

## STATEMENT

### **Episodes of very high volatility in trading of certain stocks**

Recent episodes have shown very high volatility in certain US stocks, linked to a significant accumulation of net short positions and concerted action by some retail investors, based on information shared on social media.

Although market rules and structures are different in the EU, it cannot be ruled out that similar circumstances may occur in the EU as well.

An increased participation of retail investors in stock markets is welcome for the development of the Capital Markets Union. Nonetheless, ESMA urges retail investors to be careful when taking investment decisions based exclusively on information from social media and other unregulated online platforms, if they cannot verify the reliability and quality of that information. A key step for any investor before making an investment decision is to gather investment information from reliable sources, while keeping in mind one's investment objectives, the benefits of diversification and the ability to bear losses.

### **Price volatility increases investors' risk of loss**

Retail investors face significant risks when investing in stocks characterised by very high price volatility. Volatility could be increased by many factors including when stocks are subject to heavy short selling. Price trends can suddenly come to a halt and reverse, quickly exposing retail clients to heavy losses.

Those using trading strategies that involve leverage are exposed to even greater risks as leverage increases investor's exposure to potential losses. Examples are day-trading strategies in which margin trading, i.e. trading with money borrowed from the firm, or derivatives are used. ESMA stresses that trading with leverage is complex and should be entered into with a full understanding of the risks.

### **Market abuse risks**

Discussing the opportunity to buy or sell the shares of an issuer does not constitute market abuse. However, organising or executing coordinated strategies to trade or place orders at certain conditions and times to move a share's price could constitute market manipulation.

Similarly, special care should be taken when posting information on social media about an issuer or a financial instrument, as disseminating false or misleading information may also be market manipulation. Additionally, care should be taken when disseminating investment recommendations through any media, including social media and online platforms, as they are subject to a number of regulatory requirements.



ESMA and the National Competent Authorities will continue analysing market events and consider adopting further initiatives aimed at preserving investor protection and market integrity as appropriate.