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Delivered via e-mail: consultation-en-cours@lautorite.gc.ca

Me. Anne-Marie Beaudoin
Corporate Secretary
Autorité des Marchés Financiers
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Montréal (Québec) H4Z 1G3

Proposed Regulation to Amend the Derivatives Regulation pursuant to section 175 of the Derivatives Act (CQLR, c. I-14.01)

Dear Me. Beaudoin,

This letter is submitted on behalf of CMC Markets Canada Inc. and CMC Markets UK PLC. (together “CMC Markets”) in response to the Request for Comment on the AMF’s Amendments to Derivatives Regulation. The amendments contain a proposal to prohibit the sale of binary options to Quebec consumers.

We are grateful for the opportunity to provide our comments, which are set out below, on the proposed amendments. We fully support the AMF’s initiative to address the lack of regulation of binary options and the current illegal offering of these products to Quebec residents.

General Comments

1. We do not believe that an outright ban on binary options would be the best way to protect Quebec investors. The fact that the AMF has had to issue several warnings to Quebec investors about the risks of trading these products with unregulated entities demonstrates that there is significant interest amongst investors in this product type. The prohibition of a product already being offered illegally in Quebec will simply encourage those Quebec residents who wish to trade binary options to open accounts and / or carry on trading with unregulated off-shore providers. This means that binary options trading by Quebec residents will continue to take place without any of the formal protections afforded by dealers regulated by the AMF and IIROC.

2. The AMF's release contains a quote by the AMF president who said: "*Binary option platforms generally promise fast profits which are not paid out to investors. They're run by people who are acting illegally and embezzling victims' funds.*" We agree that this is true of a number of unregulated offshore providers who have no licence whatsoever. However, it is not true of reputable and regulated firms such as CMC Markets, which offers binary options as a regulated financial instrument product. Globally, CMC Markets offers binary options in every jurisdiction in which it operates, with the exception of Canada. The European Commission has included binary options in the definition of "financial instruments" under MiFID, therefore permitting CMC Markets to offer the product across Europe under its existing regulatory permissions. In each jurisdiction, CMC Markets offers binary options within a regulated environment with clearly established requirements for client protection.
3. We invite the AMF to consider the benefits of offering regulated binary options to Quebec residents by an authorised supplier. Binary options provide clients with an opportunity to trade the markets with limited risk as a client can lose no more than the amount committed to a binary option trade. As CMC Markets offers binary options under the same regulatory regime under which it offers CFDs, CMC Markets abides by the principles set out below in relation to its binary options offering.
 - In order to meet its requirements under MIFID, CMC Markets has rigorous account opening procedures for any client that wants to trade binary options. Clients must undertake an "appropriateness test" which means that CMC Markets has to assess a potential client's financial background, knowledge and experience in trading such products. This is critical in ensuring that only the right type of client gets an account to trade binary options. This contrasts sharply with the offshore unregulated providers which often pay no regard to whether binary options are suitable for account applicants and allow clients to open accounts with just an email address, credit card details and residential address details. They also often offer bonuses for opening accounts, which CMC Markets does not do.
 - CMC Markets ensures that proper risk warnings are displayed on its trading platform, website and account application form. These warnings set out the key risks of binary options in plain, easy to understand language.
 - All client money is segregated in accordance with the applicable FCA rules.
 - CMC Markets abides by its best execution regulatory obligations in respect of pricing for binary options. This means that all trades are automated and pricing is transparent.
 - CMC Markets has a clear and transparent complaints process. Clients can escalate their complaints to the ombudsman in the event that they are unhappy with the outcome of an internal complaints review.
 - CMC Markets runs an inbound service only, with experienced and regulated individuals receiving telephone calls from clients. It does not have an

outbound sales team, which many of the offshore providers use to engage in inappropriate marketing and cold-calling.

- CMC Markets does not withhold profits made by clients from binary options trading.

CMC Markets firmly believes that binary options providers which offer the product in a regulated manner, as set out above, will provide Quebec residents with better protection than the unlicensed online providers that will continue to operate illegally on a cross-border basis.

Regulation Comments

- 1.3 The characteristics of binary options described in section 1.3 do not cover all of the types of binary options offered by CMC Markets. CMC Markets offers two types of binary option:

1. “*Countdown*” – this seems most closely aligned to the AMF’s description of a binary option. A *Countdown* provides a predetermined fixed yield or a zero yield depending on whether the client has been successful or not. The holder cannot close the *Countdown* before the end of the pre-determined fixed period.

2. “*Binary*” - CMC Markets also provides a second type of binary option which allows a holder to close out the *Binary* before the end of the pre-determined period. If the *Binary* is closed out before the end of the period, the holder will be paid a profit if the price has moved in his / her favour.

We assume that only the first type of binary option (*Countdown*) would be caught by the proposed prohibition, because the AMF refers to a fixed or zero yield depending on whether a predetermined condition is or is not met. As explained above, our *Binary* product allows clients to close the trade prior to maturity. We assume that this characteristic means CMC Markets’ *Binary* would be outside of the scope of any prohibition, but would be grateful for confirmation from the AMF in this regard.

- 1.4 The AMF’s ability to offer exemptions from the prohibition on offering binary options is important to ensure that regulated dealers may be in a position to offer a regulated alternative to the illegal products currently traded in Quebec. CMC Markets believes that greater clarity should be provided within the amendment regulation regarding the conditions that would have to be satisfied in order to be permitted to offer binary options in Quebec. This would help establish a consistent exemption. For the reasons set out in point 3 of the general comments above, CMC Markets believes that it should be well placed to obtain an exemption.



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Lastly CMC Markets welcomes any discussion on any amendments related to binary options as one of the limited number of regulated firms offering the product to retail clients in multiple jurisdictions.

Yours Sincerely,

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