

## ON-LINE BROKERAGE

**Summary:** On-line brokerage is a typical example of how the financial services sector is using the Internet to deliver its services. Consumer confidence is the key to the success of all on-line financial services. This is why providers have to ensure that their services are secure. On-line services will speed-up the integration of Europe's financial markets. It is important that consumers are able to choose between competing providers throughout the single market. On the other hand, a high level of consumer protection and information needs to be guaranteed.

### **Background:**

On-line brokerage is a typical example of how the financial services sector is using the Internet to deliver its services. The on-line brokerage market now represents more than 25% of the total stock market trades carried out by private investors in some European countries. These on-line services are offered by the traditional providers of financial services like banks and stock brokers, as well as by on-line brokers that are operating exclusively on-line. The success of dealing in securities (i.e. stocks, bonds, shares, and derivatives) on the Internet clearly shows a vast demand for these kinds of Internet services. On-line brokers are subject to rigorous prudential supervision but also have a strong commercial incentive to protect their clients' security and ensure their trust.

### **Why is on-line brokerage so popular?**

The Internet is an ideal medium to trade securities. It is extremely convenient and easy for the customer to use. Furthermore, most services provide instant access to a wealth of relevant information. The client can construct an order on his computer screen, and send the order to his broker at his own pace. All this from the comfort of his own home. It is also significantly cheaper than traditional brokerage because the service is highly automated. In addition, it is accessible 24 hours a day, seven days a week.

### **How does the security aspect work with on-line brokerage?**

Consumer confidence is the key to the success of all on-line services, so financial service providers ensure that their on-line services are safe and secure. Generally, the security is handled by a combination of identification numbers (PIN numbers) and encryption technology. A commonly used technique is connection through a so-called Secure Socket Layer or SSL. This security technique not only encrypts the information but also authenticates the web server it connects with.

### **Is the privacy of consumers secured?**

All companies that offer on-line brokerage must have effective privacy policies.

Financial services providers have a strong commercial incentive to ensure the safe handling of personal data. They are also required to do so by the EU's Data Protection Directive.

**How will the development of on-line brokerage affect the European Union?**

The Internet is by nature cross-border in that consumers from around Europe have access to e-commerce services. Consequently, the success of on-line securities trading will play a leading role in stimulating the creation of a fully single market within Europe, on-line as well as off-line. Some trends are already clearly visible:- European households are increasing their use of financial markets and more and more EU citizens are investing in securities. And on the supply side, half of the on-line brokerage companies trade on a cross-border (though not necessarily pan-European) basis and are active on a number of national exchanges. The emergence of alternative trading systems is stimulating increased co-operation between existing exchanges, leading to mergers and possibly even to take-overs.

On-line brokerage will stimulate all these developments and in so doing enhance the competitiveness and growth prospects of the European economy. It will also make the cross-border provision of financial services easier.

**What regulatory developments concerning on-line brokerage are coming up?**

In order to ensure a level playing field for market participants and adequate protection for consumers that engage in on-line brokerage, a number of policy initiatives are expected in the near future:

1. The Commission is working on a communication on e-commerce and financial services, which is scheduled to come out this autumn. It will examine the interrelationship of the E-Commerce Directive with existing financial services legislation.
2. The French Presidency is seeking a common position on the proposal on the distance marketing of financial services this year.
3. The Commission is scheduled to bring out a Communication on the treatment of sophisticated and retail investors In September 2000.
4. The Commission is examining the regulatory treatment of alternative trading systems.
5. And, of course, the Committee of Wise Men on the Regulation of European Securities Markets chaired by Alexandre Lamfalussy has started its work.

**What approach should the European Union take?**

On-line brokerage is taking off very rapidly. Every day more consumers are starting to use the Internet to manage their securities portfolios. The on-line service constitutes a convenient, safe and easy way to trade in securities. The pressure from these and other technological innovations in financial services is changing the

European financial markets quickly. This means that a number of regulatory issues will have to be addressed.

It is important that consumers are able to **choose** between competing providers throughout the single market. This will enhance choice and **lower prices**. In order to achieve that, regulatory requirements will need to be harmonised and existing legal barriers in the single market need to be brought down. On the other hand a high level of **consumer protection and information** needs to be guaranteed. The present mixture of approaches: home country control and full harmonisation and a case-by-case 'general good' test (as in the Second Banking Directive), country of origin principle, and detailed procedure for case-by-case derogations (as in the E-Commerce Directive), full harmonisation but no home country control (as in the draft Directive on Distance Selling of Financial Services) does not facilitate the creation of a truly single market for financial services. To ensure success we believe the European Union institutions need to establish a number of **principles**:

1. The fundamental single market principle of country of origin control together with mutual recognition should be reaffirmed.
2. Limitations on the free movement of financial services in the interest of the general good need to be restricted to a minimum.
3. The Commission should ensure vigorous application of the Electronic Commerce Directive procedure to challenge any inappropriate restriction imposed on incoming on-line financial services by the country of destination.
4. In order to oversee the barriers to on-line cross-border financial services, the Commission should draft an inventory of current national restrictions.

**Links:**

<a href="http://www.abnamro.nl/beleggen">http://www.abnamro.nl/beleggen</a>	<a href="http://www.barclays-stockbrokers.co.uk/">http://www.barclays-stockbrokers.co.uk/</a>
<a href="http://www.brokerage24.de/">http://www.brokerage24.de/</a>	<a href="http://www.socgen.com">http://www.socgen.com</a>
<a href="http://www.europa.eu.int/comm/internal_market/en/finances/index.htm">http://www.europa.eu.int/comm/internal_market/en/finances/index.htm</a>	

Briefing notes are prepared by the Industry Advisory Committee to the European Parliamentary Financial Services Forum. For further information on the subjects raised in the briefs please contact the Chairman of the Advisory Committee.

**Steering Committee**  
Robert Goebbels, MEP  
Chris Huhne, MEP  
Giorgos Katiforis, MEP  
Piiia-Noora Kauppi, MEP  
Alexander Radwan, MEP  
Peter Skinner, MEP  
Theresa Villiers, MEP

**Chairman Advisory Committee**  
Paul Arlman  
Federation of European Stock Exchanges  
Rue du Lombard 41  
B – 1000 Brussels  
Tel: 0032 2 551 01 80  
Fax: 0032 2 512 49 05  
E-mail: arlman@fese.be

**Secretary**  
John Houston  
Houston Consulting Europe  
Rue Montoyer 31-33  
B – 1000 Brussels  
Tel: 0032 2 504 80 40  
Fax: 0032 2 504 80 50  
E-mail: houston\_consulting@compuserve.com