
TO : Cyprus Investment Firms

FROM : Cyprus Securities and Exchange Commission

DATE : 16 March 2017

CIRCULAR NO. : C194

SUBJECT : Offering bonuses to retail investors

Following Circular C168, issued on November 30, 2016, regarding the updated version of ESMA's Q&A document for the provision of CFDs and other speculative products to retail investors under MiFID ('the [Circular](#)'), the Cyprus Securities and Exchange Commission ('the CySEC') is providing, with this circular, additional guidance on the types of bonus incentives not permissible to be offered to retail clients by Cyprus Investment Firms ('the CIFs'):

1. In Section 3(i)(a) of the Circular – Offering bonuses, CySEC ruled that:

“CIFs must avoid the practice of offering bonuses that are designed to incentivise retail clients to trade in complex speculative products such as CFDs, binary options and rolling spot forex as it is unlikely that a firm offering such bonuses could demonstrate that it is acting honestly, fairly and professionally and in the best interests of its retail clients [article 36(1) of the Investment Services and Activities and Regulated Markets Law, ‘the Law’].”

2. In conjunction, Section 6, answer 1, point 3 in ESMA's document on [‘Questions and Answers, relating to the provision of CFDs and other speculative products to retail investors under MiFID’](#), dated October 11, 2016 ('the Document'), stated that:

«...ESMA is of the opinion that it is unlikely that a firm offering bonuses that are designed to incentivise retail clients to trade in complex speculative products such as CFDs, binary options and rolling spot forex could demonstrate to its NCA that it is acting honestly, fairly and professionally and in the best interests of its retail clients, taking into account that the nature of the products means that they are not appropriate for a majority of retail clients. NCAs should therefore monitor that the practice of offering such bonuses is avoided in relation to these products...»

3. In recent past, CySEC has undertaken a number of thematic reviews, which have provided evidence that a number of bonuses offered to retail investors do not seem to be consistent with article 36 of the Law regarding the conduct of business obligations.

Whilst not an exhaustive list, examples of such bonuses offered when opening a trading account, or related to subsequent transactions, are included in Appendix 1.

4. If a CIF wishes to reward its clients, it can offer to them for example lower spreads instead of a return of an amount, as the example 8 in Appendix 1 (cash rebates). In this case, the CIF is not considered that is violating the article 36(1) of the Law.
5. **The protection of clients' interests is of utmost importance to CySEC.** In the context of conducting thematic reviews, CySEC will monitor closely the compliance of CIFs with the provisions of this Circular, Circular C168 and the Document.

In case of infringement, CySEC will take strict supervisory actions as provided in the Law.

Sincerely,

Demetra Kalogerou
Chairman of Cyprus Securities and Exchange Commission

Non-exhaustive list of examples of bonuses offered

A/A	Categories	Description
1.	Welcome/ Deposit Bonus/ Re-deposit bonus	An amount of money or a percentage on the initial or/and additional deposit of the client, which cannot be withdrawn until a target volume has been reached. It can also be connected to a specific period of time. Grant of additional margin based on the initial deposit of the client ('cushion'/'margin support').
2.	Volume Bonus	An amount of money based on the trades the client executes, which cannot be withdrawn until a target volume has been reached.
3.	Refer a friend	An amount of money or percentage of the referred "friend's" initial deposit, which cannot be withdrawn until a target volume has been reached.
4.	Verification/ Webinars	An amount of money that is granted when the client verifies his personal information (e.g. telephone number, documents etc) or/and when the client attends a relevant educational webinar offered by the Company.
5.	Gifts/Gadgets	A gift (e.g. mobile phone, iPad etc) that is granted to the client based on his deposits in a period of time.
6.	Tournaments/ Competitions	Competitions in which the first client to reach a specific target volume or the client with the highest profit and/or volume in a period of time, wins a gift or an amount of money.
7.	Trial/Protected/ Risk-free Accounts	A number of trades or/and trades within a period of time that are risk-free or/and have a restricted risk, by returning to the client the full or a part of the money lost. This amount cannot be withdrawn until a target volume has been reached.
8.	Cash Rebates	An amount of money which is returned to the client based on the trading volume the client reached within a period of time.
9.	Interest Rate ¹	Grant of an interest rate on the net deposited amount, available to active clients (e.g. at least one trade in the last three months). The interest is granted on an annual basis and is withdrawable without any conditions.

¹ The offering of 'Interest Rate' can be considered that is in line with article 36 of the Law, only in the case where the interest rate granted is reasonable, proportionate and consistent with the normal commercial terms offered by credit institutions.

10.	Similar bonuses schemes as the above	
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