HELLENIC REPUBLIC
CAPITAL MARKET COMMISSION

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"Warning to investors about CFDs, FOREX and other speculative investment products

Recently, there has been an increase in the offering to investors of over-the-counter financial instruments (including contracts for differences - CFDs, foreign exchange derivatives - FOREX and binary options, hereinafter “OTC derivatives”) in electronic trading platforms. At the same time, investors’ complaints about significant losses from trading in these derivatives have increased.

OTC derivatives are used for speculative purposes and are by definition complex products, risky for investors.

According to studies by the National Supervisory Authorities, investors investing in OTC derivatives in most cases lose the funds they invested. Nevertheless, these derivatives are widely advertised to investors within the European Union, mainly through online platforms.

At the same time, there have been cases in which OTC derivatives are offered to investors by not licensed and not supervised entities, which increases the risk for investors.

You may find below the most important issues that the potential investor should be aware of and the risks from investing in OTC derivatives.

1. Leverage

A key feature of OTC derivatives is leverage. This means in practice that the value of the invested capital is a multiple of the amount of money required to open a position (“margin”).

This multiplier is the so called "leverage” and is determined by the investment firm (hereinafter referred to as "the Firm"). It is obvious that the higher the leverage, the greater the investor's profits or losses. In addition, due to the fact that the amount of margin required for a transaction is much smaller than the total value of the transaction, it is possible to create the impression to the investor that the specific position is low cost and is therefore attractive (leverage risk). In reality, however, it is likely that any losses due to leverage will increase, thus overlapping the available margin, and that the investor will be required to pay additional funds to the Firm (liquidity risk).

2. OTC derivatives are not standardized financial instruments

OTC derivatives are not linked to a specific financial instrument, but to a wider range of products, such as stocks, currencies, commodities, etc. In addition, some of their key features such as leverage, charges, and basic contract terms may vary depending on the provider of the particular derivative.

3. Regular monitoring by the investor is required

Due to the volatility of the markets, the price of the underlying instruments is likely to change frequently (every second/minute/hour/day), and in combination with the level of leverage, to change the value and returns of OTC derivatives within a short period. Therefore, investors should monitor their position on a daily basis in order to be able to take appropriate action immediately when required.

4. Firms are likely to make tempting proposals and offers through advertising

Firms often offer attractive packages in order to attract potential customers. In particular, they may offer "entry bonus", low charges for the additional services they provide, as well as free of charge transactions in a test environment, in order to familiarize the potential client with transactions in OTC derivatives.

5. Firms must assess the suitability of their potential clients and inform them about the potential risks of trading in OTC derivatives

Firms must assess the suitability of the potential client and provide him/her pre-contractual information in a standardized manner with regard to the risks related to the trading in OTC derivatives. The result of this assessment must be communicated to the potential client in order to receive his/her written consent.

6. Increased investor's responsibility

In the majority of transactions in OTC derivatives through an electronic trading platform, no investment advice is provided by the Firm to the investor. This means that in such cases, investors are solely responsible for their decisions.

7. Additional charges and other expenses

Investors trading in OTC derivatives have to pay, in accordance with the terms of contract, additional amounts such as transaction fees. These expenses have an impact on the net value of the transaction, reducing potential profits and increasing potential loss.

8. Closing a position with price limit (stop loss limit)

Firms allow their clients to choose a price threshold above which their position "closes" automatically, in order to avoid additional losses. However, in cases of rapidly falling prices or at the time markets close, this practice may prove to be ineffective and may not provide investors with the desired level of protection.

9. Execution price

When there is a time interval from the moment the order is placed until the moment the order is executed, the transaction may not be executed at the price entered by the investor.

Protection measures for investors

Before investing in OTC derivatives, investors should carefully read the terms of contract with the Firm. In particular, investors should have fully understood at least the following:

- The amount of leverage,
- the amount of the margin required for each transaction,
- how the Firm calculates the transaction cost,
- what will happen if the position remains open overnight,
- if the Firm has the ability to influence the price of the order immediately after the order is placed,
- what happens in cases where there is a big price difference from the moment the order is placed by the investor, until the moment the order is executed,
- whether there is an investment guarantee system, in case the Firm cannot fulfill its obligations to its clients.

If the framework for trading in OTC derivatives is not clear, it is recommended that investors do not trade in such products.

Additional information

Investors can verify whether the provider of OTC derivatives has been authorised to provide investment services in his/her country, on the websites of the National Supervisory Authorities, relevant links are publicly available on the websites of ESMA and EBA."