

Retail Complex Products and Investor Protection
Market Supervision
Australian Securities and Investments Commission
GPO Box 9827
Brisbane QLD 4001

By email: Market.Supervision.OTC@asic.gov.au

29 November 2021

Dear Retail Complex Products and Investor Protection Market Supervision Team,

Re: ASIC Consultation Paper 348 Extension of the CFD product intervention order (CP 348)

IG Australia and IG Group

By way of brief background, IG Australia Pty Ltd (IG) deals in securities and over-the-counter (OTC) contracts for difference (CFDs) on a broad array of financial instruments, to a retail and wholesale client base.

In Australia, IG is regulated by the Australian Securities and Investments Commission (ASIC) and is a wholly owned subsidiary of an ultimate parent company, IG Group Holdings plc (IG Group), which is a market leader in on-line trading. IG Group has a primary listing on the London Stock Exchange where it is an established member of the FTSE 250. Around the world, IG Group companies are regulated by:

- UK's Financial Conduct Authority;
- Monetary Authority of Singapore;
- US Commodity Futures Trading Commission;
- US National Futures Association;
- Swiss Financial Market Supervisory Authority;
- Japanese Financial Services Agency;
- Japanese Ministry of Finance;
- New Zealand's Financial Markets Authority;
- Germany's BaFin; and
- Dubai Financial Services Authority
- South African Financial Sector Conduct Authority

IG Group is the world's No. 1 CFD provider¹. To meet the high expectations of our global regulators, promote a strong culture and mitigate the risk of poor conduct, we have a developed framework which focuses on our clients. We strive to ensure our products and services result in good outcomes for both our clients and the financial markets. We firmly believe and support proportionate regulation that delivers good client outcomes as we feel this leads to a better, long-term sustainable industry. To meet these regulatory requirements, we ensure that we have at all times: (i) a robust governance structure, (ii) products that are designed to meet the needs of IG's target market, (iii) marketing that is appropriately targeted and (iv) dealing practices that deliver best execution.

Executive summary

We are supportive of ASIC's work on protecting Australian retail clients from practices within the financial services industry that result in consumer detriment. We firmly believe in robust and proportionate regulatory oversight of financial products and services in Australia, and we fully

¹ Based on revenue excluding FX (published financial statements, October 2021)

support initiatives that are designed to strengthen protections for retail clients. We fundamentally agree with the outcomes that *ASIC Corporations (Product Intervention Order—Contracts for Difference) Instrument 2020/986 (CFD Order)* aims to achieve.

In general, we believe the CFD Order has been effective in raising standards, reducing significant detriment and promoting fairer outcomes for retail clients across the CFD industry. In particular, the prohibition on inducements; margin close-out rule; and negative balance protection have provided enhanced protections for retail clients. We are also supportive of proportionate leverage restrictions. However, we remain of the view as set out in our response to *CP 322 Product intervention: OTC binary options and CFDs*, that the leverage restrictions within the CFD Order are too restrictive. We believe that ASIC has overestimated the impact of leverage on client outcomes, and underestimated retail clients' desire to trade with leverage. Notwithstanding this view, we believe that regulatory certainty is important for both the CFD industry and retail clients, and on that basis we are supportive of the CFD Order remaining in force until revoked.

Response to CP 348 questions

D1Q1 Do you agree with our proposal to extend the CFD Order so that it would remain in force until revoked? If not, why not? Should the CFD Order instead be extended for a set period of three or five years until 1 April 2031 (when the CFD Order sunsets)?

Notwithstanding our comments above relating to the leverage restrictions, in the interests of regulatory certainty for the CFD industry and clients, we are supportive of the CFD Order remaining in force until revoked.

D1Q2 In your view, has the CFD Order been effective to date in reducing the risk of significant detriment to retail clients? Please provide evidence and data in support of your view where possible.

As stated in response to D1Q1, we believe the CFD Order has been effective in raising standards, reducing significant detriment and promoting fairer outcomes to retail clients across the CFD industry. However, we note the following observations with respect to ASIC's conclusions within CP 348:

Retail client losses

- (1) The conclusions pertaining to retail client losses are based on data from only one quarter. We consider the net P&L figure to be a volatile metric. For example, during the October to December 2020 quarter IG's retail client P&L was positive, yet the CFD order was not in effect during this period. We believe that a data set over an extended period is required to determine the true impact that the CFD Order has had on retail client P&L.
- (2) Not only did retail client P&L improve during the quarter, IG similarly observed wholesale client P&L improve during the same period, despite the CFD Order only applying to retail clients.

Regression analysis

ASIC used a sample size of only one quarter to draw conclusions about the effectiveness of the Order. It is unclear how the measures within the CFD Order – which mirror the equivalent ESMA measures – have reduced the proportion of retail client loss-making accounts, while the ESMA measures have not. Additionally, while CP 348 states that the regression analysis controlled for market volatility, it is unclear within the paper how this was achieved.

D1Q3 For CFD issuers and distributors, if the CFD Order is not extended, would you change your business model and what costs would that incur?

IG's existing business model aspires to provide a world class trading experience to clients who fit within our target market in Australia. This business model includes multi-product and multi-asset class trading platforms with cutting edge trading tools and client experience. It is unlikely our business model will materially change if the CFD Order is not extended.

D1Q4 For CFD issuers and distributors, what impact has the CFD Order had on your business? What ongoing impact to your business would you expect if the CFD Order is extended?

IG has observed moderate reductions in client activity, in-line with what we anticipated through this transition.

D1Q5 If the CFD Order is extended, what annual ongoing costs do you anticipate you would incur? What other costs do you anticipate you would incur?

We do not anticipate material ongoing costs in the event the Order is extended.

D1Q6 For retail clients of CFD issuers, has the CFD Order changed your trading? If so, please explain how. For example:

- (a) has the frequency of your CFD trading changed?*
- (b) have you committed more or less margin to CFD trading?*
- (c) have you substituted other investment products for CFDs?*
- (d) do you use CFDs for hedging other investment risks? If so, what proportion of your CFD trades?*
- (e) what impact have financial losses or profits from CFD trading had on you?*
- (f) do you consider you would have made higher profits or higher losses if the CFD Order had not been in effect?*

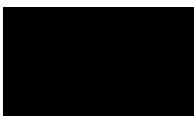
This question is not applicable to IG.

D1Q7 What effects (if any) do you consider the CFD Order has had on competition in the financial system? What effects are likely if the CFD Order is extended?

We do not believe the CFD Order has had a material impact on competition within the financial system.

If you would like to discuss the matters above, please contact me on 

Yours sincerely



Kevin Algeo
CEO
IG Australia