

## ANNOUNCEMENT

### Enhancing the Regulatory Obligations of CIFs when providing binary options

The Cyprus Securities and Exchange Commission (“CySEC”) has today published a consultation paper regarding its proposed reforms to the regulatory framework governing the provision of investment services in binary options by firms under its supervision (“Cyprus Investment Firms” or “CIFs”).

**Demetra Kalogerou, Chair of the CySEC, said:** *“Binary Options products as we know them today carry deficiencies and do not provide retail investors with adequate protection when investing in such high risk and complex financial instrument.*

*The proposed reforms now under consultation will enhance the nature, characteristics and trading methodology of this type of retail financial instrument. The new proposed standards regarding the Digital Options Contracts will seek to eliminate the causes of concern regarding the practice that are found commonly to be followed by those providing binary options products, ensuring firms act in an honest, fair and professional manner.*

*Crucially, these reforms will standardize trading in Binary Options, bringing significantly greater transparency to investors and better terms for the investors when executing orders, thus provide enhanced investor protection.”*

### Summary proposals

CySEC proposes five fundamental reforms to eliminate deficiencies in the existing regulatory framework for binary options, and establish new, enhancing conduct standards and measures to ensure retail investor protection.

In compliance with the Investment Services and Activities and Regulated Markets Law of 2007, this is to assist firms to:

- act honestly, fairly and professionally in accordance with the best interests of their clients;
- provide adequate information to clients about the financial instruments offered;
- executive orders on terms most favourable to clients;
- execute clients’ order, promptly, fairly and expeditiously.

The reforms proposed include but are not limited to:

- ✓ **Removing opaque strike pricing:** in order for clients to know the exact strike price before the contract is tradeable, the calculated strike price at execution must be exactly the same as the strike price communicated when the order is placed. Strike prices must be the same for all clients and floating strike prices are not permissible.
- ✓ **Quoting potential outcomes real-time: in order to enhance pre-trade transparency** prices must be quoted as an evolving bid-ask spread, representing clearly the percentage probability of an outcome occurring.
- ✓ **Lifting restrictions on exiting trades:** In order for clients to be able to exit their positions at any time throughout the life of the contract, CIFs must provide a continuous, two-way pricing. Clients must not have to wait until the contract's point of expiration to exit the position.
- ✓ **Banning sub-5 minute tenor trades:** in order to remove shorter-term volatility and protect against "binary bets", contracts must have a minimum tenor of 5 minutes.
- ✓ **Standardising trading and settlement methodologies:** in order for the expiration value to be a fair representation of the true market at the moment of the Digital Option Contract's expiration and to avoid its manipulation therein, algorithms for the calculation of expiration and settlement values of the underlying market must follow CySEC's predetermined methodology. Individual methodologies peculiar to one CIF are not permissible.

The consultation period will run until **3<sup>rd</sup> March 2017** after which the Board of CySEC will issue a Circular on any definitive changes to the regulatory framework.

**Nicosia, 13 February 2017**

#### **Notes to Editors**

Consultation paper [CP 2017-01] is downloadable in full at <http://www.cysec.gov.cy/public-info/CONSULTATION-PAPERS/CySEC/41666/>