

CONDUCT OF BUSINESS (CONTRACTS FOR DIFFERENCE) INSTRUMENT 2019

Powers exercised

- A. The Financial Conduct Authority (“the FCA”) makes this instrument in the exercise of the following powers and related provisions in the Financial Services and Markets Act 2000 (“the Act”):
- (1) section 137A (The FCA’s general rules);
 - (2) section 137D (FCA general rules: product intervention);
 - (2) section 137R (Financial promotion rules);
 - (3) section 137T (General supplementary powers); and
 - (4) section 139A (Power of the FCA to give guidance).
- B. The rule-making provisions listed above are specified for the purposes of section 138G(2) (Rule-making instruments) of the Act.
- C. The FCA also makes the restrictions contained within this instrument in the exercise of the power under article 42 of Regulation (EU) No 600/2014 of the European Parliament and of the Council of 15 May 2014 on markets in financial instruments and amending Regulation (EU) No 648/2012.

Commencement

- D. Part 1 of Annex A and Part 1 of Annex B of this instrument come into force on 1 August 2019.
- E. Part 2 of Annex A and Part 2 of Annex B of this instrument come into force on 1 September 2019.

Amendments to the Handbook

- F. The Glossary of definitions is amended in accordance with Annex A to this instrument.
- G. The Conduct of Business sourcebook (COBS) is amended in accordance with Annex B to this instrument.

Citation

- H. This instrument may be cited as the Conduct of Business (Contracts for Difference) Instrument 2019.

By order of the Board
27 June 2019

Annex A

Amendments to the Glossary of definitions

In this Annex, underlining indicates new text and striking through indicates deleted text, unless otherwise indicated.

Part 1: Comes into force on 1 August 2019

Insert the following new definitions into the appropriate alphabetical positions. The text is not underlined.

<i>major foreign exchange pair</i>	two different currencies from the following list of currencies: US dollar, euro, Japanese yen, pound sterling, Canadian dollar and Swiss franc.
<i>major stock market index</i>	<p>one of the following stock market indices:</p> <ul style="list-style-type: none"> (a) Financial Times Stock Exchange 100 (FTSE 100); (b) Cotation Assistée en Continu 40 (CAC 40); (c) Deutsche Bourse AG German Stock Index (DAX 30); (d) Dow Jones Industrial Average (DJIA); (e) Standard & Poor's 500 (S&P 500); (f) NASDAQ Composite Index (NASDAQ); (g) NASDAQ 100 Index (NASDAQ 100); (h) Nikkei Index (Nikkei 225); (i) Standard & Poor's/Australian Securities Exchange 200 (ASX 200); or (j) EURO STOXX 50 Index (EURO STOXX 50).
<i>minor foreign exchange pairs</i>	a pair of two different currencies whose exchange rates are traded in the foreign exchange market which is not a <i>major foreign exchange pair</i> .
<i>minor stock market index</i>	a stock market index which is not a <i>major stock market index</i> .
<i>relevant sovereign debt</i>	<p>a debt issuance, issued by or on behalf of:</p> <ul style="list-style-type: none"> (a) the government of the <i>United Kingdom</i>;

- (b) the Scottish Administration;
- (c) the Executive Committee of the Northern Ireland Assembly;
- (d) the National Assembly of Wales;
- (e) a member state of the *EU* that has adopted the euro as its currency;
- (f) the United States of America;
- (g) Japan;
- (h) Canada; or
- (i) Switzerland.

*restricted
speculative
investments*

any of the following *investments*:

- (1) leveraged *contracts for differences*;
- (2) leveraged *spread bets*; and
- (3) leveraged *rolling spot forex contracts* (other than a *future* falling within limb (a) of the *Glossary* definition of *rolling spot forex contract*),

but only where such *investments* are *financial instruments*.

Amend the following definitions as shown.

commodity

...

- (2) (for the purpose of calculating *position risk requirements* and for the purposes of COBS 22) any of the following (but excluding gold):

...

...

margin

- (1) (in *COLL*) cash or other property paid, transferred or deposited under the terms of a *derivative*; for these purposes cash or property will be treated as having been paid, transferred or deposited if it must be paid, transferred or deposited in order to

comply with a requirement imposed by the market on which the contract is made or traded.

- (2) (in COBS 22) cash transferred or deposited under the terms of a derivative; for these purposes cash will be treated as having been paid, transferred or deposited if it must be paid, transferred or deposited in order to comply with a requirement imposed by the market on which the contract is made or traded.

Part 2: Comes into force on 1 September 2019

Insert the following new definition in the appropriate alphabetical position. The text is not underlined.

restricted option an *option*:

- (1) that is *in the money* at the point of sale;
- (2) where the value is determined by one-to-one fluctuations in the value or price of the underlying asset; and
- (3) for which the value is not significantly affected by the time to expiry.

Amend the following definition as shown.

restricted speculative investments any of the following *investments*:

- (1) leveraged *contracts for differences*;
- (2) leveraged *spread bets*; ~~and~~
- (3) leveraged *rolling spot forex contracts* (other than a *future* falling within limb (a) of the *Glossary* definition of *rolling spot forex contract*); and
- (4) *restricted options*,

but only where such *investments* are *financial instruments*.

Annex B

Amendments to the Conduct of Business sourcebook (COBS)

In this Annex, underlining indicates new text and striking through indicates deleted text, unless otherwise stated.

Part 1: Comes into force on 1 August 2019

4 Communicating with clients, including financial promotions

...

4.7 Direct offer financial promotions

...

4.7.6 R ...

4.7.6A G *Firms are reminded of their obligations in relation to the marketing, distribution and sale of restricted speculative investments in COBS 22.5.*

...

22 Restrictions on the distribution of certain complex investment products

...

Insert the following new section, COBS 22.5, after COBS 22.4 (Prohibition on the retail marketing, distribution and sale of derivative contracts of a binary or other fixed outcomes nature). The text is not underlined.

22.5 Restrictions on the retail marketing, distribution and sale of contracts for differences and similar speculative investments

Application

22.5.1 R (1) Subject to (2), this section applies to:

- (a) *MiFID investment firms with the exception of collective portfolio management investment firms; and*
- (b) *branches of third country investment firms,*

in relation to the marketing, distribution or sale of restricted speculative investments in or from the United Kingdom to a retail client.

- (2) This section does not apply to the marketing, distribution or sale of *restricted speculative investments* to a *retail client* in another *EEA State* to the extent that those activities are subject to stricter requirements imposed under article 42 of *MiFIR* by the *competent authority* of that *EEA State*.
- 22.5.2 G The *rule* in *COBS 22.5.1R(2)* means that a *firm* does not need to comply with the *rules* in this section to the extent that the marketing, distribution or sale by that *firm* is subject to a stricter requirement in the *retail client's* state. For instance:
- (1) Where a *firm* sells a *restricted speculative investment* to a *retail client* in an *EEA State* (A) and A has imposed stricter margin requirements for *retail clients* than those in this section, but the remainder of the requirements imposed by A are the same or less strict than those in this section, then the *firm* should comply with the stricter margin requirements imposed by A but should still comply with the remainder of the *rules* in this section.
- 22.5.3 G *Firms* are reminded that the *Glossary* definition of *MiFID investment firm* includes *CRD credit institutions* when those institutions are providing an *investment service* or *activity*.
- 22.5.4 G For the avoidance of doubt, “marketing” *restricted speculative investments* includes *communicating* and/or *approving financial promotions*, and “distribution or sale” includes *dealing* in relation to *restricted speculative investments*.
- 22.5.5 R The *rules* in this section do not apply to *derivative* instruments for the transfer of credit risk to which article 85(3) of the *Regulated Activities Order* applies.

Standardised risk warning

- 22.5.6 R (1) Subject to *COBS 22.5.7R*, a *firm* must not:
- (a) market, publish, provide or communicate in any other way any communication or information in a *durable medium* or on a webpage or website to a *retail client*, or in such a way that it is likely to be received by a *retail client*;
 - (b) *approve* or *communicate a financial promotion* in a *durable medium* or on a webpage or website; or
 - (c) disseminate such a communication, information or *financial promotion* to a *retail client*, or in such a way that it is likely to be received by a *retail client*,

unless the *firm* includes the following risk warning:

“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 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.”

- (2) The risk warning must be modified as necessary to refer to the percentage of *retail client* accounts that lost *money* relevant to the *firm*.
- (3) The *firm's* disclosure of the percentage of *retail client* accounts that lost *money* must include an up-to-date percentage based on a calculation of the percentage of *retail client* accounts held with the *firm* that lost *money*.
- (4) The calculation in (3) must be performed every three *months* and cover the 12-*month* period preceding the date of the calculation.
- (5) For the purposes of the calculation in (3), an individual *retail client* account must be considered to have lost *money* if the sum of all realised and unrealised net profits on *restricted speculative investments* traded in that *retail client's* account during the 12-*month* calculation period is below zero.
- (6) The calculation in (3) must include all costs, fees, *commissions* and any other charges.
- (7) The calculation in (3) must not include:
 - (a) a *retail client* account that did not have an open *restricted speculative investment* connected to it within the calculation period;
 - (b) any profits or losses from *investments* other than *restricted speculative investments*;
 - (c) any deposits of funds; or
 - (d) any withdrawals of funds.
- (8) The *firm* must retain records of the *retail client* accounts used for these calculations for five years.
- (9) Where the *retail client* has not approached the *firm* through a website or mobile application, the risk warning must be provided in a *durable medium* in good time before the *firm* carries on any business for the *retail client*.

- (10) Where the communication, information or *financial promotion* referred to in *COBS 22.5.6R(1)* is in a medium other than a *durable medium*, website or webpage, the following risk warning must be included:

[insert percentage per provider]% of retail investor accounts lose money when trading CFDs with this provider.

You should consider whether you can afford to take the high risk of losing your money.”

- (11) For the purposes of *COBS 22.5.6R(10)*, if the number of characters contained in that risk warning exceeds the character limit permitted by a third party marketing provider, the following risk warning must be used:

[insert percentage per provider]% of retail CFD accounts lose money.”

- (12) Where the risk warning in *COBS 22.5.6R(11)* is used, the *firm* must ensure that the risk warning is accompanied by a direct link to the *firm's* webpage which contains the risk warning in *COBS 22.5.6R*.

- 22.5.7 R (1) If, when required to perform the calculation of percentage of loss, a *firm* has not entered into a single trade involving a *restricted speculative investment* with a *retail client* in the previous 12 months, the *firm* must use the following risk warnings as appropriate for the purposes of *COBS 22.5.6R*:

- (a) where the communication, information or *financial promotion* is provided in a *durable medium*, website or webpage:

“CFDs are complex instruments and come with a high risk of losing money rapidly due to leverage.

The vast majority of retail client accounts lose money when trading in CFDs.

You should consider whether you can afford to take the high risk of losing your money.”

- (b) where the communication, information or *financial promotion* is in a medium other than a *durable medium*, website or webpage:

“The vast majority of retail client accounts lose money when trading in CFDs.

You should consider whether you can afford to take the high risk of losing your money.”

- (c) For the purposes of *COBS 22.5.7R(1)(b)*, where the number of characters contained in that risk warning exceeds the character

limit permitted by a third party marketing provider, the following risk warning must be used:

<p>“CFD-retail client accounts generally lose money.”</p>
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- 22.5.8 R The relevant risk warning in *COBS 22.5.6R* or *COBS 22.5.7R* must be:
- (1) prominent;
 - (2) contained within its own border and with bold and unbold text as indicated;
 - (3) if provided on a website or via a mobile application, statically fixed and visible at the top of the screen even when the *retail client* scrolls up or down the webpage; and
 - (4) if provided on a website, included on each linked webpage on the website.
- 22.5.9 G The relevant risk warning, including the font size, should be:
- (1) proportionate, taking into account the content, size and orientation of the marketing material as a whole; and
 - (2) published against a neutral background.

Margin requirements for retail clients

- 22.5.10 R A *firm* must not open a position in relation to a *restricted speculative investment* for a *retail client* unless the *margin* posted to open the position is in the form of *money*.
- 22.5.11 R A *firm* must require a *retail client* to post *margin* to open a position of at least the following amounts:
- (1) 3.33% of the value of the exposure that the trade provides when the underlying asset is a *major foreign exchange pair* or *relevant sovereign debt*;
 - (2) 5% of the value of the exposure that the trade provides when the underlying asset is a *major stock market index*, *minor foreign exchange pair* or gold;
 - (3) 10% of the value of the exposure that the trade provides when the underlying asset is a *minor stock market index* or a *commodity* other than gold;
 - (4) 50% of the value of the exposure that the trade provides when the underlying asset is a cryptocurrency; or

- (5) 20% of the value of the exposure that the trade provides when the underlying asset is a *share* or an asset not otherwise listed in COBS 22.5.11R(1) to (4) above.

22.5.12 G For the purposes of COBS 22.5.11R, “exposure” means the total value of the exposure that the *restricted speculative investment* provides. An example is set out below.

- (1) A *firm* offers a *restricted speculative investment* when the underlying asset is a 5 x leveraged index on gold. The value of the index is £800. The value of the exposure that the trade provides is therefore £800 x 5, or £4000.

Margin close out requirements for retail clients

- 22.5.13 R (1) A *firm* must ensure a *retail client’s* net equity in an account used to trade *restricted speculative investments* does not fall below 50% of the *margin* requirement (as outlined in COBS 22.5.11R) required to maintain the *retail client’s* open positions.
- (2) Where a *retail client’s* net equity falls below 50% of the *margin* requirement, the *firm* must close the *retail client’s* open position(s) on restricted speculative investments as soon as market conditions allow.
- (3) In this *rule*, “net equity” means the sum of the *retail client’s* net profit and loss on their open position(s) and the *retail client’s* deposited *margin*.
- 22.5.14 R A *firm* must not maintain an open position in relation to a *restricted speculative investment* for a *retail client* unless the *margin* posted to maintain the open position is in the form of *money*.
- 22.5.15 R A *firm* must provide to a *retail client* a clear description in a *durable medium* or make available on a website (where that does not constitute a *durable medium*) that meets the *website conditions* of how the *retail client’s* *margin* close out level will be calculated and triggered:
- (1) in good time before the *retail client* opens their first position; and
- (2) in good time before any change to the terms and conditions applicable to the *retail client* takes effect.
- 22.5.16 G *Firms* are reminded that they must comply with COBS 2.1.1R (the client’s best interests rule) and COBS 11.2A.2R (obligation to execute orders on terms most favourable to the client) when:
- (1) making a *margin* call to a *retail client*; or
- (2) exercising a discretionary right to close a *retail client’s* position; or
- (3) closing a *retail client’s* position(s).

Negative balance protection

- 22.5.17 R The liability of a *retail client* for all *restricted speculative investments* connected to the *retail client's* account is limited to the funds in that account.
- 22.5.18 G *COBS 22.5.17R* means that a *retail client* cannot lose more than the funds specifically dedicated to trading *restricted speculative investments*.
- 22.5.19 G For the purposes of *COBS 22.5.17R*, funds in a *retail client's* account are limited to the *cash* in the account and unrealised net profits from open positions. "Unrealised net profits from open positions" means the sum of unrealised gains and losses of all open positions recorded in the account. Any funds or other assets in the *retail client's* account for purposes other than trading *restricted speculative investments* should be disregarded.

Restrictions on monetary incentives and non-monetary incentives

- 22.5.20 R A *firm* must not offer to a *retail client*, or provide a *retail client* with, any of the following when marketing, distributing or selling a *restricted speculative investment*:
- (1) a monetary incentive; or
 - (2) a non-monetary incentive.
- 22.5.21 G For the purposes of *COBS 22.5.20R*:
- (1) monetary incentives include, but are not limited to, the offering of bonuses in relation to the opening of a new account or the offering of rebates on fees (including volume-based rebates);
 - (2) lower fees offered to all *retail clients* do not constitute a monetary incentive; and
 - (3) information and research tools do not constitute non-monetary incentives.

Other products

- 22.5.22 G *Firms* that market, distribute or sell *derivatives* with similar features to *restricted speculative investments* (particularly where the *derivatives* are leveraged) to *retail clients*, should have particular regard to how they comply with applicable obligations found elsewhere in the *FCA Handbook*, including, where relevant:
- (1) *COBS 2.1.1R* (The client's best interests rule);
 - (2) *COBS 4.2.1R* (The fair, clear and not misleading rule);

- (3) *COBS* 9A (Suitability (MiFID and insurance-based investment products provisions));
- (4) *COBS* 10A (Appropriateness (for non-advised services) (MiFID and insurance-based investment products provisions));
- (5) *PRIN*, particularly *principles* 1, 2 and 6; and
- (6) *PROD* 3 (Product governance: MiFID).

Part 2: Comes into force on 1 September 2019

Amend the following as shown.

22.5 Restrictions on the retail marketing, distribution and sale of contracts for differences and similar speculative investments

...

22.5.1 R (1) Subject to (2), *COBS* 22.5.1AR, *COBS* 22.5.1BG and *COBS* 22.5.1CR this section applies to:

...

22.5.1A R The rules in this section do not apply to the sale and distribution of restricted options by a firm (F) in circumstances where F sells a restricted option to a retail client through an intermediary.

22.5.1B G For the avoidance of doubt, the exclusion in *COBS* 22.5.1AR only applies to F.

22.5.1C R The rules in this section do not apply to the sale and distribution of restricted options by an EEA MiFID investment firm (EEAMIF) in circumstances where:

(1) the EEAMIF has not marketed, nor caused to be marketed, the restricted option in the United Kingdom; and

(2) the retail client is in the United Kingdom and has approached the EEAMIF at their own exclusive initiative.

...

Standardised risk warning

22.5.6 R (1) Subject to *COBS* 22.5.7R and *COBS* 22.5.7AR, a firm must not:

(a) ...

(b) ...

(c) ...

unless the *firm* includes one of the following risk warning: warnings,
as appropriate.

~~“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 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.”~~

(1A Subject to 1B, if a *firm* markets, distributes or sells:
)

(a) leveraged contracts for differences;

(b) leveraged spread bets; or

(c) leveraged rolling spot forex contracts,

the *firm* must include the following risk warning:

“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 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.”

(1B If a *firm* markets, distributes or sells:
)

(a) restricted options; and

(b) one or more of the following:

(i) leveraged contracts for differences;

(ii) leveraged spread bets; or

(iii) leveraged rolling spot forex contracts,

)

the *firm* must include the following risk warning:

“CFDs and restricted options 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 CFDs and restricted options with this provider.

You should consider whether you understand how CFDs and restricted options work and whether you can afford to take the high risk of losing your money.”

- (1C) If a firm markets, distributes or sells *restricted options* but does not market, distribute or sell *leveraged contracts for differences*, *leveraged spread bets* or *leveraged rolling spot forex contracts*, the firm must include the following risk warning:

“Restricted options 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 restricted options with this provider.

You should consider whether you understand how restricted options work and whether you can afford to take the high risk of losing your money.”

...

- (10) Where the communication, information or *financial promotion* referred to in COBS 22.5.6R(1) is in a medium other than a *durable medium*, website or webpage, firms must include one of the following risk warning warnings, must be included: as appropriate.

[insert percentage per provider]% of retail investor accounts lose money when trading CFDs with this provider.

You should consider whether you can afford to take the high risk of losing your money.”

- (10) Subject to 10B, if a firm markets, distributes or sells:

A)

(a) leveraged *contracts for differences*;

(b) leveraged *spread bets*; or

(c) leveraged *rolling spot forex contracts*.

the firm must include the following risk warning:

“[insert percentage per provider]% of retail investor accounts lose money when trading CFDs with this provider.

You should consider whether you can afford to take the high risk of losing your money.”

(10) If a *firm* markets, distributes or sells:
B)

- (a) *restricted options*; and
- (b) one or more of the following:
 - (i) *leveraged contracts for difference*;
 - (ii) *leveraged spread bets*; or
 - (iii) *leveraged rolling spot forex contracts*,

the *firm* must include the following risk warning:

“[insert percentage per provider]% of retail investor accounts lose money when trading CFDs and restricted options with this provider.

You should consider whether you can afford to take the high risk of losing your money.”

(10) If a *firm* markets, distributes or sells *restricted options* but does not
C) market, distribute or sell *leveraged contracts for differences*, *leveraged spread bets* or *leveraged rolling spot forex contracts*, the *firm* must include the following risk warning:

“[insert percentage per provider]% of retail investor accounts lose money when trading restricted options with this provider.

You should consider whether you can afford to take the high risk of losing your money.”

...

22.5.7 R (1) This rule applies when: If, when required to perform the calculation of percentage of loss, a *firm* has not entered into a single trade involving a *restricted speculative investment* with a *retail client* in the previous 12 months, the *firm* must use the following risk warnings as appropriate for the purposes of COBS 22.5.6R:

- (a) where the communication, information or *financial promotion* is provided in a *durable medium*, website or webpage:

~~“CFDs are complex instruments and come with a high risk of losing money rapidly due to leverage.~~

~~The vast majority of retail client accounts lose money when trading in CFDs.~~

~~You should consider whether you can afford to take the high risk of losing your money.”~~

a firm is required to perform the calculation of percentage of loss for the purposes of the risk warning and the firm has not entered into a single trade involving a restricted speculative investment with a retail client in the previous 12 months; and

- (b) ~~where the communication, information or financial promotion is in a medium other than a durable medium, website or webpage:~~

~~“The vast majority of retail client accounts lose money when trading in CFDs.~~

~~You should consider whether you can afford to take the high risk of losing your money.”~~

the firm’s communication, information or financial promotion is provided in a durable medium, website or webpage.

- (c) ~~For the purposes of COBS 22.5.7R(1)(b), where the number of characters contained in that risk warning exceeds the character limit permitted by a third party marketing provider, the following risk warning must be used: [deleted]~~

~~“CFD-retail client accounts generally lose money.”~~

- (2) The firm must use one of the following risk warnings as appropriate for the purposes of COBS 22.5.6R:

- (a) If a firm markets, distributes or sells:

(i) leveraged contracts for differences;

(ii) leveraged spread bets; or

(iii) leveraged rolling spot forex contracts,

the firm must use the following risk warning:

“CFDs are complex instruments and come with a high risk of losing money rapidly due to leverage.

The vast majority of retail client accounts lose money when trading in CFDs.

You should consider whether you can afford to take the high risk of losing your money.”

- (b) If a firm markets, distributes or sells:

(i) restricted options; and

- (ii) leveraged contracts for differences;
- (iii) leveraged spread bets; or
- (iv) leveraged rolling spot forex contracts,

the *firm* must use the following risk warning:

“CFDs and restricted options are complex instruments and come with a high risk of losing money rapidly due to leverage.

The vast majority of retail client accounts lose money when trading in CFDs and restricted options.

You should consider whether you can afford to take the high risk of losing your money.”

- (c) If a *firm* markets, distributes or sells *restricted options* but does not market, distribute or sell *leveraged contracts for differences*, *leveraged spread bets* or *leveraged rolling spot forex contracts*, the *firm* must use the following risk warning:

“Restricted options are complex instruments and come with a high risk of losing money rapidly due to leverage.

The vast majority of retail client accounts lose money when trading in restricted options.

You should consider whether you can afford to take the high risk of losing your money.”

22.5.7A R (1) This rule applies when:

- (a) a *firm* is required to perform the calculation of percentage of loss for the purposes of the risk warning and the *firm* has not entered into a single trade involving a *restricted speculative investment* with a *retail client* in the previous 12 months; and
- (b) the *firm*'s communication, information or *financial promotion* is in a medium other than a *durable medium*, website or webpage.

(2) The *firm* must use one of the following risk warnings as appropriate for the purposes of COBS 22.5.6R:

- (a) If a *firm* markets, distributes or sells:
 - (i) leveraged contracts for differences;
 - (ii) leveraged spread bets; or
 - (iii) or leveraged rolling spot forex contracts,

the *firm* must use the following risk warning:

“The vast majority of retail client accounts lose money when trading in CFDs.

You should consider whether you can afford to take the high risk of losing your money.”

(b) If a *firm* markets, distributes or sells:

(i) restricted options; and

(ii) leveraged contracts for differences;

(iii) leveraged spread bets; or

(iv) leveraged rolling spot forex contracts,

the *firm* must use the following risk warning:

“The vast majority of retail client accounts lose money when trading in CFDs and restricted options.

You should consider whether you can afford to take the high risk of losing your money.”

(c) If a *firm* markets, distributes or sells *restricted options* but does not market, distribute or sell *leveraged contracts for differences*, *leveraged spread bets* or *leveraged rolling spot forex contracts*, the *firm* must use the following risk warning:

“The vast majority of retail client accounts lose money when trading in restricted options.

You should consider whether you can afford to take the high risk of losing your money.”

(d) Where the number of characters contained in the risk warnings in this *rule* exceeds the character limit permitted by a third party marketing provider, the following risk warning must be used:

“CFD-retail client accounts generally lose money.”

...

22.5.12 G For the purposes of COBS 22.5.11R, “exposure” means the total value of the exposure that the *restricted speculative investment* provides. ~~An example is~~ Examples are set out below.

(1) A *firm* offers a *restricted speculative investment* when the underlying asset is a 5 x leveraged index on gold. The value of the index is £800.

The value of the exposure that the trade provides is therefore £800 x 5, or £4000; or

- (2) a firm offers a contract for differences where the underlying asset is a restricted option that references the FTSE 100. For this contract for differences, the value of the exposure that the trade provides is equal to the value of the underlying asset of the restricted option. For pricing the restricted option, the firm offers £1 of exposure for each point of the FTSE 100. Under these terms, if the retail client buys the contract for differences on a restricted option when the FTSE 100 is trading at 7070, the value of the exposure that the trade provides is £7070 (i.e. 7070 x £1).