ESMA to renew restriction on CFDs for a further three months

ESMA has carefully considered the need to extend the intervention measure currently in effect. ESMA considers that a significant investor protection concern related to the offer of CFDs to retail clients continues to exist. It has therefore agreed to renew the restriction from 1 November.

Renewal of restriction on CFDs

The renewal was agreed by ESMA's Board of Supervisors on 26 September 2018 and includes renewing the following:

1. Leverage limits on the opening of a position by a retail client from 30:1 to 2:1, which vary according to the volatility of the underlying:

- 30:1 for major currency pairs;
- 20:1 for non-major currency pairs, gold and major indices;
- 10:1 for commodities other than gold and non-major equity indices;
- 5:1 for individual equities and other reference values;
- 2:1 for cryptocurrencies;

2. A margin close out rule on a per account basis. This will standardise the percentage of margin (at 50% of minimum required margin) at which providers are required to close out one or more retail client's open CFDs;

3. Negative balance protection on a per account basis. This will provide an overall guaranteed limit on retail client losses;

4. A restriction on the incentives offered to trade CFDs; and

5. A standardised risk warning, including the percentage of losses on a CFD provider's retail investor accounts.

During its review of the intervention measure, ESMA obtained information that, in certain cases, CFD providers experienced technical difficulties in using the risk warnings due to the character limitations imposed by third party marketing providers. Therefore, ESMA has agreed to introduce in the renewal an additional reduced character risk warning:

- [*insert percentage per* provider] % of retail CFD accounts lose money.

The new warning will be allowed only in cases where the standard terms of a third party marketing provider have a character limit which is lower than the number of characters comprising the full or the abbreviated risk warning, provided that the advertisement also links to a webpage of the provider on which the full risk warning is disclosed.

Next steps

ESMA intends to adopt the renewal measure in the official languages of the EU in the coming weeks, following which ESMA will publish an official notice on its website. The measure will then be published in the Official Journal of the EU and will start to apply from 1 November 2018 for a period of three months.