

By Email

19 April 2015

To the Senior Executive Officers of DFSA Authorised Firms, Principal Representatives of DFSA Authorised Representative Offices, and to other interested parties

Dear DFSA Stakeholder,

The marketing of foreign exchange (“FX”) and other highly-leveraged products (“HLPs”) to retail investors by Authorised Firms and Representative Offices

Introduction

In March 2014, the DFSA issued a “Dear SEO” letter entitled “*Retail Foreign Exchange (RFX) Transactions in the DIFC*” (the “RFX Letter”). The RFX letter set out the DFSA’s policies, supervisory approach, and expectations for firms offering FX trading to retail investors in or from the DIFC. A link to the RFX Letter is provided [here](#), for ease of reference.

The impetus for the RFX Letter was to help extend to retail investors appropriate protections in light of the speculative nature of FX products and the risks related to the high leverage ratios typical to FX transactions. It is the DFSA’s view that these risks may not be fully understood by retail investors, thus requiring an enhanced level of disclosure and regulatory protection. The RFX Letter was designed to be read in light of the DFSA’s Principles for Authorised Firms in chapter 4 of the General Module of the DFSA Rulebook.

Other highly-leveraged products and Representative Offices

The RFX Letter was focused on FX and related transactions such as derivatives based on FX. However, these products represent only one type of HLP. Other HLPs give rise to many similar risks to retail investors. Additionally, the RFX Letter did not specifically address issues and risks created by Representative Offices which refer persons who may meet the definition of a Retail Client to another Group company.

In light of this, the DFSA proposes to review the scope of the RFX Letter and the associated supervisory approach with a view to issuing further guidance to Authorised Firms (including Representative Offices) that engage directly or indirectly with retail investors.

Action

While the DFSA reviews its position on RFX and other HLPs, the DFSA will no longer accept any application to establish a Representative Office in the DIFC from an entity which proposes to undertake marketing of FX or HLPs to persons who may meet the definition of a Retail Client.

Wider Considerations

While the above mentioned review is undertaken, the DFSA reminds firms offering FX or HLPs to retail investors to:

- pay due regard to the interests of its customers and communicate information which is clear, fair and not misleading (Principle 6);
- take all reasonable steps to ensure that conflicts of interest between itself and its customers, between its Employees and customers and between one customer and another are identified and then prevented or managed, or disclosed, in such a way that the interests of a customer are not adversely affected (Principle 7); and
- take reasonable care to ensure the suitability of its advice and discretionary decisions for customers who are entitled to rely upon its judgement (Principle 8).

If you have any questions please do not hesitate to contact Mr Martin Wilding, Associate Director, Supervision on +971 4 362 1521 or by email at mwilding@dfsa.ae.

Yours sincerely



Ian Johnston
Chief Executive