

TO : **Cyprus Investment Firms**

FROM : **Cyprus Securities and Exchange Commission**

DATE : **October 13, 2017**

CIRCULAR NO. : **C244**

SUBJECT : **Trading in virtual currencies¹ and/or trading on contracts for differences relating to virtual currencies**

The Cyprus Securities and Exchange Commission (the “CySEC”) is herein clarifying the requirements that must apply by Cyprus Investment Firms (CIFs’) when providing services on virtual currencies and/or on contracts for differences (‘the CFDs’) relating to virtual currencies:

Fundamentally:

- There is no specific EU regulatory framework governing the trading on virtual currencies and/or trading on CFDs relating to virtual currencies.
- There is no official position from European authorities/bodies determining whether the trading on CFDs relating to virtual currencies falls under paragraph 9, Section C, Annex 1 of Directive 2004/39/EU on markets in financial instruments (‘MiFID’).

In anticipation of the official position from the relevant European authority/body, the Cyprus Investment Firms (‘the CIFs’) that are permitted, under section 6(9)(b) of the Investment Services and Activities and Regulated Markets Law, as in force (‘the Law’), to provide services in virtual currencies and/or in CFDs relating to virtual currencies must apply the requirements outlined below.

Namely:

1. CIFs must apply similar requirements to those provided in the Law² regarding organisational requirements (including safeguarding of clients’ assets, compliance function and internal

¹ It includes cryptocurrencies

² Including all relevant circulars issued by CySEC regarding these issues and [ESMA’s Q&A on CFDs providers](#)

- audit function), conduct of business rules (including marketing communication, appropriateness and best execution), record keeping and capital adequacy.
2. Before providing any services to clients in virtual currencies and/or CFDs relating to virtual currencies in relation to these products, CIFs must warn their clients that:
 - i. there is no specific EU regulatory framework governing the trading in such products,
 - ii. trading in such products is not covered by MiFID and therefore falls outside the scope of the CIFs' MiFID regulated activities,
 - iii. a number of risks is associated with these products and these should be stipulated in a specific risk warning,
 - iv. such products are complex and high risk and as such come with a high risk of losing all the invested capital,
 - v. virtual currencies values can widely fluctuate (high volatility) and may result in significant loss over a short period of time;
 - vi. virtual currencies are not appropriate for all investors and therefore, investors should not trade in such products if they don't have the necessary knowledge and expertise in this specific product; they should always be fully aware and understand the specific characteristics and risks related to these products,
 - vii. trading in such products does not entitle the investors to any protection under the Investors Compensation Fund,
 - viii. they have no rights to report to the Cyprus Financial Ombudsman in case of a dispute with the firm.
 3. CIFs must ensure that all risk associated with this activity are identified, measured and properly recorded. CIFs must ensure that such risks are managed, monitored and eliminated.
 4. CIFs must only use feed providers (e.g. virtual currency exchanges, liquidity providers) that are licensed/regulated in the jurisdiction that are established.
 5. All feed providers/counterparties must undergo a relevant due diligence by the CIF.
 6. CIFs must ensure that their counterparties/feed providers agree to periodic and regular due diligence checks by the CIF.
 7. CIFs should use more than one feed provider and should cross-check with other feed providers in order to ensure that best execution principles are followed. Where only a single feed provider is used, CIFs must be able to determine and record how their best execution obligations are held.
 8. CIFs must clearly disclose to the public the methodology used to calculate the bid and ask prices.
 9. For all retail clients the leverage limit should be set 5:1 for trading on CFDs relating to virtual currencies.

10. The turnover from the provision of this service must not exceed 15% of the total turnover of the CIF per quarter.
11. CIFs are not permitted to exercise passporting rights afforded by the Law when offering such services in European Union or third countries. CIFs and their board of directors are personally responsible to assess the individual country status, their obligations and responsibilities in relation to such service and consult their legal consultants; by taking the appropriate legal advice, in advance, with regard to the applicable legal status of virtual currency activities applicable in the country concerned and whether specific authorisation is required.

Yours sincerely

Demetra Kalogerou
Chairman of the Cyprus Securities and Exchange Commission