



## Contract for Difference (CFD) Trading – Snapshot Market Study –

Munich, September 2012

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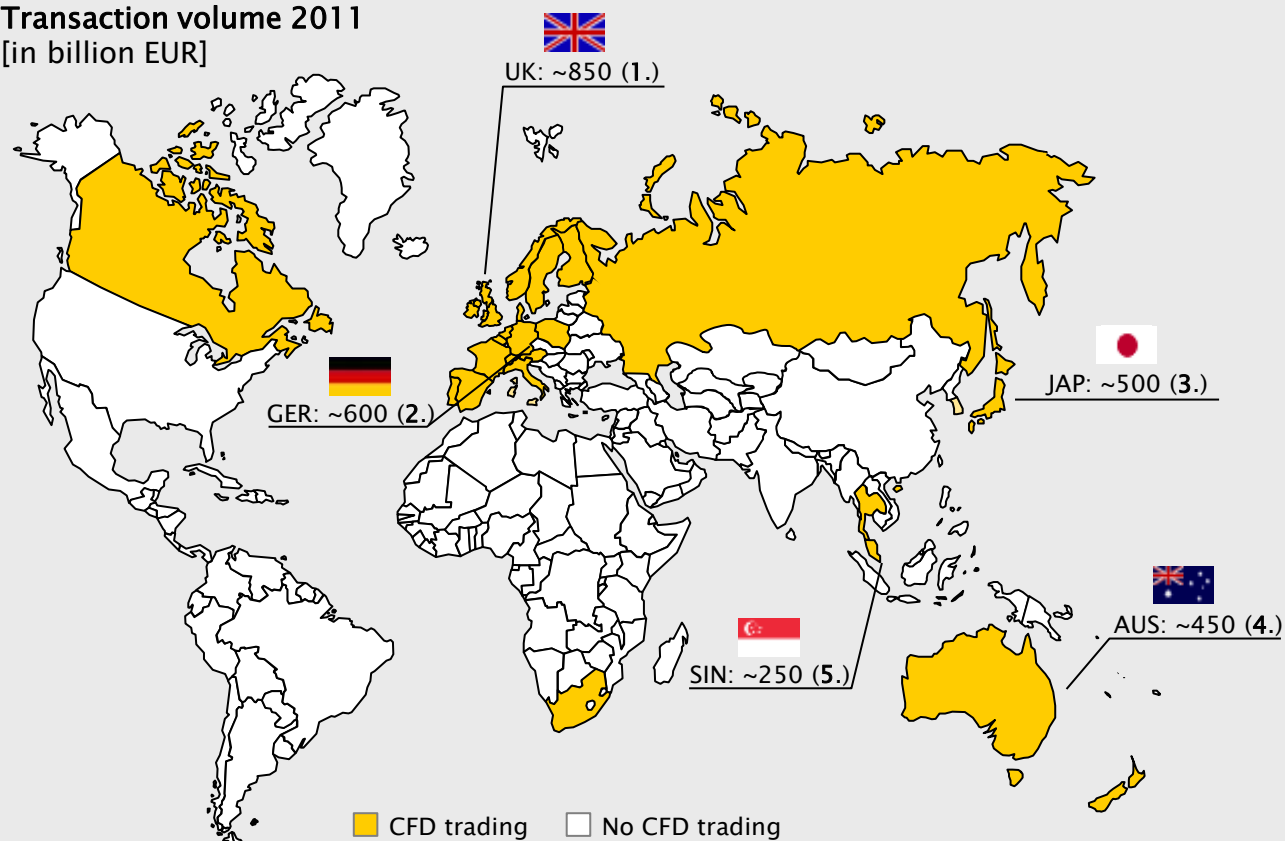
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## Since being introduced to retail investors in 1998, CFDs have witnessed a fast international proliferation

### Leading global retail CFD markets

Transaction volume 2011  
[in billion EUR]

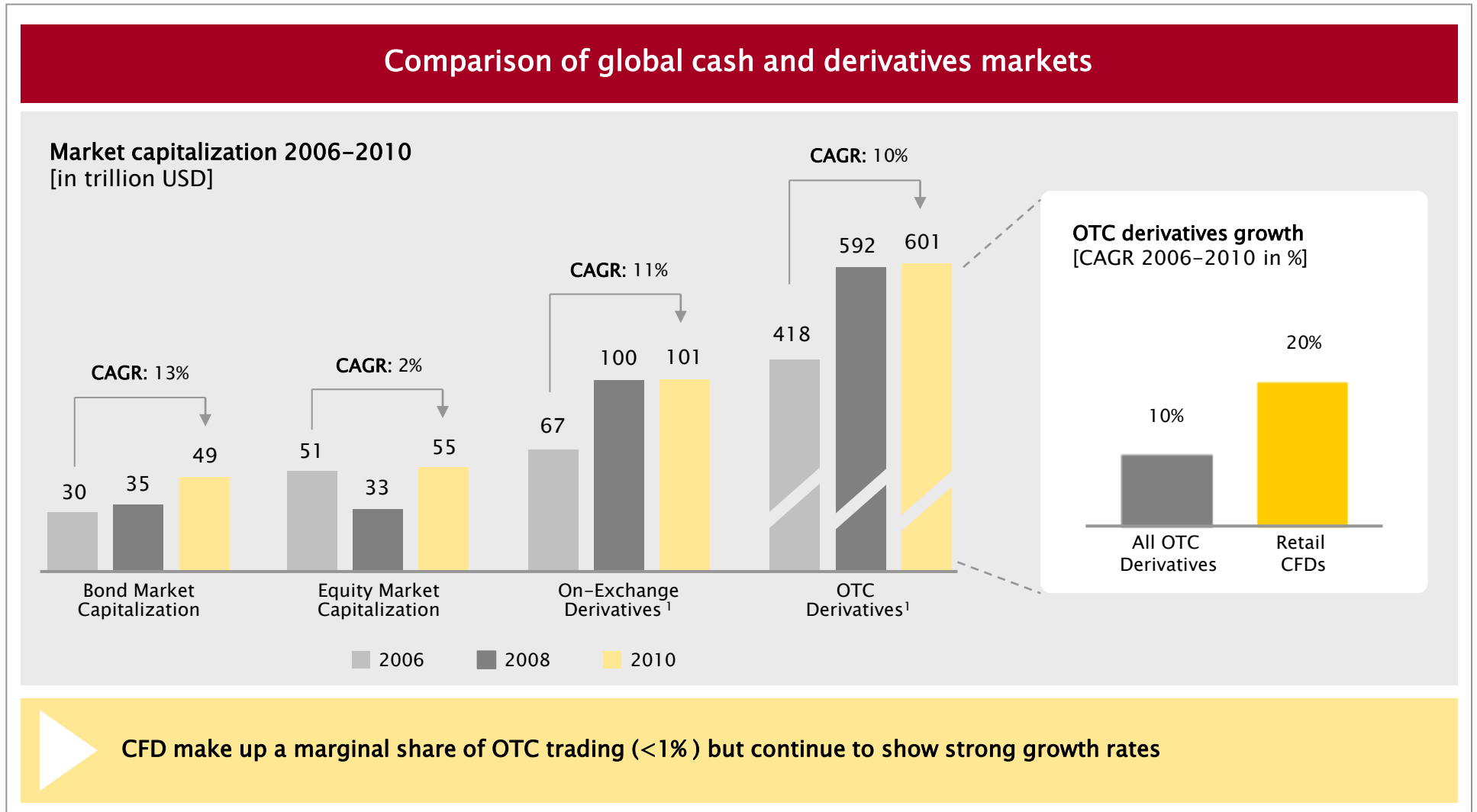


#### Developments

- 1990: CFD developed for UK institutional investors to avoid stamp duty (tax)
- 1998: Introduction to retail investors in the UK
- 2007: First on-exchange CFD offer introduced by ASX in Australia
- Today: Traded in 20+ countries worldwide
- Global transaction volume CAGR: 20% (2007–2011)

Source: Investment Trends (2011), Annual Reports of CFD brokers, METIS Analysis

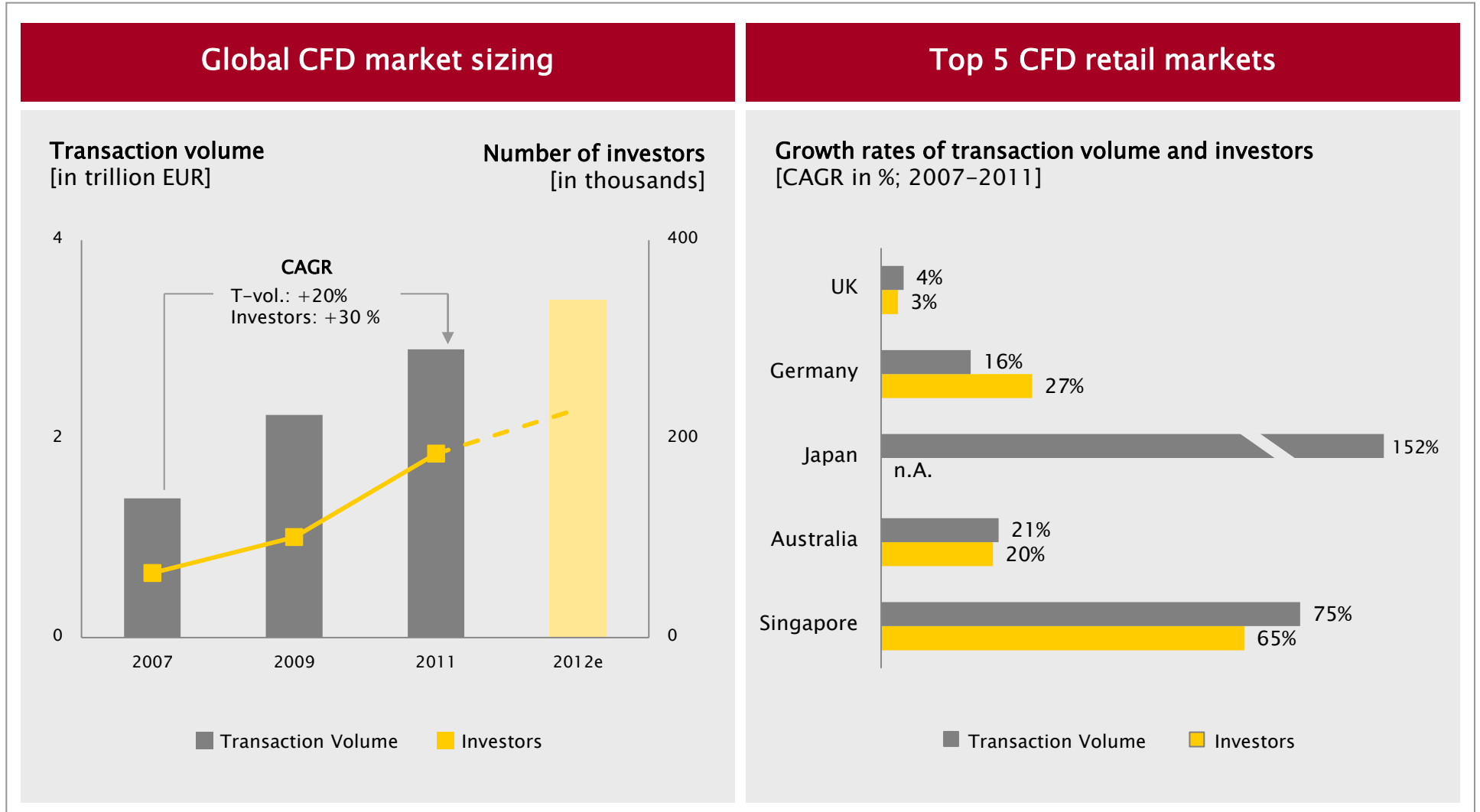
In terms of relative growth, retail CFDs have outpaced the overall OTC annual average growth rate by a factor of two



1) On-exchange derivatives and OTC derivatives are based on notional values

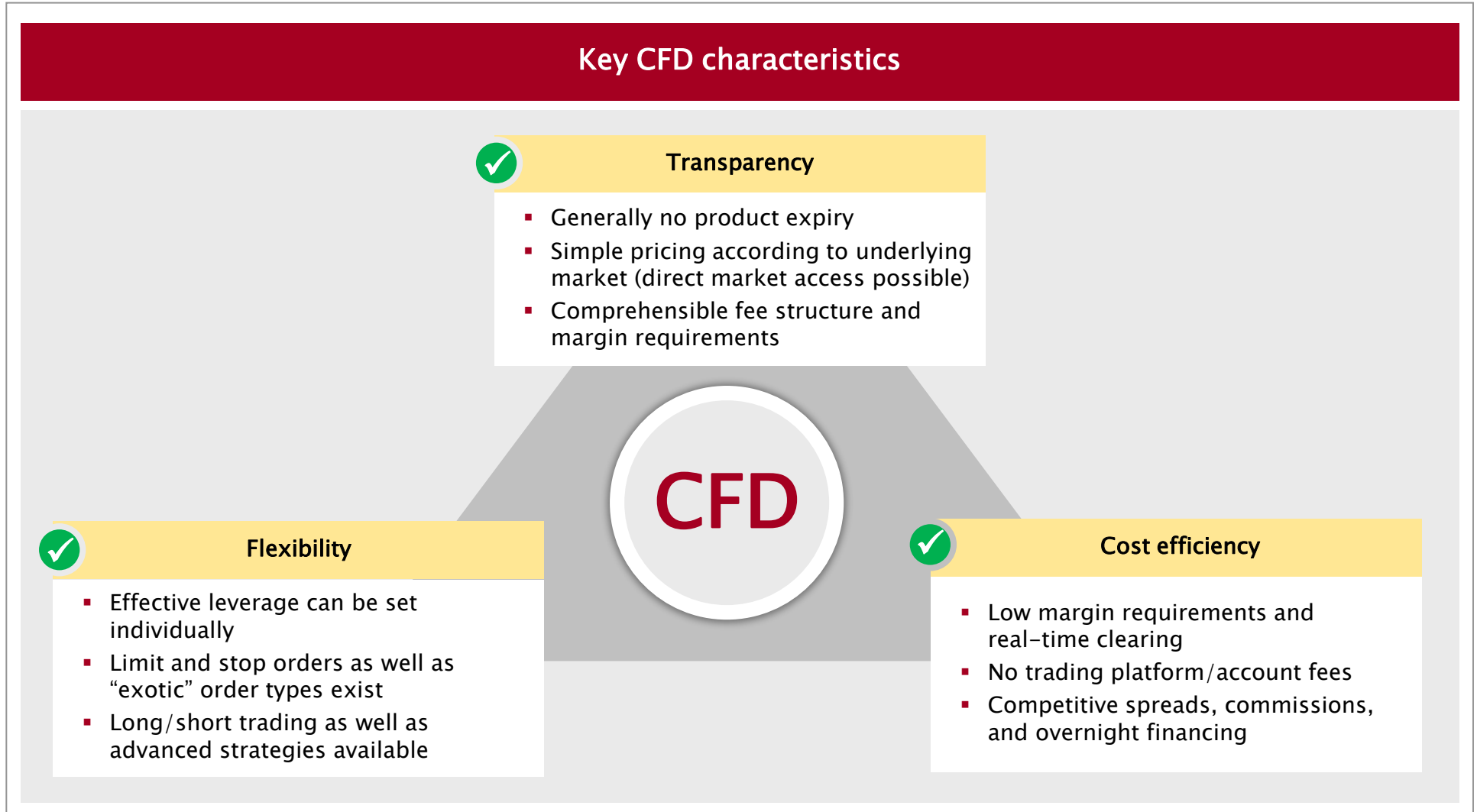
Source: BIS, WFE, METIS Analysis

# The global CFD market is experiencing a pronounced increase in popularity among investors and is growing across all major markets



Source: Investment Trends (2011), Annual Reports of CFD Brokers, METIS Analysis

# CFDs are transparent and cost efficient derivatives, which enable tailored trading strategies



Source: METIS Analysis

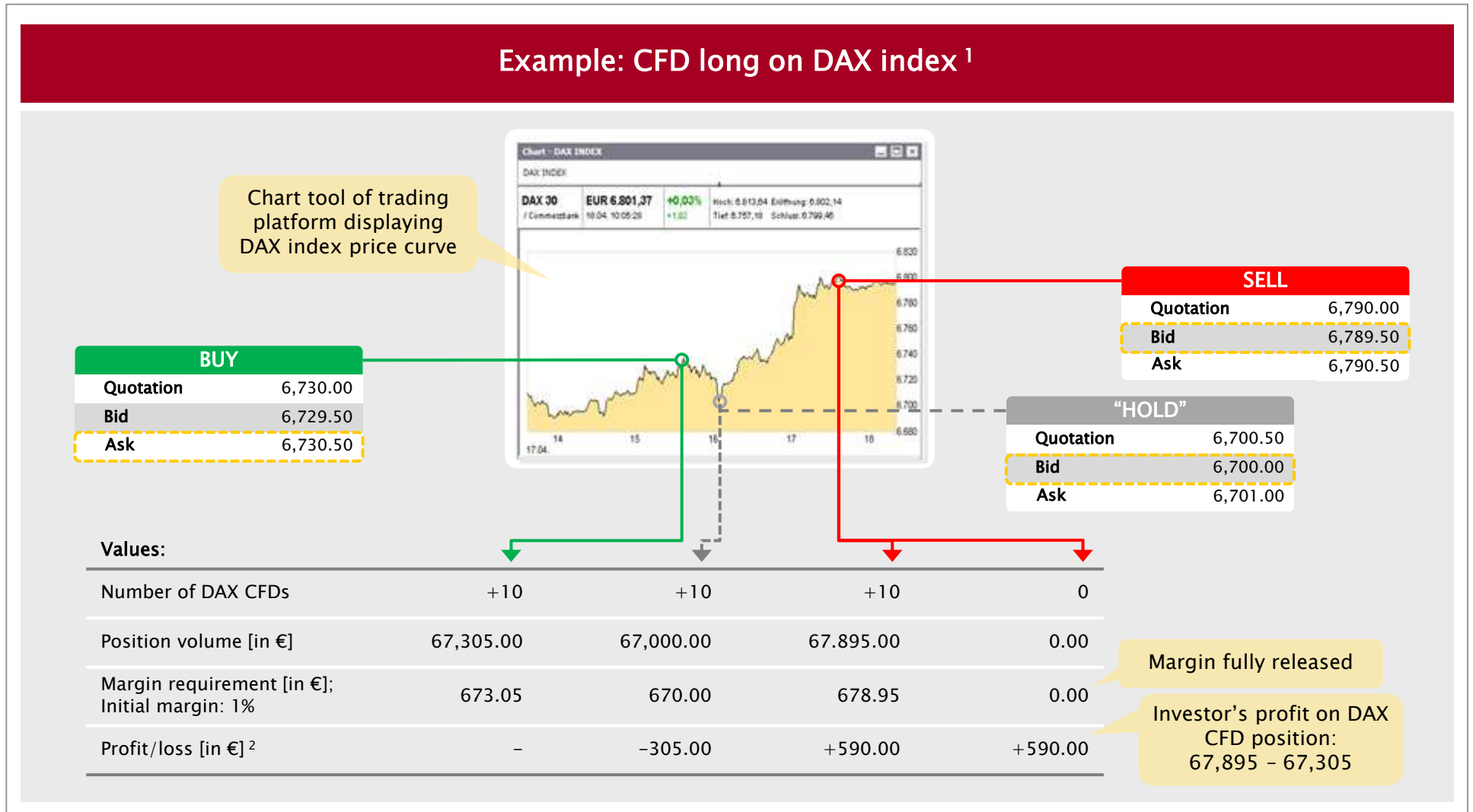
## Large parts of this potential result from superior product characteristics – viewed by a retail heavy trader...

Characteristics		Transaction costs	Product Simplicity	Potential Leverage <sup>1</sup>	Applicable in a bear market	Market coverage	Risk limitation	Overall
Financial instrument								
Derivatives	Direct investments (shares, bond, Forex, ETFs, etc.)							
	Knock-out/ turbo certificates							
	Warrants							
	Options & futures							
	CFDs						<sup>2</sup>	
<b>Retail heavy traders' view:</b>		Highly advantageous   ↔    Highly disadvantageous						

1) Percentage change in profits/losses of the financial instrument compared to necessary investment (purchase price, margin, premium etc.) 2) Most CFD broker offer risk limitation

# ... and last but not least by CFDs easy to understand structure – as shown in a trading example

## Example: CFD long on DAX index <sup>1</sup>

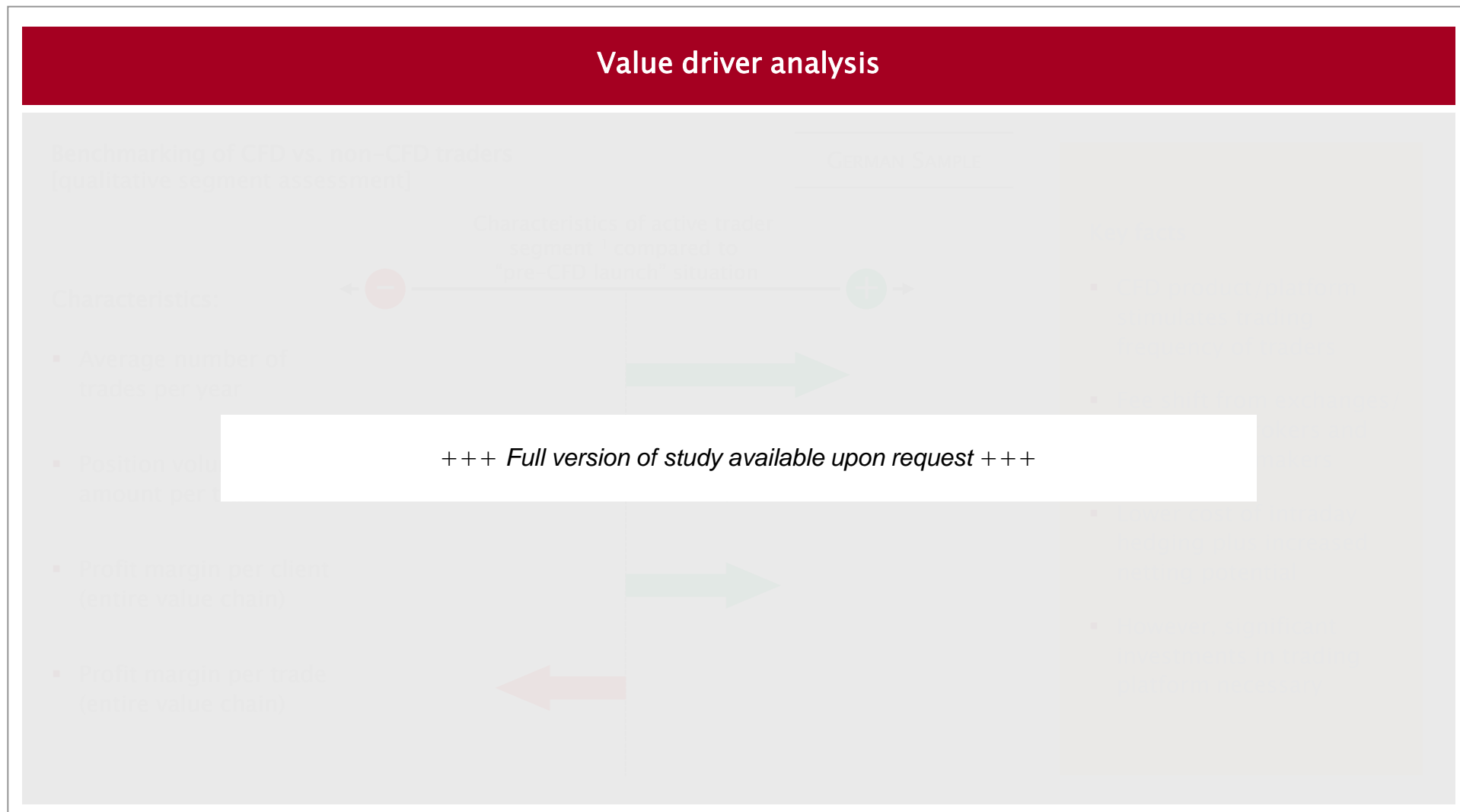


1) Simplified fee model assuming intraday trading (no overnight financing cost) 2) Additional capital to be provided for losses

Source: METIS Analysis



## Likewise from a bank/broker point of view this customer potential leads to attractive business opportunities



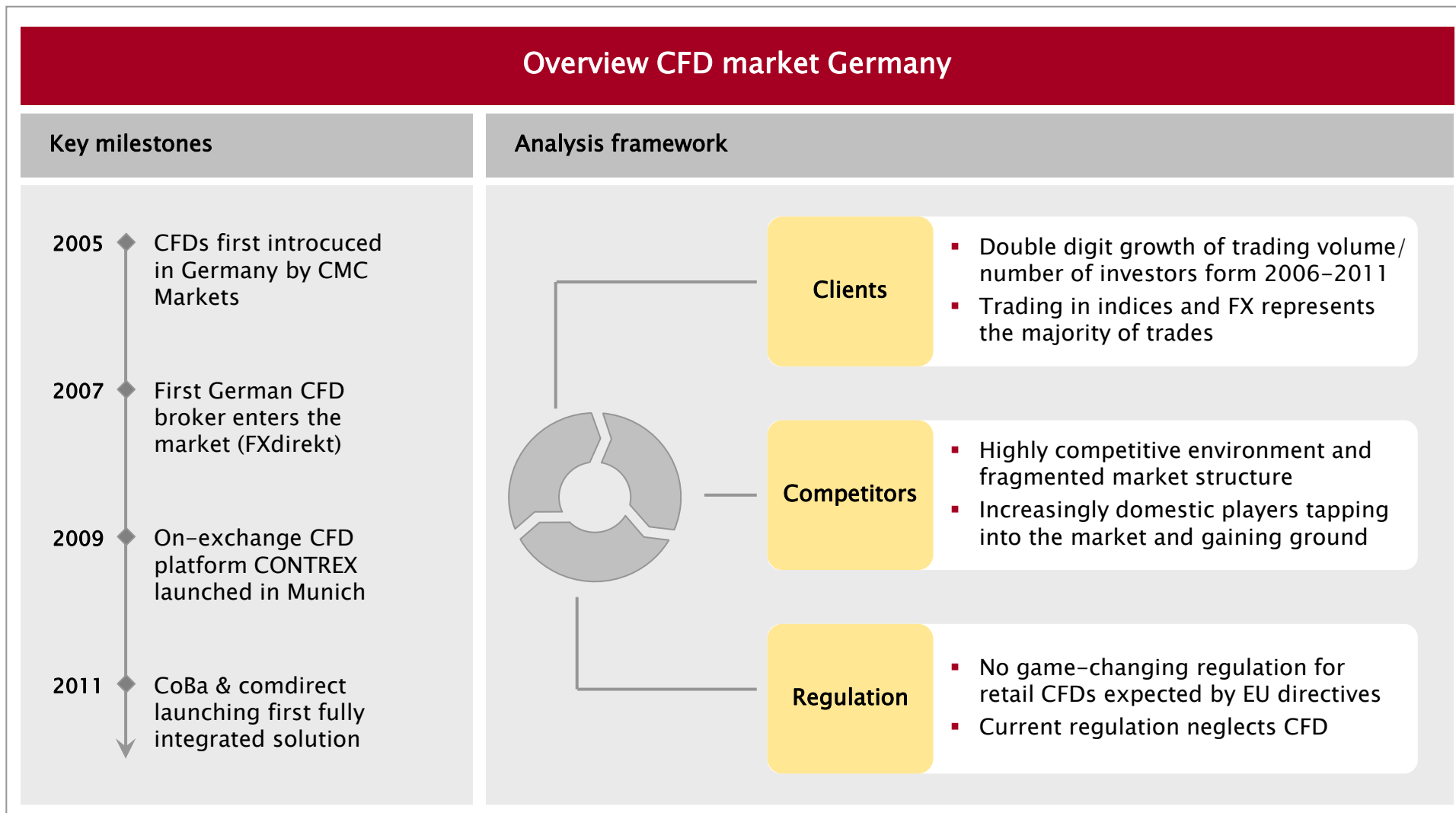
1) Segment with a minimum of 250 trades per year – before trading with CFDs

Source: Industry experts, METIS analysis

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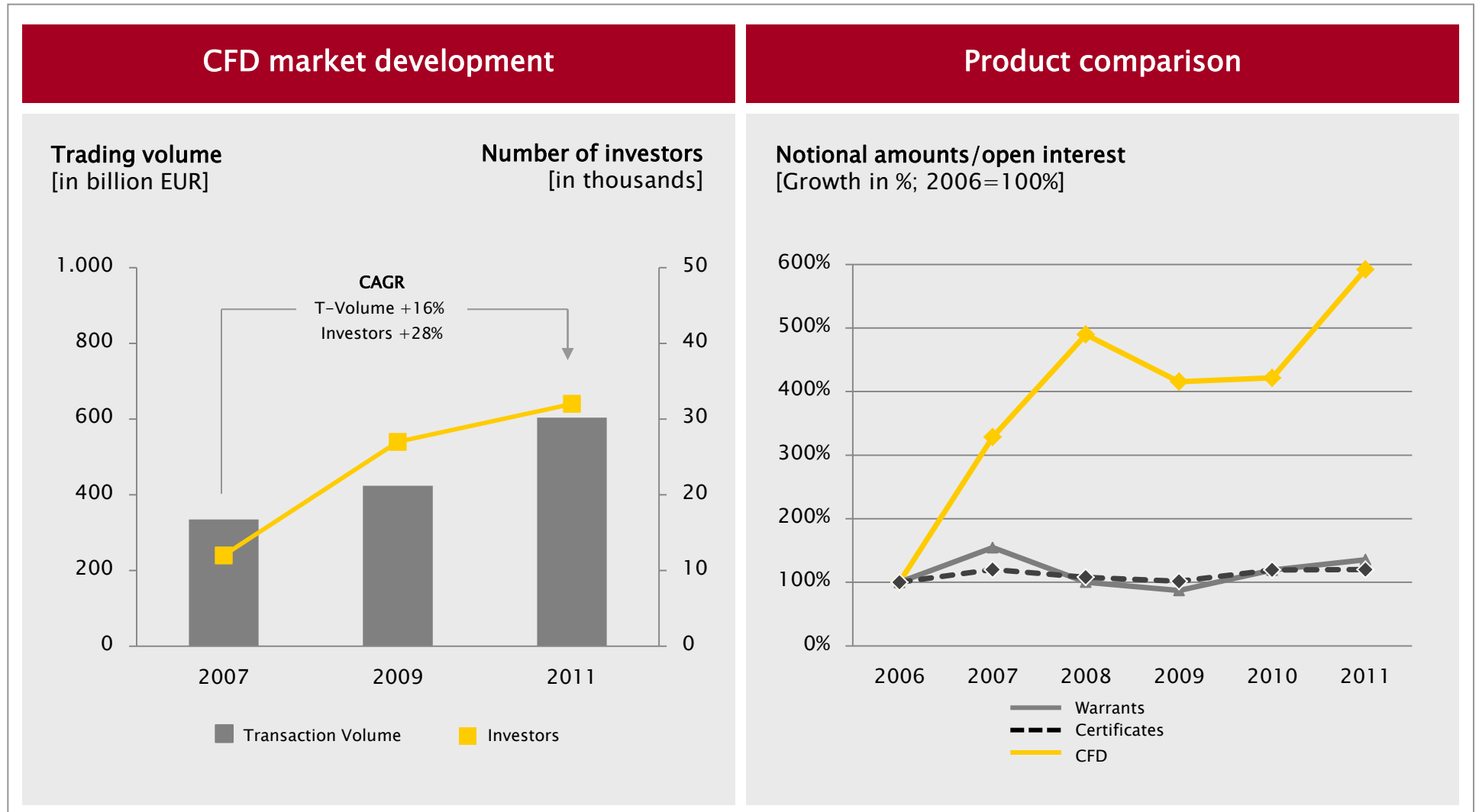
# Germany is one of the most attractive markets, ranking second in terms of transaction volume worldwide



Source: FUCHSBRIEFE (2012), METIS Analysis



# CFDs are growing more and more popular with German investors whilst outpacing other retail derivative products



Source: Steinbeis (2006–2010), Investment Trends (2011), Deutscher Derivateverband (2006–2011), METIS Analysis

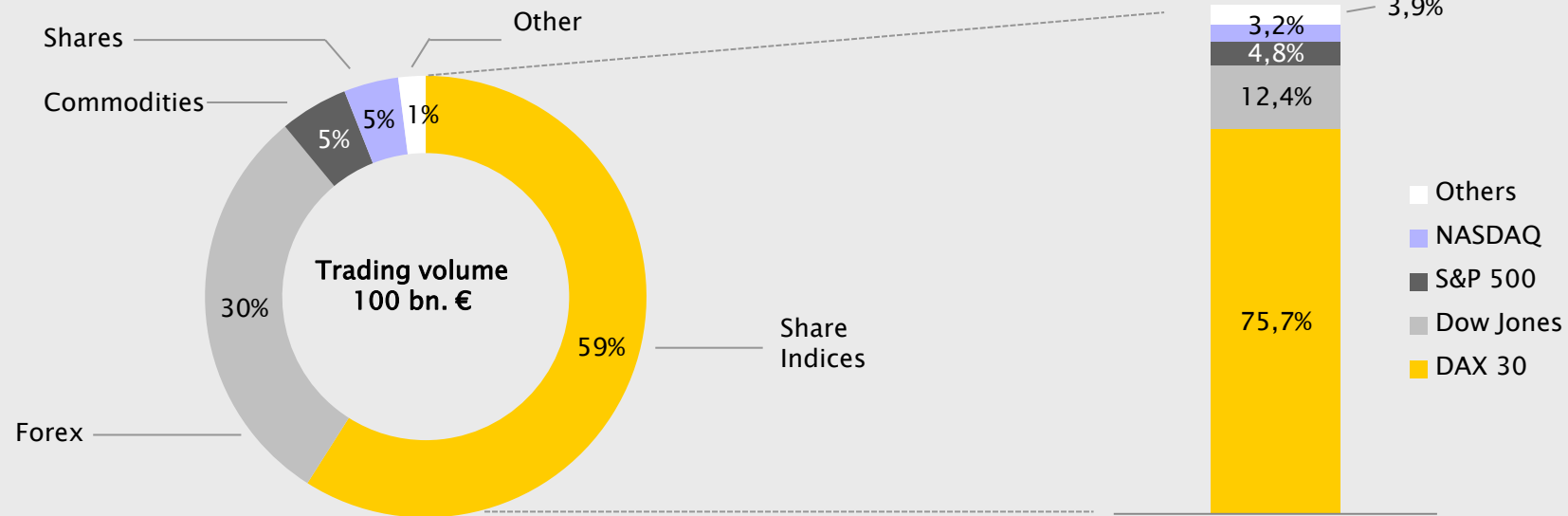


# Retail CFD traders display a great affinity towards indices and Forex trading – competitive pricing of these liquid underlyings reinforcing this effect

## Trading Patterns

Traded asset classes (Q3 2010)  
[in % of trading volume]

Traded share indices (Q3 2010)  
[in % of trading volume]



Retail traders show a strong home bias with more the vast majority of trading volume consisting of German share indices and shares

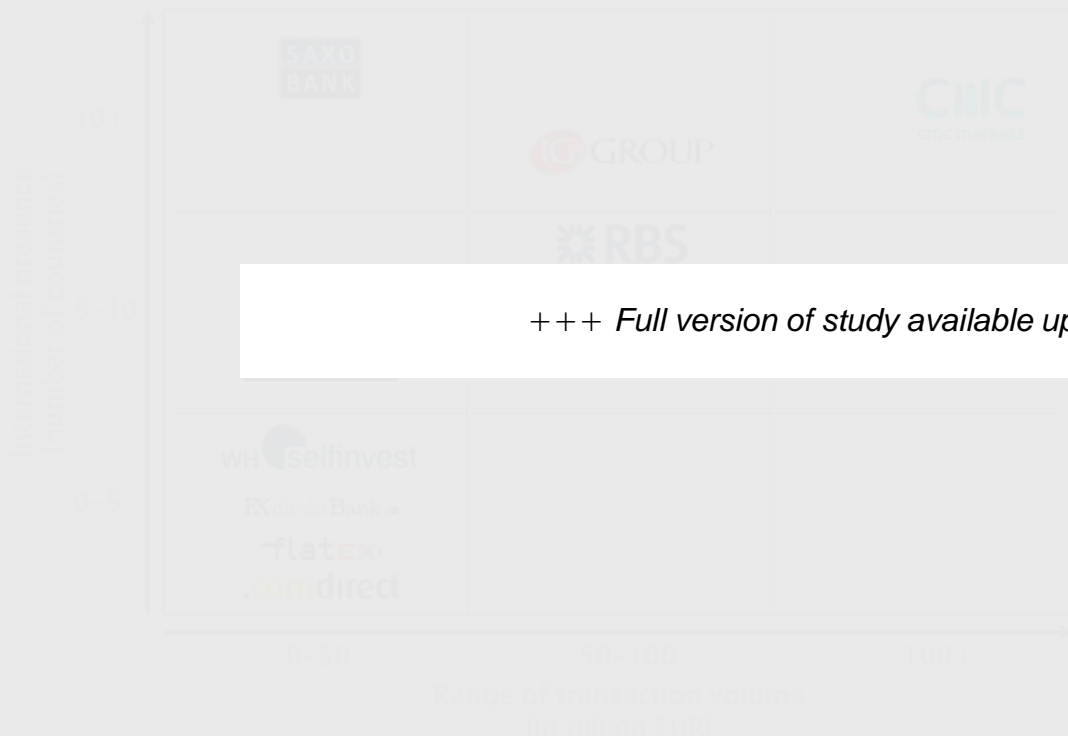
Source: Steinbeis 2010, Euro am Sonntag 2011, METIS Analysis



# The competitive environment is dispersed over numerous national and international competitors

## Competitive classification

CFD brokers in Germany (Top 9)  
[schematic classification]



+++ Full version of study available upon request +++



# First mover CMC markets still holds the leading position in the German market yet losing ground to an increasing base of domestic players

## Competitor assessment (Top 9)

Broker	Origin	Market share (trade volume) <sup>1</sup>	Number of CFDs	Number of order types	Business model/product characteristics
IG Markets	UK	██████████	~8,000	7	<ul style="list-style-type: none"> <li>• Direct Market Access (DMA)</li> <li>• High-end offer/ service and fee structure</li> </ul>
Saxibank	UK	██████	~2,000	7	<ul style="list-style-type: none"> <li>• Direct Market Access (DMA)</li> <li>• High-end offer/ service and fee structure</li> </ul>
+++ Full version of study available upon request +++					
FX Direct	GER	████	~900	7	<ul style="list-style-type: none"> <li>• Strong focus on service/sales driven</li> <li>• Cooperation with Munich exchange</li> </ul>
Commerz	GER	████	~1,000	7	<ul style="list-style-type: none"> <li>• Fully integrated in direct brokerage offer</li> <li>• Most renowned market maker (DMA)</li> </ul>
		████			<ul style="list-style-type: none"> <li>•</li> <li>•</li> </ul>

1) One square indicating 10 – 30 billion EUR of trading volume 2011 2) Trade volume since launch in 09/2011

Source: FUCHSBRIEFE (2012), Investment Trends (2011), METIS Analysis



## Further regulation for OTC derivatives, at times including CFD, is currently being discussed by various EU institutions

Regulatory initiatives with effect on German OTC derivatives market			
Regulation (Primary institution)	Status/timeline	Major elements	Assessment
<b>EMIR</b> (ESMA)	Expected to become effective: earliest by end of 2012	<ul style="list-style-type: none"> <li>Central clearing obligations</li> <li>Stricter capital requirements</li> <li>Reporting to trade repositories</li> </ul>	<ul style="list-style-type: none"> <li>Most initiatives are still under discussion by EU institutions; respectively pending</li> <li>Regulatory focus on large institutional derivatives investors; exemptions intended for non-financial and retail investors</li> <li>Impact on retail CFD trading expected to be moderate</li> </ul>
<b>MiFID II/MiFIR</b> (EU Commission)	Expected to become effective: earliest by end of 2013	<ul style="list-style-type: none"> <li>Stricter investor protection</li> <li>Extended pre-/post-trade transparency to OTC derivatives</li> </ul>	
<b>CRD IV</b> (EU Commission)	Expected to become effective: earliest by 01/2013	<ul style="list-style-type: none"> <li>EU-wide implementation of Basel III</li> <li>Further capital requirements (collateral) for non-centrally cleared derivatives</li> </ul>	
<b>EU Financial Transaction Tax</b> (EU Commission)	Ongoing discussion launch uncertain	<ul style="list-style-type: none"> <li>EU-transactions in derivatives taxed by 0,01% (still under discussion)</li> <li>Possible exemption for retail trades</li> </ul>	
<b>Short Selling Restriction</b> (IOSCO/CESR)	IOSCO/CESR internal discussions	<ul style="list-style-type: none"> <li>New oversight and disclosure obligations</li> <li>Possible ban of "naked short selling"</li> </ul>	

Abbreviations: EMIR: European Market Infrastructure Regulation, MiFID: Markets in Financial Instruments Directive ; CRD: Capital Requirements Directive

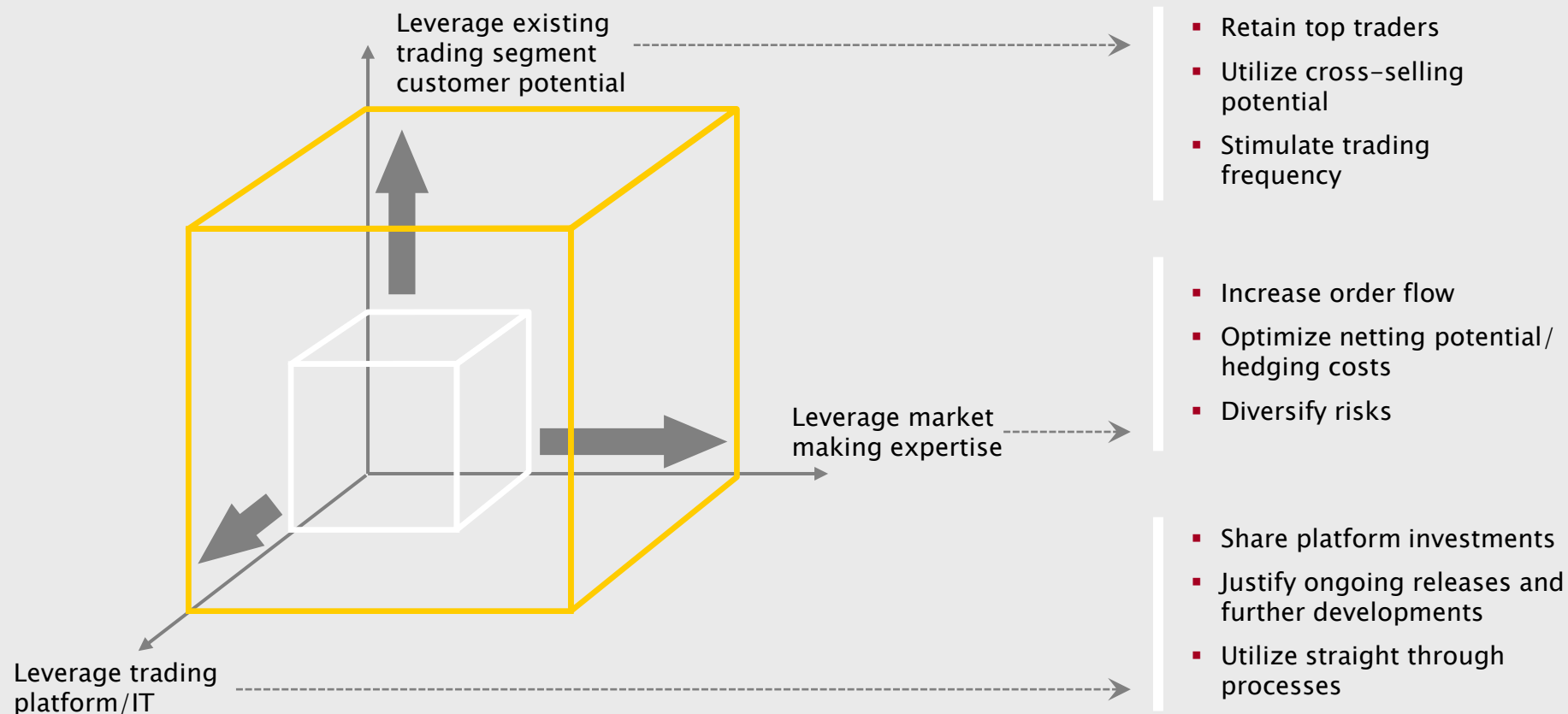
Source: DB Research, ESMA, EU Commission, METIS Analysis



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## Entering the CFD trading market is conceivable for players being able to either leverage customer base, market making expertise or existing trading platforms

### Rationale to enter CFD Trading



**Critical success factors of the CFD value chain are real time pricing/margining, high performance IT systems and straight through processing**

**CFD value chain (retail sector)**

Customer Relations

Trading

Clearing & Settlement

Customer Service

Marketing & Sales

CFD Account Mgmt

Market Making

Order Mgmt & Execution

Margin Control

Clearing & Settlement

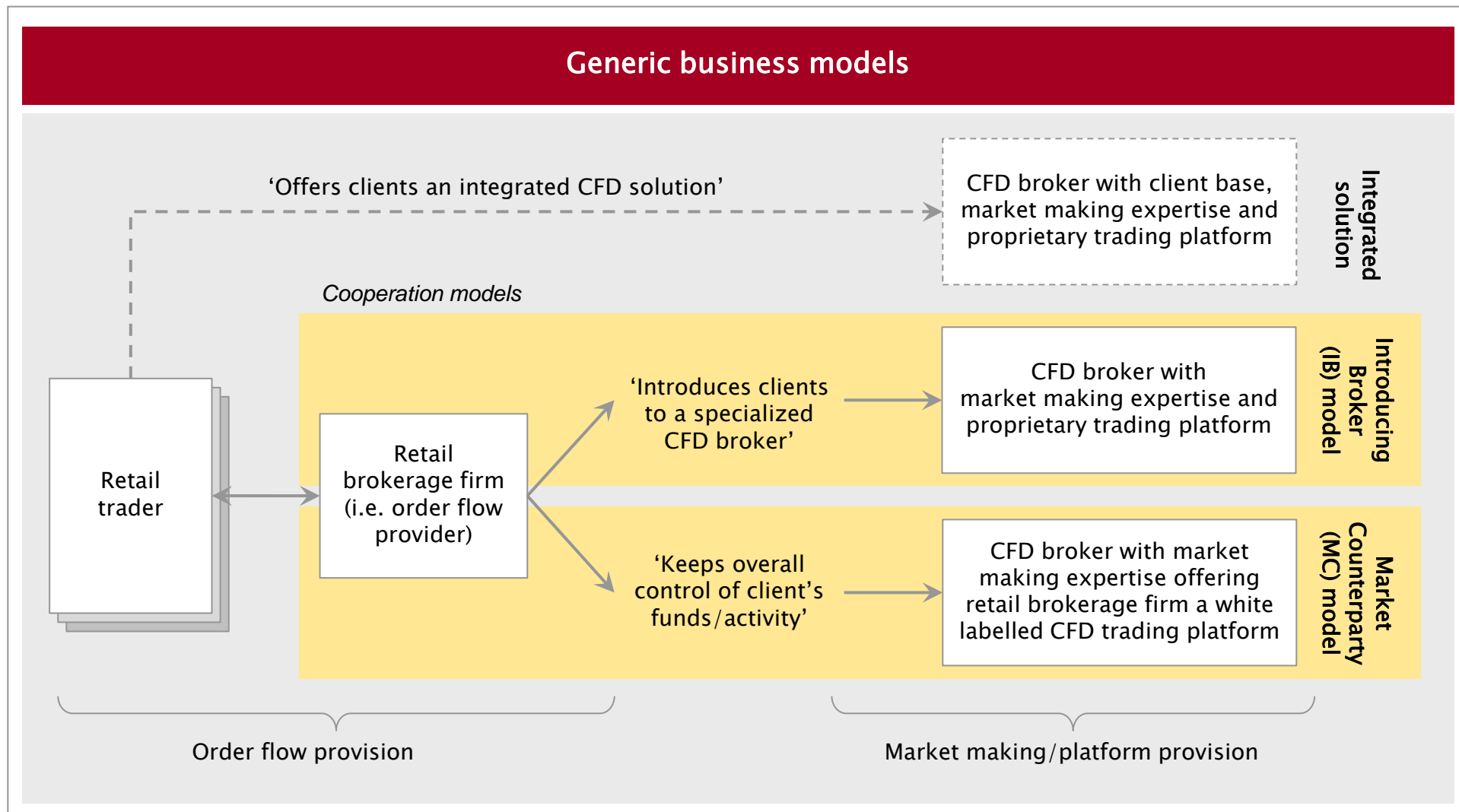
Regulatory Reporting & Taxes

Client Reporting

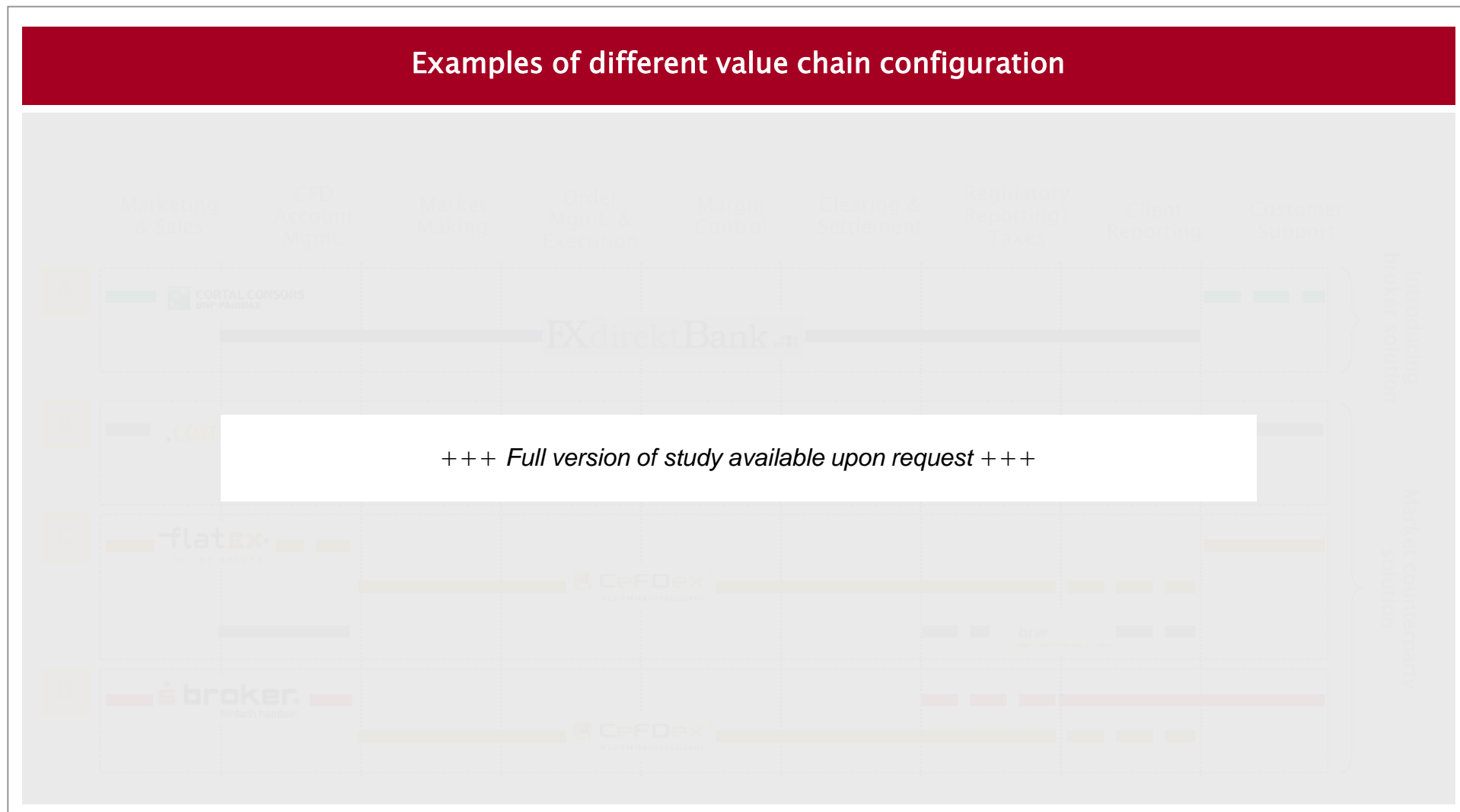
Customer Support

+++ Full version of study available upon request +++

# High-level, the set of CFD business models can be divided into an integrated solution as well as introducing broker and market counterparty models



# The majority of domestic retail brokerage firms entered the German market with market counterparty solutions



Source: METIS Analysis

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## As a highly specialised consultancy, we assist our financial services clients in strengthening their market position and optimising their cost structures



METIS – Reaching new heights. Together.

We develop innovative, state of the art solutions tailored to the actual needs of the financial services industry and are competent partners for our client's senior management.

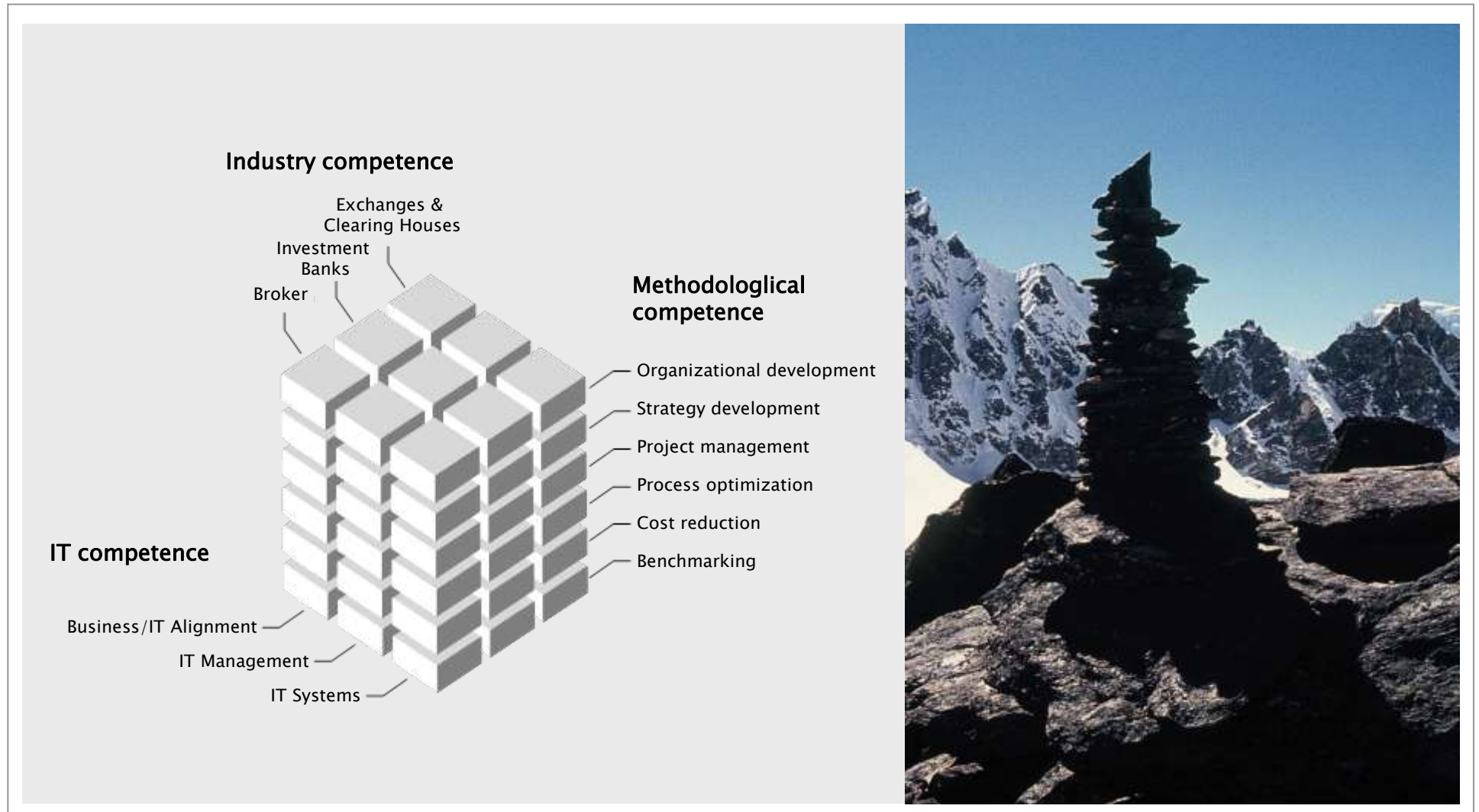
Our consulting approach is based on co-operative partnership, confidence and integrity; we actively and intensively collaborate with client staff members on all organisational levels.

We make sure that our concepts are successfully implemented and necessary changes are accepted and understood by all affected parties; we actively support our clients in their transformation process.

Our methodological competencies comprise market analyses, strategic and organisational development, cost improvement, process reengineering, benchmarking as well as project and change management.

We focus on the core processes and products in the context of „Capital Markets & Securities Services“ as well as „Corporate Services“ (in particular IT).

# Our service offer for capital markets clients is based on comprehensive industry, methodological and IT competencies





Our teams successfully assisted some of the most renowned financial services players in their respective markets



Allianz



AMERICAN STOCK EXCHANGE  
Equities Options ETFs

BNP PARIBAS

COMMERZBANK

DEUTSCHE BÖRSE

Dubai International Financial Exchange  
DIFX

Dresdner Bank

ERGO

ISE  
INTERNATIONAL SECURITIES EXCHANGE

LBB

LB= BW

NYMEX  
NEW YORK MERCANTILE EXCHANGE

HypoVereinsbank

Siemens Financial Services

Standard Bank

تداول  
Tadawul

UBS

## As an example, METIS assisted a major German bank with implementing a CFD market counterparty solution together with an associated retail broker

### Phase 1: Strategy development & basic conception

- Conduct a feasibility study and analyse potential show stoppers
- Draft a CFD process model, an account scheme as well as a high-level context diagram of relevant systems & interfaces
- Definition of product features, positioning strategy and pricing

### Phase 2: Platform implementation & market launch

- Specification of functional requirements for account mgmt., trading, clearing and reporting; design of process flows & use cases
- Functional steering of the joint offshore/in-house development approach; preparation of IT concepts for a state of the art trading platform incl. customer and service frontends as well as interfaces
- Execution of comprehensive module and integration testing

### Phase 3: Ongoing development & expansion

- Specification of platform enhancements (mobile frontend, chart trading etc.), support implementation and testing
- Evaluation of white label solution business potential and preparation of platform changes (data model, interfaces, service frontend etc.)



## Furthermore, we have supported renowned clients in the securities industry and developed a unique expertise in trading, clearing and settlement infrastructure



Conception and implementation of a direct brokerage offer in Germany for a leading European universal bank

- Development of the business model, organizational and process concept as well as selection of IT partners (RFP process)
- Supporting the implementation process including connection of partners and platform launch

Process optimization for the Financial Markets Front, Middle und Back Office of a leading South African Corporate & Investment Bank

- Detailed documentation of processes and applications as well as systematic analysis of identified weaknesses
- Implementation master plan with over 300 individual measures to realize identified improvement potential

Implementation of an international IT-benchmarking study for stock exchanges and clearing houses

- Development of industry specific indicators in the segments of application development, computer center, and networking
- Carrying-out of data collection and preparation, as well as benchmarking to identify optimization potential for participants

## The METIS management team has long standing experience in the financial services industry

**Andreas  
Bornemann**



- A.T. Kearney, Principal Financial Institutions
- Mitchell Madison Group, Partner Financial Services
- Ernst & Young International, Manager Financial Services

- 19 years of strategy and management consulting for direct brokers, investment banks, exchanges, and securities service providers

- Master of Business Administration (Dipl. Kfm.)

**Alexander  
Elsner**



- Ernst & Young International, Partner & Head of Financial Services D/CH, member of E&Y Global Leadership Team
- Bayerische Hypotheken- und Wechselbank AG, Corporate Account Manager

- 23 years of strategy/management consulting for banks, insurance companies, leasing and factoring providers

- Banker
- Doctor of laws (Dr. jur.)

**Thomas  
Ruppelt**



- MMG Partners, Partner
- Berliner Börse AG, Member of the Executive Board
- Mitchell Madison Group, Partner Global Securities Practice
- Deutsche Bank AG, Head Office IT/ORG

- 22 years of strategy/technology experience in the financial services industry (banks, capital markets and securities services)

- Dr. rer. nat. (Computer Science)

## Please do not hesitate to contact us for further information

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