



Securely Navigating Online Securities Trading Platforms: Retail Traders' Protection

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1. Introduction

- 1.1. To the uninformed, the stock market and its operations have always been shrouded in mystery; giving the aura of an enclosed world for the wealthy elite, remote from the participation of an average person. But things are rapidly changing. Online securities trading platforms are democratizing access to the stock market, making it possible for the general public and retail investors to participate in it. But this emancipation is also fraught with uncharted risks that may inflict grave harm on the users of such platforms. This is largely due to limited public knowledge of the obligations of these platforms.
- 1.2. According to IOSCO¹, “retail investor fraud has surged in the past decade, fueled by technological developments which are changing the way in which retail consumers interact with financial services and products. Online trading platforms, mobile apps, and social media have all created new avenues for scammers to target investors by promoting the offerings of securities and other financial products without the necessary regulatory stamps of approval.”²
- 1.3. In this piece, we will explore retail investors engagements with online securities trading platforms, and highlight the platforms' obligations, with the objective of protecting users and managing users' expectations.

2. Investors' Participation vs Protection

- 2.1. Beyond creating a viable environment for businesses and governments to raise funds, the capital market allows the general public to participate in the success (and failures, might we add) of these entities. Furthermore, retail investors' participation and influence, for example through their purchasing power and active participation in corporate decision making, all contribute to enhancing market stability, vibrancy, liquidity, and deepens the economy.
- 2.2. Yet, investments are inherently risky. Therefore, in order to maintain the balance between investors' participation and protection, best practice demonstrates that the entire fulcrum of market oversight as well as regulatory and development initiatives undertaken by capital market regulators constitute investors' protection. This feeling of protection encourages more investments, improves liquidity, enhances confidence, and encourages market growth. Investors' protection is largely achieved through regulation, holding the issuers and market operators to high standards of corporate governance, transparency and disclosure, in addition to clear

¹ International Organization of Securities Commissions

² IOSCO, „Roadmap to Retail Investor Online Safety 2024, p.1, <https://www.iosco.org/landing/pdf/Roadmap-to-enhance-Retail-Investor-Online-Safety.pdf>, (accessed February 17, 2025).

delineation of roles, responsibilities, and prohibitions. For instance, IOSCO sets out 30 principles of securities regulation which are based on 3 objectives: (a) investors protection (b) fair, efficient, and transparent markets; and (c) reduction of systemic risk.³ In addition, investments in complex financial products, whose values can be highly sensitive to market fluctuations, may be restricted to “qualified investors”. These are sophisticated investors with skills and sufficient understanding of the desired investment necessary to make informed judgment; and “High Net Worth Individuals” (HNWI), who are wealthy and likely have access to professional financial advisers.

2.3. Whilst some of these protective measures may exclude the general public, challenges such as lack of understanding of the market and products, lack of tools to guide informed decision-making, and difficulty in accessing market operators (such as stock brokers) discourage potential investors from investing in the stock market; until the introduction of online securities trading platforms.

3. Online Securities Trading Platforms (Trading Platforms’)

3.1. These are software systems that allow investors to trade securities online by executing trades directly from their devices, accessing real-time market data, and managing portfolios without traditional broker intervention. In the last few years, online securities trading platforms have achieved a significant breakthrough in the capital market. With mobile apps, the capital market is literally at the fingertips of average persons, simplifying the sale and purchase of securities, and sometimes providing analytics to guide decision making. For instance, after satisfying relevant requirements, bank customers can easily proceed to purchase or sell shares using their bank apps. The ease of trading has greatly increased participation in publicly traded shares. This democratization of access to the market means that the capital market can truly serve the public and enjoy their true participation.

3.2. But these trading platforms are not restricted to traditional banks which, through their banking apps, act as distributors and collection agents on behalf of issuers and issuing houses. Instead, we see the introduction of the outsiders’, new breeds of capital market operators who offer electronic platforms for users to buy and sell securities; and as such, are potentially putting the stock exchange in the hands of anyone with a smart phone and has met the user requirements. Although the benefits are undeniable, the adverse effects could be disastrous. Therefore, there must be sufficient public sensitization to guide users, manage their expectations as to the obligations of the platform provider, and by extension, the platform providers liability to the users.

³ OICV-IOSCO, „Objectives and Principles of Securities Regulation“, 2003, p.i, <https://www.iosco.org/library/pubdocs/pdf/ioscopd154.pdf> (accessed February 17, 2025).

4. Types of Trading Platforms

- 4.1. The Securities and Exchange Commission (SEC) regulates offering and issuance of securities in Nigeria. The roles and responsibilities of a trading platform are dependent on its license and are prescribed by applicable regulations issued by SEC. Generally, there are four (4) categories of SEC licenses for fintech operators in Nigeria. These are Crowdfunding, Robo Adviser, Digital Sub-Broker, and Digital Investment (Fund/Portfolio) Manager. Most relevant to our discussion are Digital Sub-Broker and Digital Investment (Fund/Portfolio) Manager.
- 4.2. The Digital Sub-Broker and Digital Investment (Fund/Portfolio) Manager are created from their respective traditional roles of stock brokering and fund management. An understanding of their traditional roles is crucial.

5. Digital Sub-Brokers and Digital Investment (Fund/Portfolio) Managers

- 5.1. Brokers, according to the SEC Consolidated Rules and Regulations, 2013 (SEC Consolidated Rules), are registered by SEC and licensed by any recognized securities exchange, such as NGX, to sell and purchase securities on behalf of their clients. A sub-broker, however, is not a dealing member of an exchange. Rather, he acts on behalf of a sponsoring broker to assist investors in the purchase and sale of securities through such a sponsoring broker.⁴ Logically, a digital sub-broker leverages digital platforms in providing its services. According to the SEC Consolidated Rules, “Sub-broker Serving Multiple Brokers through a Digital Platform is a sub-broker, who utilizes a digital platform to serve clients and interact with one or more sponsoring brokers.”⁵
- 5.2. Whereas, a fund or portfolio manager provides investment advisory services, selects securities for the fund/portfolio, publishes financial market periodicals, manages funds and portfolios on behalf of investors;⁶ a digital fund manager provides these services digitally.

6. Obligations and Liabilities of Digital Sub-Broker

- 6.1. The SEC Consolidated Rules requires a broker to act strictly on the mandate of its client, and on no account should it dispose its client's securities without a specific mandate. Any unauthorised disposal attracts a penalty. As an agent of a broker, it is expected that a sub-broker (and by extension, a digital sub-broker) equally acts on the duly executed mandate of clients⁷; and must carry out the mandate of the client.⁸ In addition, a sub-broker trades securities through its sponsoring broker; receives payment from clients in favour of the sponsoring broker; and makes

⁴ Rule 67, SEC Consolidated Rules (as amended by „Major Amendment to the Rules and Regulations of the Commission, 2021)

⁵ Ibid.

⁶ Rule 92, SEC Consolidated Rules.

⁷ Rule 70, SEC Consolidated Rules (as amended, 2021).

⁸ Rule 74(1)(b), SEC Consolidated Rules.

payment to clients from the sponsoring broker. He does not keep client's funds.⁹ A sub-broker is therefore an intermediary between the client and the broker.

6.2. In light of the above, digital sub-broker platforms are digital conduits between users/clients/investors and brokers. They receive mandates and funds from users and relay the mandates and funds to brokers, who as trading license holders of the exchange execute the mandates. They are not allowed to provide investment advice to the clients. These roles of digital sub-brokers leave little to their discretion in respect of the trading of securities. The implication is that a digital sub-broker must carry out these identified functions, and failure to do so exposes it to liability; save perhaps, in the case of lack of funds by the clients to carry out the mandate. Likewise, providing unsolicited investment advice to users, spreading rumours, engaging in fraud, or creating a false market, expose such digital sub-broker to liabilities. This is in addition to other risks of liabilities relating to its technology, such as cybersecurity issues, data breaches, data losses, etc. In addition to putting in place measures to prevent such technical issues, it is also required to notify its clients on risks, obligations, and liabilities associated with the use of its platform.¹⁰ Moreover, as the party directly interfacing with users, it is most likely the first point of contact for complaints and claims made by users in respect of any defaults or breaches by the broker.

6.3. On the part of the users, the array of security offerings displayed on the digital sub-broker's platform should not be construed as investment advice or recommendation to trade any security. A user is expected to seek independent investment advice from a SEC-licensed financial adviser in making investment decisions. Any loss arising from the user's investment decision rests on the user.

7. Obligations and Liabilities of Digital Fund Manager

7.1. A digital fund manager is licensed to provide financial advice, select securities for the fund, and manage both the funds and the security portfolio for its clients. He is allowed to have custody of his client's funds and securities. Unlike digital sub-brokers, the digital fund manager is allowed use of its judgment, based on professional expertise and skill. Whilst this does not in any way make users' investments in the securities risk-free, the digital fund manager's skill and expertise, where exercised in accordance with applicable laws and regulation, is expected to mitigate such risks. As such, depending on his needs and services provided by the fund manager on its platform, a user with little understanding of securities trading may find more comfort engaging the services of digital fund manager as against a digital sub-broker.

⁹ Rule 68, SEC Consolidated Rules.

¹⁰ Rule 67, SEC Consolidated Rule (as amended, 2021).

7.2. However, failure of a digital fund manager to use duty of care in carrying out its professional functions or its fiduciary responsibilities will expose it to liability. In addition, a fund manager must not engage in manipulative or fraudulent acts. These include circulating any advertisement that refers to any testimonial concerning any service rendered by the manager. Where adverts containing recommendations made by the manager are published, they must be in accordance with the rules and must contain on the first page a cautionary bold note or warning statement: ***“past performance is not an indication of future performance”***¹¹. Non-compliance attracts liabilities, in addition to those associated with its technology as noted under digital sub-broker.

8. User Due Diligence

8.1. Meanwhile, users are also advised to exercise caution before using any online trading platform. The first port of call is determining whether the platform provider is licensed by SEC. Notwithstanding the platform's representation of itself as registered with SEC, users must conduct additional basic due diligence or search at least on SEC's website to verify this assertion.

8.2. Furthermore, users must have a sufficient understanding of the expectations, roles, and liabilities associated with the platforms. This can be seen in the platforms' binding Terms of Use. While the terms sometimes provide for obligations undertaken by platform providers, they most certainly will provide disclaimers for liabilities that are not binding on them. Services provided on the platform may also be fewer than the full scope of services permissible under the platform's license issued by SEC. Therefore, a clear understanding of these liabilities and scope of services will assist the users in making better decisions on their use of the trading platforms. Other extremely important considerations include whether the platform uses 2-factor authentication; compliance with Anti-Money Laundering laws; understanding of the charges; and customer support features.

9. Conclusion

9.1. Although securities trading platforms present a great opportunity for everyone to engage in the capital market, participation should be approached and exercised with caution and sufficient understanding of the roles and liabilities of these platforms.

¹¹ Rule 94(2)(ii), SEC Consolidated Rules.



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