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AUTORITÉ DES MARCHÉS FINANCIERS

AMF

Households Savings Observatory Newsletter

Editorial

CONTENTS:

The AMF committed to restrict retail advertising for highly risky OTC products

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The numbers of online advertisements targeting the general public, promising huge, easy gains, are attracting large numbers of private investors to the Forex and binary options markets.

In 2014, the AMF noted a sharp increase in complaints concerning these trading services. At the same time, an AMF survey has shown that 89% of clients investing in Forex or via CFDs between 2009 and 2012 suffered financial losses(1), sometimes very considerable.

To gain a fuller understanding of the marketing strategies employed by companies offering this type of trading, in 2014 the AMF carried out tests by asking a service provider to open some accounts, carry out some transactions and then attempt to withdraw what remained of the money deposited.

The results confirmed that private investors trying their hand at trading are victims of reprehensible practices and are often on the receiving end of unscrupulous sales approaches (read pages 2 and 3).

Given these observations, the AMF is taking action.

Through its warnings and educational actions, it clearly advises savers against investing in Forex or binary options.

In addition to these initiatives, the AMF is taking every opportunity available to it to limit the actions of these trading companies. In September 2014, it received permission to block several websites operating without approval from the judge of the Paris Court of First Instance, with the support of the public prosecutor.

Finally, to tackle these bad practices more effectively, the AMF has proposed that a legislative provision be given to them granting the legal capacity to ban advertisements for this type of extremely risky product.

(1) Read the Households Savings Observatory Newsletter no. 10 published in October 2014 (in French only).

Focus

Investment advertising in 2014

In 2014, approximately four new adverts(1) out of ten related to highly speculative financial instruments, essentially for trading Forex, CFDs and binary options.

It is impossible to miss online adverts persuading the general public to trade. They promote websites, often unauthorised, offering the chance to trade Forex, stock market indices, shares or commodities via extremely risky instruments (binary options, CFDs etc.).

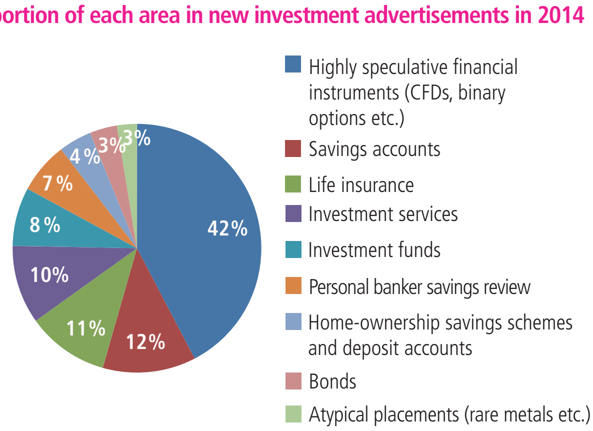
In 2014, just as in 2012 and 2013, they represented more than 40% of new adverts for investments.

New adverts for more traditional investments are divided equally between risk-free investments (savings accounts, term deposits, life insurance) and more risky investments.

Those that concern investment products and services (investment services, collective investments, bonds, etc.) therefore accounted for nearly three in ten advertisements.

Within this category, advertisements for "atypical" investments (e.g. metals and rare earths) have become very widespread online.

The proportion of each area in new investment advertisements in 2014



Source: Kantar Media, AMF calculations

Warning

AMF statistics on advertisements help to highlight trends in the supply of investment services. They do not measure the impact of these advertisements on the public. So, an advert broadcast on a television channel or national radio, which may be highly visible to the public, has the same statistical weight, here, as a banner on the Internet.

(1) Within the scope of monitoring advertising, the AMF analyses all new investment adverts, whoever the advertiser may be and whatever means of distribution is used (Internet, press, radio, TV, posters, etc.). A new advert is recorded each time it is published in different media.

Binary options/Forex mystery shopping: the dubious practices of trading websites

AMF mystery shopping has shown that websites offering trading in Forex or binary options do not respect the basic rules for protecting investors.

Methodology

The methodology of the online tests

Some twenty websites offering trading services to private investors were targeted in 2014. This list included: ten authorised sites, and eleven unauthorised sites, each with strong commercial operations in France (visibility of adverts, consumer complaints).

First of all, the "mystery shopper" registered their contact details online.

The Web user then waited to be contacted to finalise their account application, with instructions to refuse to give their bank card details. They had to seek the account number of the company in order to make an initial small deposit (€400).

In the end, nine accounts were opened with a bank transfer made to fund the account: one unauthorised website and eight websites authorised in Cyprus.

The test thereby helped to evaluate the different stages in the relationship: preliminary information, particularly on the potential risks, account creation, "training" on trading, trading transactions and withdrawing the funds deposited for the test. ▮

Encouragements to trade Forex or binary options attract large numbers of private investors via online advertisements targeting a very large audience ("increase your income easily").
In 2014, the number of Forex and binary options-related complaints sent to the AMF increased sharply.
In order to better understand marketing practices and gain a fuller understanding of the pitfalls encountered by Web users, the AMF asked a service provider to open some trading accounts, carry out some transactions and then try to withdraw what remained of the funds deposited.

Opening an account with surprising ease

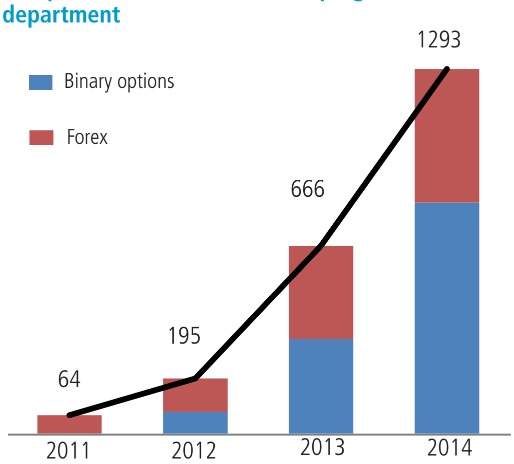
First observation: nine accounts could be opened directly on the website, with no supporting documentation required. Most often, the Web user simply completed a quick online form.
In five cases, they were able to fund their account via a bank transfer without any specific documentation and started to trade without proving their identity. For three out of these five websites it was possible to trade for ten days without any verification. This was far too easy, in particular with respect to the constraints of anti-money laundering regulation.
The websites that made contact with our Web user sought to finalise the opening of the account by requesting the necessary documentation: a form of ID and proof of address.
In certain cases, bank card details were requested.

A less-than-rigorous client questionnaire

Information on the risks of trading was barely visible on the websites tested. The information available on the website attempted to reassure investors. With the message: trading is easy. Indeed, some websites published testimonies of successful traders.

Very few questions were asked to find out more about our prospect's profile. The most frequent questions were: what is their profession? What is their income? What trading experience do they have?

Complaints addressed to AMF Épargne Info Service department



Source: AMF

When these questions were asked, the answers provided were not taken into account. Whenever the Web user specified that they had no trading experience, no message warned them about the potential risks and no authorised website prevented them from trading as soon as their account was open.

The "training" provided is often deceptive...

Once the account is open, an "adviser" calls the Web user. They often introduce themselves as an expert, highlight their experience and qualification, and stress how fortunate the Web user is to be speaking to them.

Some reassuring explanations are given. Trading seems easy, you just need to follow the instructions on the website. *"When there is a green candlestick, it's rising, when there is a red candlestick, it's falling". "It's very easy to understand and manage this". "When a company is operating normally, its price usually rises". "There is no such thing as a 100% success rate, but you can count on three out of five winning trades".* The risk of losing capital is only explicitly mentioned in very rare cases. Even then, it is minimised.

Some ask if the Web user is ready to "trade seriously". Others highlight the importance of training so as to not waste one's gains... But on the whole, any explanations given are minimal and difficult for a novice user to follow.

...and there are numerous encouragements to invest more!

The sales pitch is impressive: rather than providing training, the advisers' main objective was to encourage the user to deposit more funds.

Different arguments were used from one site to another. The one that came up most often was the bonus!

This financial gift, displayed in numerous advertisements, is often the main argument. It is obtained by making an additional deposit. The bonus is often awarded on the condition that the client gives them their bank details.

"I can give you a bonus of 50%-100%, but only if you send your bank details to our finance department. You can make successful trades at the end of the year and the bonus will increase the capital invested".

The "adviser" often insists, sometimes quite aggressively, that the user should give them their bank card details.

Another argument put forward is the so-called security that comes from having a well-funded account: *"if each trade represents a small proportion of the total amount invested, the risk is lower".*

For some advisers, adding more funds to the account also means they will receive better "assistance".

The trading experience: a feeling of insecurity

Even while being helped on the telephone, our Web user frequently found it hard to understand whether they were really making any trades. Were they on the demonstration account or the real account?

Safeguards are practically non-existent: on some platforms, there is no confirmation message when an order is processed, hence a feeling of insecurity in case of entering incorrect details.

More generally, the "indicators" are not easy to interpret. The gains made include the amounts invested. The trades that the user thought were up, because the indicator was green in the last few seconds, ended up being down. Selling a binary option prior to expiry, which is up when the user clicks, ends up being down due to the time lag (not mentioned) of five minutes for the price to be taken into account.

The client could legitimately question whether their trades were real.

Difficulty withdrawing funds... wand still waiting

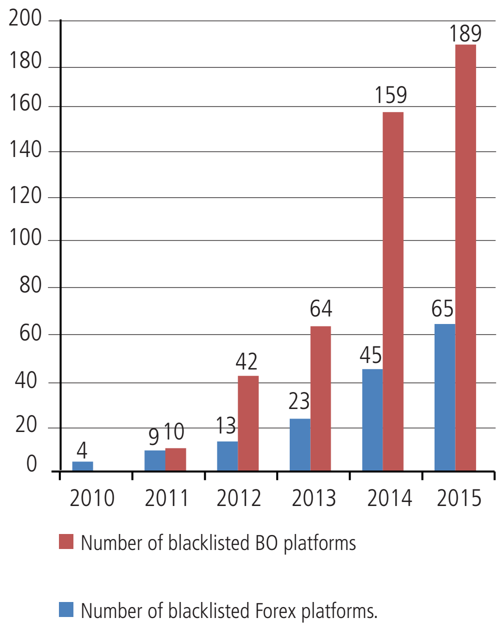
There are numerous obstacles in the way of retrieving funds that have not been lost. The procedure given on the site, which is often difficult to follow, is not detailed and lacks clarity. The bonus, which was very attractive at the start, then justifies the blocking of funds.

In this case, withdrawing funds is conditional upon a minimum number of trades or a period of trading activity with an amount to be traded each day...

It is sometimes necessary to insist in order to receive a promise of withdrawal over the telephone, but not without being asked, once again, to add more funds or send a bank card number. Some sites use the same sales techniques as when the account was opened to dissuade the client from withdrawing their funds.

Several weeks after the request to withdraw funds, our Web user had only received funds, in full or partially, from just two sites.

The number of "blacklisted" websites by the AMF



Source: AMF

The main observations from the test

- Of the platforms that allow some persons to trade under a false identity without requesting documentation.
- Information on the risks is minimal and barely-visible at every level:
  - When browsing the website before opening an account,
  - When opening an account,
  - When making trades (unrealistic gains, the absence of preventative messages, etc.).
- "Training" that does not compensate for this lack of information:
  - The discussion focuses more on gains than on the potential risks, which are minimised,
  - Clients are left to their own devices when it comes to risks that they do not appreciate.
- Withdrawing their funds: numerous obstacles.

Warning

Trading advertisements mislead the general public

Many of the trading advertisements, occasionally coming from unauthorised companies offering their services in France, are most often published on the Internet and on sites destined for the general public.

Despite the AMF's efforts, and those of various stakeholders (the ARPP, advertising agencies, etc.) most of these advertisements do not follow any of the principles of sound, balanced information which draws users' attention to the significant risks involved with such financial instruments.

The advertisements continue to insist on the opportunity that private investors would have of an almost guaranteed increase in their income by speculating on the Forex or binary options markets. Together with the idea that it is possible to learn to trade in just a few minutes and the pseudo-testimonies of winning traders, these advertisements give the illusion that private investors can really improve their lifestyles, or even change their lives, thanks to trading.

This is a completely unrealistic hope, the sole aim of which is to attract initial fund transfers from unsuspecting people and then to lead them to renew their "investments", often more aggressively.

Funds which, all too often, they will never see again.

It is to prevent this that the AMF has requested the capacity to forbid advertisements for trading services (please see our editorial on page 1).

Employee-sponsored retirement savings

For French people with an employer-sponsored savings scheme and who actively invest in this scheme, the main reason for saving is retirement. Indeed, 54% of them earmark these savings as "a supplement to their retirement income". For 62% of them, this is even their first means of preparing for retirement, before any other investment solutions.

Source: 2014 employee-sponsored savings barometer: sample of 600 employees aged 18 and over: 300 people benefiting from a employee-sponsored savings scheme and 300 people not doing so; Harris Interactive; December 2014.

The experience of retirees

According to a survey published by HSBC, one third of retirees believe, with hindsight, that they should have saved more, and the same proportion (33%) that they should have started saving earlier to improve their standard of living during retirement.

Current retirees claim to have saved an average of 6% of their income throughout their working life.

Source: The Future of Retirement, HSBC: 1000 working-age (25 years old and over), and retirement age people questioned online in August and September 2014; Ipsos MORI; January 2015.

Life insurance: investment in funds increasing

In 2014, the net inflow of funds (contributions minus redemptions) for life insurance was valued at €21 billion, compared to €11 billion in 2013 and an outflow of €6 billion in 2012. This figure remains below those of 2009 and 2010 when life insurance received €50 billion per year.

Private investors have increased their proportion of investment in units of account, that is, in risky vehicles. These represented on average 17% of contributions in 2014, compared to 14% in 2013 and 12% in 2012.

At the end of 2014, 18% of insurance investments were invested in shares, which is an average of €380 billion out of the €1,515 billion invested in life insurance policies.

Source: Fédération française des sociétés d'assurances (French Federation of Insurance Companies); January 2015.

Disposable savings of French people decreasing

According to a recent survey, for 39% of French people, the value of their savings decreased in 2014. 35% also state that they do not have any available savings, compared to 29% in 2013.

Furthermore, 40% of French people claiming to have made "financial resolutions" for 2015, plan on saving more (30% by managing their finances better, and 24% by reducing their debts).

Source: Observatoire ING Direct, online survey carried out by Ipsos in October 2014; January 2015.

Household financial assets increasing

At the end of 2013, household wealth[1] was eight times net annual disposable income, a multiple that has remained stable since 2006. This wealth comprises 69% non-financial assets (essentially property), the value of which did not increase in 2013. However, financial assets increased by 4.8% thanks to positive investment flows and the revaluation of securities held (above all, shares). Household investments in listed and unlisted shares and collective investments (FCPs, SICAVs etc.) represented 28.3% of their financial assets.

Source: INSEE, La patrimoine économique national en 2013 ([French] National Economic Wealth in 2013), December 2014.

Direct share ownership in decline

According to TNS Sofres, in September 2014, the rate of direct share ownership was 7.2% of the French population aged 15 years and over, compared to 8% in September 2013. The level was 13.8% at the end of 2008. This does not include shareholders owning shares in their employer's company through employer-sponsored savings scheme.

Source: TNS Sofres, in Les Echos dated 30/1/2015.

5.3%: effective annual return on shares across the world for 50 years

What has been the overall performance of the world's main financial assets (shares, bonds) in the very long term? To find out, Crédit Suisse have drawn up a global index based on the performance of 23 weighted countries at the start of each year by their market capitalisation. For an American investor who invested in 1965, at the end of 2014 the effective return of an investment in shares would have been 5.2% per year, and that of an investor in bonds would have been 4.3% per year.

Over the same period, a French investor in French shares would have received 5.2% per year, and 5.9% for French bonds.

This relates to returns noted at the end of 2014, after deducting inflation,dividends reinvested, and before fees and taxes.

Source: Crédit Suisse Global Investment Returns Yearbook 2015.

(1) This includes individual entrepreneurs and not-for-profit institutions serving households.

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