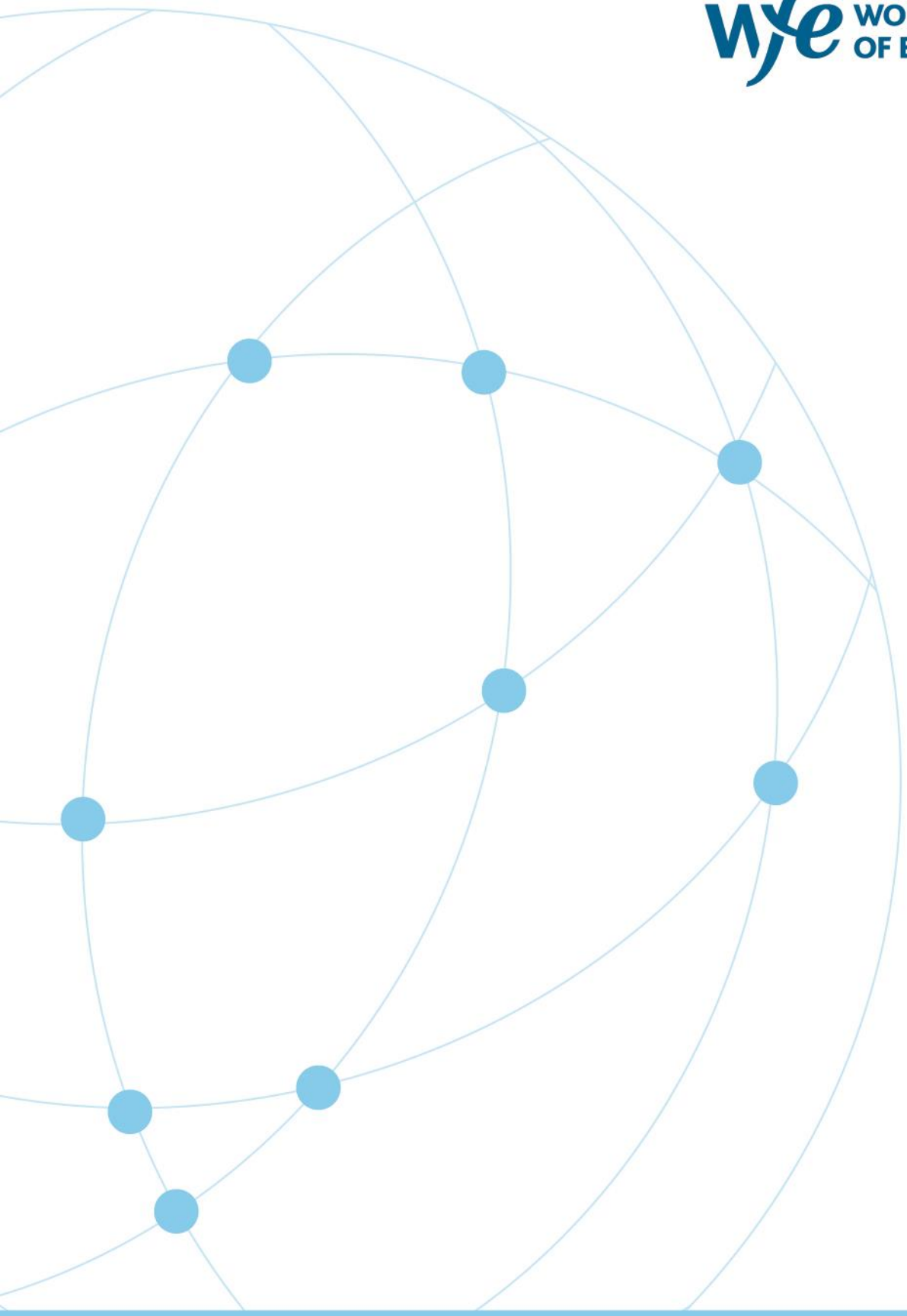
WORLD FEDERATION OF EXCHANGES



‘To Serve and Protect’ – A WFE Regulatory Affairs paper on how exchanges support investor interests

October 30th, 2026

To serve and protect

Exchanges and investor protection

Here's a question. When is a product not a product?

Answer: when it's a service. And if that sounds like a statement of the obvious, then think again, particularly in the context of *financial* products. Because when it comes to finance, the difference between good service and bad can do harm to the investment process and to investor confidence, undermining the role of all financial markets in society, however good the products may be in and of themselves.

That is why role of exchanges is to serve and protect.

To be more specific, this paper is about financial services and the role that exchanges play in ensuring access to good quality financial products, in the interest of good outcomes for investors. It does not say *why* financial products matter, whether to individuals or society[1]. But it does say why quality of service is – or at least should be – non-negotiable.

The policy implications around this are small in number but hugely significant in impact and easily underestimated. We argue that they boil down to ensuring good market design – design that works with the grain of investor protection rather than against it. Viewed from this perspective, it should be clear that newcomer markets and bilateral transactions will always need particularly careful scrutiny, especially if they claim to be doing something better than well designed markets that have evolved with customer needs, while sticking to key principles.

- Investor protection is the 'first among equals' of financial markets regulation.
- It requires discipline around the sale of products and good conditions for a) listing and b) trading, in which the behaviour of intermediaries can be monitored.
- It is exchanges that create the right conditions for such issuance and trading of products.
- In terms of policy implications, the WFE's view is straightforward. To be credible and effective, any newer 'types' of market or markets in types of asset that are trying to break new ground (crypto, prediction, carbon credits) must be required to actively demonstrate how they support investor protection in the same way that true exchanges do.

Investor protection is one of three primary objectives of financial-services regulation, alongside market integrity and systemic-risk prevention. And even though all three are

[1] For that, see our 10-pillar stock exchange Manifesto

vital to a healthy financial system, investor protection is the most emotive. In practice, it is the one that matters most for public confidence in financial markets.

Financial markets exist to serve two types of users – investors and those who need capital. But without meaningful and well advertised investor-protection measures in place, issuers would find it difficult, if not impossible, to raise capital on the scale that they need.

In secondary markets, intermediaries who sell financial products and execute transactions for customers must be policed, to ensure they treat customers equally and fairly. The conflicts that they face are why they have a best execution obligation. The standards set by regulated exchanges mean that, even if some transactions and flows happen outside exchanges, there is a gold standard for everyone to see. In addition, it is exchanges that typically also provide front-line surveillance of transactions, to ensure market integrity. This reduces the burden on supervisors while affording them easily digestible evidence that they can use where necessary.

By supporting market integrity, regulated exchanges ensure the right conditions for investor protection. They operate a rules-based system, meaning that everyone knows where they stand. They famously have a robust system of creating data about prices, by maximising the number of participants that interact with each other in a structured network. As a result, exchange-led price formation is the most transparent that exists and the most robust.

A key, but easily overlooked, benefit of this structured, rules-based approach is that it levels the playing field for investors. Market infrastructure provides a strong centre not just for what happens 'on its premises' but for a whole ecosystem. That ecosystem needs to play its part, to be sure, but the exchange sets the scene. (*See the Annex for a more detailed list of exchange standards!*)

Why is investor protection such a resonant regulatory objective?

Systemic risk, when the whole financial mechanism threatens to come to a grinding halt, can damages a whole economy (and if banks collapse, then basic services may get disrupted). Occasional panics remind us that systemic risk is a constant threat(Think of the collapse of Credit Suisse!) Having said which, systemic risk is a fact of life in the banking / credit system, baked into the 'fractional reserve' model, where banks lend out more than they accept in deposits.[2]

Market integrity is also essential. But it can be addressed by concerted, consistent, intelligent action, which is precisely what exchanges bring to the table. Measures against financial crime also play a well documented supporting role.

[2] As discussed in Financing the future (WFE Regulatory Affairs, 2023), securities investment differs in nature from credit channels because it does not come with inherent systemic dangers

Investor protection is the bit that can fall through the cracks, to the potential detriment particularly of retail end-investors: it is about good and bad behaviours within the market. Market infrastructure and intermediaries mainly exist in a mutually beneficial relationship, in which they have common interests. However, it remains possible that individuals lose out, if it is too easy for the service provider that they face to not embrace fairness. What this adds up to, is a need for all asset managers to monitor and fully disclose the transaction costs that they incur in markets at others' expense; and for all brokers / dealers to act with integrity, when there may be a temptation for one of their number to shade things in their own favour.

Investor protection represents justice being done and being seen to be done. Even if fund managers and dealers generally act with integrity, they will all suffer, along with the marketplace itself, if there is one bad apple. Investor protection helps ensure that intermediaries can focus on a constructive, symbiotic relationship with market infrastructure, rather than worrying about their competitors getting an unfair advantage that ultimately brings everyone into disrepute.

A word on competitiveness

In the last five years, a secondary objective has appeared for some regulators, which potentially changes the balance between investor protection and other interests. That objective is national competitiveness.

A competitive financial sector is an understandable (and worthy) aspiration and a well managed secondary objective can even enhance financial services. Moreover, restrictive rules can increase costs, making products less attractive and even pushing business into an under-regulated environment. The early history of the crypto world does however suggest that there can be risks that need to be assessed and managed, when too much latitude is granted.[3]

It is also important to ensure a level playing field. Granting a more lenient treatment to one way of doing business, purely because of the form in which it is done rather than addressing the substance, is a fast track to bad outcomes.

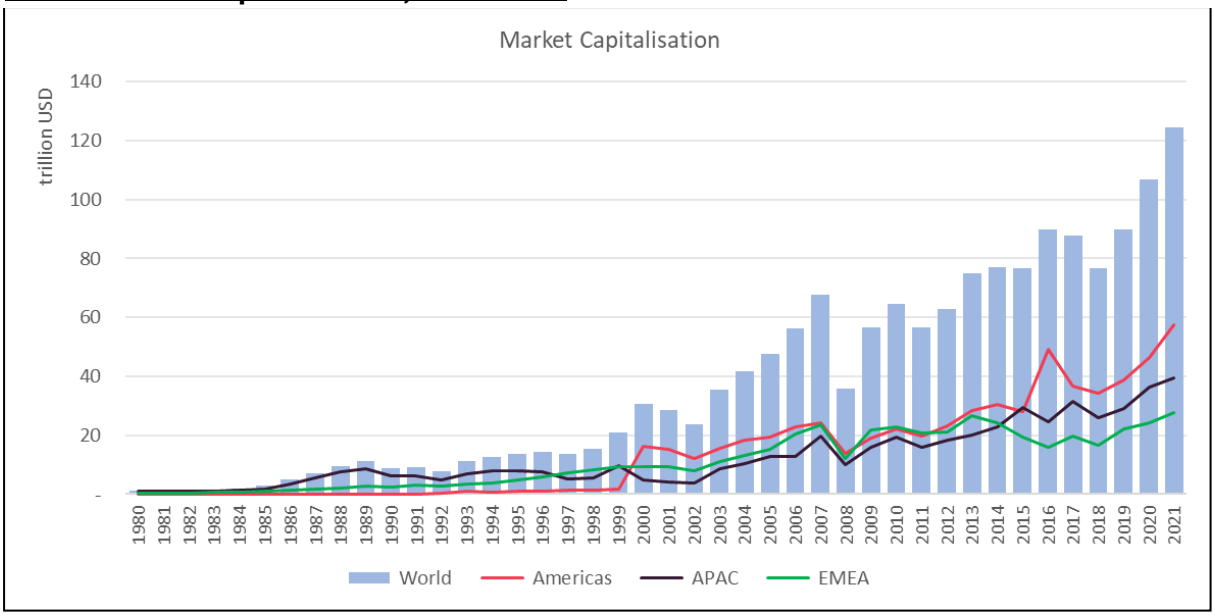
Risk and good market design

Good market design is non-negotiable but it is important to remember that investor protection is not about preventing investors from taking risk. It is about them being empowered to accurately gauge what those risks are, knowing that market operators are on their side, even if other participants are not.

[3] The WFE offered its support to the development of healthy crypto markets in 2023: See also our Crypto asset custody blueprint

As we said in 2023 ('Financing the Future' – see footnote 2) nobody can guarantee that share prices will not experience dips in value. Nevertheless, as we also said, "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. (*See chart below!*). 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. Alongside bonds, derivatives, and other financial products, they are the jewel in the crown for investors."

Stock Market capitalisation, 1980-2021



Financial markets involve risk. Without it, there could be no rewards. Well designed markets, backed by effective education, allow the public to focus on which risks they wish to take, without having to worry about the marketplace being their enemy, rather than their ally.

Conclusion

Whether you're buying a car or a cucumber, it's relatively easy to compare the price and quality of a product. And to make things better, the people selling you those things know this, with the result that some of them even do the comparison and price matching for you.

When it comes to services, though, things may be different – and not just a little but a lot. That is why, when you buy a financial product, you simply cannot take the service on trust. It needs to be regulated (otherwise, as the new saying goes, the customer *becomes* 'the product'). And the market places that make that regulation and supervision easiest to carry out, are not just a luxury but a necessity.

Service in financial markets is not just a nice-to-have, as may be the case in a restaurant. It is an essential component of the customer getting a fair deal.

Financial markets are a form of social interaction – which means it is one in which there can be winners and losers. The rules – and the market design – need to minimise the risk of the odds being stacked against the customer.

Exchange-posted prices help to keep everyone honest. If you want to buy shares in Company X, then you can find out where they are trading (unless, that is, all the trading has been allowed to migrate to a bilateral environment; or your broker is not completely transparent about where that price level is). This information is even accessible, albeit with a small delay, to retail customers. And tech is putting more power in the investor's hand, in the form of rapid comms and AI to assist investment decisions.

Nevertheless, there is a reason why the key investor protection policy is called *best* execution. It's because 'good' may not be good enough.

It can be very low-cost – unprecedentedly low in fact, in some countries – to buy and sell shares, bonds and closely related products such as derivatives and exchange-traded funds. And modern telecoms have reduced the scope for bad actors to perform outright scams. But the insight of Fred Schwed Jr – author of the well known book 'Where are the Customers' Yachts' – remains valid. You are dependent on someone else doing the right thing. Which means it needs policing. Which is why we have multilateral trading venues.

To conclude where we started, your financial product may only be as good as the associated service. Buyer beware of that!

Further reading:
The WFE exchange manifesto
WFE statement on the nature of stock market data
Harnessing network effects
Promoting sound marketplaces ('defi' and crypto platforms)

Annex – how exchanges make good markets (and good data)

An important facet of the rules under which an exchange operates is that the rules themselves cannot be changed without following a prescribed process, including any external regulatory scrutiny that may be required. This means that the environment for trading is not only sound but predictable and consistent over time.

A given exchange may be the principal location for listings in its own country. It may also be the main centre for secondary-market activity. However, it is often the case that competing venues also operate in secondary market activity and, furthermore, exchanges must often in practice compete not only for this secondary market activity, but also for initial public offerings (IPOs) on a global basis. Such competition results in market discipline that acts as a complement to regulation.

The headline aspects of the rules-based environment are as follows:

1. Legal organisation, governance
2. Regulatory framework
3. Equal treatment for market access
4. Listing & admission to trading
5. Trading
6. Technical infrastructure, including security and cyber resilience
7. Supervision, surveillance & enforcement
8. Dispute resolution & complaint handling

As alluded to above, while each item is important in its own right — and requiring of significant, continuous attention — what is even more important is the combined effect, ultimately meaning that the matching of buyers and sellers leads to a reliable and valuable stream of data information.

1. **Legal organisation, governance**. This is a necessary, threshold condition, even if other factors (e.g., those set out below) are what principally distinguish an exchange from other forms of financial service. The governance arrangements must be tailored to the specifics of the exchange business. The organisation is recognised by the statutory supervisor as an exchange. Market participants / stakeholders are in effect part of the governance, as they are usually consulted before trading and listing rules are submitted to regulators for approval.

2. **Regulatory framework.** The rules and related supervision in a jurisdiction will cover not just the operation of the exchange, but the functioning of the securities and related markets more broadly, including any derivatives (whether listed or OTC). Listing and trading on an exchange involve the most structured and intensive form of obligations to operate to high standards and provide transparency, which is often not fully replicated in other types of trading models.

3. **Equal treatment for market access.** Membership in an exchange comes with responsibilities as well as rights and the membership criteria set these out. The rules ensure defined, non-discriminatory access provisions, as well as expected standards of behaviour and operation on the part of participants. Among other things, members must have appropriate systems and controls, relating to their own actions as well as their customers', to ensure they comply with the exchange rules. Becoming a member of an exchange is by definition an open and objective process; it is rules-based and any participant fulfilling the criteria will become a member of the market and able to enjoy the benefits as well as the obligations attached to it. This entity will then be able to trade in a secure environment with fair price determination for the listed products.

4. **Listing & admission to trading**. Irrespective of which entity acts as gatekeeper, the key point is that there are criteria to be met, initially as a pre-condition for listing and subsequently in the form of ongoing disclosure obligations. Thus, companies must keep the market updated on material developments. This ensures that the instruments available to the investing public meet the highest standards of transparency. The exchange may, of course, also support the calculation of indices or benchmarks, which can provide an important point of triangulation vis-à-vis individual shares, as well as supporting complementary products that lead to what economists refer to as a more 'complete' market. Furthermore, as regulation tries to catch up with the development of digital assets and regulation, the role of a trusted party in determining what products to make available to the investing public is arguably even more important. The prices formed for shares are reputable; that is one of the key reasons why they are so widely used by the ecosystem beyond the exchange, eg, for valuation purposes, for OTC trading or even for evaluating similar but less traded assets. The fact that exchanges carefully consider what products it is appropriate to make available to the public is a key safeguard in the system.

5. **Trading**. While IT is important to how trading is undertaken, the key issue is a transparent rulebook that delivers an effective and orderly market structure facilitating the matching of buyer and seller. The exact mechanism(s), or 'market microstructure' (auctions, continuous trading and so on), may vary by exchange. But the same principle applies consistently, in that there are strict rules as to which orders will get dealt with when, taking into account the nature of the order (for instance, whether or not it is contingent on a specified price move). Where relevant, an exchange will also apply mechanisms to maintain orderly trading, addressing instances of excessive price volatility. At all times, the exchange will ensure an appropriate degree of pre- and post-trade price transparency, including the provision of free information after a short delay. And for those clients that find exchange market data valuable, exchanges license that data on a non-discriminatory basis and in a variety of different formats to meet their needs.

6. **Technical infrastructure**. This in practice refers mainly to the IT systems that enable an exchange to function, both hardware and software. That notably includes any trade-matching engine – the functionality that determines which seller is matched with which buyer and in which sequence for any given trade. (Some of this trading activity has been occurring at increasing speed, with the aid of powerful technology, and which exchanges have accommodated, thereby maximising diversity in terms of style and type of participation.) Also relevant are communications links between the exchange and its customers. Whatever the level of sophistication of the IT (which will be a function of the market the exchange serves), all the above must be operationally robust and secure, with cyber resilience being a critical component of the modern exchange's defences, along with 'redundant' or back-up technology. (Market infrastructure carries huge symbolic value as well as day-to-day business importance, making it a major target for attack. At the same time, physical security remains important, not least of the technical environment.) Surveillance of market activity is also dependent on effective IT, which may include artificial intelligence applications. Exchanges police access to the trading environment to prevent misleading signals from entering the exchange and ensure the security of messaging and encryption.

7. **Supervision, surveillance & enforcement**. Trading by market participants on exchanges is subject to particularly close scrutiny, as is their compliance with the rules of the venue, which is backed by powers to sanction anything which threatens the integrity of trading. Those threats may include deliberate actions, such as market abuse, and errors, such as 'fat-finger' trades.

8. **Dispute resolution & complaint handling**. The exchange acts as (or will ensure the participation of) a neutral arbiter in cases of disagreement, thereby contributing to a more orderly and fair market, which all parties can trust and rely on.

About the World Federation of Exchanges (WFE):

Established in 1961, the WFE is the global industry association for exchanges and clearing houses. Headquartered in London, it represents the providers of over 250 pieces of market infrastructure, including standalone CCPs that are not part of exchange groups. Of our members, 39% are in Asia Pacific, 42% in EMEA and 19% in the Americas region. The WFE's 74 member CCPs and clearing services collectively ensure that risk takers post some $1.4 trillion (equivalent) of resources to back their positions, in the form of initial margin and default fund requirements. WFE exchanges are home to over 40,000 listed companies, and the market capitalization of these entities is over $135 trillion; around $200 trillion in securities trading annually passes through WFE members (as of end-2025).

The WFE is the definitive source for exchange-traded statistics and publishes over 350 market data indicators. Its free statistics database stretches back 50 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 policymakers 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.

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