SIFMA Insights

The 2022 C&L Annual Seminar Debrief

Perspectives & Key Themes from Compliance and Legal Professionals

April 2022

Recently, SIFMA hosted our C&L Annual Seminar. With three days of presentations and events and over 1,400 participants, we gained insights into top-of-mind topics for compliance and legal professionals from across the financial services industry. Inside this note, we recap just some of what was seen and heard, including:

- The Industry Outlook – top industry priorities/themes with survey, the new normal for the office
- The Regulatory View – equity market structure reform, crypto, climate, remote work supervision
- The ESG Perspective – defining ESG, board considerations on ESG strategies
- More on Market Themes – equity market structure reform, shortening the settlement cycle, cyber, crypto, cloud services, digital engagement

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SIFMA is the leading trade association for broker-dealers, investment banks and asset managers operating in the U.S. and global capital markets. On behalf of our industry's one million employees, we advocate on legislation, regulation and business policy, affecting retail and institutional investors, equity and fixed income markets and related products and services. We serve as an industry coordinating body to promote fair and orderly markets, informed regulatory compliance, and efficient market operations and resiliency. We also provide a forum for industry policy and professional development. SIFMA, with offices in New York and Washington, D.C., is the U.S. regional member of the Global Financial Markets Association (GFMA). For more information, visit www.sifma.org.

The Industry Outlook

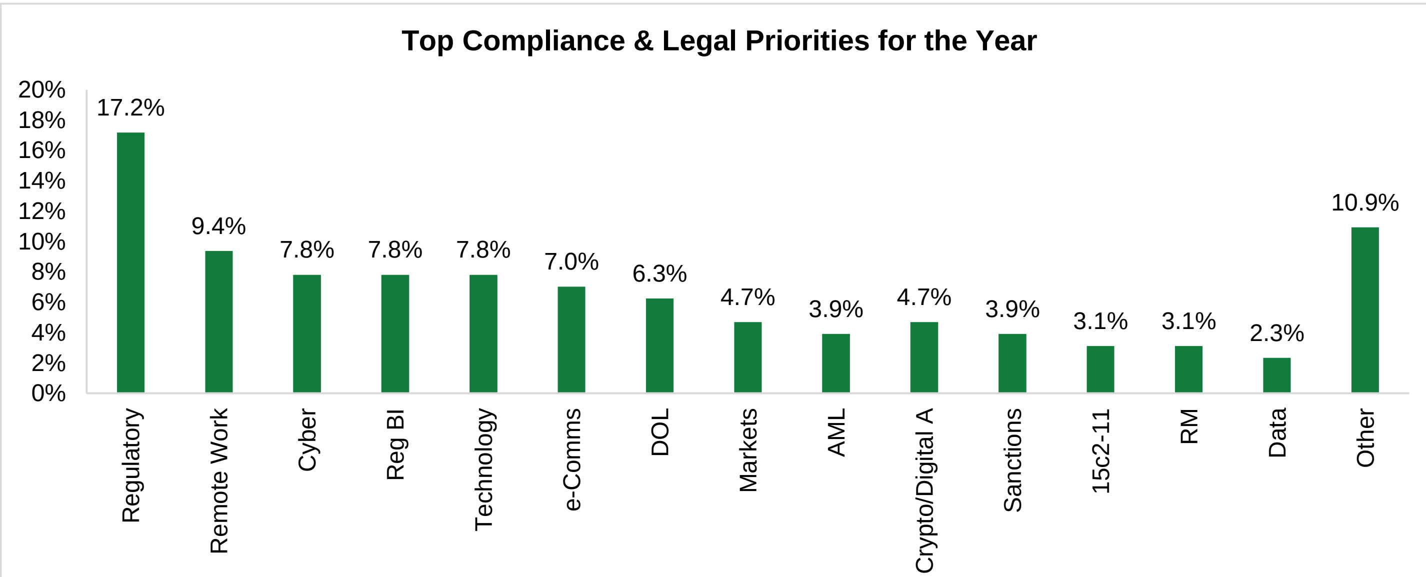
Top Industry Themes

To set the scene of the Seminar, we surveyed attendees and select SIFMA members on the top member-identified industry priorities for the year. As various perspectives arose during the week, it was a reminder of the importance of market participants coming together to discuss best practices as well as pain points that the industry must work together to overcome.

A number of the identified priorities addressed regulatory changes and the remote work environment, including (see chart on the following page):

- Regulatory – Responses included changes to regulations, new rules (ex: climate), suitability, managing regulatory relationships, implementation of new rules, and more
- Remote work – Responses included adherence to policies, attracting/retaining talent, training staff, serving clients, remote audits, and in general finding the balance between remote work and return to office
- Cyber – Responses included security, attacks, regulations, and cyber in general
- Technology – Responses included increasing automation, deploying new technologies, enhancing third-party vendor controls, increasing surveillance capabilities, and technology opportunities/issues in general
- Markets – Responses included volatility, addressing changes in markets, the consolidated audit trail (CAT), and best execution
- Crypto/Digital Assets – Responses included crypto currencies and other products themselves, regulatory concerns, and DeFi (decentralized finance) in general
- Data – Responses included aggregation, protection, and privacy frameworks

Survey Question: Please list your top three compliance & legal priorities for the year.



Source: SIFMA Insights survey

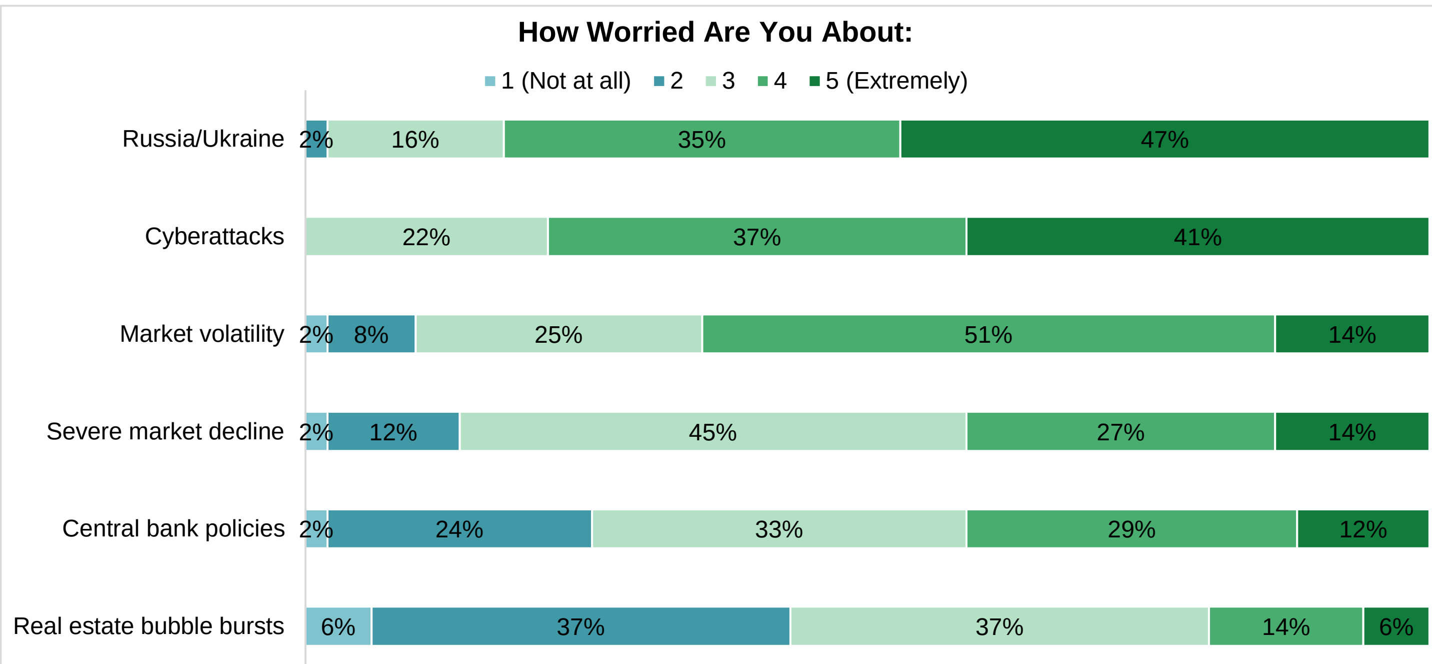
Note: Reg BI = Regulation Best Interest; e-Comms = electronic communications; DOL = department of labor fiduciary rule; AML = anti money laundering; Digital A = digital assets; sanctions refer to the Russian sanctions related to that country's invasion of Ukraine; 15c2-11 refers to the proposed changes to this SEC rule; RM = risk management

Market Touchpoint: Industry Themes

Our pre-conference survey also sought to gauge respondents' concerns around current geopolitical, economic and market events and trends. We highlight the following:

- The Russia/Ukraine situation ranked #1, with 47% of respondents extremely worried
- Cyberattacks ranked #2, with 41% of respondents extremely worried
- Market volatility remains a concern, with 51% of respondents ranking it a 4 out of 5
- A real estate bubble burst remains one of the least concerning issues, 37% of respondents ranking this a 2

Survey Question: How worried are you about? (on a scale of 1-5 where 1 = not at all, 5 = extremely worried)



Source: SIFMA Insights survey

The New Normal for the Office

While there is agreement that the genie is out of the bottle – people like working from home (WFH) – there is not agreement on where we go from here. When COVID struck and sent all employees into WFH mode, the industry remained resilient despite some “starts and stops.” The industry had tested a few remote sites but never on the magnitude of everyone remotely at the same time. Advanced technological investments made over the last decade enabled the industry to function very well in the WFH environment thrust upon our industry by the pandemic.

Now that the industry is mostly back in the office – with hybrid work schedules varying across firms – senior leaders are trying to determine what the future of work will look like. Can we continue working remotely full time or in a hybrid work schedule environment?

Technology Enables Remote Work…

Technologies, such as virtual meeting rooms, enabled team meetings to go on as normal. Employees were able to meet with clients virtually, and deals were closed successfully without the physical handshake (combined issuance for 2020/2021 was $25.3 trillion in fixed income and $826.2 billion in equity, of which $238.6 billion in IPOs).

Some of the areas market participants note as <u>positives</u> of WFH/remote work include:

- **Travel** – One panelist indicated that the lack of travel allowed the game to slow down for him. Employees were no longer jumping on and off planes. Office commute times were eliminated – employees could wake up at 7:00 and be logged in with a cup of coffee by 7:05. People no longer lost as much time in transit. When a manager was travelling to the extent that many in financial services once did, there was only time to be reactionary. During the WFH period, there is time to be more strategic about one’s day (time management), work (efficiency), clients (relationship building), and the firm (strategy, expansion – one panelist indicated his firm grew ~30% over the two COVID years).

- **Relationships** – Financial services has always been and will remain a relationship driven business. When I was trained, my senior always noted that your client wants to look in your eyes when you are recommending a stock, closing a deal, etc. During COVID, some people learned that clients really did not want to see us in person as often as we might have assumed. As such, meetings became more thoughtful (number of meetings, timing, content, etc.), and actions became more intentional.

- **Talent** – Firms found that virtual recruiting enabled them to attract more diverse talent. They were no longer bound by tradition to recruit from certain geographical areas or schools. For example, recruiters could access many more schools online than when traveling to campuses. We also heard firms outside of financial hubs like New York indicate they were now able to draw more talent to their states than pre COVID.

Additionally, one panelist noted that hybrid schedules are here to stay (at least in the near term). It is now up to managers to adapt to these hybrid schedules and expand their skill set to do so. People need to learn how to do virtual problem solving when issues occur, minus the around the boardroom table discussions.

…On the Other Hand

In 2020, remote work was successful because management was fully concentrated on getting this done. 2021 was similar, to a lesser extent. But what are we missing – what are the long-term ramifications – and should we continue remote work? There remains a significant amount of debate about what the office should look like, with panelists on the same stage taking opposite sides. For every positive aspect, panelists throughout the week were able to identify a challenge to be overcome.

Some of the areas market participants note as challenges of remote work include:

- **Development** – Most market participants consider this a main concern with remote work. Junior employees learn the business by shadowing senior team members, listening in to how colleagues handle situations and clients. You cannot do this over Zoom/Teams/WebEx. Yes, an employee can join in a virtual meeting, but that person does not get to see the pre-meeting preparations and hear the water cooler discussions in the office. Additionally, if you are sitting in your home office, you are not visible for projects that may come up. You are not there to raise your hand. You are not there to bump into senior managers and get to know them and watch them work. As such, in five to ten years from now, your peer who worked in the office while you were at home most likely will have advanced his/her career further than you. The in-office mentoring and learning of soft skills is not solvable through technology.

- **Culture** – In terms of culture, managers wonder how to maintain the longevity of what the firm stands for. One panelist indicated their firm grew headcount by 25-30% during the pandemic, meaning there were a significant number of employees who worked for two years before ever seeing colleagues in person. Some managers worry about the new hires. Can we attract, train, and retain talent based on what makes our firm different/unique?

- **Segmentation** – As we maintain the world of hybrid schedules, there will be some people who go into the office while others choose to work from home more often. The math is simple, as one panelist put it. Every day in your career is an audition for the next day or next job opportunity. If you are in three days versus five days, you have 40% less opportunities to run into a senior leader, raise your hand for a project, etc. Could this lead to two tiers of employees? Some managers view this as a real risk to employees, firms and the industry.

Finally, one panelist noted that while employees were at first reluctant to return to the office, they liked it once they were back. They felt energized, and the lost feelings of collaboration and collegiality returned. The fun of rolling up one's sleeves and jumping on a project with team members is not easily replicated over Zoom/Teams/WebEx.

The Regulatory View

Equity Market Structure Reform

SEC Commissioner Hester Peirce reiterated that the equity markets work very well, and the retail investor has never had it better (and SIFMA agrees), in terms of costs ($0 commissions) and access.

She noted that every SEC Chair has an EMS agenda. She herself does not love all aspects of Regulation National Market Structure (Reg NMS), and indicated she would like to revisit some aspects including:

- Increased transparency on execution quality investors are getting – the story continues to evolve on what could be done here
- Next steps on transparency around best execution (best ex) – hard to put your finger on what it is, as best ex for one client may not be best ex for another and it is not just about price (although that is a big piece)

Commissioner Peirce also warned that opening one aspect of EMS – which has a lot of tentacles – could cause unintended consequences in other areas. If changes to equity market structure increase costs to trade, it could negatively impact retail investor participation. Commissioner Peirce indicated this would not be a good result, as "everyone should have cheap, efficient access to markets." She would like to see an increase in investor participation, giving more Americans a chance to invest.

Carrying on with the best execution theme, we ask qu'est-ce que c'est best ex? FINRA representatives reiterated that best ex is foundational to investor protection, yet it is something that continually evolves as markets change. While firms have multiple factors to analyze best ex – order by order analysis, looking at odd lots, assessing order valuations, etc. – FINRA noted that it is not just about the information but what the firms do with that data. Areas of interest to FINRA during exams include:

- Assessing execution treatment and valuation analysis of fractional shares
- Timeliness of execution of market orders
- Potential conflicts of interest if firms are using different funding sources to deliver $0 commissions (read: PFOF, you cannot make it through a conference without hearing this term!)

Crypto/Digital Assets

Continuing from the sentiment of her remarks before our Asset Management Derivatives Forum (co-hosted with the Futures Industry Association) in February, Commissioner Peirce reiterated her overarching theme that the SEC has been regulating by enforcement in this space. And she does not believe it is the right way to go. Instead, she would rather see the SEC take time to understand the technology, including sitting with people developing it, as well as understanding the challenges from a regulatory perspective. She would like the Commission to be clear eyed, acknowledging both opportunities and challenges. She noted the use of exemptions – rather than enforcement – to allow for the sector to evolve in a manner that protects investors and fosters market integrity.

Instead, the SEC has taken an enforcement approach. Commissioner Peirce has sympathy for the instinct to take this approach, after all there has been fraud in this space. Yet, she also does not believe the SEC has fully thought through questions and what could be consequences around issues like registration type (is it a security or not). She noted that they need to address this, or they are just "scratching the surface."

Commissioner Peirce further noted that down the road crypto will revolutionize the securities industry. The SEC needs to allow experimentation now on a smaller scale, in order to have the transformation to a fully digital world to occur in a healthy way. Chair Gensler understands crypto and has indicated that his door is open to market participants. However, he wants them to come through the enforcement door, whereas Commissioner Peirce wants them to use the policy door.

SEC's Proposed Climate Rule

During the conference, the SEC released – and held a meeting to discuss – its climate risk disclosure proposal. Commissioner Peirce noted that she disagrees with where the Commission is spending some of its time and effort and that it is not maintaining its focus on its core responsibilities, rather looking at issues outside its purview. Additionally, she noted concerns that the SEC is moving at too fast of a pace – even when working on issues they should be looking at (shortening the settlement cycle, short sell disclosures, etc.) – rather than taking time to perform a careful analysis. Commissioner Peirce indicated that the SEC should be focused on fixed income market structure, the listed options markets, equity market structure, and capital formation (ex: micro offerings). However, she was clear to point out that equity markets have been working quite well, and regulators should be careful to not upset the system.

While Commissioner Peirce did not directly say that the SEC should not be involved in setting climate rules, i.e. this is not under the SEC's purview, that is the impression left among some conference attendees. She indicated that the SEC's current disclosure framework is principles based. Companies disclose what is material to their business and industry. A shift to requiring every company to disclose XYZ would be a "big shift." This could create a slippery slope – if we begin with climate, what will be next?

As to materiality, Commissioner Peirce acknowledged the balance between investors needing certain facts but that there is a real cost to creating disclosures. Beyond direct costs (money), there are indirect costs of disclosing climate risk details in a standard format like this, as it can have negative impact on shareholder value and therefore harm investors. "We need to get the balance right." Her concern is that the shift as noted above would move disclosures from the eyes of management to the eyes of regulators, and what a single group of stakeholders is demanding, which would not be in the best interest of investors.

SEC Proposed Rule: Enhancement and Standardization of Climate-Related Disclosures

The SEC proposed rule amendments that would require a domestic or foreign registrant to include certain climate-related information in its registration statements and periodic reports, such as on Form 10-K, including:

- Climate-related risks and their actual or likely material impacts on the registrant's business, strategy, and outlook;
- The registrant's governance of climate-related risks and relevant risk management processes;
- The registrant's greenhouse gas ("GHG") emissions, which, for accelerated and large accelerated filers and with respect to certain emissions, would be subject to assurance;
- Certain climate-related financial statement metrics and related disclosures in a note to its audited financial statements; and
- Information about climate-related targets and goals, and transition plan, if any.

The proposed disclosures are similar to those that many companies already provide based on broadly accepted disclosure frameworks, such as the Task Force on Climate-Related Financial Disclosures and the Greenhouse Gas Protocol.

Fact Sheet: https://www.sec.gov/files/33-11042-fact-sheet.pdf

Rule Proposal: https://www.sec.gov/rules/proposed/2022/33-11042.pdf

Remote Work Supervision

FINRA acknowledged that while its core focus continues to be on investor protection, the world has changed. The existing temporary relief on remote exams is set to end this year. As it winds down, FINRA continues its work to develop a permanent solution that balances investor protection requirements yet addresses the current state of a hybrid work world.

With the relief for firms' onsite examinations sunsetting at the end of 2022, FINRA CEO Robert Cook shed some light into what the future could hold. FINRA is focused on hybrid work schedules going forward, mixing the best of both pre-COVID and COVID worlds. Some ideas he mentioned they are considering include:

- Continuing with remote exams; the choice of remote versus onsite would be situation dependent, and they are evolving their thinking here
- Allowing arbitration via a virtual meeting technology (ex: Zoom)
- Maintaining online continuing education and licensing exams, which became an important element of business continuity plans during COVID

Cook indicated the regulatory changes would come in phases, for example:

- Creating a new home office category for supervision
- Changes to its Membership Application Program (MAP)
- A potential pilot to test allowing remote inspections of branch offices, subject to conditions (assessments, reporting, general structure)

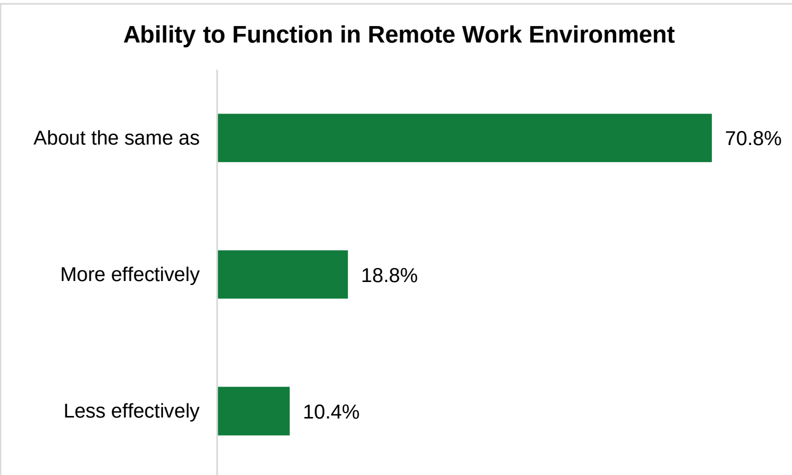
Cook expects FINRA to file the first phase of rule changes with the SEC this year, with the hope that the rule changes would be approved and become effective no later than the beginning of next year so that FINRA does not have to continue extending the COVID-related regulatory relief.

Market Touchpoint: Supervision in a WFH Environment

We also used our pre-conference survey to gain a sense of how compliance and legal departments are managing the remote working environment. We highlight the following (see charts on the following page):

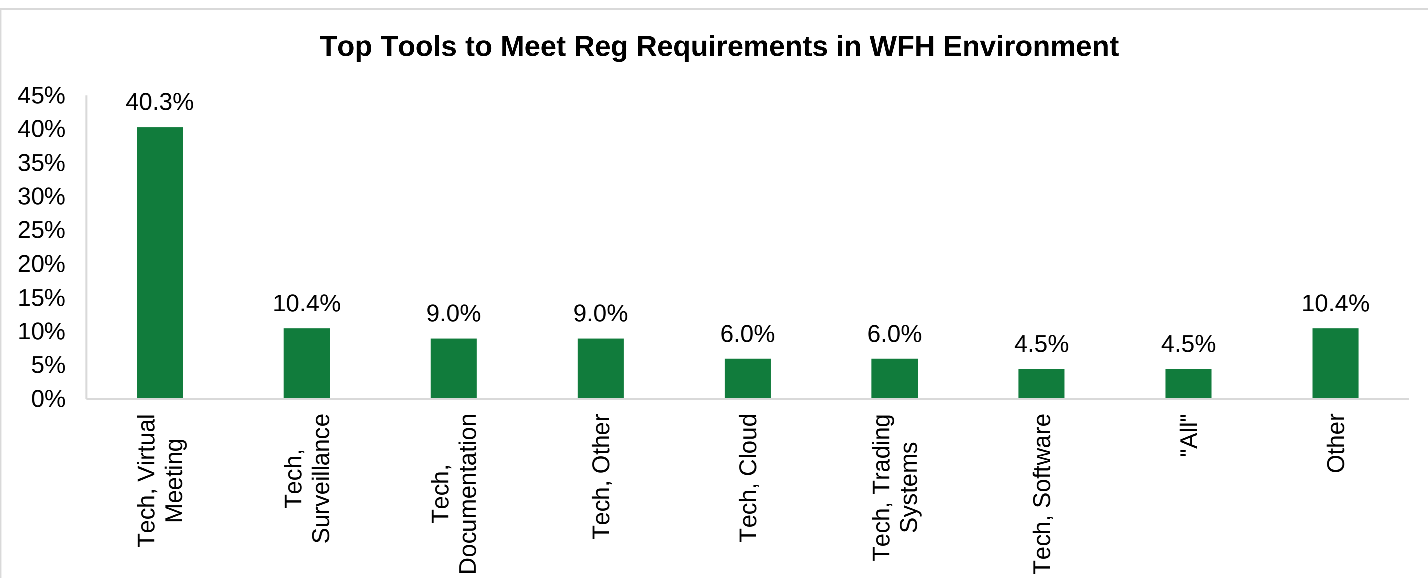
- 70.8% of respondents noted their ability to supervise FAs, comply with regulations, and service clients in a remote environment remains about the same; only 10.4% said it was less efficient
- Top tools in the work from home environment to comply with FINRA's supervisory requirements
    - Tech, Virtual Meeting – Zoom, Cisco WebEx, Microsoft Teams, or a combination thereof
    - Tech, Surveillance – surveilling electronic communications, email, social media, chats, texts; location monitoring; Message Watcher, automated G&E and OBA systems
    - Tech, Documentation – Electronic deal files, electronic signature solutions, document sharing tools, automated reports that can be signed online, etc.
    - Tech, Cloud – Citrix, Google, Box, etc.
    - Tech, Trading Systems – Automated trade review, virtual turrets, electronic trade review, remote access trading systems, etc.
    - Tech, Software – Software as a service; Global Relay, Smarsh, ProofPoint, etc.
    - "All" – All supervisory tools have remained the same; all personnel have remained accessible; all compliance tools have worked seamlessly

Survey Question: As of March 2022, how would you rate your firm's ability to supervise its financial advisers, comply with SEC/FINRA rules and other securities laws, and service your clients, in a remote/work from home environment?



Source: SIFMA Insights survey

Survey Question: What are the top tools you've found most useful in the work from home environment to comply with FINRA's supervisory requirements?



Source: SIFMA Insights survey

The ESG Perspective

ESG, How Do I Define Thee?

Environmental, social, and governance (ESG) is a hot topic that cannot be ignored. The Russian/Ukraine situation brought this to light, highlighting the juxtaposition of traditional geopolitical risks firms monitor and a thematic investing subject like ESG. The Es see this as another reason to expedite the reduction of fossil fuel usage. The Ss point to the humanitarian issues for screening out of single stocks as well as fund investments. Financial services firms saw the speed at which stakeholders demanded action, enabled by the use of social media where people posted score cards for corporations exiting Russian business lines.

Firms in all industries have different views of how to approach ESG and are in various levels of ESG implementation. There is not a one-size-fits all solution. Some company boards map ESG into traditional board committee structures. Others have a standalone ESG committee, while others have hybrid solutions. Boards must first determine what to focus on – climate risk, diversity and inclusion, etc. – and then they must conclude how to execute. The board's role is one of oversight, and there is a risk that firms get too in the weeds.

Panelists also discussed that the breadth of topics and activities that fall under ESG is enormous, making the top ESG issue determining what is actually covered under this umbrella. People have been working on the E, as environmental factors are more definable. Financial services firms are in the business of advising on governance issues, the G. The S presents challenges which firms will continue to wrestle with going forward.

Market Touchpoint: ESG

We also used our pre-conference survey to gauge a hot topic for capital markets. We asked survey respondents to indicate their firm's interest for ESG and sustainability services and product offerings.

We highlight the following (see charts on the following page):

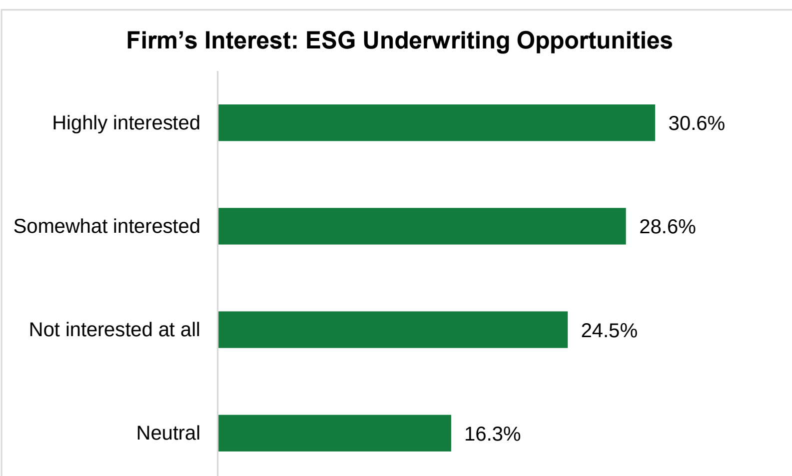
- 49.0% of respondents replied their firm is highly interested in ESG retail investment opportunities
    - This was followed by a tie between 18.4% responding their firm is somewhat interested and 18.4% responding their firm is not interested at all
    - Only 14.3% remained neutral

- However, when looking at ESG underwriting opportunities, the top response fell to 30.6% highly interested
    - The split between somewhat interested and not interested at all was 28.6% and 24.5% respectively
    - Only 16.3% remained neutral

Survey Question: How do you rate your firm's interest in providing ESG/sustainable investing opportunities and products to retail customers?

Source: SIFMA Insights survey

Survey Question: How do you rate your firm's interest in providing ESG/sustainable underwriting opportunities?



Source: SIFMA Insights survey

More on Market Themes

Equity Market Structure Reform

The U.S. cash equity markets are the largest in the world and continue to be among the deepest, most liquid and most efficient. The current market structure works well. Retail investors have never had it better – $0 commissions, mobile access to trading platforms, research/education materials available at no charge from retail brokers, etc. – earning $11B in price and size improvement in 2020 ($3.6 billion in price improvement as measured under the Rule 605 filings). Additionally, institutional investors have never had better opportunities to access liquidity.

Yet, markets have evolved since Reg NMS began in 2006, meaning a review may be warranted. Market participants do warn that the analysis must look downstream when analyzing changes to market structure. For example, many low price stocks trade off exchange because of exchange access fees; if you make changes to the tick size rule, you would need to adjust access fees as well in order to keep these stocks actively trading. Unintended consequences must be considered and analyzed.

SEC Chair Gensler has stated that markets lack transparency because liquidity is consolidated in the off exchange market. He wants trades executed on exchanges. There is a perceived conflict of interest when executing retail orders off exchange. In particular, the Chair has called out payment for order flow (PFOF).

Market participants would argue that retail orders are being treated fairly (note the price/size improvement stats above). A competitive hunger games exists out there for market participants who compete for order flow. Best execution – price improvement, size improvement, certainty of execution – is the driver of this hunger game, and market participants compete vigorously. As retail brokers route their order flow based on execution quality metrics, the competition is centered around this one concept: who will perform better (i.e. provide best ex) for my clients' order flow?

Additonally, PFOF is credited (or at least one aspect getting credit) for $0 comissions for retail investors. If you change PFOF or other aspects of market structure and costs increase, this could negatively impact retail investor participation.

Heightened Cyber Alert

At the start of this conference, President Biden warned U.S. businesses of an increasingly higher probability of Russian cyberattacks. While the financial services industry always prioritizes cybersecurity and continues to coordinate across the sector and with the U.S. government, the Russia/Ukraine conflict reminds people that maintaining diligence in this area remains critical.

Cybersecurity is not just about just protecting money movement, but also about protecting client data and information.

Shortening the Settlement Cycle

Shortening the settlement cycle to T+1 (T = trade date) reduces risk in the system, as well as reduces capital requirements for clearing member firms. It is estimated that eliminating one day from the settlement process would reduce the amount of capital in the NSCC[1] clearing fund by around $3 billion dollars, in normalized markets. Capital requirements will increase by multiples under times of stress and therefore heightened volatility (margin addons are applied as volatility increases).

As such, most market participants support reducing the settlement cycle to T+1 from T+2 in the U.S. (Canada has also committed to shortening their settlement cycle to T+1). The industry is now developing the strategy and plan to make this transition in a manner that maintains market integrity. The plan is to move to T+1 by mid to late 2024, with testing to begin in mid-2023.

Haven't we done this before you ask? Yes, the industry moved to T+2 from T+3 in September 2017. However, this time poses different risks. Many transition risks and issues have been identified to analyze and resolve, including: allocating, confirming and affirmation on trade date, misalignment in global settlement cycle, impact to foreign investors, ETF creation and redemption, corporate actions, dealing with more compressed timelines, and the importance of good settlement instructions data. The industry will need to leverage automation technology to change more manual processes.

On the regulatory front, Commissioner Peirce noted that shortening will happen, and it makes sense to have the SEC's inquiry be as broad as possible, reiterating that the SEC is still looking to do an assessment with a cost/benefit analysis on T+1 and T+0. SIFMA continues to work with the industry on the move to T+1, deemed the more prudent path forward at this time[2]. T+0 is not practical, does not work within the current infrastructure, would disrupt businesses and processes, and would likely create risks and unintended consequences.

[1] National Securities Clearing Corporation – an SEC registered clearing agency clearing U.S. cash equity transactions occurring on the major exchanges and trading platforms
[2] https://www.sifma.org/resources/submissions/accelerating-u-s-securities-settlement-cycle-to-t1/

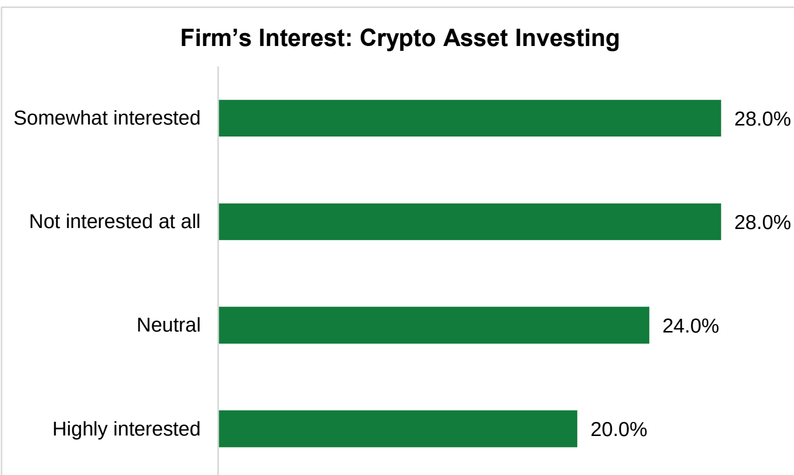
Market Touchpoint: Crypto

We also used our pre-conference survey to gauge a hot topic for capital markets. We asked survey respondents to indicate their firm's interest for crypto asset investing.

We highlight the following:

- We had a tie that shows the two different schools of thought in this area, 28.0% of responses for both somewhat interested and not interested at all
- Only 20.0% of respondents were highly interested

Survey Question: How do you rate your firm's interest in crypto asset investing?



Source: SIFMA Insights survey

Technology Opportunities & Challenges: Cloud

Data! Data! Data! (Yes, it's an old school Brady Brunch reference.) Data is foundational, and there is a significant amount of data generated in financial services. However, data is difficult – very expensive, not scalable – to manage. Cloud services can bring cost savings and operational efficiencies, helping firms to manage, store, and leverage data.

Cloud services provide immense scalability and speed to market. In the past, with physical data centers, it was hard to determine total data management costs. You have the physical equipment, people managing the centers, etc. With cloud, your total cost ownership is visible. On the other side, moving to cloud services also shifts your cost profile. Data centers offered fixed costs but are capacity constrained. Cloud capacity is not infinite but "very, very large." However, cloud works on a marginal cost basis, meaning each additional unit of service adds an additional cost. Decision-makers must take this change into consideration but will also likely save money over time.

And this is just one area that needs to be analyzed (also to study are data privacy, operational resiliency, vendor management, business continuity, cybersecurity, etc.). One panelist told an interesting story about kids jumping into a lake. They got so excited when seeing the water that they jumped off the cliff without checking the lake bottom first (do not worry, all children were fine with only a few scrapes!). With many of the technological advances today, such as cloud, there is a lot of excitement around the opportunities they could provide.

However, a panelist warned, we need to do the research first, finding the nexus of innovation with the reality of deploying the technology, a risk-reward analysis. Financial services firms need to be innovative in order to survive. Successful users of new technologies will ask several questions before jumping into the lake. What is the business problem we are trying to solve? Should we be trying to solve it? Will this specific technology help up solve this problem?

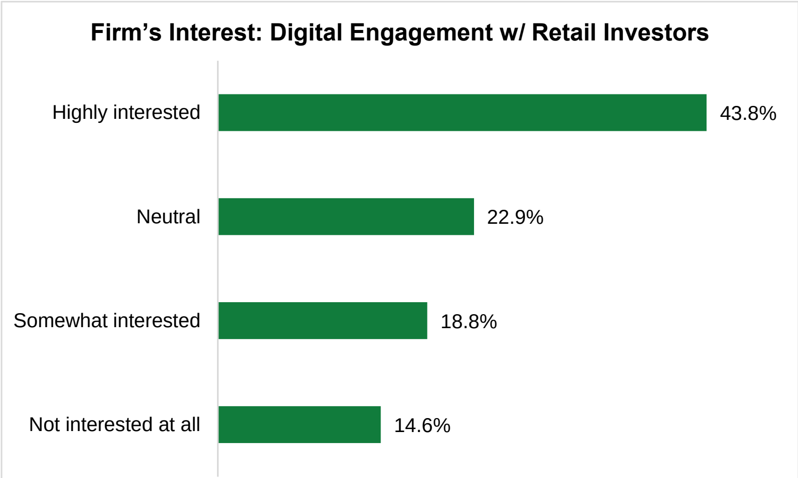
Once working through those questions, firms must also be aware that transitioning to cloud represents more than just a technological change. It will bring about change to business processes – you cannot do things the same old way if you want to take full advantage of what the cloud offers – and culture.

Technology Opportunities & Challenges: Digital Engagement

Similar to ESG or crypto, digital engagement is a wide-ranging topic. Currently, it can be thought of in three buckets:

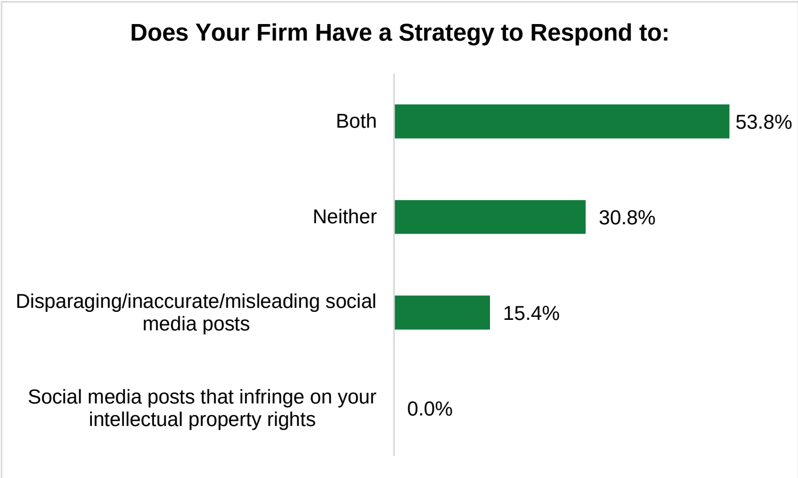
- Digital platforms
- Robo advisors which provide RIA (registered investment advisor) investment advice
- Digital engagement practices used by broker-dealers, as defined by the SEC
  - *Social Networking Tools*: Digital platforms linked to social networking tools; tools that allow an investor to create an online persona or avatar; or platforms that enable investors to copy the trades of other investors
  - *Games, Streaks and Other Contests with Prizes*: Platforms that employ games that use interactive graphics and offer prices (slot-machine style interactive graphics, interactive wheels of fortune, or virtual scratch-off lottery tickets) such as with account opening. This also includes platforms that offer prizes for completing to-do lists or tasks within a specified period (such as referring others, funding an account, or engaging in community forums). Prizes include free stock, cash, or access to additional features on the platform, among other things.
  - *Points, Badges, and Leaderboards*: Examples include simulated trading competitions, and badges as visual markers of achievement as well as leaderboards to rank individuals based on performance-based criteria.
  - *Notifications*: Examples include notifications via email, text, push notifications on mobile devices that a certain stock is up or down, noting a list of stocks qualifying as top movers, or reminding them that it has been a certain number of days since they last engaged in a trade. Notifications may also be used to attempt to reassure investors during periods of market volatility.
  - *Celebrations for Trading*: Platforms with embedded animations and graphics, such as digital confetti or crowds applauding, that celebrate when investors enter orders to purchase stock or options.
  - *Visual Cues*: Interface design elements that display certain information more prominently than other information (such as coloration of the entire screen between green and red based on an investor's portfolio performance).
  - *Ideas Presented at Order Placement and Other Curated Lists or Features:* Digital platforms that present ideas prior to allowing the investor to place an order (curated lists or features, news headlines).
  - *Subscriptions and Membership Tiers*: Tiered forms of membership that provide access to additional features such as research, briefs, invitations to sporting events, credit line access, and reduced fees.
  - *Chatbots*: Computer programs that simulate live human conversations, such as responding to investor inquiries relating to stock prices, account information, or customer service matters.

We looked at a few of these areas during the conference. In general, 43.8% of respondents in our pre-conference survey are highly interested in deploying digital engagement practices with retail investors. Only 14.6% were not interested at all.



Source: Pre-conference survey

When it comes to digital platforms, 53.8% of firms have a strategy ready to deal with both social media posts that (a) contain disparaging, inaccurate, or misleading leading content and (b) infringe on the firm's intellectual property rights.

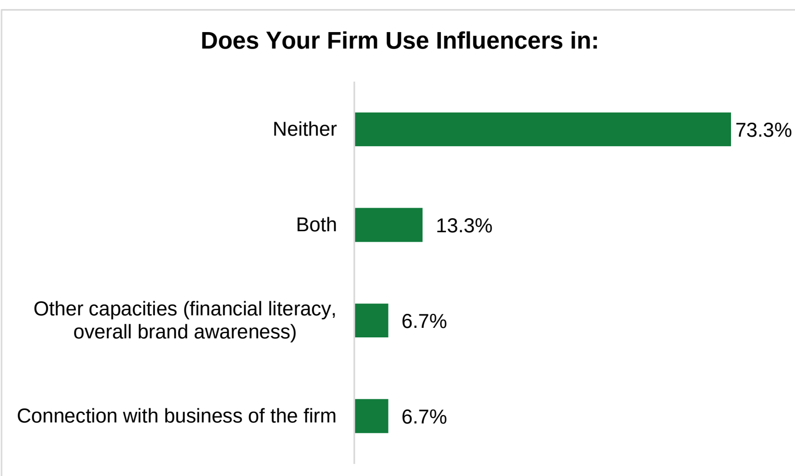


Source: Audience polling
Note: Respondents = 28.6% broker-dealers, 38.1% dually registered (BD, Investment Advisor), 33.3% dually registered but follow BD or IA rules independently depending on which hat you're wearing

Additionally, some firms have adopted the use of finfluencers in their marketing campaigns, with others analyzing the opportunities and risks associated with this strategy. What is a finfluencer you ask?

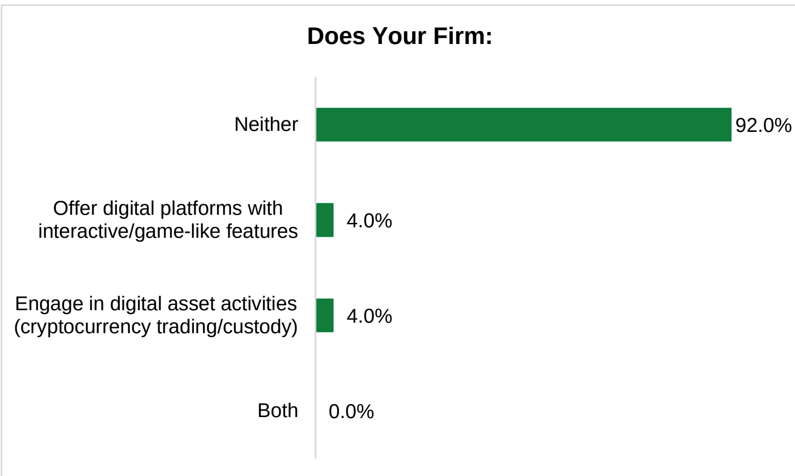
- Influencer = someone with sway over your target audience
- Social media influencer = use of social media to sway audiences
- Finfluencers = social media influencers swaying people to financial services/products

While influencers seem to be everywhere on social media, this concept has not taken off in financial services. According to an audience poll we conducted, 73.3% of respondents neither use finfluencers in connection with (a) the business of the firm nor (b) other activities (financial literacy, branding).



Source: Audience polling
Note: Respondents = 28.6% broker-dealers, 38.1% dually registered (BD, Investment Advisor), 33.3% dually registered but follow BD or IA rules independently depending on which hat you're wearing

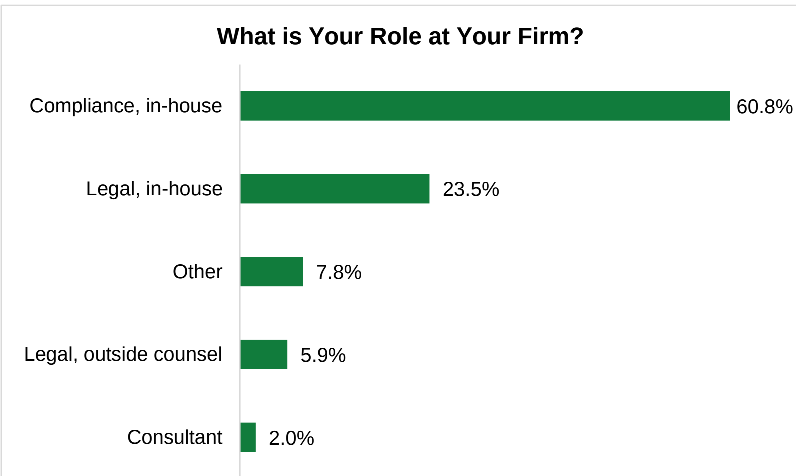
This lack of uptake is even more pronounced when asking people about digital platforms with game-like features or digital asset activities (crypto currency trading/custody). 92.0% of responses indicated they do not work with either.



Source: Audience polling
Note: Respondents = 28.6% broker-dealers, 38.1% dually registered (BD, Investment Advisor), 33.3% dually registered but follow BD or IA rules independently depending on which hat you're wearing

Appendix: Pre-Conference Survey Methodology

This survey was sent out prior to the start of the conference, populated between March 8-18. We had 51 respondents, broken out across the following roles:



Appendix: SIFMA Insights Research Reports

Monthly Market Metrics and Trends: www.sifma.org/insights-market-metrics-and-trends

- Statistics on volatility, equity and listed options volumes, and market performance
- Also highlights an interesting market trend

SIFMA Insights Market Structure Primers: www.sifma.org/primers

- Capital Markets Part I: Global Markets & Financial Institutions
- Capital Markets Part II: Primary, Secondary & Post-Trade Markets
- Global Equity Markets
- Electronic Trading
- US Capital Formation & Listings Exchanges
- US Equity
- US Multi-Listed Options
- US ETF
- US Fixed Income
- SOFR: The Transition from LIBOR
- The Evolution of the Fintech Narrative

SIFMA Insights Equity Market Structure Analysis Series:

- Analyzing the Meaning Behind the Level of Off-Exchange Trading, Part II
- Analyzing the Meaning Behind the Level of Off-Exchange Trading
- Why Market Structure and Liquidity Matter

SIFMA Insights: www.sifma.org/insights

- Market Structure Compendium
- Market Structure Survey: Volatility, Volumes, Market Levels & Retail Investor Participation
- SPACs versus IPOs
- A Look Back at 2020 Market Structure Themes
- US Capital Formation's 2020 Journey
- Market Structure Download: Post-Election Update
- Market Performance Around US Presidential Elections
- Market Volatility Around US Presidential Elections
- Market Structure Download
- A Deeper Look at US Listed Options Volumes
- The Cboe Trading Floor Reopened – Revisiting Volume Data
- NYSE Goes All Electronic – What Does It Mean?
- The NYSE Trading Floor Reopened – Revisiting Market Share Data
- COVID-19 Related Market Turmoil Recap: Part I (Equities, ETFs, Listed Options & Capital Formation)
- 2020, the Year of the SPAC
- The 2020 Market Madness

Author

SIFMA Insights
Katie Kolchin, CFA
Director of Research
kkolchin@sifma.org