

Social Trading and Signal Following - Welche aufsichtsrechtlichen Aspekte müssen Anbieter bedenken

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Introduction to Social Trading and Signal Following

New platforms are reshaping how retail investors access markets – but with innovation comes regulatory complexity.

What Is Social Trading?

Platforms now allow day traders to invest directly in **stocks, debt securities, crypto-assets, and derivatives** without a traditional broker – by following the moves of other users in real-time.

How Signals Are Executed

- **Automatically** via algorithms and bots
- **Manually** after case-by-case observation
- Ideal for traders who lack time to manage portfolios independently

Operators

Platform-level regulatory obligations

Signal Providers

Content and licensing obligations

Clients

User-level compliance considerations

Each participant in the social trading ecosystem faces distinct regulatory obligations.

Licensing Requirements for Platform Operators

Operating a social trading platform is not a regulatory-free zone. Depending on the instruments involved, operators must secure the appropriate authorizations before going live.

1

General Rule

Operators of social trading platforms **generally require regulatory approval** to conduct business in any jurisdiction.

2

Traditional Instruments

For signals relating to **stocks, bonds, or derivatives**, authorization for portfolio management or brokerage is usually required.

3

Crypto-Assets

If signals involve crypto-assets, **MiCAR licensing** requirements for order transmission or execution may apply.

Portfolio Management

Platform operators often need a license to provide the investment service of **portfolio management** when signals are automatically executed on behalf of users.

Investment Brokerage

Authorization is also typically required for **investment brokerage or contract brokerage services** – even when execution is manual.

Regulatory Status of Signal Providers

- ⓘ Not every signal provider needs a license — but the line between personal publishing and regulated activity is thinner than it appears.

Personal Publication

Merely publishing investment decisions made in a provider's **own securities account** is generally not a licensed activity.

The Critical Threshold

Licensing depends heavily on **how the signal provider's decisions are implemented** in the user's account — automatic execution raises the stakes significantly.

Portfolio Management Mandate

If a provider receives a genuine mandate to **execute trades for a user**, a license for portfolio management may be required.

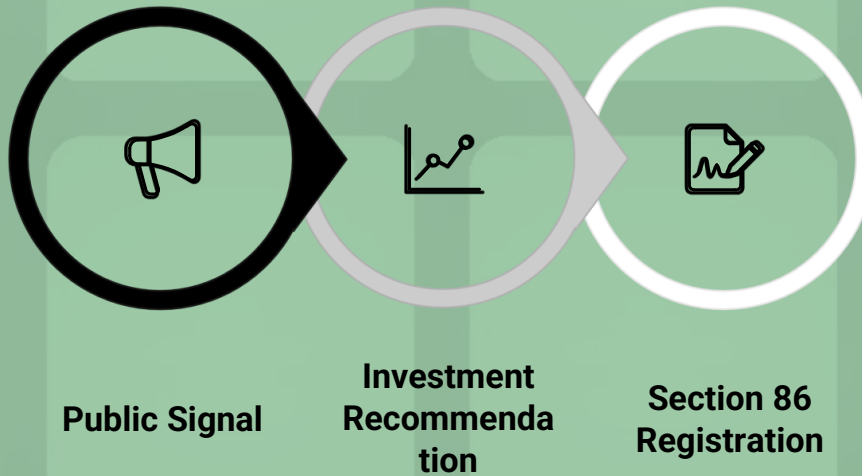
Case-by-Case Brokerage

The specific circumstances of signal delivery determine whether **investment brokerage licenses** apply in each situation.

- ☑ **Clients:** Users of the platform typically do **not** trigger licensing requirements by simply following signals in their own accounts

Registration Obligations under BaFin

- ❗ Even when a full license is not required, signal providers may still face mandatory registration obligations with Germany's financial regulator.



- ❗ The registration pathway is triggered by how signals are classified – not merely by whether a license is needed.

Investment Recommendations

Registration is required if signals are classified as **suggestions regarding investment strategies for the public** – a broad and frequently triggered category.

Section 86 WpHG

Under **Section 86 WpHG**, providers of investment strategy recommendations must formally register their activity with BaFin before distribution.

Distribution Channels

Any information intended for **public distribution channels** regarding the value of financial instruments falls squarely under these registration rules.

Compliance and Content Standards

Registration alone is not enough. Signal providers must meet ongoing compliance and content quality obligations to operate lawfully.



Conflict of Interest

Providers must **disclose, report, and avoid** conflicts of interest in accordance with Section 85 WpHG.



Organizational Duties

Business operations must be **organized to fulfill** specific compliance obligations at all times.



Fact vs. Estimate

Recommendations must clearly **distinguish facts from subjective estimates** – ambiguity is not permitted.

Transparency Requirements

Providers are required to **disclose relevant sources** used for their signals, ensuring users can assess the basis of each recommendation independently.

Timing Obligations

All published recommendations must clearly state the **date and time of publication** – retroactive or undated signals are non-compliant.



Key Takeaway: Social trading sits at the intersection of technology and financial regulation. Operators, signal providers, and users each carry distinct obligations – understanding them is essential before entering this space.

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