



CFD/FOREX Regulations

On 23 March 2018, the European Securities and Market Authority (ESMA) made the decision to prohibit and restrict margin transactions conducted by retail investors and to guarantee greater investor protection.

The purpose of ESMA's product intervention measures is to ensure harmonized protection of retail investors, regardless of their country of residence, in respect of transactions in high-risk derivative financial instruments (CFD/FOREX). The restrictions took effect on 1 August 2018 and was in force until 31 July 2019.

In the Republic of Latvia, the Financial and Capital Market Commission (FCMC) has adopted the *Regulations relating to the restriction on the marketing, distribution and sale of contracts for differences and binary options to retail clients* (in effect as of 1 August 2019).

Requirements concerning CFD/FOREX transactions with retail clients includes:

- **Risk warnings.** Retail clients will receive regular and standardised risk warnings (risk warnings delivered in a standardised way), including information on the overall percentage of retail client accounts that lose money when trading CFDs or FOREX. **The main purpose** of the risk warnings is to draw retail clients' attention to the high risk specific to margin transactions, including the possibility of losing more money than they invested and the likelihood of making a profit.
- **Negative balance protection.** The negative balance protection aims at protecting retail clients in exceptional circumstances where there is a price change in the underlying that is sufficiently large and sudden to prevent the CFD/FOREX provider from closing out the position as required by the margin close-out protection, such that the client has a negative account value. The purpose of this measure is to ensure that a retail client's maximum losses from trading CFDs/FOREX, including all related costs, are limited to the total funds related to trading CFDs/FOREX that are in the investor's CFD/FOREX trading account.
- **Leverage limits on opening positions and consistent introduction of standardised initial margin:** The initial margin protection will reduce the probability of client losses compared to those that would be expected if the client were to trade at higher leverage. For retail clients, ESMA imposes restrictions both on trading volumes and on profit-generating possibilities.
- **Margin close-out protection provides for the closure of all open CFD/FOREX positions and the standardisation of the percentage at which CFD/FOREX providers are required to close-out a client's open CFD/FOREX (at 50% of the initial required margin):** this measure mitigates the risk of substantial loss by retail clients and is therefore proportionate, thus preventing clients from losing significantly more than the sum initially invested in CFD/FOREX products. The application of a margin stop out rule at 50 % of initial margin on a per position basis provides for the closure of all open positions in CFD/FOREX if account balance decreases, i.e. the margin reaches 50% of its initial value. As a result, retail clients that apply specific trading strategies would no longer be able to use these strategies effectively, as in accordance with the new ESMA regulations, individual specific positions could be closed at a certain moment if clients do not top up their margins for the specific position, therefore resulting in unanticipated market exposure on the remaining positions.

Margin trading rates simultaneously apply to all available-for-trading CFD/FOREX instruments. As the restrictive measures impose on Bank more tangible obligations and substantially increase the administrative burden associated with providing services to retail clients, **Bank ceased providing a service related to the conclusion of CFD and Foreign Exchange Margin Transactions (FXM Transactions) to retail clients with effect from 1 August 2018. Bank continues to provide the service only to professional clients and to eligible counterparties (ECPs).**

The FCMC's restrictive measures do not apply to professional clients and to eligible counterparties (ECPs).