



9 April 2020

Circular to Licensed Corporations

Report on Leveraged Foreign Exchange Trading Activities Carried Out by Licensed Corporations

The Securities and Futures Commission (SFC) today released its [Report on Leveraged Foreign Exchange Trading Activities Carried Out by Licensed Corporations](#) which summarises the findings of a survey of the leveraged foreign exchange trading (LFET) activities conducted by 32 firms licensed for Type 3 regulated activity between 1 January 2018 and 31 December 2018.

Key findings of the survey include:

- In 2018, the turnover in LFET market was \$1,844 billion and over 99% was attributable to rolling spot forex contracts (Note 1). Turnover was relatively low for more complex forex products such as options and forward contracts, which may be difficult for retail investors to understand.
- All LFET products were traded on an over-the-counter basis.
- Of the total 15,096 active LFET clients reported by the brokers surveyed, 98% were retail investors.
- More than 60% of the LFET clients of a sample of brokers made net trading losses in LFET (Note 2).

The report also highlights some expected regulatory standards and good industry practices observed by the SFC during the course of its regulatory supervision. The expected regulatory standards cover customer due diligence, handling of client orders, conflicts of interest and information for clients. The senior management of LFET brokers should assume responsibility for developing and implementing policies and controls to comply with the expected regulatory standards.

The expected regulatory standards highlighted in the report are also extracted in the [Annex](#) to this circular. LFET brokers are expected to review their policies and controls to ensure compliance with the expected regulatory standards by 1 January 2021.

Should you have any queries regarding this circular, please contact your case officer.

Intermediaries Supervision Department
Intermediaries Division
Securities and Futures Commission

Enclosure

End



Notes:

1. The payout for rolling spot forex contracts is based on the fluctuation of foreign exchange rates and the initial maturity of two business days is automatically extended (by one business day at a time) if the contract is still open at the close of trading on the second business day. These products include economically equivalent leveraged foreign exchange contracts.
2. As part of the survey, a sample of brokers were selected to provide more detailed information. The sampled brokers contributed 77% of market turnover and their clients accounted for 41% of total active LFET clients.

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