

The Retail and Professional Traders in Europe

The MiFID II regulations, passed by ESMA for the EU region in August 2018, introduced different trading terms and regulatory implications for retail and professional traders. So, how do these guidelines differ for different types of traders?

Here's what you need to know to make informed investment decisions.

These regulations are applicable for different financial instruments as well, including major and minor forex pairs, commodities like gold and energy and major equity indices.

Why the Need for These Regulations?

The financial watchdog of the EU and for companies in the UK, the European Securities and Markets Authority (ESMA) is responsible creating guidelines that protect investor interests and regulations that determine the provision of financial services and products. Since most trading instruments are leveraged products, the potential for losses as well as profits are multiplied for retail clients. This has led ESMA to put in place stringent measures for retail brokers.

Brokers can put in a request to change their status to professional grade, which requires fulfilling certain qualitative and financial procedures. The qualifying criteria for being considered a professional trader include:

- Significant trading experience, which involves transactions at an average frequency of 10 per quarter over the previous 4 quarters.
- Portfolio size, including cash deposits and financial instruments, in excess of €50,000.
- Knowledge and experience of the markets and the financial sector of at least one year.

Professional Traders

Priority access to new products and full access to existing bonus programmes and special offers have been reserved for professional traders. These traders can trade at 15-25 times lower margin rates than their retail counterparts, with increased leverage of up to 1:500. For instance, AUSPRIME offers maximum leverage of 1:100 on all major and minor currency pairs, along with 1:50 for gold, 1:33 for other commodities.

Professional traders neither have leverage restrictions nor product restrictions imposed upon them. However, unlike retail traders, professionals do not have the luxury of negative balance protection, which means that if their account goes into negative balance, they will be required to make additional deposits. They are also not given additional disclosures regarding risk warnings, unlike retail clients, since professional traders are expected to be well versed in the risks of trading leveraged products.

Our professional clients are highly experienced traders, who rely on efficient risk management, effective technical analysis tools and market analysis, while being knowledgeable on how to make the most of higher leverage trades.

Retail Traders

Regulations for retail traders consist of lower leverage and higher protection measures. On all major forex pairs, leverage of 1:30 is applicable, while for minor and exotic currency pairs, leverage is limited at 1:20. For commodities other than gold, leverage of 1:10 is available, while for gold and equity indices, the leverage limit is 1:20.

While leverage is greatly reduced, negative balance protection is unlimited for retail traders. So, if a trader's account goes into negative balance, due to unexpected market volatility, their account automatically resets the balance to zero, so that traders do not lose more than what they have invested. Statutory regulatory protection guidelines facilitate the services of a financial ombudsman for retail traders, when needed.

If one is not eligible for professional client status, they can still gain access to the same trading platforms, as well as the same spreads and daily financing features as professional traders.

AUSPRIME is a leading broker aimed only at professional trades. They also offer institutional-grade liquidity and execution to their corporate clients.

