



**Information Release**

**16 June 2011**

**Central Bank Inspection Identifies Compliance Concerns in  
Contracts for Difference and Financial Spread Betting Firms**

The Central Bank of Ireland today (16 June 2011) published the findings of a themed inspection of contracts for difference (CFD) and financial spread betting firms.

The inspection examined firms' compliance with certain conduct of business requirements of MiFID (Markets in Financial Instruments Directive) Regulations including procedures for accepting clients and the quality and type of information provided to clients and potential clients. Four firms were inspected and approximately eighty files were reviewed. The inspection found that none of the firms inspected were fully compliant with the MiFID Regulations examined while a number of firms had a particularly low level of compliance with less serious breaches found in others.

Head of Consumer Protection, Sharon Donnery said: 'Consumers need to be made fully aware of the complexity and very high risks of CFD and financial spread betting before making investment decisions. Losses can be substantial and people should know what they are getting into. The Central Bank is concerned that none of the firms inspected were fully compliant with the regulations in this area. In particular, some of these investment firms are failing to fully inform and provide adequate warnings to consumers of the risks that CFD and financial spread betting carries before they begin trading.'

Compliance issues identified during this inspection are being followed up with the firms concerned and the Central Bank is considering enforcement action in some cases. The Central Bank has informed all CFD and financial spread betting firms

of the findings and has requested that they are considered in the context of their businesses.

The main inspection findings are:

**Lack of sufficient information gathered by firms:** It was found that a significant proportion of application forms used by firms were inadequate and did not obtain sufficient information on clients' knowledge and experience with financial transactions. It was also noted that many application forms had not been fully completed by clients.

**Inadequate assessment of appropriateness:** Under the MiFID Regulations firms are required to take into account the information gathered, such as the client's knowledge and experience, to assess whether the product or service is appropriate for the client. If a firm deems a product or service is not appropriate for a client or potential client, they must warn them of this. It was found in some firms that the assessments of appropriateness were inadequate or were not carried out at all. It was also noted in some firms that, where required, clients or potential clients were not warned that the service was not appropriate for them.

**Misleading marketing material:** In some cases the marketing material used by firms was misleading and not sufficiently balanced to outline both the benefits and the risks of CFD and financial spread betting as required under MiFID Regulations. Many promotions were found to set out the relative benefits of CFD and financial spread betting in comparison with share trading, without setting out the relative disadvantages.

**Inadequate risk disclosures:** Risk warnings and disclosures on websites and documentation were not always adequate to convey the risks associated with CFD and spread betting fully to clients and potential clients. For example, risk warnings should state, where applicable, that losses could exceed initial investment and should also refer to the effects of price volatility.

ENDS

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## **Note to editors**

CFD and financial spread betting allows a client to take a view on the movement in the price of financial instruments such as shares, share indices, currencies and commodities without ever owning the underlying instrument. It offers retail clients access to the gains and losses of financial markets that would traditionally be limited to institutional and professional investors. CFD and financial spread betting is a leveraged product and can magnify clients' potential losses.

As there is a high level of risk attached to this kind of activity including significant losses, coupled with the growth of retail clients in the market, the Central Bank inspection was carried out to ascertain whether retail clients were informed of the risks of CFD and financial spread betting prior to opening an account.

CFD and financial spread betting firms are authorised as Investment Firms and must comply with the European Communities (Markets in Financial Instruments) Regulations 2007 ('MiFID Regulations').