To the European Securities and Markets Authority

18th of July 2025

## **Finance Iceland Comments: ESMA asks inputs on the retail investor journey as part of simplification and burden reduction efforts**

The European Securities and Markets Authority (ESMA) has requested information and views from market participants regarding the investment process of retail investors under MiFID II. ESMA's objective is to assess whether current rules support or hinder retail investor participation, and to examine whether simplification of the regulatory framework could facilitate investor participation in capital markets without reducing investor protection.

**Main views on the matter**

The significant growth in all types of financial advice on social media, not coming from professionals or licensed financial market participant, in recent years has reduced investor protection, which is a very detrimental development since the main objective of MiFID II is to increase investor protection. There appears to be significant demand for such advice without the public always being aware of the quality of the advice or the risks it entails. At the same time, stricter MiFID II rules have, in some cases, led to a reduction in demand for investment advice from investment and securities firms.

More supply of investment advice from unregulated persons/entities on the social media and at the same time in some cases less investment advice from those who must comply with the MiFID II rules, because of stricter rules of MiFID II, has led to reduced investor protection. It is important to reverse this trend and for the MiFID II regulatory framework to be reviewed and simplified so that it encourages active participation by securities and financial firms in information provision, education and advice to retail investors. By simplifying key areas, it would be possible to strengthen investor protection in practice, build trust and better equip retail investors to make informed and independent decisions about risk and participation in financial markets.

**1. Interest of Younger Investors and Impact of Digital Media**

The interest of younger investors in risky investment options is partly explained by the influence of digital media and social media. Investors and advisors who do not fall under MiFID II requirements are prominent on Instagram, Facebook, YouTube, TikTok and Reddit, where they provide information about cryptocurrencies and other risky investment options.

Research shows that 25% of young Britons aged 18-24 use social media investment advice, which is a higher percentage than those who seek such advice from their commercial banks. In the United States, as much as 80% of young people are getting their investment advice from social media.[[1]](#footnote-2)

The risk from such advice is considerably greater than from investment advice from traditional licensed financial firms. Research shows that only 13% of individuals providing financial advice on social media have sufficient knowledge and experience to do so.[[2]](#footnote-3) The vast majority of financial advice on social media is misleading.[[3]](#footnote-4) Those who seek advice on social media are more likely to invest in financial instruments that carry high risk. Thus, this group is more likely to have bought or sold cryptocurrencies compared to those who seek financial advice in more traditional places such as from relatives or from certified financial advisors.[[4]](#footnote-5)

Securities and financial firms operating under the MiFID II regulatory framework are generally not prominent on social media on large scale due to detailed requirements for information provision and marketing materials. These requirements make it difficult to communicate information at short notice or in short advertisements on social media. It is permitted, for licensed financial institutions, to a certain extent, but greater flexibility would be beneficial—especially if clear, professional guidance can effectively reach the younger generation and reduce their reliance on unqualified or unresponsible sources of financial advice.

**Analysis and Expert Commentary**

Securities and financial firms in many European countries have largely slowed down issuing analyses with advice and valuation rates for shares in individual companies. This contraction can be traced to changed and increased requirements due to the MiFID II regulatory framework. This has reduced retail investors' access to responsible expert commentary on individual companies and investment options.

**2. Implementation of MiFID II Requirements and Challenges Periodic Information Provision**

Securities and financial firms are subject to extensive requirements for periodic information provision to retail investors. Despite the importance of clear information, these requirements are often complex and comprehensive. The information is technical and extensive, making it difficult for retail investors to understand their content. This can lead to investors increasingly seeking information on social media where investor protection is lower.

**Suitability Assessment and Suitability Reports**

Suitability assessment requirements are comparable regardless of market size. The small size of the Icelandic financial market means that investment options are fewer and complexity levels lower than in larger European markets. The complexity level and cost of detailed suitability assessment in such smaller markets is not justifiable.

The requirement that retail investors be provided with a suitability report on a durable medium before transactions take place involves significant disadvantages. The requirement is difficult to implement and involves legal risk for financial firms. The risk is so great that financial firms are reluctant to provide investment advice to retail investors - the group that needs it most.

**Warnings and Repeated Transactions**

There are unclear guidelines on how firms should handle warnings when one client decision involves repeated transactions, such as fund subscriptions. MiFID I had clear provisions that firms did not need to reassess suitability for each individual transaction, but similar wording is missing in MiFID II. Repeated warnings do not increase investor protection and can become meaningless formalities.

**3. Balance Between Investor Protection and Informed Risk-Taking**

Investor protection and risk-taking are not opposing poles, but intertwined objectives. Investor protection should promote clear and accessible information that enables investors to make informed decisions. If regulation is so burdensome that parties offering investment services are reluctant to provide information or offer services, or if periodic information pushes investors to more irresponsible information providers like social media, then there is a risk that the regulatory framework works against its own purpose.

**4. Proposals for Improvements**

**Simplification of Information Requirements**

There is an opportunity to review and simplify the MiFID II regulatory framework regarding requirements for information provision, marketing materials and analysis. Such a review should aim to better enable securities and financial firms to actively participate in information provision on digital media without reducing investor protection.

**More Flexible Approach for Smaller Markets**

Authorization for simpler presentation of periodic information and flexible suitability assessment for smaller markets with limited range of investment options could increase retail investors' access to investment advice.

**Suitability Reports**

One way to find balance is to give securities firms a choice of whether they deliver a suitability report or ensure traceability in another way, for example through recording. This solution does not compromise investor protection but is more practical to implement.

**Clarifications on Specialized Funds**

It should be clearly and definitively stated that specialized funds for retail investors can be considered simple financial instruments if they meet relevant criteria.

**Warnings for Repeated Transactions**

There is a need for clear guidance that firms do not need to give repeated warnings for each individual transaction in a series of transactions, unless the client's circumstances change.

**5. Detailed Analysis of Main Problems**

**Competitive Position in the Information Market**

The current situation creates an imbalance in the information market where parties operating outside the MiFID II regulatory framework can provide information much more simply than organized market participants. This leads to retail investors, especially younger generations, increasingly seeking irregular information providers on social media. There they often receive one-sided and inadequate information about risky investment options without receiving appropriate warnings or investor protection.

Securities and financial firms operating under MiFID II requirements often find it impossible to compete with this informal information provision because of how burdensome and time-consuming it is to fulfil all regulatory requirements. This has the undesirable effect that reliable and responsible parties become less visible on the platform where investors seek information.

**Cost Factor and Access to Services**

The complex requirements of the MiFID II regulatory framework entail significant costs for financial companies. This cost manifests not only in direct expenses related to the regulatory framework but also in opportunity costs where companies choose not to offer certain services rather than deal with complex regulatory requirements.

This particularly applies to investment advice for retail investors. Requirements for suitability assessment reports and detailed documentation result in many companies choosing not to offer this service. This is particularly unfortunate since retail investors are precisely the group that has the greatest need for professional advice and guidance.

**Special Position of Small Markets**

The Icelandic financial market is characterized by its small size and limited range of investment options compared to larger European markets. This means that many provisions of the MiFID II regulatory framework, which are designed with large and complex markets in mind, become disproportionately burdensome when applied to the Icelandic market.

For example, requirements for product development processes and classification of financial instruments are costly and complex for markets where the supply of investment options is simpler and smaller than in larger markets. Similarly, detailed suitability assessment requirements are often unnecessarily complex when the investment options available are relatively simple and uniform.

**Technical Implementation and Legal Risk**

Many requirements of the MiFID II regulatory framework are so detailed and technical that they create significant legal risk for financial companies. This particularly applies to requirements for suitability assessment reports where companies must ensure that all information is correct, adequate, and delivered at the right time and in the right manner.

Due to this risk, companies may choose to avoid services that involve such reporting requirements, rather than expose themselves to potential liability. This has the effect that services that should be accessible to retail investors become effectively inaccessible due to regulatory requirements that are intended to protect them.

**6. Broader Impact on the Financial Market**

**Impact on Market Participation**

The current implementation of the MiFID II regulatory framework has unintended effects on retail investor market participation. When reliable information providers and advisors withdraw due to regulatory requirements, and when access to professional advice decreases, the risk increases that investors will make uninformed decisions or avoid investments entirely.

This is particularly concerning given that the goal of the MiFID II regulatory framework is precisely to increase investor protection and promote informed participation in financial markets. If the regulatory framework has opposite effects and reduces access to reliable information and services, then the implementation needs to be reconsidered.

**Long-term Impact on Financial Services**

If the current trend continues, there is a risk that the Icelandic financial market will become isolated from international developments in financial services. When Icelandic companies cannot compete with foreign entities in providing information and services on modern platforms, such as social media and digital media, they lose their competitive advantage.

This can lead to Icelandic investors increasingly seeking foreign service providers operating outside Icelandic jurisdiction and supervision. Such development might undermine investor protection objectives and reduce oversight of financial services that Icelandic investors utilize.

**7. Proposals for Quick Remedies**

**Interim Solutions**

While awaiting a broader review of the MiFID II regulatory framework, several interim solutions could be implemented that would reduce the burdensome effects of the regulatory framework:

* Suitability assessment reports might be permitted to be provided orally with recordings as evidence.
* Clear guidance should be provided that repeated warnings are not necessary for each individual transaction in a series of trades.

**Long-term Improvements**

In the longer term, a broader review of the MiFID II regulatory framework is needed with particular emphasis on:

* Simplification of requirements for marketing materials and information provision to enable organized entities to compete on equal terms with unorganized entities on digital media.
* More flexible rules for smaller markets where investment options are fewer and simpler.
* Review of requirements for periodic information provision to make it more accessible and understandable for retail investors.
* Simplification of product development and classification processes for markets with limited range of investment options.
* There should be more and clearer scope under MiFID for supervised entities to use social media for marketing purposes, and the presentation of information on social media should be made more practical and realistic.

These improvements would not only reduce the burdensome effects of the regulatory framework but also strengthen investor protection by increasing access to reliable information and professional services.

Sincerely,

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1. https://www.deloitte.com/uk/en/about/press-room/young-people-turn-to-social-media-for-financial-guidance.html [↑](#footnote-ref-2)
2. https://www.entrepreneur.com/business-news/riskiest-social-media-platform-for-financial-advice-report/482240 [↑](#footnote-ref-3)
3. https://socialcapitalmarkets.net/social-media-financial-advice-misleads-gen-z-millennials/ [↑](#footnote-ref-4)
4. https://www.philadelphiafed.org/-/media/FRBP/Assets/Consumer-Finance/Reports/how-americans-use-social-media-for-financial-advice.pdf?sc\_lang=en [↑](#footnote-ref-5)