



Customer Advisory: Eight Things You Should Know Before Trading Forex

The Commodity Futures Trading Commission advises the public to thoroughly research over-the-counter foreign exchange (“forex”) dealers before making initial deposits or handing over sensitive personal information. Research should include verifying that the dealer and its employees are registered with the CFTC and checking the dealer’s disciplinary history with the National Futures Association (NFA).

Recently, the CFTC has seen an increase in fraud complaints from customers who deposited large sums with unregistered offshore forex dealers. The customers found these dealers through social media friendships or recommendations. However, when the customers tried to withdraw their money, the dealers were unresponsive or demanded additional payments.

Registration alone may not protect you from fraud, but most frauds are conducted by unregistered dealers and individuals. Financial requirements, examinations, and state and federal laws are also intended to help ensure a registered dealer meets its obligations. This is important in a market where the dealer is your only counterparty.

8 Things You May Not Know about Forex

- 1. You are trading against the dealer.** Unless you are buying forex futures or options on a regulated exchange, you are trading “off-exchange,” or over-the-counter (“OTC”). This means you are not trading in an open market, you are trading only against your dealer. When you buy, your dealer is the seller; when you sell, your dealer is the buyer. Your dealer makes money when you trade more frequently, lose money, or pay fees, spreads, or commissions.
- 2. Two out of three forex customers lose money.** Most OTC forex customers lose money when all credits, financing charges, fees, and other expenses are factored in. Over the past year, about one-third of customers at registered OTC forex dealers made a profit, while two-thirds lost money.¹
- 3. The dealer controls the trading platform.** When you trade over an electronic trading platform, mobile app, or a dealer’s website, you are not connecting to a live exchange. You are connecting to the dealer, which controls the information you see on your screen, including prices. In many cases, unregistered offshore dealers have used popular trading software to provide a veneer of legitimacy, but have manipulated trade data to steal from customers. Compare prices with third-

Why Registration Matters

Registration with the CFTC and NFA indicates:

- Principals and associated persons have completed thorough background checks.
- The firm meets certain financial requirements.
- Addresses and contact information for the primary place of business and branch locations are verified and accessible to customers.
- The firm or persons must submit to examinations and regulatory supervision.
- Associated persons have passed required tests and meet other proficiency requirements.
- The firm or person must adhere to disclosure requirements and conduct standards.
- If problems arise, customers can seek help through the **CFTC Reparations Program** or **NFA arbitration process**.

Visit cftc.gov/check to learn more.

¹ Based on percentages of profitable and not-profitable non-discretionary customer accounts disclosed by registered OTC forex dealers from Q2 2021 through Q1 2022. Registered OTC forex dealers must provide the percentage of profitable and not-profitable accounts upon request to any customer or prospective customer.



party sources to verify you are seeing legitimate market price movements and levels.

4. **Your ability to close or offset positions is limited to your dealer.** Because you are trading against the dealer on its platform, you are limited to the prices and conditions the dealer offers.
5. **Your deposits are not protected.** If a dealer disappears or goes bankrupt, you may not be able to get your money back. Before opening an account, be sure you receive and closely **review your account agreement** to see what rights and protections you have. Next, check requirements for funding and withdrawing from the account, including any related charges. Fraudulent dealers commonly refuse withdrawals until customers pay expensive, undisclosed commissions, pay made-up taxes, or invest more to reach a higher account-level status. You should never have to pay more money to get your money back.
6. **You could lose all of your margin and more.** OTC forex trading uses margin. Dealers will require a minimum amount to open and maintain a position, which usually depends on the volatility of the currency pair you want to trade. For example, a 2 percent margin requirement means you could open a \$100,000 position with only \$2,000 in your account. This high degree of leverage amplifies both gains and losses. If the market moves against you, you would be required to add more money to your margin account or close the position. You may also be liable for additional losses beyond your initial deposit.
7. **Salespeople may have hidden conflicts.** The dealer may employ salespeople, social media influencers, or affiliate marketers to bring customers to its platform, but these relationships may not be known to the customers. Salespeople may have no expertise in trading and get paid based on the number of new customers they deliver. Thoroughly investigate any statements that contradict or downplay any of the issues listed in this advisory or other risks outlined in the **mandatory risk disclosure statement you must receive** prior to opening an account.
8. **Many frauds begin on social media.** Be especially cautious of anyone who approaches you on social media, dating apps, messaging apps, or through unsolicited email and wants to discuss forex trading. Common warning signs to watch for include:
 - Pushing you to move the conversation off-platform to a private messaging app.
 - Promising outsized and often guaranteed returns in a short amount of time.
 - Directing you to an unregistered dealer with no physical presence in the United States.
 - Offering you leverage that is higher than legally allowed in the United States (2 percent for major currency pairs or 5 percent for other pairs).
 - Accepting only bitcoin, ethereum, or other digital assets as payment.
 - Having a website that does not display a physical headquarters address or branch locations, or the addresses do not exist when you do a street-level map search.
 - Using a WhatsApp customer service number, or having no phone number at all.

If you believe you have been the victim of fraud, visit cftc.gov/complaint. To check registration and disciplinary histories, visit nfa.futures.org/basicnet.

This article was prepared by the Commodity Futures Trading Commission's Office of Customer Education and Outreach. It is provided for general informational purposes only and does not provide legal or investment advice to any individual or entity. Please consult with your own legal advisor before taking any action based on this information. This advisory references non-CFTC websites, and organizations. The CFTC cannot attest to the accuracy of information in those non-CFTC references. Reference in this article to any organizations or the use of any organization, trade, firm, or corporation name is for informational purposes only and does not constitute endorsement, recommendation, or favoring by the CFTC.