

**OPINION OF THE EUROPEAN SECURITIES AND MARKETS AUTHORITY
of 08/04/2020**

**on the product intervention measure relating to binary options proposed by the
Magyar Nemzeti Bank of Hungary**

Having regard to Article 43(2) of Regulation (EU) No 600/2014 of the European Parliament and of the Council of 15 May 2014 on markets in financial instruments and amending Regulation (EU) No 648/2012 ⁽¹⁾,

Having regard to Article 44(1) of Regulation (EU) No 1095/2010 of the European Parliament and of the Council of 24 November 2010 establishing a European Supervisory Authority (European Securities and Markets Authority), amending Decision No 716/2009/EC and repealing Commission Decision 2009/77/EC ⁽²⁾,

THE EUROPEAN SECURITIES AND MARKETS AUTHORITY BOARD OF SUPERVISORS
HAS ADOPTED THIS OPINION:

1. Introduction and legal basis

- (1) National competent authorities (NCAs) may take product intervention measures in accordance with Article 42 of Regulation (EU) No 600/2014. At least one month before a measure is intended to take effect, an NCA must notify all other NCAs and the European Securities and Markets Authority (ESMA) of the details of its proposed measure and the related evidence, unless there is an exceptional case where it is necessary to take urgent action.
- (2) In accordance with Article 43 of Regulation (EU) No 600/2014, ESMA performs a facilitation and coordination role in relation to such product intervention measures taken by NCAs. In particular, after receiving notification from an NCA of its proposed measure, ESMA must adopt an opinion on whether it is justified and proportionate. If ESMA considers that the taking of a measure by other NCAs is necessary, it must state this in its opinion.

¹ Regulation (EU) No 600/2014 of the European Parliament and of the Council of 15 May 2014 on markets in financial instruments and amending Regulation (EU) No 648/2012 (OJ L 173, 12.6.2014, p. 84).

² Regulation (EU) No 1095/2010 of the European Parliament and of the Council of 24 November 2010 establishing a European Supervisory Authority (European Securities and Markets Authority), amending Decision No 716/2009/EC and repealing Commission Decision 2009/77/EC (OJ L 331, 15.12.2010, p. 84).

- (3) The Magyar Nemzeti Bank of Hungary (MNB) notified ESMA on 10 March 2020 of its intention to take a product intervention measure under Article 42 of that Regulation (national measure).
- (4) The national measure consists of a permanent prohibition on the marketing, distribution or sale of binary options to retail clients in or from Hungary.
- (5) ESMA has taken product intervention measures prohibiting the marketing, distribution or sale to retail clients of binary options in Decisions (EU) 2018/795 ⁽³⁾, (EU) 2018/1466 ⁽⁴⁾, (EU) 2018/2064 ⁽⁵⁾ and (EU) 2019/509 ⁽⁶⁾.
- (6) The first of these Decisions took effect on 2 July 2018. In accordance with Article 40(6) of Regulation (EU) No 600/2014, ESMA must review a temporary product intervention measure at appropriate intervals and at least every three months. These measures have been amended once and renewed three times. Since it was not renewed again, the latest applicable measure in ESMA Decision (EU) 2019/509 (ESMA's measure) expired at the end of the day on 1 July 2019.
- (7) A number of other NCAs took national measures on binary options and ESMA set out its view in its opinions on those measures that "it is necessary for the NCAs of other Member States to take product intervention measures that are at least as stringent as ESMA's measure" ⁽⁷⁾.
- (8) On 2 August 2019, the MNB issued a press release⁸ stating that the risks identified in connection with binary options by ESMA and other national competent authorities "appear to a lesser degree in Hungary". The MNB stated that this was due to there only having been two institutions in Hungary that offered binary options to retail clients prior to ESMA's measures "where both the turnover and the number of clients concerned was extremely low". As a result, the MNB explained that it did not regard the adoption of a measure on binary options as justified, but that it would monitor the market and take any necessary measure if needed.

³ European Securities and Markets Authority Decision (EU) 2018/795 of 22 May 2018 to temporarily prohibit the marketing, distribution or sale of binary options to retail clients in the Union in accordance with Article 40 of Regulation (EU) No 600/2014 of the European Parliament and of the Council (OJ L 136, 1.6.2018, p. 31).

⁴ European Securities and Markets Authority Decision (EU) 2018/1466 of 21 September 2018 renewing and amending the temporary prohibition in Decision (EU) 2018/795 on the marketing, distribution or sale of binary options to retail clients (OJ L 245, 1.10.2018, p. 17).

⁵ European Securities and Markets Authority Decision (EU) 2018/2064 of 14 December 2018 renewing and amending the temporary prohibition in Decision (EU) 2018/795 on the marketing, distribution or sale of binary options to retail clients (OJ L 329, 27.12.2018, p. 27).

⁶ European Securities and Markets Authority Decision (EU) 2019/509 of 22 March 2019 renewing the temporary prohibition on the marketing, distribution or sale of binary options to retail clients (OJ L 85, 27.3.2019, p.19).

⁷ See the table of national measures on binary options on ESMA's website, available at: <https://www.esma.europa.eu/policy-activities/mifid-ii-and-investor-protection/product-intervention>.

⁸ 'Following the European authority, the MNB applies restrictions on the distribution of CFDs', available at <https://www.mnb.hu/en/pressroom/press-releases/press-releases-2019/following-the-european-authority-the-mnb-applies-restrictions-on-the-distribution-of-cfds>.

- (9) The MNB previously informed ESMA that it could only issue individual decrees in respect of a product intervention measure taken in accordance with Article 42 of Regulation (EU) No 600/2014 ⁽⁹⁾. The MNB has now informed ESMA that as of 26 December 2019, it received a specific empowerment under national legislation to issue measures of general application.
- (10) Considering that ESMA repeatedly underlined the necessity for the NCAs of all Member States to take product intervention measures that are at least as stringent as ESMA's measure, with its new empowerment and following its market monitoring activities, the MNB notified ESMA of its intention to take the national measure, which is the same as ESMA's measure at national level. The national measure is expected to take effect on 10 April 2020.
- (11) The MNB notified ESMA that it has complied with the conditions in Article 42 of Regulation (EU) No 600/2014, including that it has assessed the relevance of all the factors and criteria listed in Article 21 of Commission Delegated Regulation (EU) 2017/567 ⁽¹⁰⁾ and taken into consideration all those that are relevant. In particular, the MNB notified ESMA that it shares the reasoning given in ESMA's measure on the existence of a significant investor protection concern, as relevant to Hungary and the conditions in Article 42 of Regulation (EU) No 600/2014.
- (12) The MNB shares the reasons given in ESMA's measure that the existing applicable regulatory requirements under Union law, which have not changed since the adoption of ESMA's measure, do not address the concern. The MNB also considers that improved supervision or enforcement of the existing requirements would not better address the concern identified. In particular, the MNB informed ESMA that it has taken into account the supervisory and enforcement experiences of other NCAs as referred to in ESMA's measure and that its supervisory practices take into account the relevant guidance provided by ESMA, including the 'Opinion on MiFID practices for firms selling complex products' ⁽¹¹⁾, the 'Opinion on structured complex products – good practices for product governance arrangements' ⁽¹²⁾ and the 'Joint Position of the European Supervisory Authorities on manufacturers' product oversight and governance processes' ⁽¹³⁾. Nonetheless, the MNB considers that the significant investor protection concern continues to exist.
- (13) Moreover, the MNB shares the analysis on proportionality in ESMA's measure and, in particular, has concluded that the national measure is proportionate taking into account the nature of the risks identified, the level of sophistication of investors or market

⁹ This was noted in the 'Opinion of the European Securities and Markets Authority of 30 July 2019 on the intervention measures relating to contracts for differences proposed by the Magyar Nemzeti Bank of Hungary' (ESMA35-43-2054).

¹⁰ Commission Delegated Regulation (EU) 2017/567 of 18 May 2016 supplementing Regulation (EU) No 600/2014 of the European Parliament and of the Council with regard to definitions, transparency, portfolio compression and supervisory measures on product intervention and positions (OJ L 87, 31.3.2017, p. 90).

¹¹ ESMA/2014/146.

¹² ESMA/2014/332.

¹³ JC-2013-77.

participants concerned and the likely effect of the action on investors and market participants. In the case of one-off costs, the MNB considers that, as the national measure is the same as ESMA's measure, any one-off costs that may be incurred by product providers to comply with the national measure are likely to be minimal.

- (14) The MNB considers that the national measure does not have a discriminatory effect on services or activities provided from another Member State as the measure provides for equal treatment of the marketing, distribution or sale of the products regardless of the Member State from which those services or activities are carried out.
- (15) Since other NCAs have taken similar national measures to consistently address the significant investor protection concern, the MNB considers that other Member States are not significantly affected by its measure. The MNB has also notified ESMA and the other NCAs of the national measure not less than one month before it is intended to take effect.
- (16) The MNB considers that the national measure does not pose a serious threat to the orderly functioning and integrity of the national physical agricultural market. In particular, the MNB considers that the national measure is the same as ESMA's measure and that ESMA consulted the national public bodies competent for the oversight, administration and regulation of physical agricultural markets under Council Regulation (EC) No 1234/2007 ⁽¹⁴⁾. None of those bodies raised any objections to ESMA Decisions (EU) 2018/795, (EU) 2018/1466, (EU) 2018/2064 or (EU) 2019/509.

2. Whether the national measure is justified and proportionate

- (17) The significant investor protection concern raised by the offer of binary options to retail clients led to the adoption of ESMA Decisions (EU) 2018/795, (EU) 2018/1466, (EU) 2018/2064 and (EU) 2019/509. However, ESMA's measures are temporary and have expired. According to the information provided by the MNB, the significant investor protection concern raised by these products continues to exist at national level and needs to be addressed on a longer-term basis to avoid the detrimental consequences that would arise from their unrestricted offer to retail clients.
- (18) As the national measure is the same as ESMA's measure, ESMA has taken into account the reasons for ESMA's measure referred to by the MNB as well as the additional information and reasons given by the MNB. In particular, ESMA has taken into account the capacity of the MNB to adequately monitor the market during the period until the measure takes effect. Based on these reasons, ESMA is satisfied that the national measure is justified and proportionate.

¹⁴ Council Regulation (EC) No 1234/2007 of 22 October 2007 establishing a common organisation of agricultural markets and on specific provisions for certain agricultural products (Single CMO Regulation) (OJ L 299, 16.11.2007, p. 1).

3. Whether the taking of a measure by other competent authorities is necessary

(19) For the reasons explained in ESMA's measure, the significant investor protection concern raised by the offer of binary options to retail clients is a cross-border issue. As evidenced by practices to date, product providers are able to offer these products through online trading accounts and passport their services throughout the Union. To effectively address the significant investor protection concern and avoid the risk of regulatory arbitrage, it is essential that product providers cannot exploit differences in treatment by NCAs across Member States. Following the expiry of ESMA's measure, product providers may seek to offer binary options in or from a Member State that has not taken a measure at least as stringent as ESMA's measure. Therefore, it is essential that NCAs take concerted action to address this risk.

4. Conclusion

(20) In conclusion, ESMA is of the opinion that:

- (a) the national measure is justified and proportionate;
- (b) it is necessary for the NCAs of other Member States to take product intervention measures that are at least as stringent as ESMA's measure.

This opinion will be published on ESMA's website in accordance with Article 43(2) of Regulation (EU) No 600/2014.

Done at Paris, 08/04/2020

For the Board of Supervisors
Steven Maijoor
The Chair