WORLD FEDERATION OF EXCHANGES

# Response to ESMA Call for Evidence on the Retail Investor Journey: understanding retail participation in capital markets

21 July 2025

# Introduction

The World Federation of Exchanges (WFE) welcomes ESMA's call for evidence on the retail investor journey: understanding retail participation in capital markets. Increasing retail investment is valuable as a means to create funding for businesses, increase the wealth of households and boost economic growth; all of which are goals of the new Savings and Investment Union (SIU) initiative.

## The Retail Investor Toolkit

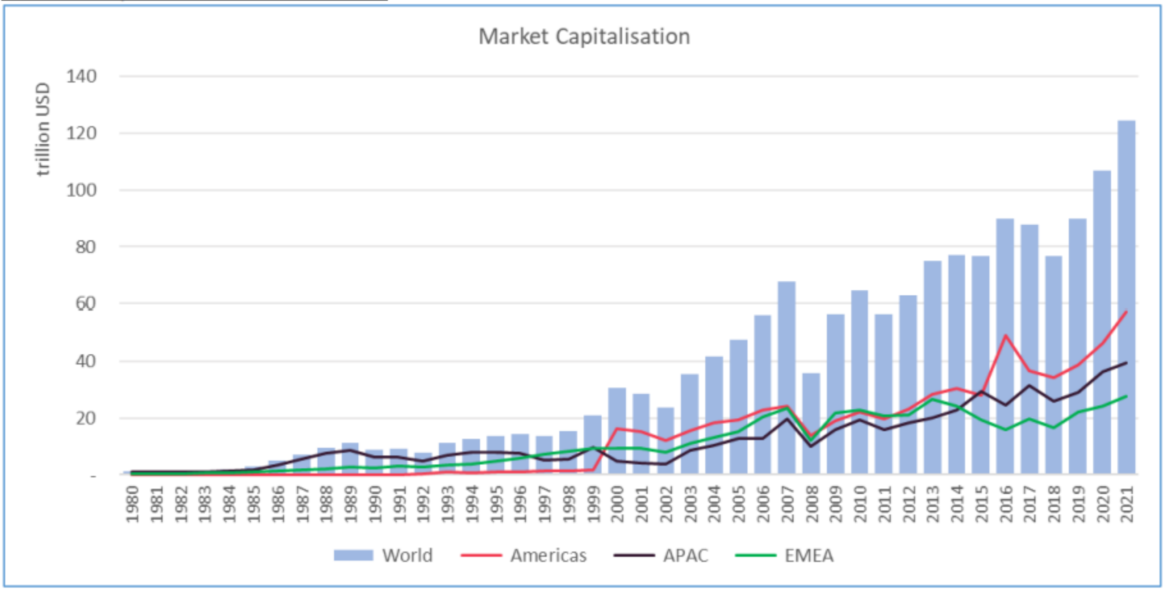
Listed instruments form the backbone of any retail investment strategy providing transparent, regulated, and accessible vehicles through which individuals can build diversified and resilient portfolios. Whether through equities, bonds, exchange-traded funds (ETFs), or other listed products, retail investors benefit from real-time pricing, robust market oversight, and the ability to transact efficiently on regulated trading venues.

### Equities For Growth

It is well documented that shares represent a powerful (if not the most powerful) way of investing for the longer term in the face of inflation, whether for security in retirement or other objectives. The combination of capital gains and dividends is a powerful one and this has been true, even when interest rates are not stuck at or below zero.

For instance, the market capitalisation of shares on 50-odd exchanges increased by 190% between 2004 and 2021, from around \$40tr to ~\$120tr. Looking at the longer period between 1986 and 2020, the MSCI global index went up by over 800%, with individual national indices increasing by anything from 340% (UK FTSE) to 9,000% in the case of one Indian index.[1]

**Market capitalisation, 1980-2021**




*Source: WFE. NB numbers for 1980 and 2020 are not directly comparable, because of increases in the reporting population.*

### Bonds for Income and Capital Preservation

Bonds provide regular interest payments making them an important component of income-focused or liability-matched portfolios, like pensions when they are close to or are in drawdown. Moreover, high-quality bonds are very good at protecting the principle that was invested so are a useful hedge against volatility.

[1] See Financing the Future – A WFE White Paper, 2023 for further details

## Derivatives For Risk Management

By providing a way to price specific forms of risk very precisely – share prices, say, or the price of a barrel of oil – derivatives give users more power to manage risk than any other financial instruments. Thus, one can easily choose the levels of exposure that one wants – whether increased or decreased – for example, in relation to certain shares over a specified time period, and possibly in combination with existing positions. Yet derivatives are sometimes less readily accessible than securities, particularly to retail investors but also to smaller companies and public bodies, meaning that the benefits of hedging or low-cost positioning are not within such easy reach.[2]

## Listed Funds for Liquid, Diversified Access and Efficiency

Listed Collective Investment Schemes provide the benefits of funds with the added benefit of the liquidity you get on a regulated market. These funds often provide exposure to a broad range of assets through a single liquid and tradeable instrument. These instruments enable intraday trading, price transparency and ease of entry/exit for investors.

# On Exchange Trading Matters Most

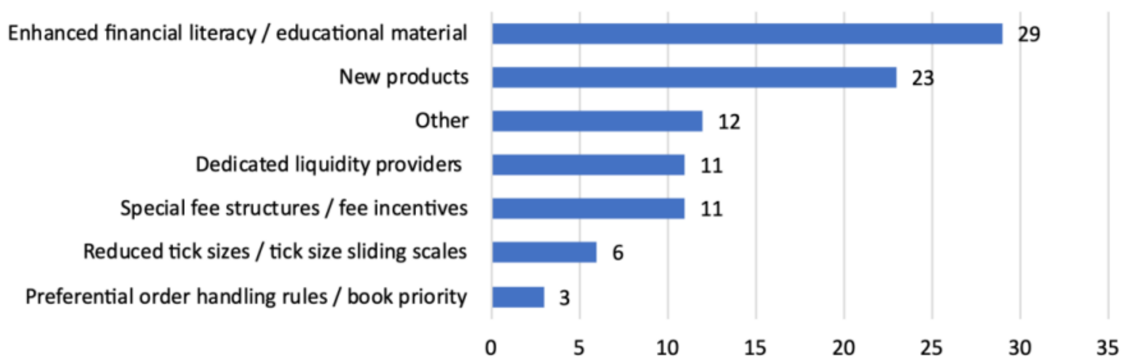
For retail investors, trading on a regulated exchange provides a uniquely secure and transparent environment. Exchange-traded instruments benefit from continuous price discovery, centralised clearing, and stringent regulatory oversight, all of which contribute to investor protection and market integrity. Unlike over-the-counter (OTC) markets, where pricing and counterparties can be opaque, on-exchange trading ensures that all participants operate on a level playing field with equal access to the same market information.

This structure enhances liquidity, reduces execution risk, and lowers the potential for conflicts of interest. It also enables regulatory authorities to monitor market activity in real-time, enhancing systemic oversight. In short, trading on exchange is not just a technical feature—it is a foundational safeguard that supports confidence, fairness, and accessibility for retail participants.

# Research and Data – Key Drivers Promoting Growth of Retail Participation

In 2022, the WFE surveyed its global membership and found that improved access to research tools was the most important driver of retail participation. The three next most important were regulatory/market structure changes, broker/intermediary fee changes and tax law changes.[3] In the same survey, our exchange members told us that they have several initiatives aimed at promoting retail participation:

*Figure 15. Exchanges' initiatives to promote retail participation*




*Source: WFE Survey*

[2] See WFE paper: Shining a light on derivatives, 2025 for further details

[3] See: Retail trading: an analysis of current trends and drivers, 2022

Our analysis showed that:

- educational material from exchanges is helping to increase retail trading.
- introducing stricter rules of retail qualification and restricting retail trading (e.g., volume cap, limited access to derivative market, trading frequency limit) reduces retail participation.
- the presence of designated market makers (DMMs) to fulfil retail liquidity significantly increases the number of trades per retail account and the retail volume traded. However, the result also shows that the DMMs could reduce (at a relatively small magnitude) the value traded by retail investors.
- there were mixed results regarding the enforcement of corporate disclosure requirements, which increases the number of trades per retail account but reduces by a small magnitude the total value traded by retail participants.

Retail activity increased during the Covid-19 pandemic. Exchanges cited easier access to markets; more opportunities to buy at lower prices; growing availability of research and data; and more free time to focus on trading during the lockdown as some of the main causes.

Finally, less than a third of exchanges reported discernible differences in the patterns of activity of retail participants compared to other types of traders. A subsequent research paper from CBOE also shows that retail participants often operate with sophisticated derivative trading strategies.[4] This suggests that retail traders are generally more informed than many policymakers generally consider.

## Recommendations for Europe

The WFE applauds the EU SIU project as means to increase retail participation in Europe. We also welcome ESMA's openness to hearing from the sector on how to increase retail participation. Overall, we recommend:

1. Improve Access to Research
   Investment research is valuable in providing analysis and forecasts to potential and existing investors. Access to research is a key driver for growing retail investment as seen during the pandemic. With laudable aims, MiFID II introduced requirements to unbundle charges for research from trade execution. Academic research suggests that this may be a cause of poorer outcomes.[5] It may be worth revisiting this issue the next time MiFID is open for amendment.
2. Better Financial Education Across Europe
   European policymakers are already trying to engage on this topic, and we welcome steps to do so. Our research shows that education initiatives from exchanges have helped drive retail trading so we expect measures from the EU and national governments would do the same.
3. Allow Learning by Doing
   Financial education can only get an individual so far. Retail investors need to be able invest their own money with real risk and be allowed to make small mistakes in order to become better investors.
4. Further Tax Incentives for Retail Investors
   The SIU includes steps towards creating an EU-wide tax-advantaged account based on the Swedish ISK. It is no secret that Swedish retail participants are among the most active in Europe and we agree that a tax advantaged account could be invaluable in developing retail participation. We urge the Member States to try to come together on this key priority.
5. Consider Broker/Intermediary Fees

[4] Unveiling the Sophistication: Understanding Retail Investors' Trading Behaviour in the US Options Market
[5] See Research unbundling and market liquidity: Evidence from MiFID II for example

Our members considered this to be a significant barrier to retail engagement, and we are not alone. The UK FCA found that fees for Investment Platforms were hard to locate and retail investors often "were left not knowing whether they would be charged for."[6] Given the similarities between EU and UK markets, as well as the similarities in regulation, we consider there to be potential value in ESMA conducting a similar study in collaboration with NCAs.

6. Regulatory and Supervisory Consistency between Crypto and Traditional Markets
   We support the EU's and ESMA's efforts to bring consistency between crypto and retail markets through the introduction of the Markets in Crypto Assets (MICA) Regulation. We remain committed to the internationally agreed principles of "same risk, same regulation."
7. Gather Data on Best Execution Across Europe
   It is difficult to find data on how often best execution is being met in Europe. In the absence of any data or meaningful standardised reporting across Europe by brokers, we would highlight that in 2019, the UK's FCA found that 85% of trades were receiving a price as good as the best they could on an exchange. Assuming this holds true for other European markets, this means that almost one in five retail trades fail to achieve best execution.[7]

[6] https://www.fca.org.uk/firms/investment-platforms-consumers-investment-costs-good-poor-practice
[7] https://www.fca.org.uk/publication/market-studies/ms17-1-3.pdf

## Answers to Specific Questions Posed by ESMA

**Q1: What are the key reasons why many retail savers choose not to invest in capital markets and instead keep their savings in bank deposits? Please explain and provide practical examples, or evidence drawn from experience, where available.**

Bank deposits are typically viewed as a "safer" option. However, over time, savings in bank deposits are susceptible to erosion by inflation, particularly in low-interest rate environments. In contrast, equity investments have historically offered a more effective hedge against inflation through capital appreciation and dividend income.

Closely tied to this is a lack of financial literacy. Many retail investors are not fully aware of the long-term benefits of market-based investments or the risks of relying solely on cash-based savings.

Compounding this is a structural bias in many European tax systems, where interest income often receives more favourable treatment than dividends or capital gains. This fiscal asymmetry further disincentivises retail participation in equity markets, reinforcing the preference for bank deposits.

**Q2a: To what extent do retail investors find investment products too complex or difficult to understand? Please select one of the following options and please explain and provide practical examples, or evidence drawn from experience, where available.**

- A major barrier to investment
- A moderate concern, but not the main factor
- A minor issue compared to other factors
- Not a concern at all

WFE research suggests that discernible differences in the patterns of activity of retail participants compared to other types of traders is smaller than is generally assumed. This suggests that retail traders are generally more informed than many policymakers generally consider. Therefore, whilst we agree that retail investors need to be protected, we also think the best form of protection is empower them to make informed decisions rather than place barriers in the way of certain products.

**Q4a: Do high fees and costs discourage retail investors from participating in capital markets? Please select one of the following options and please explain and provide practical examples, or evidence drawn from experience, where available.**

- Yes, fees are a major obstacle to investment
- Somewhat, but investors consider other factors as well
- No, fees are not a significant concern for most retail investors

WFE research suggests that broker/intermediary fees are a factor discouraging retail engagement.

**Q6: Do retail investors feel they have adequate access to investment advice and relevant information when they encounter difficulties in understanding investment products? If not, what forms of support would be most helpful? Please explain and provide practical examples, or evidence drawn from experience, where available.**

WFE research indicates that access to research tools and investment advice is a key barrier to retail investor participation. As the referenced WFE research reflects the perspectives of our global membership, we do not consider access to market data to be a primary issue within Europe, where such data is typically made freely available to retail investors. Instead, the more pressing challenge appears to lie in the limited availability of advanced analytics and broker-provided research. This may be a consequence of the unbundling requirements under MiFID and could merit reconsideration during any future review of the framework. The issue is particularly acute for SMEs, which often depend on retail investment due to lower levels of institutional investor engagement.

**Q8a: To what extent does a lack of financial education or investment knowledge contribute to retail investors' reluctance to invest in capital markets? Please select one of the following options and please explain and provide practical examples, or evidence drawn from experience, where available.**

- A major barrier to investment
- A contributing factor, but not the main issue
- A minor factor compared to other concerns
- Not a factor at all

WFE research suggests that financial education is important to increase retail participation in financial markets. Educating investors should be the first tool of governments and regulators.

**Q11: What role do digital platforms and mobile applications play in shaping the investor journey? Are there digital features or tools that have simplified the investment process or improved investor understanding and decision-making? Conversely, are there aspects that may complicate the experience for some retail investors? Please explain and provide practical examples, or evidence drawn from experience, where available.**

WFE research suggests that digital tools have improved retail participation. Our surveyed members acknowledged the impact of ease of access to trading via mobile phone applications offered by brokers in particular.

**Q13: What measures - whether market-driven or policy-driven - could help improve retail investor participation in capital markets? Please explain and provide practical examples, or evidence drawn from experience, where available**

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   Our members considered this to be a significant barrier to retail engagement, and we are not alone. The UK FCA found that fees for Investment Platforms were hard to locate and retail investors often "were left not knowing whether they would be charged for."[9] Given the similarities between EU and UK markets, as well as the similarities in regulation, we consider there to be potential value in ESMA conducting a similar study in collaboration with NCAs.
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**Q15a: MiFID II disclosure requirements aim to provide transparency and support informed investment decisions. In practice, do you believe these disclosures are helping retail investors engage with capital markets, or are there aspects - such as volume, complexity of content, lack of comparability, or format - that may reduce their effectiveness? Please explain your reasoning and provide practical examples, or evidence drawn from experience, where available.**

WFE research suggests that disclosure requirements are a smaller magnitude of importance than other issues.

**Q24: For firms and trade associations: to what extent do national tax regimes create barriers to offering investment services and attracting retail investors on a cross-border basis? Please explain and provide practical examples, or evidence drawn from experience, where available.**

[9] https://www.fca.org.uk/firms/investment-platforms-consumers-investment-costs-good-poor-practice
[10] https://www.fca.org.uk/publication/market-studies/ms17-1-3.pdf

Tax-related issues are among the issues that our research reveals as important in encouraging retail investment. There is a large set of empirical studies that show that Financial Transaction Taxes (FTTs) distort investor behaviour and lead to poorer investor outcomes, among many other negative effects.[11] Most recently, a new empirical study by Adriel Jost and Florian Ruhland showed that the Spanish FTT reduced trading volumes and did not improve market quality.[12] Tax incentives for pension savings and retail investment accounts, as well as reducing withholding taxes on dividends, can boost long-term savings, support equity investment, and promote financial inclusion.

The debt-equity bias in Europe remains. Debt enjoys more favourable tax treatment than equity, as interest payments on loans are typically tax deductible. In contrast, expenses related to equity financing—such as dividends—are generally not deductible. This disparity creates a bias in favour of debt, influencing investment decisions and contributing to reduced retail activity.

The FASTER Directive should help to align the withholding tax relief procedure in Europe to make sure investors do not pay double taxes and are reimbursed quickly. Nevertheless, this will not come into force until 2030. Individual member states could encourage inward investment by simply removing withholding taxes.

We have long supported increased retail participation in financial markets and would underline that investing in listed equity represents a powerful, if not the most powerful, way of investing for the longer term in the face of inflation. We are therefore very supportive of the idea of tax advantage accounts to incentivise investment by retail participants.

**Q34: For firms and trade associations: Have firms observed cases where clients struggle to express their sustainability preferences in a meaningful way? How have these issues been addressed to help retail investors? Please explain and provide practical examples, or evidence drawn from experience, where available.**

Clients struggle to express their sustainability preferences in a meaningful way in part because they are not familiar with the different sustainability strategies and objectives available. In some countries, regulators have sought to address this issue through consumer-friendly labelling regimes with clear and descriptive labels such as the UK Sustainability Disclosure Requirements and labelling regime. Clear, consumer-friendly titles and descriptions help clients identify what products align with their sustainability preferences and help them articulate their preferred sustainability strategies and objectives in a way that is meaningful to industry professionals and can easily be mapped onto the range of available products. As the European Commission is revising the Sustainable Finance Disclosure Regulation (SFDR) in Q4 2025, there is now an opportunity to improve upon the categorisation scheme in a way that could support clients in expressing their sustainability preferences. The SFDR revision also presents an opportunity to introduce a transition-focused classification to reflect growing interest in this type of product amongst retail investors.

Overall, we believe that the focus should remain on usable, meaningful, and well-defined labels and categories. When revising SFDR, the Commission should bear in mind industry views as well as the recommendations of expert bodies such as the EU Platform on Sustainable Finance, which set out its recommended categorisation scheme in a report published in December 2024. We believe that at least these 3 categories would be required to broadly cover existing products and maintain a large product choice. A prescriptive, predefined universe of assets should be avoided.

As retail understanding of the EU Taxonomy and its alignment KPIs, particularly those relating to CapEx and OpEx, is not strong, the EU should also consider improvements to the EU Taxonomy that would make it easier for retail investors

[11] See Counting Losses – The Adverse Impacts of Financial Transaction Taxes on Companies, Investors and the Market, 2024 and appendix of empirical studies.
[12] Financial Transaction Taxes: New Evidence from Spain

to understand. For example, the Singapore-Asia Taxonomy deploys a 'traffic light' system whereby activities are classified as either 'Green' (environmentally sustainable), 'Amber' (transition) or 'Ineligible'. This simple system helps retail investors understand and conceptualise Taxonomy alignment and supports investment in activities that support the transition.

To ensure consistency across the regulatory framework and investor journey, the EU will need to ensure that any changes made to SFDR and/or the EU Taxonomy are also mirrored in MiFID II and other relevant regulation such as the EU Benchmark Regulation, ESMA Guidelines on Funds' Names and the Green Claims Directive. In considering what changes to make, the EU should prioritise consistency and interoperability with leading standards and best practice so that retail investors can easily understand how products from all jurisdictions align with their sustainability preferences.

**Q41: Does the current regulatory framework strike the right balance between protecting retail investors and allowing them to take informed investment risks? Please explain and provide practical examples, or evidence drawn from experience, where available.**

Exchange traded derivatives are often characterised as high-risk or overly complex for retail investors but this is not the case. With limited educational support, exchange traded derivatives can serve as a valuable and effective component of a retail investment strategy and they can reduce rather than increase risk. For example, a retail investor holding an exchange-traded fund (ETF) tracking a broad index should be permitted to hedge downside exposure by purchasing a put option on that index.

We therefore encourage policymakers to promote access and opportunity for retail investors. As individuals increasingly take ownership of their financial futures, it is essential that regulatory frameworks support proportional and evidence-based suitability and appropriateness standards—ones that protect investors without being unnecessarily prohibitive.

In our study, less than a third of exchanges reported discernible differences in the patterns of activity of retail participants compared to other types of traders. This suggests that retail traders are generally more informed than many policymakers consider.

# Background

Established in 1961, the World Federation of Exchanges (WFE) is the global industry association for exchanges and central counterparties (CCPs). Headquartered in London, it represents over 250 market infrastructure providers, including standalone CCPs that are not part of exchange groups. Of our members, 37% are in Asia-Pacific, 43% in EMEA, and 20% in the Americas.

The WFE's 87 member CCPs and clearing services collectively ensure that risk takers post some $1.1 trillion (equivalent) of resources to back their positions, in the form of initial margin and default fund requirements. WFE exchanges, together with other exchanges feeding into our database, are home to over 49,000 listed companies, and the market capitalisation of these entities is over $116.58 trillion; around $155 trillion (EOB) in trading annually passes through WFE members (at end 2024).

The WFE is the definitive source for exchange-traded statistics and publishes over 350 market data indicators. Its free statistics database stretches back 49 years and provides information and insight into developments on global exchanges. The WFE works with standard-setters, policy makers, regulators, and government organisations around the world to support and promote the development of fair, transparent, stable and efficient markets. The WFE shares regulatory authorities' goals of ensuring the safety and soundness of the global financial system.

With extensive experience of developing and enforcing high standards of conduct, the WFE and its members support an orderly, secure, fair, and transparent environment for investors; for companies that raise capital; and for all who deal with financial risk. We seek outcomes that maximise the common good, consumer confidence and economic growth. And we engage with policy makers and regulators in an open, collaborative way, reflecting the central, public role that exchanges and CCPs play in a globally integrated financial system.

If you have any further questions, or wish to follow-up on our contribution, the WFE remains at your disposal. Please contact:

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