



Circular No. 3 of 2025

Date: 28th February 2025

Contract for Differences with Virtual Asset as an underlying asset

The Financial Services Authority (the Authority) hereby issues this Circular to provide clarity for licenses in the treatment of Contract for Differences (CFD) where the underlying asset is a Virtual Asset (VA) as defined under the Virtual Asset Service Providers Act, 2024.

Current legal provision governing CFDs.

Section 8 of Schedule 1 of the Securities Act, 2007 governs the offering of CFDs. Further to subsection (b)(i), the phrase “property of any description” permits a licensee under the Securities Act, 2007 to offer CFDs within the context of Schedule 1 without making a distinction on the types of underlying assets. Therefore, any property in any form or manner that can be speculated against price movements can serve an underlying asset for CFD.

Current situation.

The Authority is cognizant of the fact that there are licensed Securities Dealers who are offering CFDs with VA as an underlying asset. As of December 2024, a total of 190 entities are licensed as Securities Dealers in the Seychelles. Amongst these, 187 have been approved to include CFDs as stipulated under Schedule 1 of the Securities Act, 2007, in their product offerings. Notably, 105 of these licensees have been identified to be currently offering CFDs with VA as an underlying asset, representing 56% of the Securities Dealers’ population.

Determination by the Authority.

Following internal analysis by the Authority, it has deduced that there is no need for amendments in the Securities Act, 2007 to cater for CFD’s offering with VA as the underlying asset, principally because section 8 of Schedule 1 already permits licensees approved by the Authority to offer CFDs without specifying restrictions on the types of underlying asset if it is within the context of Schedule 1.

Implications with Virtual Asset Services Providers Act.

Licenses offering CFDs with VA as the underlying asset should **NOT** be considered as a virtual asset service under the Virtual Asset Services Providers Act for the following reasons:

- a) **Nature of CFDs:** *CFD as an instrument does not involve the actual purchase of VA. Rather, it allows the trader to speculate on the price movements of that asset. The trader enters into a contract with a broker and the contract value is determined by the difference between the opening and closing prices of the underlying VA.*
- b) **Speculation without ownership:** *Traders do not own the VA itself but instead trade on price changes. The price of the CFD is tied to the price of a particular VA.*
- c) **No physical delivery:** *There is no physical exchange of the underlying VA as it is purely a financial contract.*
- d) **No blockchain involvement:** *The undertaking of the CFDs does not occur on any blockchain platforms, but rather platforms that provide access to speculate on prices only.*

In contrast to virtual asset services, it is the undertaking of buying, selling and trading of VAs on a blockchain. The buying, selling or trading of VAs involves ownership changes (transfer of asset) and their liquidity/value is based on the popularity or frequency of trade.

Expectations of the Authority.

Whilst licensees offering CFDs with VA as the underlying asset are not considered as offering virtual asset services, the Authority's expectations from those licensees is to uphold the same rigorous standards and controls applied to other CFD products. When onboarding clients, licensees are obligated to conduct thorough suitability assessments, classifying potential clients according to their knowledge and experience with CFD instruments. Implementing robust entry controls is a crucial step to ensure that products of this nature are extended to individuals with the requisite understanding and risk tolerance.

Furthermore, licensees must provide clients with comprehensive risk disclosures clearly outlining the heightened volatility and potential financial losses associated with trading CFDs. Additionally, promotional or marketing materials should present these disclosures prominently, allowing clients to make informed decisions that align with their risk appetite and financial circumstances. Promotional or marketing materials should not be intentionally targeted to retail clients. It is understood that circumstances and medium chosen may not allow for restrictions to be placed in regard to access, a licensee should not be actively advertising or marketing products which may not be suitable to a certain class or classes of customers.

Should a suitability assessment indicate that a prospective client requires trading restrictions on CFDs involving VA, licensees must provide equivalent protective measures as they would with other CFD offerings. In this regard, the licensee bears the responsibility to ensure the product is appropriate for the client's profile and, if necessary, to impose appropriate safeguards or limitations.

Moreover, in the event of a dispute or complaint, licensees must be able to demonstrate to the Authority that the client was suitably qualified to trade this product. This includes providing clear documentation of the steps taken to assess the client's trading experience, financial situation and risk appetite.

Licenses are urged to ensure that the necessary measures, as depicted above, are taken to ensure compliance with the requirements of the Securities Act, 2007 and all other regulations and applicable statutory instruments made thereunder.

Nonetheless, licensees are reminded that the Authority shall continue to authorize licensees to provide only products and services that have been explicitly approved by the Authority and as per the conditions of their respective licenses.

More clarifications can be sought from the Authority on capitalmarkets.supervision@fsaseychelles.sc.

FINANCIAL SERVICES AUTHORITY