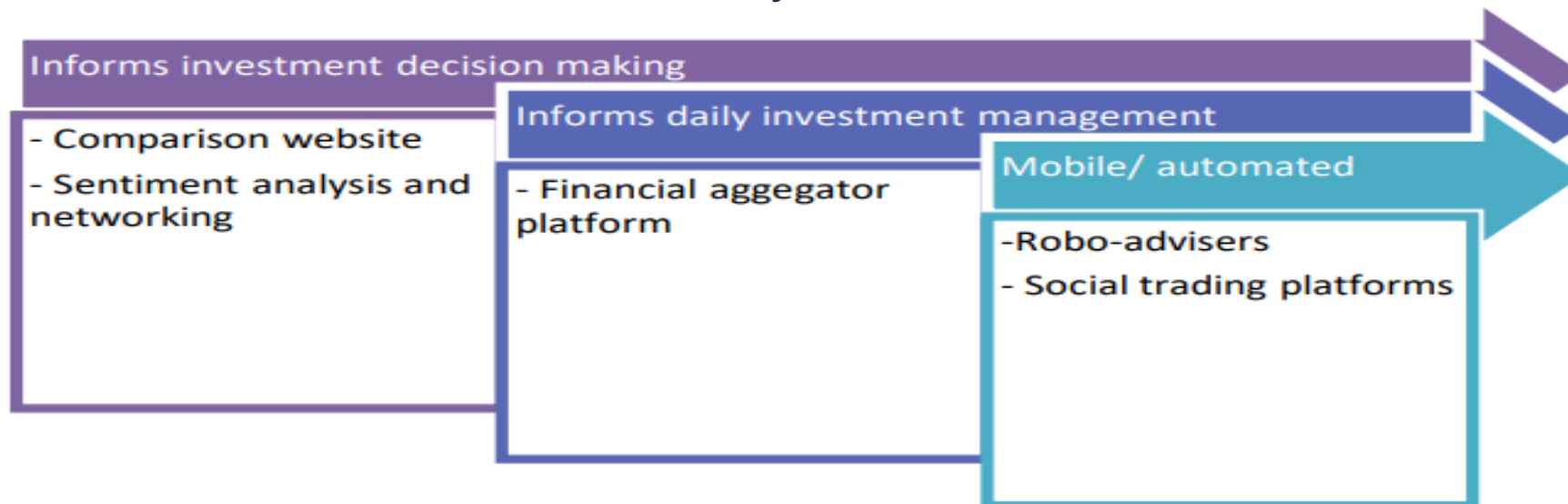




SOCIAL/COPY TRADING

Emergence of New Fintech Players

- In recent years innovation in retail trading and investment platforms has further accelerated driven by;
 - changing investor demands and online usage behavior,
 - the speed of technological developments, (artificial intelligence, natural language processing, big data analysis)
 - the use of media, social media, metadata and open-source data to support decision making .
- Social trading platforms and other innovative business models allow for mobile-based management of personal finances for customers and investors of any income levels.



Social Trading Platforms

- The terms “social, mirror, and copy trading and investing” appear to be used interchangeably.
- Mirror Trading
 - An evolution of automated trading
 - Simply implements fixed strategies based on trading preferences
 - May involve copying experienced and successful traders
- Copy trading
 - Involves setting a proportion of funds to execute the trades of the copied trader from the allotted funds.
 - Allow traders to control their risk through Stop Loss orders.
- Mirror trading and copy trading have both led to ‘people-based portfolios’ – portfolios that invest funds in other investors rather than watch the market.

The Regulatory Approach

- Differs depending on the jurisdiction.
 - **EU MiFID Directive**
 - ESMA has considered copy and mirror trading as automatic execution of trade signals
 - Copy trading is classified as portfolio or investment management
 - if no manual input is required from the account holder other than the conclusion of an agreement between the service provider and the client.
 - **In the US**
 - Depending on the services offered, a different registration status applies.
 - Investment advisers
 - Newsletter exemption
 - broker-dealers
- Some securities mirror trading sites and their model managers are registered as

The Regulatory Approach - MiFID Directive

- **Example:** A service provider X sets up a website which gives its clients the opportunity to choose one or more third parties that **provide trade signals (listed on the website)**. Once the **client chooses a signal provider** and **authorises the service provider to issue orders on his behalf**, the service provider transforms each individual signal received into a buy or sell order to be executed by the service provider itself or transmitted for **execution to another firm, without further intervention from the client**.
 - Where the service described above is provided through MiFID financial instruments, it requires portfolio management authorisation.
 - The service provider exercises investment discretion by automatically executing the trade signals of third parties.
 - Where the client sets trading parameters, such as the sum they wish to invest or are prepared to lose, this will not affect the characterisation of the service as portfolio management
- **Exceptions**
 - Where no automatic order execution occurs because client action is required before executing each transaction, the activity performed will not amount to portfolio management.
 - Other investment services may still be relevant (eg investment advice with personal recommendations, and reception and transmission of orders).

The Situation in Turkey

- **Capital Market Law (CML)**

- **Article 34- Capital market activities**

- Capital market activities consist of the activities of capital market institutions under the scope of this Law, investment services and activities in the context of this Law and ancillary services provided in addition to them.

- **According to Article 37**

- Portfolio management

- Investment advice

} Investment services and activities

- **Article 39 - Obligation to take permission for activities**

- The performance of investment services and activities as a regular occupation, business or a professional activity requires permission from the Board.

- **Article 38 - Ancillary services**

- Providing investment research and financial analysis or general advice concerning transactions in capital market instruments is an ancillary service

The Situation in Turkey

- **Communiqué on principles regarding investment services, activities and ancillary services(III-37.1)**
 - Rules and principles to comply with during investment services, activities and ancillary services .
 - **Article 45 - Investment Advisory Activity**
 - (3) Provision of opportunities **ensuring the emulation and/or copying of transactions** relating to other real or virtual **portfolios** presented or guided directly **by investment firms** to clients through all kinds of electronic media is considered and treated as a part of the **investment advisory activity**.
 - (4) The investment firm provides customers with services mentioned in the third paragraph of this Article, the framework agreement signed with the customer shall describe and contain the following in detail:
 - Features of the platform directly presented or guided by the investment firms;
 - Investment purpose, strategy information (selection of assets to be traded, and investment strategy) and risk information for transactions relating to each portfolio to be emulated;
 - Transaction volumes in certain periods of each portfolio to be emulated;
 - Profits and losses arising out of orders and transactions effected under each portfolio to be emulated;
 - How the performance indicators of each portfolio to be emulated will be displayed instantly and retrospectively;
 - That past performance of a portfolio may not be an indicator for its performance in the next period, for each portfolio to be emulated.

The Situation in Turkey

- **Communiqué (III-37.1)**

- **Article 37 - Activity of Individual Portfolio Management**

- Provision of services described in third paragraph of **Article 45** through all kinds of mechanisms in such manner to **ensure an automatic trading in the customer's own portfolio** is within the scope of **individual portfolio management**.
 - Principles included in the fourth paragraph of Article 45 are applicable also for individual portfolio management activities.

- **Article 27/B- Leveraged Transactions**

- Intermediary institutions may not provide individual portfolio management or investment advice services in relation to leveraged transactions to their customers for whom they provide services in leveraged transactions.

- **Board Decision – Regarding the Implementation of Third Paragraph of Article 45**

- Real or virtual portfolios that customers follow or copy on their own initiative are not under the responsibility of intermediary institutions. (not directly offered or directed by brokerage firms)
 - Even if these opportunities are achieved entirely with the initiative of the customer, intermediary institutions cannot integrate software and hardware into their trading platforms. (Even if the customer demands.)

The Situation in Turkey (Other Related Articles)

▪ Communiqué (III-37.1)

▪ Article 73 - Provision of General Investment Advice

- General investment advice is an activity of providing all kinds of leading researches, studies or other information which are explicitly or implicitly suggesting or recommending a certain investment strategy, and also including comments about existing or future prices or values of capital market instruments, and which are prepared for one or more capital market instruments or issuers and are intended for the use of customers or distribution channels.
- Provided that it is not addressed specifically to a particular person or to a group of persons with similar financial situations, risk and return preferences,
- Ancillary service

▪ Article 80 - Provision of Financial Information

- The term “financial information” means **non-leading** written or verbal information about capital market instruments, their issuers and market trends.
- Provision of financial information is considered and **treated neither as an investment advisory activity or provision of general investment advice.**



Thank you for your attention!