CAPITAL
MARKETS AUTHORITY
Promoting the Integrity and Growth of the Capital Markets

Circular No.03/2023

September 21, 2023

GUIDANCE TO ALL DEALING AND NON-DEALING ONLINE FOREIGN EXCHANGE BROKERS

1. This Circular is issued pursuant to Sections 11(1)(d) and 11 (3) (d) of the Capital Markets Act and applies to all Dealing and Non-Dealing Online Foreign Exchange Brokers licensed by the Authority.
2. The online foreign exchange market (also known as Contracts for Difference/CFD/Online FX/Online Forex) are complex instruments and carry a significant potential for financial loss due to leverage. Retail traders face a substantial likelihood of experiencing financial losses while engaging in CFD trading. In this regard, the Authority guides that Online Foreign Exchange Brokers should enhance their disclosures, promote transparency and investor protection mechanisms as stipulated in this Circular.
3. An Online Foreign Exchange Broker shall calculate its individual client loss ratios in percentage form based on amounts lost by retail clients of the CFD broker. The calculation methodology is available at Annex 1 and shall be performed every three months covering the 12-month period preceding the date on which it is performed ('12-month calculation period'). The ratio shall be submitted to the Authority on or before the 15th day of the month after the review period i.e., submitted by or before the 15th day of January, April, July and October.
4. An Online Foreign Exchange Broker shall not send directly or indirectly any communication to or publish information accessible by a client relating to the marketing, distribution, or sale of an Online Forex/CFD unless it includes the appropriate risk warning specified in and complying with the conditions in Annexure 1 and 2.

5. An Online Foreign Exchange Broker shall submit to the Authority for review and grant of a no-objection prior to roll out of any new category of CFD products that the CFD Broker seeks to provide to Clients.
6. An Online Foreign Exchange Broker shall provide its clients with adequate margin stop-out protection, which will ensure closure of all open positions in Online Forex/CFD if an individual's account balance decreases to a certain percentage. The details of the margin stop-out protection provided shall be prominently disclosed to the clients.
7. An Online Foreign Exchange Broker shall provide its clients with negative balance protection, which limits the client's aggregate liability for all CFDs connected to a CFD trading account with a CFD provider to the funds in that CFD trading account.

ANNEXTURES

1. HOW TO CALCULATE THE CLIENT LOSS RATIO

The Client loss ratio shall be calculated in percentage form based on amounts lost by clients of the CFD provider.

For the purposes of the calculation:

a) an individual retail client CFD trading account shall be considered to have lost money if the sum of all realised and unrealised net profits on CFDs connected to the CFD trading account during the 12-month calculation period is negative;

b) any costs relating to the CFDs connected to the CFD trading account shall be included in the calculation, including all charges, fees and commissions;

c) the following items shall be excluded from the calculation:

   i. any CFD trading account that did not have an open CFD connected to it within the calculation period;

   ii. any profits or losses from products other than CFDs connected to the CFD trading account;

	Number of Accounts	**Amounts in USD equiv.**	**% Calculated using column B**
	A	B	C
Winning			XXX %
Losing			XXX % *(this is the loss ratio)*
Total			100%

2. RISK WARNING FOR ALL ONLINE FOREX/CFD COMMUNICATIONS

The risk warning for all communications including client statements, advertisements or published information shall be in a layout ensuring its prominence, in a font size at least equal to the predominant font size and in the same language as that used in the communication or published information.

The risk warning shall be in the formats specified in Sections A to Section G.

I. SPECIFIC RISK WARNING

Section A

Durable medium and webpage provider-specific risk warning

If the communication or published information is in a durable medium or a webpage, the risk warning shall be in the format specified in Section A.

Durable medium is defined as being paper or email or any other medium that: (a) allows information to be addressed personally to the recipient; (b) enables the recipient to store the information in a way accessible for future reference for a period that is long enough for the purposes of the information; and (c) allows the unchanged reproduction of the information stored.

Online Forex/CFDs are complex instruments and come with a high risk of losing money rapidly due to leverage. **[insert percentage per provider]% of retail investor accounts lose money when trading Online Forex/CFDs with this provider.** You should consider whether you understand how CFDs work and whether you can afford to take the high risk of losing your money.

Section B

Abbreviated provider-specific risk warning

If the communication or published information is in a medium other than a durable medium or a webpage, the risk warning shall be in the format specified in Section B.

Between 75-95% of retail investor accounts lose money when trading Online Forex/CFDs. You should consider whether you can afford to take the high risk of losing your money.

Section C

Reduced character provider-specific risk warning.

By way of derogation to section A and B, if the number of characters contained in the risk warning in the format specified in Section A or B exceeds the character limit permitted in the standard terms of a third-party marketing provider, the risk warning may instead be in the format specified in Section C.

For Section A (Durable medium):

[insert percentage per provider]% of retail Online Forex/CFD accounts lose money.

For Section B (Non-durable medium):

Between 75-95% of retail Online Forex/CFD accounts lose money.

Section D

If the risk warning in the format specified in Section C is used, the communication or published information shall also include a direct link to the webpage of the CFD provider containing the risk warning in the format specified in Section A.

II. STANDARD RISK WARNING

By way of derogation from Sections A to D, if in the last 12-month calculation period a CFD provider has not provided an open CFD connected to a retail client CFD trading account, that CFD provider shall use the standard risk warning in the format specified in Sections E to G, as appropriate.

Section E

Durable medium and webpage standard risk warning

Online Forex/CFDs are complex instruments and come with a high risk of losing money rapidly due to leverage. **Between 75-95% of retail investor accounts lose money when trading Online Forex/CFDs.** You should consider whether you understand how CFDs work and whether you can afford to take the high risk of losing your money.

Section F

Abbreviated standard risk warning.

Between 75-95% of retail investor accounts lose money when trading Online Forex/CFDs.
You should consider whether you can afford to take the high risk of losing your money.

Section G

Reduced character standard risk warning

75-95% of retail Online Forex/CFD accounts lose money.

Yours faithfully

FCPA, Wyckliffe Shamiah
CHIEF EXECUTIVE