acuiti management intelligence

The Transition From CFDs to Listed Derivatives:

How regulation, competition and innovation are reshaping retail trading in Europe

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Introduction



Across the world, retail trading is becoming increasingly significant in financial markets. Enabled by technological advancements and rising economic sophistication, more individuals are taking greater control over their wealth.

The rise of retail trading brings significant benefits to the markets that attract it. Greater two-way flow and deeper liquidity have made the firms and trading venues that have successfully attracted retail traders stronger and more diverse.

Where retail flows have been captured varies significantly according to region. In some markets, most notably the US, as well as other countries such as South Korea, listed derivatives markets have attracted much of the flow.

The picture in other regions is more complicated. In Europe, competition from other instruments, such as CFDs and warrants, have historically stymied participation in futures and options markets by retail traders.

However, that is beginning to change. Today, retail brokers in Europe are increasingly offering futures and options to their clients and capitalising on a continent with relatively high levels of savings and an educated populace that is well-positioned to accelerate their financial literacy.

Listed derivatives bring several benefits to retail traders. They offer full transparency of pricing and carry significantly less counterparty risk than OTC equivalents.

Adoption of futures and options by retail traders in Europe looks set to accelerate. Restrictions on offering OTC instruments to retail clients are growing, the sophistication of retail investors across the continent is increasing and new competition is coming from US retail brokers, who specialise in futures and options.

In response, retail brokers are increasingly looking to listed derivatives markets to diversify their product offering.

In order to understand these trends and the direction of travel, CME Group commissioned Acuiti to conduct a study into how retail brokers in Europe are approaching futures and options. In addition to exploring opportunities in the market, we also investigate the level of demand for these instruments and how the market might grow.

Based on surveys and interviews with 41 retail brokers and neobanks, this survey finds that the underlying demand among European retail traders for futures and options is strong and retail participation is already a significant liquidity pool that is likely to continue to grow.

The key findings are:

- Retail trading has become a significant liquidity source across global markets, particularly in the US. Europe has lagged historically behind the US, but that is beginning to change.
- Regulation is the top concern with 76% for retail brokers operating in Europe and 62% of firms offering CFDs are very concerned about future regulatory constraints in the products.
- Futures and options are gaining momentum as 67% of retail brokers view listed derivatives as very important to their retail strategy over the next two years driven by client demand, higher customer retention, additional revenue streams and product diversification.
- Adoption of futures and options by retail brokers in Europe is likely to accelerate as 79% of firms not currently offering them are either planning to offer them or considering doing so.
- US brokers entering Europe are intensifying competition - 39% see this as a significant challenge.





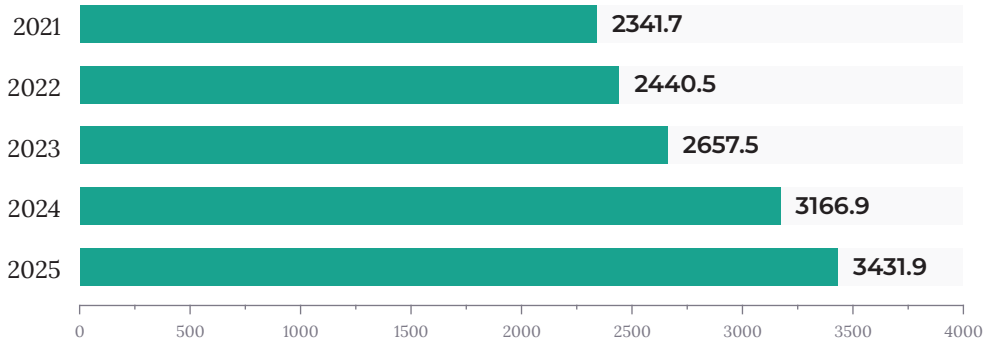
State of the market for retail brokers in EMEA



The European retail landscape

The post-Covid business environment for retail brokers in Europe has been positive with total revenues across five listed retail brokers growing from €2.3bn in 2021 to €3.4bn in 2025.

Revenues of listed retail brokers in Europe (€m)



Source: IG Group, CMC Markets, flatexDegiro, Swissquote, XTB

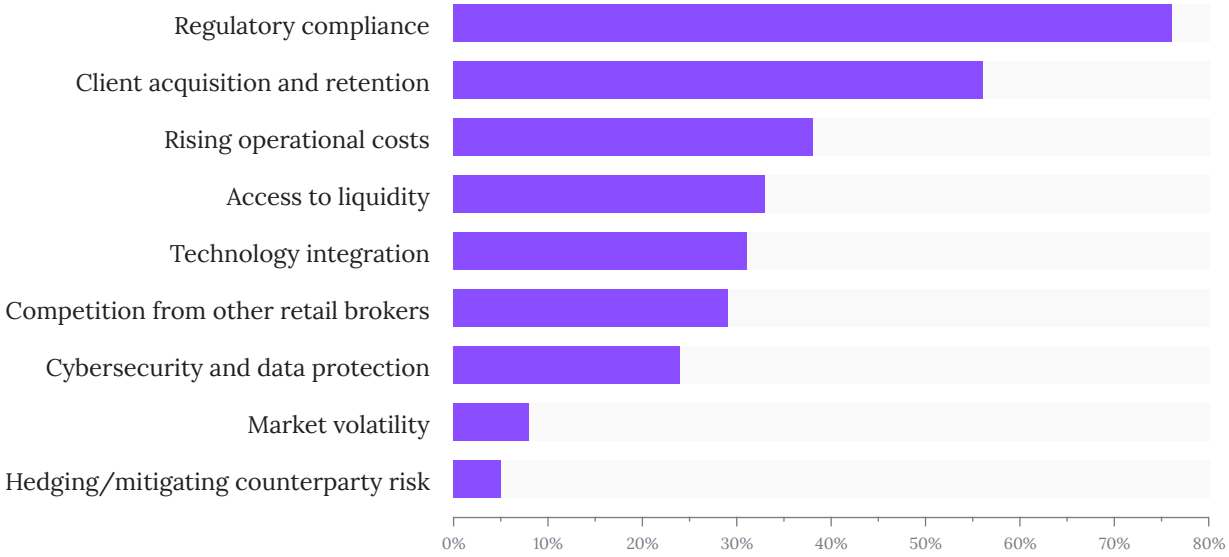
While Europe is smaller than the US in terms of its market size for retail trading today, it boasts a larger population across a diverse range of relatively wealthy countries with the potential to be a larger market than the US.

The retail trader in Europe today has a diverse range of instruments to trade. OTC derivatives markets, such as CFDs and turbo certificates, are long-established and popular instruments for retail traders, while spread betting is common in the UK.

While the diversity of Europe's population brings opportunities, retail brokers operating in Europe face a similarly diverse spread of regulatory environments in which to operate.

Despite the EU's overarching supervisory bodies, financial regulation is still driven by each of the bloc's national authorities. The UK also is charting an ever more separate course since its exit from the EU.

What are the top three challenges your firm is currently facing?



It is not surprising, therefore, that regulatory compliance was seen by firms in the survey as the biggest challenge they faced today. Over three-quarters of respondents cited this as a top 3 challenge compared to just over half that selected client acquisition and retention.

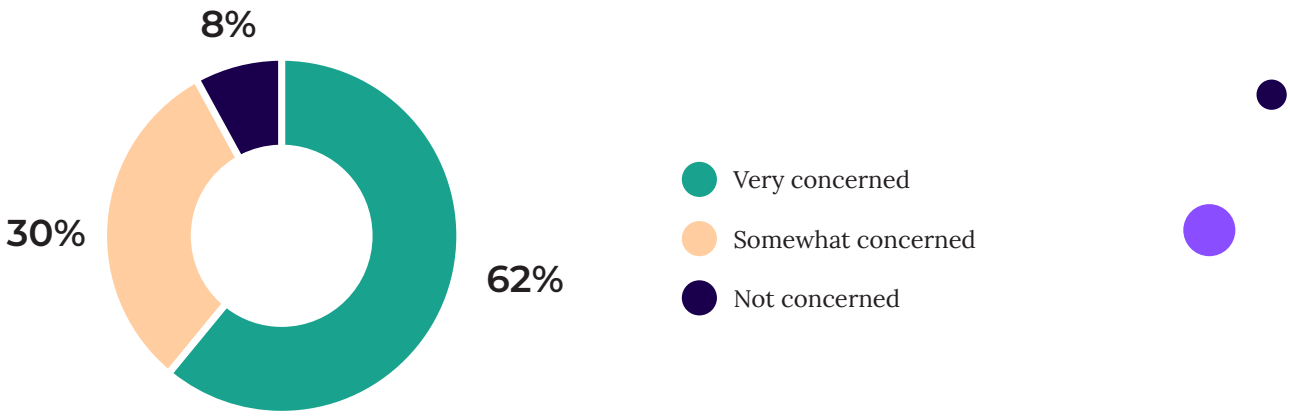
For retail brokers offering CFDs to clients, regulatory concerns were more acute than for the average. Overall, 89% of firms that offered CFDs cited regulatory concerns as a top concern for them compared with 70% that did not offer CFDs.

This is understandable considering recent restrictions on the products in Europe. Two years ago, Spain's Comisión Nacional del Mercado de Valores (CNMV) banned the advertising of CFD products. Belgium has gone even further instituting an outright ban of CFDs, while the UK has brought in marketing restrictions for the products.

In October, BaFin, the German financial regulator, announced new regulations regarding the marketing of turbos to retail clients including risk warnings and banning new customer bonuses or rebates.

These regulatory constraints are likely to continue to tighten. When asked directly about the threat of future regulatory changes impacting access to CFD and equivalent markets in Europe, just 8% of the firms that offered the products said that they were not concerned while 62% said they were very concerned.

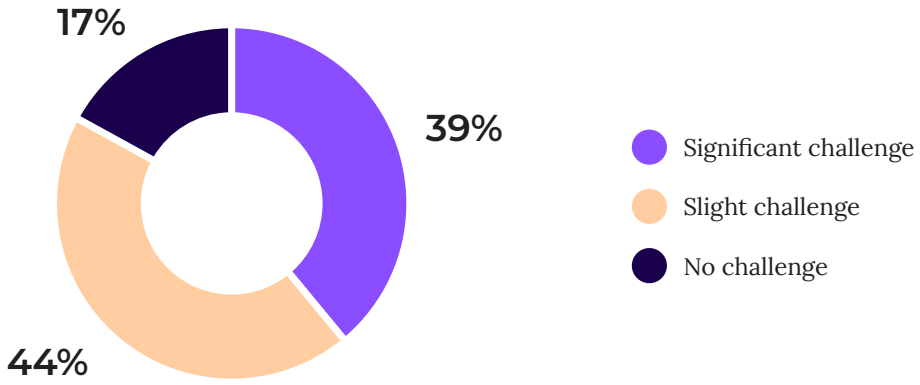
How concerned are you about future regulatory changes impacting retail access to CFD and equivalent markets?



Increased competition

Another potential challenge facing European retail brokers is the expansion of US firms into the European market. US retail giant Robinhood, for example, is currently expanding into Europe, while a key motivation of Kraken's $1.5bn acquisition of NinjaTrader was to allow the retail platform to leverage Kraken's FCA and MiFID licences. Just 17% of the retail brokers in the survey did not think that the entry of more US retail brokers in the European market would pose a competitive challenge to their firms while over a third thought it would pose a significant challenge.

How significant a competitive challenge do you think the entry of more US retail brokers into the European market will pose to your firm?



Retail brokers operating in Europe therefore face a mix of opportunity and challenge. The expected growth of the retail investment client base in Europe provides a counterweight to the threat of regulation. At the same time, the growing pie will mitigate the competitive challenge of new entrants to the market.

However, many firms are evaluating their approaches to the markets and the products they offer to future-proof their business model, bring in additional revenue streams and mitigate the competitive threat from new entrants to the market. Futures and options are increasingly taking a central role in these considerations.



Section 2

The growing adoption of futures and options

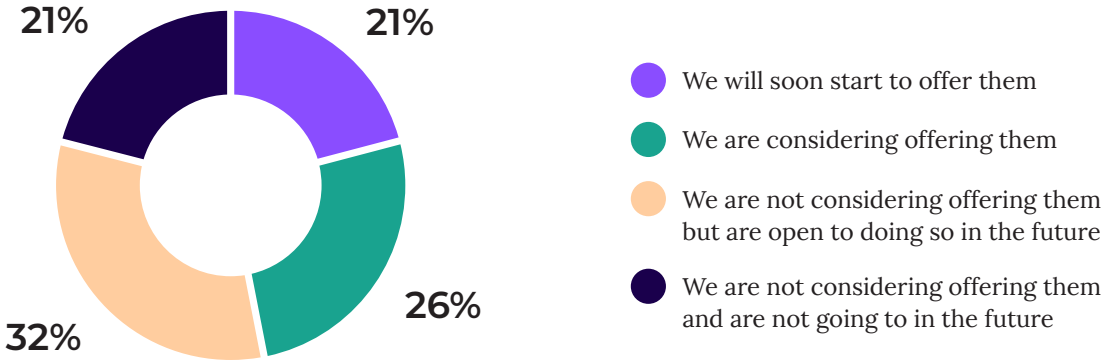


Current listed derivatives offerings

For many retail brokers in Europe, expansion into futures and options is a key strategy to expand and diversify their offerings. For some of the larger firms, the move into futures and options also provides the building blocks for growth into an institutional client base. For others, listed derivatives form a key component of a true multi-asset retail offering. This survey found that there is a strong appetite for futures and options offerings. Of the retail brokers in the survey that were not already offering futures and options to clients, 79% were considering doing so with around a fifth planning to offer them imminently.

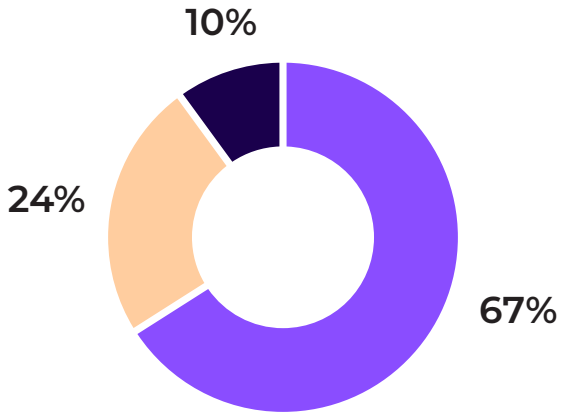
What best describes your approach to offering futures and options to retail clients?

For firms not currently offering F&O to clients



Taking all the firms in this survey, including those that are already offering futures and options to clients, just 10% said that they were not important to their strategy over the next two years.

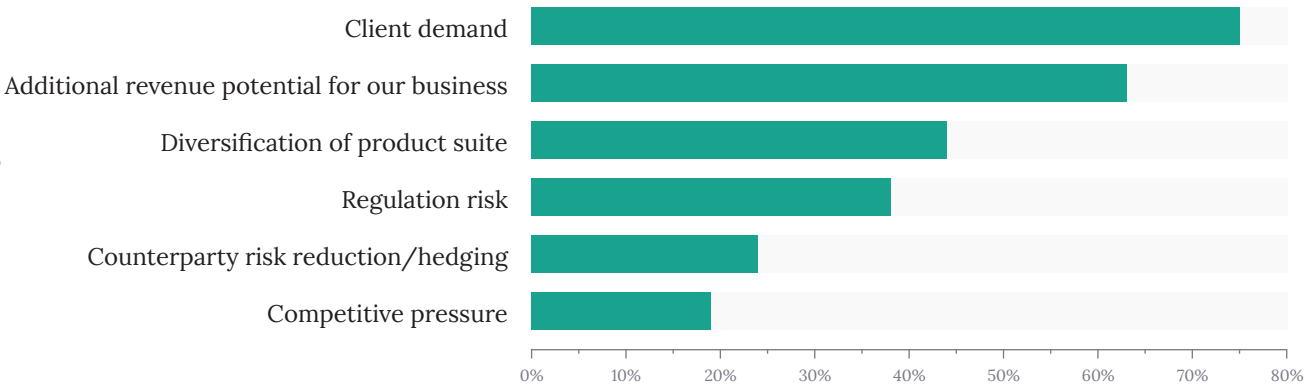
How important are futures and options to your firm's retail strategy over the next two years?



The opportunities in listed derivatives

Firms already offering futures and options cited client demand and additional revenue potential as key drivers behind their desire to expand further into the market. Among those firms who were considering offering the products, but not yet doing so, diversification of the product suite and competitive pressure were more commonly chosen. At the same time, futures and options offer retail brokers the opportunity to retain clients as they gain sophistication and to bring in additional revenue streams.

What are the key drivers for expanding your futures and options offering?



Confidence in the prospects for European retail trading in futures and options can be easily found by casting an eye across the Atlantic. The popularity of US options trading is now mainstream news, while the highly successful launches of smaller contract sizes, such as the mini and micro futures, have also boosted growth in the US market. This is partly reflected in the popularity of the CME Group, which was the most commonly traded exchange for futures and options by retail brokers in the survey. CME Group was the first exchange to launch mini and micro futures and therefore had a head start in establishing liquidity in these products. It has followed that up with retail-focused products such as 1oz gold futures and Spot-Quoted futures.

The creation of these products also speaks to a broader revolution in trading that has changed how retail investors can trade derivatives. A combination of highly advanced retail-focused digital brokerage platforms and smaller contract sizes has given retail traders levels of access to listed derivatives markets that were previously reserved for institutions.

In addition to greater access to educational resources, these trends have greatly elevated the visibility of futures and options in the public mind. As understanding of these markets grows, so does client demand.

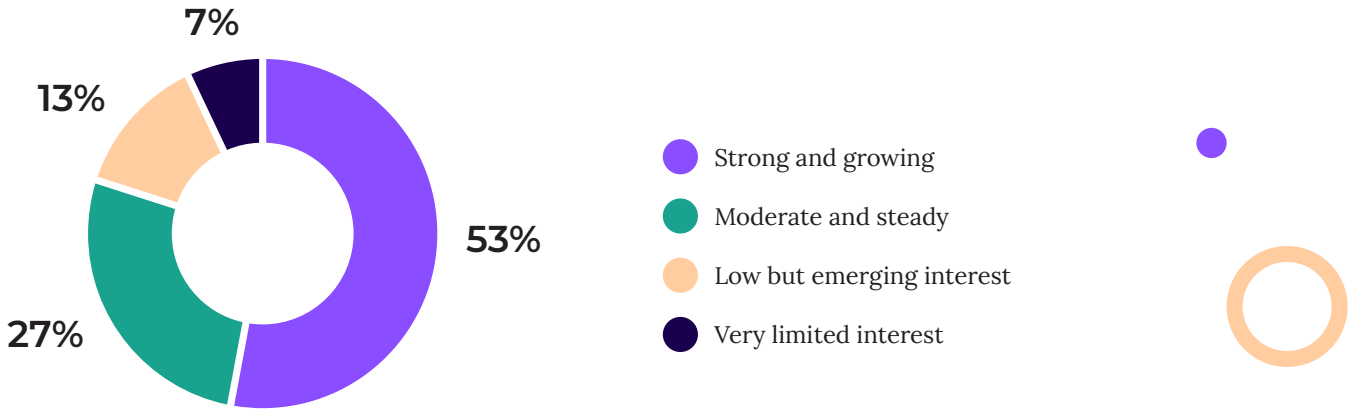
Growing demand for futures and options

Against a backdrop of increasingly tight regulation on Europe's OTC retail products and the increasing sophistication of European retail traders, a natural space is emerging for listed derivatives.

As exchange-traded products, futures and options are traded in an environment with well-established rules and regulations. As cleared products, they bypass counterparty risk concerns that are involved with CFDs, as well as mitigating conflicts of interest concerns that arise from the B-Book model that CFDs and other OTC products are traded under, which make the broker counterparty to the trade with their client.

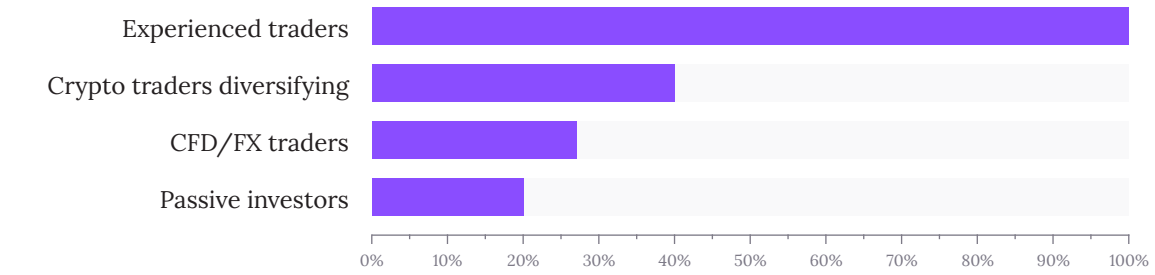
More than that, there is clearly demand from the European retail market to participate in listed markets. Among those firms already offering futures and options to clients, most described a pattern of growth in retail demand.

How would you describe current retail client demand for futures and options?



Breaking down interest by country, firms said that they saw the strongest demand for futures and options among retail investors in the UK and Italy. The opportunities for European retail firms are not limited to Europe - the UAE was also mentioned as a key growth hub for futures and options trading that presents a natural market for firms to expand into.

Which client segments are showing the most interest in futures and options?



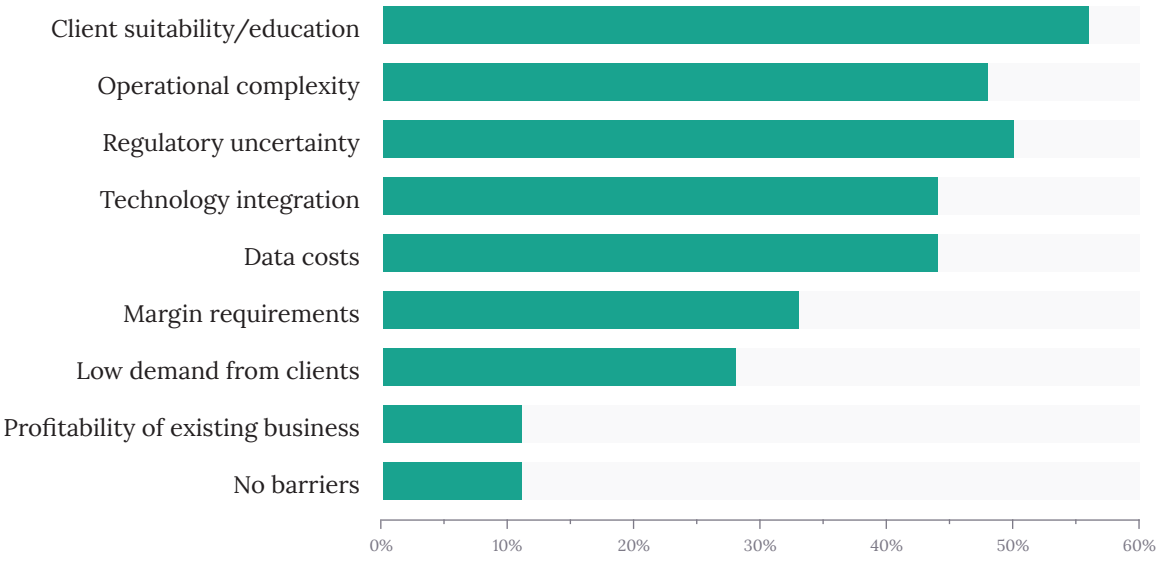
Currently the demand for futures and options for retail brokers is being driven by experienced traders – all respondents cited this as one of the segments showing the most interest. However, crypto traders looking to diversify represent an increasing and significant portion of the market as well.

For experienced traders, futures and options offer tighter spreads and, critically, access to the underlying source of liquidity. The depth of the book in futures markets reduces slippage while the transparency of the market ensures the best price to execute.

Accelerating growth

Despite positive tailwinds for listed derivatives, there remain some challenges to be overcome if Europe is to build a vibrant futures and options market for retail investors. While regulatory concerns were ranked lower than for other competing products, they were still ranked as a significant barrier by 50% of firms offering futures and options. However, these regulatory concerns are mainly around issues such as leverage limits – not limited to futures and options.

What are the main barriers to offering or expanding F&O products?



The key barrier, though, to offering or expanding into futures and options was client suitability and education. Futures and options are perceived as sophisticated products that are better suited to more experienced traders.

This, however, is more applicable to options than futures and likely to change as exchanges and brokers launch education campaigns for retail traders to educate them as to the benefits of futures and options trading.

For firms not offering futures and options currently but planning to do so, operational complexity and data integration were commonly cited. Some retail brokers also anticipated challenges in both establishing exchange connectivity and back-office challenges.

However, retail brokers that have expanded into futures and options reported it to be a straightforward process. Several European sell-side clearing members have developed offerings for retail clients that significantly ease the process of onboarding listed markets.

Today, retail brokers can sign up with a clearing provider with one account and then manage their sub-accounts internally. The clearing provider can also handle all exchange and clearinghouse connectivity and will manage processes such as clearinghouse margin calls on behalf of the broker.

These initiatives have significantly reduced the operational complexity for retail brokers entering the market as well as cutting the costs and time to market.



Conclusion: A vibrant market with more to come



Futures and options are an increasingly important part of the landscape for listed derivatives trading in Europe and are increasingly viewed by retail brokers as a way of enhancing product sets, providing a true multi-asset offering, attracting additional revenue streams and retaining clients.

This trend is also seen among retail brokers that operate in the Middle East, with Dubai fast becoming a regional hub for retail brokers also expanding in European markets.

Exploring ways of supporting growth in the futures and options client base, survey respondents cited the continued expansion of smaller, retail-focused products as a positive trend that would attract even more retail flow to the market.

Also proposed by some firms were perpetual futures in traditional markets, an innovation from the crypto derivatives market. Eliminating the need to roll the contracts is a great simplifier for retail clients, and it was suggested that expanding them to new asset classes would be a positive step. Innovative new products, such as CME Group's Spot-Quoted futures fit the bill for these demands.

Driven by technological advancement and the globalisation of trading, European retail trading is set for significant growth. Across the continent, governments are putting in place measures to improve financial literacy, initiatives that will inevitably lead to increased investment.

As some of the key elements that helped power US retail participation in futures and options markets start to kick into gear on the continent, with granular contract sizes and digitally accessible brokerages, European participation in the products is expected to continue to rise.

There is clear demand among European retail traders to trade in futures and options markets. The entry of US firms offering the products to clients will increase overall levels of awareness and education in the market and create more opportunities for growth for retail brokers across the continent.





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