



## WARNING BY THE FSMA ABOUT THE RISKS ASSOCIATED WITH SPECULATIVE TRANSACTIONS ON FOREIGN CURRENCIES

The Financial Services and Markets Authority (FSMA) has noticed an increase in proposals of speculative transactions on foreign currencies. The FSMA urges investors to exercise the greatest possible prudence with regard to such proposals. On the one hand, some of these proposals are made by intermediaries who do not have the necessary authorization to do so, and on the other hand, the proposed transactions pose significant risks. They should thus be reserved to investors who are pursuing strictly speculative objectives and who are prepared to lose more than the initial sum invested.

### Why such a warning?

In recent months, the FSMA has noticed an **increase** in Belgium in the number of proposals of **transactions in currency derivatives** made to retail clients. By means of this warning, the FSMA wishes to inform investors about the risks associated with such proposals.

### What types of transaction are these?

The transactions proposed to investors are ones that allow them to **speculate on the differences in currency exchange rates**. They are presented as transactions carried out on the **FOREX**<sup>1</sup>, and are not intended to actually obtain the currencies traded in the transaction in question.

These proposals may take various forms. They may, for instance,

- offer access to **an online platform** on which transactions in currency derivatives can be carried out;
- make it possible to purchase **software** that automatically generates transactions in such derivatives;
- consist of **offers** to purchase currency derivatives.

The currency derivatives that are thus proposed may be given **different names**: CFD ("contract for difference"), FX forward, rolling spot contracts, FX binary options, FX margin trading, etc.

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<sup>1</sup> Forex (sometimes referred to by the initials FX) is a contraction of "Foreign Exchange". The term generally refers to the over-the-counter market on which currencies are traded at constantly varying exchange rates. This market, which is by definition international, is completely unregulated.



### Who may propose such transactions?

Only **credit institutions** or **investment firms** authorized to carry out their activities in Belgium (or their agents)<sup>2</sup> may offer services that make it possible to carry out transactions on currency derivatives<sup>3</sup>. If the intermediary is not authorized to carry out its activities in Belgium, the proposed transaction is **illicit**. The FSMA advises investors not to enter into any transactions with such an intermediary.

### What are the risks related to these transactions?

These transactions pose **various risks**:

- complexity: currency derivatives generally function in a way that is highly **complex**. It is therefore particularly difficult for investors who lack the necessary experience in this area to assess their prospects of gains and their risks of losses;
- potential losses: these transactions often involve a **leverage effect**, which poses additional risks since any losses incurred may prove to be much higher than the sums invested. For example, if someone invests €100 with a leverage effect of 200, he or she will owe €2 000 to the counterparty if the value of the instrument loses 10% of its value (10% of 100 times 200). Over and above this amount, there may be transaction and/or financing charges;
- volatility: the currencies, and certainly exotic currencies, may be characterized by high **volatility**.

### What should investors be careful about if they receive a proposal of such a transaction?

- investors should ensure that the intermediary does have the **necessary authorization**<sup>4</sup>;
- **where spectacular gains** are promised, investors should be aware that generally speaking the **risk of losses will be equally high**, and may exceed the initial sum invested;

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<sup>2</sup> The list of credit institutions and of investment firms authorized to carry out their activities in Belgium and the register of agents acting on behalf of these institutions or firms (intermediaries in banking and investment services) are available on the FSMA website ([www.fsma.be](http://www.fsma.be)).

<sup>3</sup> Moreover, addressing communication, in any form whatsoever, to the Belgian public inviting them to acquire currency derivatives on an online platform may constitute a public offering in Belgium that requires prior approval of a prospectus by the FSMA. Offers made to fewer than 100 persons or that require a minimum investment of EUR 50,000 are not affected.

<sup>4</sup> See footnote 2.



- transactions in currency derivatives are appropriate only for **experienced investors pursuing strictly speculative objectives**;
- the FSMA advises retail clients not to use software which, once activated, automatically generates transactions in currency derivatives, since they thereby lose control over the transactions they are carrying out;
- the FSMA also advises investors not to provide their credit card details, since doing so would enable their intermediary to debit their account directly, without requiring any prior consultation<sup>5</sup>.

#### **Where can I get more information?**

Anyone wishing to enquire whether an intermediary has the necessary authorization may contact the FSMA:

- by email: [consumers@fsma.be](mailto:consumers@fsma.be)
- by telephone: +32 2 220 59 10

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<sup>5</sup> Such a request on the part of such intermediaries may, moreover, constitute an infringement of the legislation on consumer credit.