



chapter twenty seven

Spread Betting

27.1 As set out in chapter 9, the Financial Services Act 1986 and rules made under it govern spread betting. The Financial Services and Markets Act 2000 will govern the regulation of spread betting once it is fully in effect.¹

27.2 We received only two submissions primarily about spread betting – from the Financial Services Authority and from IG Index, currently the largest spread betting firm in the UK. Neither suggested that there should be changes to the regulation of spread betting. The key issue for us was whether the Gambling Commission should take over the regulation of spread betting from the FSA.

27.3 The FSA's main aims are to:

- maintain confidence in the UK financial system
- promote public understanding of the financial system
- secure an appropriate degree of protection for consumers and
- contribute to reducing financial crime.

These are not dissimilar from the reasons for regulating gambling of preventing crime and ensuring fairness to the punter.

27.4 There are three options for the future regulation of spread betting:

- transfer responsibility to the Gambling Commission
- split the different types of spread betting between different regulators
- leave responsibility with the FSA .

27.5 We considered whether the regulation of spread betting should transfer to the Gambling Commission for the sake of consistency, as it is undoubtedly a form of gambling. However, it is a specialised form of gambling because of the financially speculative nature of many of the transactions. It is clear that the FSA has

the appropriate expertise to regulate spread betting. The Gambling Commission would have no difficulty in testing the probity of operators, but it would take a little time to acquire the expertise and skills to understand the specialised financial markets in which spread betting is conducted. That is not to say that the people with those skills could not be transferred from the FSA to the Gambling Commission, at least in a transitional period. It is clear that the Gambling Commission could do this job if required to do so.

27.6 An alternative would be to split the regulation of spread betting between the FSA, which would regulate financial spread bets, and the Gambling Commission, which would regulate other spread bets. However, we think that this would be messy, and however closely the two bodies worked there would be inconsistencies between them. We are not attracted to this option.

27.7 The third option is to leave regulation of spread betting with the FSA. We have received no evidence to suggest that the current regulatory framework is unsatisfactory. Spread betting originated as an alternative method of speculating on financial instruments and a significant amount of spread betting continues to be financial betting.

27.8 There are no strong arguments which would favour regulation by the Gambling Commission over regulation by the FSA. In time we think that it would be neater for all spread betting to be dealt with by the Gambling Commission, in line with other betting. Indeed, several of the spread betting firms are already licensed bookmakers. But any transfer of responsibilities should certainly wait until the Commission is well established. In any case, we expect that the two regulators will want to work fairly closely together on matters of mutual interest and to that end we have recommended, in chapter 33, that there should be formal gateways between them. **We recommend that spread betting continues to be regulated by the Financial Services Authority, at least until the Gambling Commission is well-established when the issue should be reviewed.**