

At a glance

FCA proposes ban on binary options and restrictions on CFDs

What's new?

- The FCA published [CP18/37: Product intervention measures for binary options](#) and [CP18/38: Restricting contract for difference products sold to retail clients and a discussion of other retail derivative products](#) on 7 December 2018.
- CP18/37 contains a proposal to ban the sale and distribution of binary options to retail investors. CP18/38 proposes restrictions on the sale and distribution of contracts for difference (CFDs) and launches a discussion on whether other complex derivative products with similar features to CFDs should also be subject to similar intervention.
- These proposals are broadly aligned with ESMA's EU-wide temporary intervention measures related to [CFDs](#) and [binary options](#), but would apply on a permanent basis.

What does this mean?

- The FCA is concerned about the harm to retail investors that is being caused by the design and distribution of some complex derivative products, notably CFDs and binary options. These concerns have been long-standing and persist despite focused supervisory work over several years aimed at improving firms' conduct.
- The package of measures include a permanent ban on the sale and distribution of binary options to retail investors, based on evidence of aggressive and misleading marketing of these products, their complexity, and the level of losses these investors experience when trading.
- It also includes a series of permanent restrictions on the sale and distribution of CFDs and similar products (e.g. so-called turbo certificates) to retail clients. Amongst the proposals are leverage limits of between 30:1 and 2:1 by collecting minimum margin as a percentage of the overall exposure that the CFD provides, and a requirement to close out a customer's position when their funds fall to 50% of the margin needed to maintain their open positions on their CFD account.
- The FCA is also seeking feedback on whether other complex derivative products, such as futures or similar over-the-counter products, may pose similar risks of harm to retail consumers and could benefit from similar rules to those being proposed for CFDs.

What do firms need to do?

- Firms marketing, distributing or selling binary options, CFDs and CFD-like products in or from the UK to retail clients (including third country branches) must carefully consider the detail of the FCA's proposals. They should engage in the consultation process and the wider debate around the possible extension of the CFD rules to other complex derivative products.
- Affected firms should identify the necessary changes, including to the design, marketing and distribution of products, to comply with the proposed rules. They should also identify any potential challenges and wider strategic implications of doing so (e.g. fundamental changes to the business model of some providers).

Next steps



The FCA welcomes comments on its proposals in CP18/37 and on CP18/38 by **7 February 2019**. It welcomes feedback on its discussion of other complex derivative products by **7 March 2019**.

Contacts

Hortense Huez
Director

T: +44(0)77 38 844840
E: hortense.huez@pwc.com

Lucas Penfold
Manager

T: +44 (0)7483 407581
E: lucas.penfold@pwc.com