step, aimed to help investors differentiate ETPs based on associated risks.¹⁹ In Hong Kong and Singapore, exchanges do not categorise levered and inverse ETPs as ETFs. Conversely, they are categorised as ETFs in Japan.²⁰ We recommend a review of this classification to ensure that the characteristics and risks of products beyond levered and inverse ETPs (such as crude oil and cryptocurrency ETPs) are adequately captured as well.

- **Improve market data access for retail investors.** We believe urgent action is needed to ensure the transparency and access of securities markets data for retail investors. For example, in Europe, lack of timely and affordable transactions data has been a major limiting factor to household confidence and participation in financial markets. The delivery of pan-EU and UK consolidated tapes would democratise market access, enable price discovery, and significantly reduce data costs for retail investors. We believe the scope of the European Commission’s CMU project must be widened to include mandatory pre-trade visibility of quotes in equity markets. This will help build retail investors’ trust in the liquidity of EU financial markets.

In the UK, we welcome the intention to introduce a consolidated tape, but believe a single provider should be mandated, to ensure a level playing field in access to information between retail and institutional investors.

In the US, the SEC’s efforts to expand the definition of core market data information reported on the consolidated tape, and improve the visibility of pricing benchmarks such as the National Best Bid and Offer (NBBO) by redefining round-lots, reflect improvements to access and transparency of US capital markets.²¹

In APAC, the majority of equity trading takes place on the exchanges. However, in some markets when trades are executed away from the exchanges they are not always reported to the exchanges. We believe consistent rules that mandate post trade reporting of all trading activity, as is the case in Australia and Japan, for other regional markets would greatly help to increase transparency and provide an accurate picture of real liquidity.

- **Making targeted enhancements to market efficiency.** In the US, reforming tick-size under SEC Rule 612 would be a welcome step in improving several aspects of market efficiency for retail orders, including promoting competition across market centres, fostering market transparency and price discovery, and improving quality of execution. However, we believe that a one-size-fits-all tick-size for all stocks is not the right model. We recommend a tiered tick-size regime which optimally calibrates the minimum price increment based on the price, spread or liquidity of each individual security. This approach would be much more consistent with reforms such as the SEC’s new round lot definition in the Market Data Infrastructure Rule.²²
- **Bring more transparency around broker execution and routing practices.** In the US, SEC Rule 605 requires monthly disclosures on a market centre’s quality of execution on a stock-by-stock basis, including information on how market orders of various sizes are executed relative to the public quotes and on effective spreads (the spreads actually paid by investors whose orders are routed to a particular market centre).²³ SEC Rule 606 requires broker-dealers to disclose quarterly information on their order handling and routing services. While existing rules improve transparency around execution and routing practices, we believe there are additional reforms that may further improve retail investors’ experience.

These reforms include adding odd-lot transactions, which are more representative of the typical retail order size, to Rule 605 reports; expanding Rule 605 reporting to brokers or augmenting Rule 606 disclosures with equity or price improvement metrics to provide a more holistic picture; incorporating odd-lot quotations and order-book depth in price improvement metrics; adding metrics to measure size improvement; and making 605 and 606 reports available in a more user-friendly format in a centrally stored location. Additionally, brokerages should be required to provide price improvement metrics at the trade level to end investors.

There is also clear scope for policy reforms to improve best practices on retail order handling and reporting in Europe. These can include establishing and implementing effective best execution obligations for retail brokers, ensuring retail orders receive most efficient

execution across all available sources of liquidity via a pre-trade consolidated tape, and the mandatory reporting of execution quality and disclosure of execution arrangements, such as PFOF, by retail brokers in a standardised, user-friendly format.

Conclusion

Broad retail participation in public markets is positive for the entire financial ecosystem. Investing is an important

building block for wealth creation and market quality is improved through broadening and diversifying participation.

As retail investing continues to increase, it is important to provide retail investors with sufficient education, access, execution quality, and transparency. Specific policy reforms in line with these principles will help create a more level playing field, lower barriers to entry, promote competition, and support retail investors globally to confidently and efficiently participate in public markets.

Endnotes

1. For more details, please see [European Commission's roadmap](#) for increasing EU retail investor participation, [Australia Securities & Investments Commission's review](#) of certain PFOF arrangements in Australia, and [Securities & Exchange Commission Chair Gensler's remarks](#) on "Market Structure and the Retail Investor".
2. For example, a recent [study](#) by the European Commission recognises that different investor segments have very different approaches to investment needs and experiences, and consumer reactions to investment issues vary according to their attitudes towards financial investment services and products, July 2022.
3. Existing regulatory definitions for retail investors may differ in scope. For example, in the US, the SEC defines "[retail investor](#)" as "a natural person, or the legal representative of such natural person, who seeks to receive or receives services primarily for personal, family or household purposes", while "[retail customer](#)" is defined as "a natural person, or the legal representative of such natural person, who: (A) receives a recommendation of any securities transaction or investment strategy involving securities from a broker-dealer; and (B) uses the recommendation primarily for personal, family, or household purposes". In the UK, the [Financial Conduct Authority \(FCA\)](#) defines "a retail client is a client who is not a professional client or an eligible counterparty".
4. Based on estimates of the number of individual customer accounts at 7 largest online brokers in the US. Source: The Economist, [Just how mighty are active retail traders?](#), 21st August 2021. Brokerage-review, [Leading discount online stockbrokers in the US](#), 31st December 2021.
5. Euronext estimates the number of retail investors across Europe doubled between 2019 and 2020. Source: [Reuters](#), 11th June 2021.
6. Estimates for 2020. Source: [Deutsches Aktieninstitut](#), 19th January 2022.
7. Excluding trading by market makers who typically make up 40% of total stock trading in the US. Source: Bloomberg Intelligence, North American Gamification of the Stock Market Report, 10th August 2021.
8. Source: Financial Times, [Rise of the retail army: The amateur traders transforming markets](#), 9th March 2021.
9. In France, retail investor volumes doubled between 2019 and 2021. Source: [Autorité des Marchés Financiers \(AMF\)](#), 14th January 2022. Investment platforms in the U.K. reported a three times surge in new retail account openings in Q1 2020. Source: [Financial Times](#), 3rd April 2020. In Australia, the number of new online individual investors increased 35% in 2020, to reach an all-time high of 1.25 million accounts. Source: [Australian Financial Review](#), 11th March 2021. Number of active trading accounts in South Korea and India also reached all-time high of nearly 40 million and 11 million, respectively. Source: [The Korea Economic Daily](#), [Mint](#), March 2021.
10. Financial Industry Regulatory Authority, University of Chicago, [Investing 2020: New Accounts and the People Who Opened Them](#), February 2021.
11. The International Organization of Securities Commissions (IOSCO), [Retail Market Conduct Task Force Consultation Report](#), April 2022.
12. Remarks from SEC Chair Gary Gensler, "[Market Structure and the Retail Investor](#)", 8th June 2022.
13. Read more about the EU's strategy for increasing retail investor participation – BlackRock, [Putting the Capital in the European Capital Markets Union](#), October 2019. Eurofi, [EU Retail Investment Strategy Objectives and Key Issues](#), September 2021. ESMA, [ESMA seeks stakeholder input on shaping advice on retail investor protection](#), October 2021.
14. New Financial concept paper, [An introduction to financial health checks](#), February 2022.
15. Securities and Exchange Commission, [Prepared remarks at London City Week](#), 23rd June 2021. European Securities and Markets Authority, [PFOF and Zero-Commission Brokers](#), 13th July 2021. Australian Securities & Investments Commission, [Proposed amendments to the prohibition on order incentives](#), August 2021.
16. For example, under the new [Market Data Infrastructure Rule](#) finalised on 9th December 2020, the SEC instituted an [order](#) directing the equity exchanges and FINRA to modernise the infrastructure and expand the content of consolidated equity market data.
17. Source: Financial Times, [ETFs remain elusive for most European retail investors](#), 28th May 2021.
18. For a proposed ETP classification framework, see iShares.com, [Know what you own: advancing ETP classification](#).
19. See [ASIC consults on revised ETP naming conventions](#), January 2022.
20. See [Singapore Exchange](#), [Hong Kong Exchange](#), [Japan Exchange](#).
21. See final SEC rule, "[Market Data Infrastructure](#)" and [remarks](#) from SEC Chair Gensler regarding the exploration of potentially accelerating the implementation of certain provisions of the Market Data Infrastructure rule.
22. See SEC final rule, "[Market Data Infrastructure](#)".
23. See FINRA.org, [SEC Rule 605](#).

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