

Contracts for Difference



What are Contracts for Difference?

- A contract for difference (“CFD”) is a type of derivative contract between a buyer and a seller where the parties to the contract **speculate on what the price of an underlying asset will be at a specific time.**

How Do CFDs Work?

- If the value of the asset **increases** at contract time, **the seller pays the buyer the difference.**
- If the value of the asset **falls** at contract time, **the buyer pays the seller the difference.**

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How to recognize a CFD scam?

If you are solicited by a company that claims to trade in **contracts for difference**, you should be very careful. **Watch out for the following warning signs.**



Sounds too good to be true: Get rich schemes, including those involving CFDs, tend to be scams.



Heavily promoted: CFD scams are promoted as an “exciting opportunity” to speculate in the market. Ads for CFDs may look legitimate, but your money may be stolen by the scam artist rather than invested.



Promises of high returns: Promoters guarantee little or no risk and high investment returns. You may not have been told that the investment is very risky and you’re likely to lose some or all of your money.



Wire money: Once promoters provide you with a contract, they encourage you to wire your money offshore. Be aware that once you transfer funds to a foreign firm, it may be difficult or impossible to get your money back.



Training: Promoters try to get you to sign paperwork, attend trading seminars, or buy software. When you respond, sellers or their affiliates may encourage you to invest in a CFD opportunity.

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How do you protect yourself?

- **Be skeptical** about unsolicited phone calls offering investments, especially those from out-of-state salespersons or companies that are unfamiliar.
- **Be especially cautious if you have acquired a large sum of cash recently** and are looking for an investment vehicle. In particular, retirees with access to their retirement funds may be attractive targets for fraudulent operators.
- Getting your money back once it is gone can be **difficult or impossible**.
- Be wary of **high-pressure efforts** to convince you to send or transfer cash immediately to the firm, via overnight delivery or the Internet.
- Be smart about the money you do put at risk. **Even when purchased through the most reputable dealer**, contracts for difference are extremely risky and you could lose some, all or more than your initial investment.