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Does your CFD provider hedge with client money?

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Bill Shorten, Assistant Treasurer and Minister for Financial Services and Superannuation, recently released a consultation paper seeking industry comment on client money regulation for over-the-counter (OTC) derivatives, including CFDs.

IG Markets, Australia's largest CFD provider according to Investment Trends, says that it fully supports this move and has been lobbying the government and ASIC for some years now to look at this issue.

While ASIC requires CFD providers to segregate client funds from company funds, this does not include money that the CFD provider might use for hedging. Consequently, the provider could subsequently withdraw client money from this account for hedging purposes.

Head of IG Markets, Asia Pacific, Tamas Szabo, said, "the practice of hedging with client money is permitted under ASIC rules, provided it is properly disclosed to clients. In contrast, this practice is restricted in other jurisdictions, such as the UK."

"We believe that these restrictions should also apply to the Australian market, and we are proud to say that we only use our own money for hedging purposes." Szabo points out that IG Markets keeps all client funds in a separate, regulated trust account at a top-tier Australian bank, and only uses its own funds to hedge in the underlying market.

According to IG Markets, not only does it segregate all client deposits, it also segregates all client net unrealised profits in a regulated trust account.

Having introduced CFDs to the Australian market in 2002, IG Markets is the longest established CFD provider in Australia, and one of the longest established globally. IG Markets is a part of IG Group, a FTSE 250 company with over 130,000 clients worldwide.

Mr Szabo commented on IG Markets' reputation as a secure CFD provider, "when clients choose a company that is a part of a listed group, they have wider access to the financial details of the group and greater confidence that the group employs high levels of corporate governance. IG Markets has large cash reserves and sophisticated risk management systems, making counterparty risk much lower with IG Markets when compared with some other providers."

