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### PRESS RELEASE

# ESMA and the EBA warn investors about contracts for difference

The European Securities and Markets Authority (ESMA) and the European Banking Authority (EBA) have published a <u>warning</u> to retail investors about the dangers of investing in contracts for difference (CFDs).

The two authorities are concerned that during the current period of low investment returns, inexperienced retail investors across the EU are being tempted to invest in complex financial products, which they may not fully understand and which can end up costing them money they cannot afford to lose.

Andrea Enria and Steven Maijoor, Chairs of the EBA and ESMA, warned:

"Retail investors across the EU should be aware of all the risks arising from investing in CFDs. These products appear to promise investors substantial returns at a low cost but may ultimately cost them far more than they may have intended or could afford to lose.

"CFDs are complex products that are not suitable for all types of investors, therefore you should always make sure that you understand how the product you are buying works, that it does what you want it to do and that you are in a position to take the loss if it fails."

## **Investors trading CFDs should protect themselves**

Investors should only consider trading in CFDs if they have extensive experience of trading in volatile markets, if they fully understand how these operate and have sufficient time to manage their investment on an active basis.

Investors should carefully read their agreement or contract with the CFD provider before making a trading decision. They should make sure that they at least understand the following:

- the costs of trading CFDs with the CFD provider,
- whether the CFD provider will disclose the margins it makes on their trades,





- how the prices of the CFDs are determined by the CFD provider,
- what happens if they hold their position open overnight,
- whether the CFD provider can change or re-quote the price once an investor places an order,
- whether the CFD provider will execute investor's orders even if the underlying market is closed,
- whether there is an investor or deposit protection scheme in place in the event of counterparty or client asset issues.

If investors do not understand what's on offer, they should not trade.

## **Further information**

Always check if the CFD provider is authorised to do investment business in your country. You can check this on the website of the CFD provider's national regulator. A list of all the national regulatory authorities, and their websites, is also available from:

- ESMA at <a href="http://www.esma.europa.eu/investor-corner">http://www.esma.europa.eu/investor-corner</a>; and
- EBA at http://www.eba.europa.eu/Publications/Consumer-Protection-Issues.aspx.

The investor warning on CFDs will be translated into the official EU languages.

Concurrently with the publication of this warning, the EBA is addressing an internal Opinion under Art. 29 of the EBA Regulations to national supervisory authorities on the prudential supervision of CFDs.





#### **Notes for editors**

- 1. ESMA/2013/267 Investor Warning Contracts for Difference (CFDs)
- 2. ESMA and the EBA are independent EU Authorities that were established on 1 January 2011 and work closely with the European other European Supervisory Authority responsible for insurance and occupational pensions (EIOPA).
- 3. ESMA's mission is to enhance the protection of investors and promote stable and well-functioning financial markets in the European Union (EU). As an independent institution, ESMA achieves this aim by building a single rule book for EU financial markets and ensuring its consistent application across the EU. ESMA contributes to the regulation of financial services firms with a pan-European reach, either through direct supervision or through the active co-ordination of national supervisory activity.
- 4. The EBA has a broad remit in the areas of banking, payments and e-money regulation, as well as on issues related to corporate governance, auditing and financial reporting. Its tasks include the protection of consumers and depositors, preventing regulatory arbitrage, guaranteeing a level playing field (especially by building a single rule book for the European banking system) strengthening international supervisory coordination, promoting supervisory convergence and providing advice to EU institutions.

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