

News

ASIC'S GUIDE FOR CFD ISSUERS

By [Andrew Tsanadis](#) on 15 August 2011 [3 comments](#)

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ASIC has released a regulatory guide for contracts for difference (CFD) issuers in order to provide greater disclosure to investors.

The guide, entitled "Over-the-counter contracts for difference: Improving disclosure for retail investors", provides seven benchmarks for which CFD issuers are to adhere.

The benchmarks include client qualification, opening collateral, hedging, financial resources, client money, suspended or halted underlying costs, and margin calls.

As part of addressing each of the benchmarks stipulated in the guide, issuers must provide a detailed explanation of their policies and practices when trading.

For example, one of the standards requires the issuer to disclose whether they hold sufficient liquid funds to withstand significant adverse market movements.

ASIC said most CFDs are issued as over-the-counter (OTC) products, making them increasingly accessible to retail investors.

The regulatory body warns that because of this, many investors may not be aware of the high-risk nature of CFDs.

"Most investors don't understand the complexity of CFDs, and they don't get independent financial advice," said ASIC chairman Greg Medcraft.

"That means we need CFD issuers to do a much better job of spelling out to investors the risks, as well as the rewards of these complex products.

"We want issuers to work harder to ensure people investing in CFDs better understand what they are getting into - before they start trading," he said.

The guide requires CFD issuers to either address each of the seven benchmarks or provide an 'if not, why not' explanation in their products disclosure statements.

According to Investment Trends' 2010 Australian CFD Report, there are currently 39,000 active CFD investors in Australia.

ASIC said the CFD market has seen growth of over 300 per cent in the past 5 years, and it is reasonable to assume that this growth will continue.



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COMMENTS

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Part 1) I think this is just further continuation of Regulatory and Legislative lunacy. Sure, more disclosure, in large print, may help a few. BUT-the fundamental concepts, the legal language, the nuances and gray areas outweigh this, and Regulators have forgotten or ignore the fundamental purpose of the market, which is to aggregate capital, and to participate in ownership, gains (and losses), and dividends. It has gone from a market, to a casino, to a video game. CFD's are enormously leveraged instruments (Up to 30x, according to TV ads), and add huge, unwarranted volatility. THEY DON'T EVEN EXIST in the US, as they are considered too dangerous for investors (unlimited losses). Even Margin Lending is limited to 50%, unlike the 75%-80% in Oz. There are questions about underlying security and counterparties; whether they hold physical shares, options, or whatever guarantees. They are probably here due to Aussie love of gambling. If we want a semblance of market sanity and a return to original purpose, there should be a gradual reduction in allowed gearing levels (and some products should not be allowed at all). THERE IS NO SUCH THING AS A "FREE MARKET". Any and every relationship in life requires rules, inhibitions and limitations, whether marriage, not stealing from neighbours, or voting. The market manipulators talk about "Liquidity", "Depth of Market", and "Portfolio Protection", BS-it is just another tool to fleece people, faster, because the "Behind the scenes manipulators" ALWAYS operate on the fringes, and have the analytical horsepower, capital, and access to move the market and force losses. Even IF CFD's are allowed, there should be a reasonable continuum of risk-Margin Loans capped @ 50%-60%; CFD's should be capped at (say) 5-10x; short selling should cost a MINIMUM 5% fee, plus a regime of "Please explain" and trading halt when volumes are exceeded, just like market notification when a buyer passes 5% of ownership. If someone is short selling (and immediately gaining benefit of 100% of the sale, thus incentivising market manipulation), they know or believe something, based on something; why doesn't the market know? A return to basics and original purpose. To Be Continued...

Davey Jones | 15 August 2011 at 12:35

Part 2) The following relates to CFD's, excessive leverage, volatility, and market manipulation: Does anyone really believe that the recent market turmoil is coincidental? An enormous drop (10%+), JUST BEFORE reporting season, with the "pirouette" turnaround within a few hours, and the enormous trading (200%-300%+ of average daily volumes) JUST IN TIME to complete share ownership transfer before the majority of dividend declaration and Record Dates? Sure, US political gamesmanship-what else is new? Sure, S&P downgrades US debt-it has been known for months-will the US going to default? No! Tax receipts are well within required cash flow. I also find it strange that immediately after the European Central Bank (EU ECB) helps reduce the Italian/Spanish bond problem, rumours start surfacing about French bank weakness. Judging by some of the more insightful financial commentary here and O/S, there was certainly a large element of predatory long term planning, short sales, automated computerised trading "front running" and "bandwagon jumping", reinforcing and accelerating processes of dragging down the market, and of course, panic and forced margin call selling. IMO, the markets are constantly being manipulated, or at the very least, high speed computerised trading, excessive leverage, derivatives, and sophisticated modelling, creating virtually coordinated actions are destroying the world economy. Regulators and Legislators have lost sight of original purpose; are too close to the trough of wealth to disallow "Tools of mass wealth destruction (Warren Buffet), and are simply ignorant. It is the "Efficient Market" taken to extremes. Even if uncoordinated (I still think it is planned, certainly by individual investment banks reading the impending situation), the speed reinforces itself incredibly quickly. For markets to benefit all (more or less), there has to be some inefficiency and time to react, i.e., ripples in an ocean, not a bathtub. Yes, there is more to vent...

Davey Jones | 15 August 2011 at 13:30

Part 3) It is basically like the wolves now outnumber the antelopes, and 24/7 cable cacophony, lack of knowledge, and media shallowness engender further panic. Imagine a pack of wolves driving a herd of sheep toward a cliff, picking off a few along the way, perhaps letting a few go over the edge (the strong leaders...). They then divert them away from the edge at the last

moment, and run them in a big circle, allowing them to rest and recover momentarily, until the casualties are eaten. Then, back through the cycle. Businesses, companies, factories, mines, factories, lives and COUNTRIES which take years, decades, even CENTURIES to build can now be torn down and destroyed in days and weeks, even while their real life performance has little or nothing to do with their reflected value on the stock market. Drive em in circles; keep the zombies blood pumping; eat a few, let them recuperate, then "harvest" them again... Politicians, professional traders, "Free Marketers", and talking heads believe that the "pool" is big enough that everyone can urinate and toss turds in without consequences-until their eyes start burning and they swallow one! BUT-it is shrinking rapidly. I refer you to an email sent last Saturday by Dr Tony Rumble, of Alpha Strategies (he also appeared on Fox Business Money Morning last Monday www.alpha-strategies.com.au) explaining much of this, with much more in depth technical knowledge and a finger on the market pulse. We are now (and have been for 2 years) looking at sovereign debt and the viability of the modern Nation-State; even wolves, sharks, and hyenas need a habitat, and they are rapidly destroying ours - and their own.

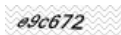
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