



**ShareSoc**

UK Individual Shareholders Society

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03 March 2017

**Response to Consultation on Enhancing conduct of business rules for firms providing contract for difference products to retail clients.**

Dear Sirs,

This response to the above named consultation is submitted by ShareSoc, the UK Individual Shareholders Society. We are a not-for-profit organisation representing the interests of our members who are individual investors from across the United Kingdom.

Our answers to the questions in the Consultation Paper are as follows:

**Q1: What investment need(s) do CFDs fulfil for retail clients and would they be disadvantaged if they no longer had access to these products?**

**Answer:** There are few retail investors who use such products in our experience, as opposed to short term speculators who are simply using them as a gambling opportunity. There are possibly a few "sophisticated" investors who are using such products to go short or trade on margin, sometimes as a way of "hedging" their investments. Such retail clients would be considerably disadvantaged if they no longer had access to these products, and we would oppose any differentiation in access between professional investors and retail investors.

**Q2: Do you agree with our proposal to require enhanced disclosure requirements for CFD products?**

**Answer:** We strongly support that there should be enhanced disclosure and risk warnings with CFD products.

**Q3: Do you agree with our proposal to require CFD firms to disclose the percentage of client accounts that are in profit or loss over the previous calendar quarter and over the last 12 months?**

**Answer:** Yes we support this proposal.

**Q4: Do you agree with the proposal to limit the risks of CFDs by taking steps to limit leverage for retail clients?**

**Answer:** Yes.

**Q5: Do you agree with the proposal to adopt different leverage limits for inexperienced and experienced retail clients?**

**Answer:** In principle this may be a good idea, but in practice the suggested number of trades required to have been executed over the past 3 years is high. This may result in all but a few clients being classed as "inexperienced" and hence with low levels of leverage imposed. If that is the objective, then we would not oppose it but it might inconvenience some investors.

**Q6: Do you agree with the proposed margin limits for inexperienced clients and experienced retail clients?**

**Answer:** Yes.

**Q7: Do you agree with the proposal to set a margin close out limit of 50% of initial margin required? In particular, we welcome feedback on the detailed drafting of this rule and whether it is compatible with standard market practices.**

**Answer:** Yes.

**Q8: Do you agree with our proposal to ban bonus promotions or other incentives to open accounts or trade?**

**Answer:** Yes.

**Q9: What investment need(s) do binary bets fulfil for retail clients, and do you agree with the risks we have identified?**

**Answer:** None, so far as we are aware.

**Q10: What are your views on limiting the marketing of binary bets to some retail clients?**

**Answer:** We suggest that all marketing of such products be outlawed (to all classes of clients).

**Q11: What are your views on the potential use of product intervention powers under MiFID II to restrict specific features of binary bets or place limits on the distribution or sale of these products for retail clients?**

**Answer:** We would support the ability to restrict distribution or sales of these products.

**Q12: Are there any alternative policy measures that we should consider to address our investor protection concerns in relation to binary bets?**

**Answer:** No. See above.

In conclusion, we would generally like to see the marketing and distribution of CFD products severely limited so that they do not attract inexperienced and unsophisticated investors. It is very clear from the FCA Paper that most clients have a poor understanding of the risks associated with these products and generally lose money.

They are commonly promoted as "get rich quick" schemes with the same problems that are associated with internet gambling sites and addictive behaviour. There is very little real benefit to the clients, or the economy in general, from the provision of these services.

Yours sincerely,

Roger Lawson  
Deputy Chairman

Note to readers: the consultation document referred to is present here:  
<https://www.fca.org.uk/publication/consultation/cp16-40.pdf>