THE ROLE OF REGULATION IN SAFEGUARDING RETAIL INVESTORS IN THE AGE OF SOCIAL MEDIA FINANCIAL INFLUENCE

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ABSTRACT

Retail investors, also known as retail traders or individual investors, are non-institutional individuals who purchase securities, such as stocks, bonds, and mutual funds, often through brokerage firms or financial advisors. These people primarily invest in hopes of ensuring a secure future and generating wealth. They generally trade in smaller sums and with less frequency than institutional investors, explains the Securities and Exchange Board of India (SEBI), an organization charged with regulating the securities market in India. A significant share of households engages in the stock market. For instance, 61% of U.S. households owned individual stocks, according to a 2022 Gallup survey. However, retail investors are often targets of fraudsters, says SEBI. In some cases, fraudsters pose as registered financial advisors and offer unrealistic returns. They lure unsuspecting victims into signing up for fake mobile trading apps, only to realize they can't withdraw any of their investments. That's because there was never a legitimate app in the first place.

Keywords: Retail Investors, Financial Fraud, Social Media Scams. Risks, Due Diligence, Social Media.

INTRODUCTION

Social media has grown faster than any other means of human interaction and information exchange. Unlike traditional media print, radio, or television, social media allows content creation on such a scale that a dynamic is set in a place where the collective voice of individuals often supplants that of established news outlets. In fact, the Government of India recognizes such potential of the medium and provides a framework and guidelines for its agencies to leverage social media. The guidelines are expected to assist government bodies in the formulation of customized stakeholder engagement strategies, as digital interaction becomes increasingly central to contemporary governance. For example, cryptocurrency investments can vary in minutes with a single tweet from high-profile figures, such as Elon Musk, on social

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media. This study will discuss how social media influences investment among young adults and the role of digital platforms in serving as a source of information catalysing the financial decision-making process. Through assessing the correlation between social media engagement and investor behavior, we find the implications of this modern phenomenon for the financial landscape, underlining the necessity of an aware and critical view regarding the information consumed online. Young investors have to become more aware of the effects that such intersections of social media and finance will bring about in their lives.

LITERATURE REVIEW: THE IMPACT OF SOCIAL MEDIA ON INVESTMENT DECISIONS

Given the ubiquitous role of modern communication and information dissemination, the impact of social media on investment decisions has been a major area of research interest Literature has focused on the dual role of social media in the economic environment plant.

- ***"[1]Social media and investment decisions Chaitanya & Nordin (2021)"*** examined the direct impact of social media on investment decisions, and found that investors relied heavily on social media for investment advice and information. Studies show that social media platforms are important sources of information for investors, affecting their decision-making processes. Similarly, Ali Al Atoum, Khalaf Alafi, & Mohammed Al-Fedawi (2021) support these findings, arguing that the behavior of individual investors is shaped by information gathered from social media. Collectively, these studies highlight the important role of social media in shaping monetary policy decisions.
- [2]On January 29, 2021, Elon Musk changed his Twitter again to "#bitcoin", which raised the price of bitcoin from about $32,000 to more than $38,000, adding $111 billion to its market cap Musk has in the financial markets by socially emphasizing the media, evident in previous stories like his "Tesla is considering taking private" tweet that resulted in fraud charges and a $40 million fine, as well as support for Signal app that mistakenly grew for Signal Advance Market value. Musk's tweets, whether about Tesla or cryptocurrencies, show a significant impact on market prices, demonstrating the

[1] Chaitanya DB and Nordin N, 'The Relationship between Psychological Factors, Risk Perception and Social Media on Investment Decision Making' (2021) 3 International Journal of Advanced Research in Economics and Finance 55 https://myjms.mohe.gov.my/index.php/ijaref/article/view/16350 accessed 14 July 2024

[2] Ante L, 'How Elon Musk's Twitter Activity Moves Cryptocurrency Markets' (2023) 186 Technological forecasting & social change/Technological forecasting and social change 122112 https://www.sciencedirect.com/science/article/abs/pii/S0040162522006333 accessed 14 July 2024

power of social media in investment decisions. This study aims to show the impact of Musk's tweets on the cryptocurrency market through an event study approach, help to understand how influential data can affect market performance and investor behavior

- [3]**Mohammad Nasiruddin Ansari:** Working under the pseudo name "**Baap of Charts**," Ansari managed to collect around ₹17.2 crore from investors as fees for equity tips between January 2021 and July 2023. SEBI has debarred him from acting as an investment advisor and also ordered that the money so collected shall be returned to the clients, thus pointing to one of the worst risks of unregulated advice.

- [4]**PR Sundar:** The well-known YouTuber and options trader were levied a fine of ₹6.5 crore, debarring him from trading for a year on account of his violation of investment advisory norms.

The collective findings of these studies underscore the significant impact of social media on investor behavior and stock market performance. Social media sentiment and engagement not only predict stock returns and market anomalies but also influence investor behaviors such as herd mentality, confirmation bias, and overconfidence. These insights suggest that while social media can be a valuable tool for predicting market movements and informing investment decisions, it also carries the risk of reinforcing biases and promoting suboptimal investment behaviors.

LEGAL STRATEGIES TO ENHANCE INVESTOR PROTECTION AGAINST PSYCHOLOGICAL BIASES AND SOCIAL MEDIA INFLUENCE.

The [5]Securities and Exchange Board of India (SEBI) has issued a set of guidelines in light of enhance transparency and protecting investors from being misled by persons providing financial advice through social media. This comes after various concerns have been raised over social media use by unregistered influencers and, in some cases, registered investment advisors who improperly offer unauthorized or misleading investment tips.

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[3] English, 'NDTV' (*NDTV.com*26 October 2023) https://www.ndtv.com/india-news/who-is-nasiruddin-ansari-5-points-on-baap-of-chart-owner-fined-by-sebi-4515476 accessed 14 July 2024
[4] Dixit P (*Business Today*29 June 2023) https://www.businesstoday.in/technology/news/story/sebi-finalising-draft-discussion-paper-over-guidelines-for-finfluencers-387616-2023-06-29#:~:text=More%20recently%2C%20on%20May%2027,violations%20of%20investment%20adviser%20norms. accessed 14 July 2024
[5] 'Securities and Exchange Board of India' (*Sebi.gov.in*2024) https://www.sebi.gov.in/ accessed 9 July 2024

1. **Mandatory Disclosure**- Investment advisers will have to make mandatory disclosures regarding their social media accounts and activities twice a year. It includes disclosing their presence on platforms like YouTube, Telegram, etc. This measure will build an expansive record for the social media engagement of the advisors, bring more accountability, and make it certain that the online activities of these advisors are transparent.

2. **Stringent Reporting Requirements**- Detailed reports pertaining to several operational aspects would have to be submitted by advisors that include:

   - **Bank Accounts:** Information about the bank accounts wherein advisory fees are credited

   - **Office Addresses:** Physical locations wherefrom their operations are conducted

   - **Shareholding Patterns:** Ownership details in respect of their respective advisory firms

   - **Advertisements:** Any advertisements released by them with regard to their services

3. **Time for Submission**- Reports should be submitted biannually, that is, on the 30th of September and on the 31st of March every financial year. Such a periodic timeframe to forward reports will enable SEBI to monitor and keep a constant check on the working of these investment advisors.

SEBI's guideline follows a phenomenon where there is an increase in social media influencers giving stock picks and investment advice without qualification or registration. This will leave unsuspecting investors on the brink of great risks in following them, which might lead to colossal financial loss. By implementing such norms, SEBI attempts to ensure that such investors make available only credible and verified information, thereby minimizing the chances of causing financial damage due to misleading investment strategies.

INVESTOR EDUCATION

Financial literacy refers to the process of gaining knowledge about investment opportunities, strategies, and risks, enabling individuals to make informed financial decisions Today's rapidly evolving economic environment demands that this education be taught, and it provides individuals are able to achieve their financial future and long-term goals. Learning about investing is beneficial for enthusiasts, from beginners to seasoned professionals. No matter what your experience, there is always more to discover in the world of finance.

IMPORTANCE OF INVESTMENT EDUCATION

Financial literacy is essential to achieving financial stability and security. A strong understanding of investments enables individuals to make informed choices, reducing the risk of rash or uninformed decisions that can result in significant financial losses In addition, it helps individuals reach their financial means goals—whether it's saving for retirement, buying a home, or funding an education — by understanding how they can better grow their money over time. Economics education also plays an important role in wealth creation. With the right knowledge and perspective, individuals can navigate the intricacies of investing, balancing potential risks and financial aspirations.

MAJOR TOPICS COVERED IN INVESTMENT EDUCATION

1. Types of Investments:
   - **Stocks**: Corporate ownership, including common and preferred stock.
   - **Bonds**: Debt from the government or corporations, including government, corporate, and municipal bonds.
   - **Mutual Funds**: An investment vehicle that combines funds from multiple investors, including open and closed-end funds, as well as ETFs.
   - **Real Estate**: Investment in property to generate rental income or appreciation.
   - **Alternative investments**: private equity, hedge funds, commodities and cryptocurrencies.
2. Investment Strategies:
   - **Fundamental Analysis**: Assessing a company's financial health and market conditions.
   - **Technical Analysis**: Analyzing price movements and trading volumes.

- **Passive vs. Active Investing**: Strategies for replicating market performance or actively managing portfolios.
- **Dollar-Cost Averaging**: Investing fixed amounts at regular intervals to mitigate market volatility.

Investment education is essential for anyone aiming to achieve financial stability, make informed decisions, and build long-term wealth. By covering various investment options, strategies, and risk management techniques, investment education equips individuals with the tools necessary to navigate the financial landscape effectively.

SOCIAL MEDIA REGULATION IN INDIA

Supreme Court of India is worried about the gross abuse of social media for peddling fake news concerning cases pending in the courts. This fake news not only hampers judicial processes but also poses a severe threat to the independence and credibility of the judiciary, thus requiring regulatory steps.

Regulation of Social Media in India

I [6]Information Technology Act, 2000 (IT Act)

The IT Act forms the primary statute for the regulation of electronic communication within India and also, by extension, social media. Key provisions include:

- **Section 69A:** Empowers the central government to issue directions for blocking, and for access by the public in selective cases, of information through any computer resource for:
  - Sovereignty and integrity of India
  - Defense of India
  - Security of the state
  - Friendly relations with foreign states

[6] 'Information Technology Act, 2000' [2014] Indiacode.nic.in https://www.indiacode.nic.in/handle/123456789/1999#:~:text=An%20Act%20to%20provide%20legal,storage%20of%20information%2C%20to%20facilitate accessed 14 July 2024

- Public order
- Preventing incitement to the commission of any cognizable offense

- **Section 79(1):** Anyone who is an intermediary shall not be subject to any liability for any third-party information if he acts only as a medium for communicating information without actually doing so and further if he made due diligence and did not initiate the transmission or select the receiver of the transmission and finally if he did not modify that information.

- **Section 66A:** Used to cover web content but was declared unconstitutional by the Supreme Court in Shreya Singhal vs. Union of India on the grounds of violation of freedom of speech.

II [7]Information Technology (Intermediary Guidelines and Digital Media Ethics Code) Rules, 2021

These rules introduce an obligation for social media to exercise due diligence while moderating content, which includes:

- Informing the users from time to time about the privacy policy and that no copyrighted content will be used nor will any defamatory or security-threatening content be promoted on its platform.

- The 2023 Amendment imposes an obligation on online intermediaries to curb the spread of misinformation against the Indian government and take down the flagged content by the fact-checking units. However, the Supreme Court halted this implementation.

MEASURES TOWARDS THE IMPROVEMENT OF UTILITY AND CREDIBILITY OF SOCIAL MEDIA

- **Algorithmic Transparency:** One of the main measures proposed towards the improvement of the utility and credibility of social media is algorithmic transparency.

[7] 'Information Technology (Intermediary Guidelines and Digital Media Ethics Code) Rules, 2021 (Updated 06.04.2023) | Ministry of Electronics and Information Technology, Government of India' (*Meity.gov.in*2021) https://www.meity.gov.in/content/information-technology-intermediary-guidelines-and-digital-media-ethics-code-rules-2021 accessed 14 July 2024

In this regard, social media companies should, for instance, publicly release their algorithms while at the same time giving in-depth explanations of the processes that the various algorithms control. This transparency will help reduce the biases that the algorithm might have created while making decisions and level the ground for publication of content. Other than this, the platform should offer and publish regular transparency reports on the moderation of content, data handling processes, and compliance with regulatory standards. These reports can help to establish accountability and trust among users.

- **Literacy Initiatives:** There would also be a need for comprehensive digital literacy initiatives, which would empower users to responsibly navigate the digital space. Such a program would instigate ways of learning to detect misinformation, interpret privacy policies, and detect online harassment. They would be able to acquire ways—better digital literacy, in other words—that would empower users to make informed choices based on information at their disposal and travel safely within these communities. This kind of learning is most necessary simply because it could be that which deprograms the proliferation of fake news to make a more learned and resilient user community.
- **AI Moderation Tools:** Bring forward leading-edge moderation AI tools. These tools could identify offensive content and remove it instantaneously, therefore making social media safe for any user. AI content moderation has to ensure the need to keep users safe and free from harmful material and protect freedom of expression. By virtue of employing AI, platforms can sift through large volumes of content in a lesser amount of time.
- **Privacy-enhancing Technologies:** Investment in privacy-enhancing technologies is key to ensuring user data is fully protected. Furthermore, the privacy and security of the users can be promoted through technologies such as end-to-end encryption and data anonymization in ways that keep data protected from unauthorized access and leakages. Privacy for users will make social media platforms a trusted space, thus leading to more open and secure user interactions.
- **Encouragement of Ethical Design Practices:** It will encourage ethical design practices that create a healthier digital environment. First in the making list of interfaces and features by platforms, there must be consideration for the well-being and mental health of users in meaningful interactions rather than being driven by exploitation for attention. This will include making designs less addictive, promoting positivity in

interaction, and fostering supportive online communities. A well-thought-out ethical design is part of creating a more leveled and humane digital experience.

- **Positive Content Creation Reward Systems:** Incentivizing positive content creation can be a way to get people to share informative, educational, and community-building content. These schemes could use a reward system, cash incentives, or more visibility among material that would improve the quality of life within a community. Social media can bring a positive influence and create ways for a better, satisfying environment for each user.

RESPONSIBLE FINANCIAL COMMUNICATION ON SOCIAL MEDIA

In the UK, the consultation of this guidance by the [8]Financial Conduct Authority (FCA) sheds some light on how they are likely to supervise financial promotions through social media. This guidance does not establish new rules or record-keeping requirements but rather acts as a useful signpost to what existing regulation covers, with clarification on the FCA's supervisory expectations. The goal is to help companies determine how to best use social media in the context of FCA rules for financial promotion and for keeping records. In summary, the guidance underlines five main tenets:

1. **Clarity and Fairness:** The FCA's main theme is that financial promotions on social media should be clear, fair, and not misleading. To begin with, the companies should ensure that they are easy to read and understand by the target audience, which is also not the ones that use complicated words that are often misunderstood. This is one of the first and foremost issues in the fact that social media users are the most diverse category with individuals having different levels of financial literacy. However, both clear and transparent information builds trust and allows the public to make the right decision through true and adequate descriptions of financial products or services.
2. **Risk Disclosure:** Besides showing suitable risks, financial promotions must directly reveal any involved risks. This will be the case no matter since the instruction stresses that risk warnings should be highly visible and not illegible in one way or another. Firms are recommended to refer users to a separate page the link of which is suitable or a product is better while space is limited on platforms like Facebook and Instagram. The purpose of this

[8] 'Financial Conduct Authority (FCA): Social Media and Customer Communications Guidance | Smarsh' (*Smarsh*10 August 2019) https://www.smarsh.com/regulations/financial-conduct-authority-fca-social-media-customer-communications-guidance/ accessed 14 July 2024

is to make consumers aware of both the good and the bad and to empower them in making informed choices, as well as the product/service being suitable for their situation.

3. **Appropriateness of the Platform:** Companies should take time to look over the social media platform's suitability to the goal audience as well as to the particulars of the financial promotion that is being rendered. It is mentioned in the report that some platforms may not be a good choice for products that need a lot of explaining. Thus, the businesses could establish a good relationship with their audience creating an appropriate fit in terms of financial products or services being marketed.
4. **Record Keeping:** In spite of the fact that the guidance does not introduce any new record-keeping rules, it still underscores the importance of maintaining detailed records of every financial promotion that has been done via social media. To be able to comply with the regulations, firms will have to provide the relevant authorities with the necessary evidentiary material. This includes holding copies of all promotional content, inclusive of any accompanying disclosures liabilities or disclaimers. The preservation of these records is essential for transparency and accountability and allows the FCA to conduct frequent checks on the correctness of its promotional and marketing activities.

LEGAL FRAMEWORKS TO SAFEGUARD RETAIL INVESTORS FROM AI-DRIVEN INVESTMENT RECOMMENDATIONS.

The information generated by AI, especially through chatbots, poses a significant risk as it can cause you to make incorrect, emotionally charged, or premature investment decisions These AI tools have the potential to get you personal information about yourself online or on social media platforms and explore Unsolicited financial advice can seem very personal and reliable and this can give you a false sense of confidence and urgency, and has caused you to act thoughtlessly. Additionally, scammers can use AI technology to impersonate trusted individuals such as family members or friends, creating stressful situations where they immediately ask for financial help These emotional messages can turn you on to rushing to provide money or protection, you are helping a loved one in need You believe. However, it is important to handle such situations with caution. When contacted by someone claiming to be a family member in urgent need of funds, take the necessary steps to personally verify the legitimacy of the request. This involves communicating directly with the person through a familiar and trusted channel, confirming their well-being and the genuineness of their request.

By doing so, you can protect yourself from falling victim to sophisticated AI-driven fraud and ensure your investment decisions are made with accurate information and sound judgment.

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