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# CMC plays up its point of difference

A recent entrant to the online broking business expects interest in its high-risk product to treble, writes **Joyce Moullakis**.

CMC Group's Asia-Pacific managing director, David Trew, has bold expectations for growth in the local online equities and foreign exchange trading market, despite increased regulatory scrutiny and expectations of fiercer competition.

The US-based company is hoping the concept of "contract for difference", or CFDs, catches on here. The product delivers the trader a profit or loss based on the difference between the share price at the opening of the trade and the price when the CFD is closed.

As a contract over performance, the trader benefits from a rise or fall in the share price without having to purchase or sell the shares. CFDs, which are typically associated with relatively high levels of risk, are also used in foreign exchange, index and commodity trading.

"What differentiates us from other stockbrokers and players in the market is the fact that we offer all of our products all from one trading platform or one trading account," Mr Trew said in an interview with *The Australian Financial Review*.

"I don't think that we are taking business from other brokers. What we are doing is promoting a new way to trade to customers."

Mr Trew said the company was largely targeting semi-professional clients at the smaller end of the trading spectrum, via aggressive pricing and a unified account.

The group established operations in Sydney in 2001, after obtaining an Australian Financial Services Licence.

The company is the largest player in the CFD market. CMC is estimated to account for up to 80 per cent of the 15,000 to 20,000 CFD accounts in the Australian market.

Other providers are Man Financial and IG Markets.

Mr Trew believes that the market size will increase at least threefold in the next two years.

"There might be a couple of new players but I think most competition will come from local trading houses that want a piece of the action.

"More competition in the marketplace will mean a greater pie and, as the dominant player in the market, I think our client base will grow."

But the market also confronts greater scrutiny by regulators who have raised concerns about the level of risk tied to CFDs.

The Australian Securities and Investments Commission (Asic) has "looked closely at advertisements for contracts for difference if they do not point out the risks with equal prominence to the benefits", an Asic spokeswoman said.

"In our view this is likely to be misleading; Asic has power to pursue misleading conduct in relation to financial products."

But Mr Trew welcomed Asic's monitoring of the industry, saying it added to market integrity.

"It is only a good thing that a regulator keeps close tabs on a new financial product," he said.

The local arm, which has only recently become a wholly owned subsidiary of CMC Group Asia Pacific, became profitable in its second year.

The local operations were not required to lodge separate accounts with regulators. The parent entity reported a 4 per cent decline in net profit to $US21.1 million ($27.7 million) in the 2004 financial year, largely linked to a surge in group overheads.

CMC Australia employs 45 people. Participants average $25,000 to $35,000 per trade of Australian shares, and $400,000 to $500,000 for foreign exchange trades. CMC requires $5000 to open an account.

The group's global chief executive, Peter Cruddas, sees the Australian operations as a springboard for growth in the region.

CMC Group has clients and partners in more than 55 countries, and transacted more than 6 million CFD trades in 2003-04.

David Trew says his company's 'contract for difference' product does not take business from other brokers. Photo: LOUIE DOUVIS