



# The Conflict Gap

---

**154 Firms. 45 Controls. One Pattern.**

A sector-wide assessment of conflicts of interest policy coverage across CySEC-regulated CFD and FX firms, conducted in the context of the ESMA Common Supervisory Action.

SURVEILL COMPLIANCE RISK INTELLIGENCE

# Our Findings

**The closer a control is to the client experience, the weaker its coverage.**

That is the central finding of this report, and it should concern every firm currently operating under CySEC authorization, particularly after the European Securities and Market Authority Common Supervisory Action on conflict of interest ("CSA").

We assessed 154 CySEC-regulated CFD and FX firms across 45 controls aligned to MiFID II conflict of interest regulations representing a sector-wide assessment of conflicts of interest policy coverage across CySEC-regulated CFD and FX firms, conducted in the context of the ESMA Common Supervisory Action. The results are consistent and unambiguous: firms perform well where conflicts are familiar, internal, and historically well understood. They perform poorly where conflicts are generated through digital platforms, incentive-driven distribution, and the environments clients actually experience.

**<10%**

Fewer than 10% of firms demonstrate strong coverage in digital platform conflicts.

**0.5/3**

Average scores in client-facing control areas fall below 0.5 out of 3.

Fewer than 10% of firms demonstrate strong coverage in digital platform conflicts. Average scores in client-facing control areas fall below 0.5 out of 3. Governance structures exist, but they govern what firms have traditionally overseen, not what regulators are now examining. This is not a documentation problem. It is a structural misalignment between where firms believe conflicts sit and where those conflicts actually are.

The question the CSA is asking is not whether a framework exists. It is whether that framework reflects what clients actually experience. The data, across this market, suggests it does not.

# What We Assessed


This report is based on a structured review of publicly available Conflicts of Interest policies published by 154 Cyprus Investment Firms, representing the effective CFD/FX population regulated by CySEC.

We evaluated 45 controls, each mapped to MiFID II requirements and aligned to four supervisory areas: inducements and distribution (CSA-1), digital platforms and client interaction (CSA-2), conflict management frameworks (CSA-3), and governance and oversight.

Each control was scored using a four-point scale:

Score	Meaning
0	None: no meaningful reference
1	Weak: acknowledged but not operationalized
2	Supporting: addressed with some specificity
3	Strong: clearly defined and operationally relevant

Scoring reflects the clarity, specificity, and practical relevance of controls as described in policy language. The unit of assessment is words. In the absence of explicit language, the score reflects that gap, including vague or generalized wording. Where language is precise and operationally grounded, it scores accordingly.

 A policy that does not name a conflict cannot be said to govern it. That principle drives every finding in this report.

One further observation. In many cases, conflicts of interest policies were buried within broader legal disclosures, placed in obscure sections of firm websites, or structured in ways that made comparison difficult. Some were not readily accessible. This inconsistency is instructive: it reflects uneven transparency in how firms communicate conflict risks to the clients those policies are meant to protect.

---

# CSA-1: Where the Incentives Go, the Conflicts Follow

## Inducements and Distribution Ecosystems

**Firms recognize inducements.  
They do not fully recognize where  
inducements now live.**

### The Numbers

Average scores across inducement-related controls range between 1.0 and 1.5, indicating weak coverage. Scores are consistently stronger for traditional inducement categories than for modern distribution models.

### What the Data Shows

Policies consistently address inducements in familiar areas: staff remuneration, third-party payments, commissions, and non-monetary benefits. These are the conflicts firms have managed for years, and coverage reflects that familiarity.

Coverage drops sharply where inducements arise through affiliate models, introducing broker networks, referral ecosystems, and influencer-led promotion channels. Most firms either omit these channels entirely or describe them in terms too general to constitute a meaningful control. The absence of specific language is the finding. A policy that refers to third-party arrangements in broad terms has not identified the conflict that arises when a performance-based affiliate is paid to drive trading volume.

## Why This Matters

Inducements are no longer contained within the firm. They live across layered acquisition ecosystems where networks of third parties directly shape how clients are found, onboarded, and encouraged to trade. These incentives create conflicts that are harder to see, harder to monitor, and harder to govern through frameworks built for a simpler world.

The global influencer marketing market is projected to exceed \$70 billion in the coming years. Client acquisition is increasingly driven by external, performance-based ecosystems in which the firm's financial interest and the client's interest are structurally misaligned. That misalignment is a conflict. Almost no firm names it as one.

## The Question Your Framework Must Answer

Does your conflicts policy identify the specific channels through which clients are acquired? Does it name the incentive structures operating in those channels? Does it describe how the firm oversees third parties whose compensation is linked to client trading activity? If the answer to any of those questions is uncertain, the gap is not theoretical. It is the gap a supervisory review is designed to find.

## Takeaway

**Conflicts are no longer created within the firm. They are distributed across acquisition ecosystems that most policies do not see.** A framework that stops at the firm's boundary will miss the conflicts that now operate beyond it.

# CSA-2: The Blind Spot at the Centre of Everything

## Digital Platforms and Client Interaction

The primary environment through which clients make decisions is the least governed conflict environment in the market. It is also the environment the CySEC review is most directly concerned with.

ON PAPER

### Governance and Oversight

# 1.5 to 2.5

Strongest reported category range in the report.



Same Market.  
Opposite Control  
Strength



IN PRACTICE

## Digital Platforms and Client Interaction

# 0.33 out 3

Weakest reported category in the report.

### < 10% Strong Coverage

Fewer than 10% of firms demonstrate strong coverage in digital platform conflicts.

### 90% No Acknowledgment

In 90% of cases, acknowledgment that design choices can create conflicts does not exist.

### 0.33 Average Score

Out of 3 — the weakest performing category across all 45 controls assessed, by a significant margin.

## What the Data Shows

Most policies contain no meaningful reference to the mechanisms that shape client experience on digital platforms. Product ranking and prioritization, default settings, push notifications, engagement prompts, interface design choices. These are absent from the policy language of the overwhelming majority of firms assessed.

We were not looking for sophisticated technical disclosures. We were looking for any acknowledgment that design choices within a trading platform can create conflicts between the firm's commercial interest and the client's outcome. In 90% of cases, that acknowledgment does not exist.

## Why This Matters

The digital platform is not a distribution channel. It is the environment. It determines what clients see, what appears first, what is highlighted, what is defaulted, and what triggers a notification. It shapes how clients interpret risk, how frequently they trade, and how decisions are made in practice.

Every design choice within that environment carries the potential to influence client outcomes. These are not peripheral technical questions. They sit at the center of the client experience and therefore at the center of the CySEC review. The platform has become the primary conflict environment, and almost no firm has updated its language to reflect that reality.

## The Question Your Framework Must Answer

Does your conflicts policy address how your platform presents products to clients? Does it identify who is responsible for assessing the conflict implications of interface design decisions? Does it describe how default settings and notification logic are reviewed for client impact? If those questions do not have answers in your policy, they will be asked in a review.

**The platform is the most active conflict environment within a firm. Almost no firm identifies conflicts associated with it.**

## **Takeaway**

Digital platform controls are the weakest area across all 45 assessed. The closer a conflict is to the client experience, the less likely it is to appear in a firm's policy which results in significant regulatory risk.

---

# CSA-3 and Governance: The Architecture of a Partial View

## Conflict Management Frameworks and the Governance That Designs Them

Firms have frameworks. Those frameworks are well-structured but they are looking in the wrong places. That observation applies equally to the conflict management function and to the governance layer above it, because governance is what defines what the framework is built to see.

### The Numbers

# 1.5 and 2.0

Framework Average Scores

# 1.5 and 2.5

Governance Scores Average

Framework scores average between 1.5 and 2.0. Governance scores average between 1.5 and 2.5, making it quantitatively the strongest performing category. That ranking, however, comes with a caveat.

### What the Data Shows

Most firms maintain the components a framework requires: conflicts registers, compliance oversight, escalation processes, and documented controls. Governance structures are generally present. Board-level or senior management accountability exists. Reporting lines are clear.

These structures function well for the conflict categories they were built to govern: defined internal conflicts, discrete risk events, traditional relationships between the firm and its counterparties. Within those categories, the framework is sound.

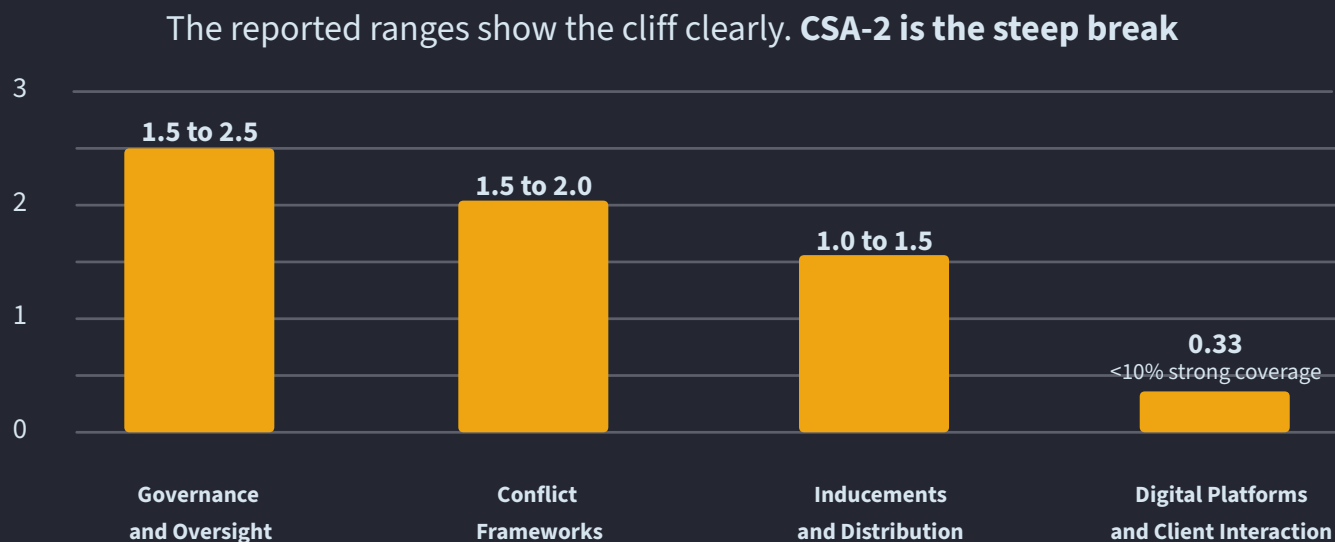
But a framework can only manage what it recognizes. Recognition, in most firms, is still defined by the categories that existed when the framework was first built. Platform-driven conflicts do not appear in the language. Affiliate and influencer-driven distribution conflicts are absent or generalized. The controls are not there because the framework was never updated to look for them.

## The Governance Connection

Governance appears strong on paper, until you ask what it is actually governing. Governance defines the scope of what the framework is asked to govern. If that scope excludes digital platform conflicts and modern distribution ecosystems, then governance has not performed its function, regardless of how well structured the reporting lines appear.

The low scores across inducement coverage and digital platform controls are not simply gaps in the framework. They are evidence of a governance failure. The conflicts most relevant to the CySEC review, those closest to the client experience, have not been brought into scope by the people responsible for defining scope. A board can have clear authority, a well-resourced compliance function, and regular reporting, and still be governing only the conflicts it already knows about.

Viewed this way, governance may in practice be the weakest layer of control, not the strongest. Its surface score reflects the presence of structure. Its effective score would need to account for what that structure has chosen not to examine.



*Source: The Conflict Gap report. Governance, framework, and inducement values are shown as the reported ranges; digital platform score is shown as reported.*

**The firms with the highest governance scores are not the firms with the strongest conflict controls, highlighting the gap between what is measure and what is most effective.**

### **The Question Your Framework Must Answer**

Has your governance function reviewed your conflicts framework in light of how your platform operates and how your clients are acquired? Has it considered whether the conflict categories in your register reflect the business model you actually run today, or the one you ran when the framework was first built? If those reviews have not happened, the governance structure in place may be overseeing a framework that no longer reflects reality.

## **Takeaway**

Governance and frameworks are structurally sound but they do not identify the right risks. Low scores across platform and inducement controls are not framework gaps. They are governance gaps. The architecture is present. The field of view is too narrow.

# What the Data Cannot Tell You

Across 154 firms and 45 controls, the data tells a consistent story. The market has built strong formal compliance infrastructure. The compliance infrastructure, however, does not capture conflicts that are closest to the client which is precisely where the ESMA's CSA is focused.

This report measures what firms say, not what firms do. A firm may have operational controls that go beyond what its policy describes. We cannot see those. What we can see is whether the language exists that would indicate they do. Where it is absent, the starting point does not exist. And where the starting point does not exist, the answers a supervisory review demands become significantly harder to construct with confidence.

For boards and senior management, the issue is not whether a conflict framework exists. It is whether that framework reflects how the business actually operates.

## Policy Visibility Iceberg



---

# A Note on What Cannot be Undone

Supervisory reviews under the CSA are already underway across European jurisdictions. For firms with material gaps, the window for proactive mitigation is open. It will not remain open once a review has begun.

Some gaps, where they existed prior to a review, cannot be retrospectively remediated. What can be demonstrated is proactive identification, a genuine understanding of exposure, and a credible path toward stronger coverage going forward. Regulators have consistently treated that distinction as material when determining their supervisory response. The firms that understand this shift will be prepared. The rest will be tested.

---

# Surveill Compliance Risk Intelligence

Most firms that commission a firm-level assessment already suspect where their gaps are. What they do not have is the evidence, the peer context, or the structured argument to bring it to the board.

Understanding where oversight falls short requires looking at your firm against the same framework regulators apply to the entire market. Surveill provides that assessment, mapping firm-level control coverage against supervisory priorities, benchmarking it against the sector, and identifying where governance attention is required before a regulator identifies it first.

- 📄 To request a firm-level assessment benchmarked against supervisory priorities, peer practice, and the areas where governance attention is most needed contact Surveill at [surveill.ai](https://surveill.ai).

---

# About Surveill

Surveill is an AI-driven compliance platform built on one principle: every firm is unique. Generic frameworks produce generic results.



## Traceable Regulatory Logic

The platform unifies fragmented compliance data, codifies regulatory requirements into traceable deterministic logic, and monitors risk continuously across financial institutions and law firms.



## Ongoing Organizational Visibility

Where traditional review is periodic and static, Surveill operates in real time — from the trading floor to the boardroom.



## Sector-Scale Intelligence

The Compliance Risk Intelligence program applies the Surveill engine at sector scale, enabling firms to see what regulators see: how their compliance posture compares across an entire market, measured against a single consistent framework.

Built on MIT-powered AI expertise. Trusted by leading financial institutions and law firms.

[surveill.ai](https://surveill.ai)