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International Organization of Securities Commissions
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IOSCO identifies risks to retail investors of OTC leveraged products

The International Organization of Securities Commissions (IOSCO) issued today a report that identifies various risks related to the marketing and sale of complex OTC leveraged products to retail investors, and describes how some regulators are responding to the challenges these products present.

The *Report on the IOSCO Survey on Retail OTC Leveraged Products* analyses offers of rolling-spot forex contracts, contracts for differences and binary options to retail investors. The fact-finding report is based on a survey of 21 IOSCO members regarding their experiences with leveraged OTC products, the firms that sell them, and current regulatory and supervision frameworks.

Leveraged OTC products have been subject to significant regulatory scrutiny in a number of jurisdictions. Survey respondents raised concerns that retail investors may not be able to assess the risks associated with these products or withstand the losses they may incur. Several studies show that a large majority of investors in these complex products lose money, giving rise to investor complaints regarding their sale. In addition to the poor performance of these products, survey respondents also highlighted difficulties related to the withdrawal of client funds and aggressive or misleading marketing and sales practices.

Survey respondents were also concerned by the cross-border offering of OTC leveraged products. Many firms use on-line advertising, social media, expert blogs and other cross-border marketing techniques to

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attract investors. Moreover, these cross-border promotional campaigns are often aggressive and/or misleading in some jurisdictions.

Several jurisdictions are particularly concerned about the cross-border business of firms located in countries that ban the sale of these products to domestic investors but take no regulatory action if the investors are foreign. In some cross-border cases, regulators struggle to identify or track unlicensed foreign firms that may provide false addresses or use anonymous domain registrations for their websites. The survey results indicate that many unlicensed firms are scams and regulators in several jurisdictions have taken enforcement actions against unregistered firms.

The report describes a variety of possible regulatory approaches and standards for mitigating the risks that OTC leverage products pose to retail investors. A small number of reporting jurisdictions have severely restricted or in some cases banned the sale of these products to retail investors. In all the reporting jurisdictions where such retail sales are allowed, only authorised or registered firms can legally make such sales to the general public, or such authorisation/registration is expected to become a requirement in the near future.

NOTES TO THE EDITORS

1. IOSCO is the leading international policy forum for securities regulators and is recognized as the global standard setter for securities regulation. The organization's membership regulates more than 95% of the world's securities markets in more than 115 jurisdictions and it continues to expand.
2. The IOSCO Board is the governing and standard-setting body of the International Organization of Securities Commissions (IOSCO), and is made up of 34 securities regulators. Ashley Alder, the Chief Executive Officer of the Securities and Futures Commission (SFC) of Hong Kong, is the Chair of the IOSCO Board. The members of the IOSCO Board are the securities regulatory authorities of Argentina, Australia, Belgium, Brazil, China, Egypt, France, Germany, Hong Kong, India, Indonesia, Ireland, Italy, Jamaica, Japan, Kenya, Malaysia, Mexico, Nigeria, Ontario, Pakistan, Peru, Quebec, Saudi Arabia, Singapore, South Korea, Spain, Sweden, Switzerland, the Netherlands, Turkey, the United Kingdom, and the United States of America.

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3. The Growth and Emerging Markets Committee is the largest Committee within IOSCO, representing close to 80 per cent of the IOSCO membership, including 11 of the G20 members. Ranjit Ajit Singh, Chairman of the Securities Commission Malaysia and Vice Chair of the IOSCO Board, is the Chair of the GEM Committee. The Committee brings members from growth and emerging markets together and communicates members' views and facilitates their contribution across IOSCO and at other global regulatory discussions. The GEM Committee's strategic priorities are focused, among others, on risks and vulnerabilities assessments, policy and development work affecting emerging markets, and regulatory capacity building.
4. IOSCO aims through its permanent structures:
 - to cooperate in developing, implementing and promoting adherence to internationally recognized and consistent standards of regulation, oversight and enforcement in order to protect investors, maintain fair, efficient and transparent markets, and seek to address systemic risks;
 - to enhance investor protection and promote investor confidence in the integrity of securities markets, through strengthened information exchange and cooperation in enforcement against misconduct and in supervision of markets and market intermediaries; and
 - to exchange information at both global and regional levels on their respective experiences in order to assist the development of markets, strengthen market infrastructure and implement appropriate regulation.

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