

The OTC market - A trader's comprehensive intro

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What is the OTC market?

The first thing that traders need to know about anything that relates to the OTC market is that it typically refers to all trading that is not carried out on a formal exchange. Instead, OTC trades take place between two market participants, facilitated by a third-party such as a broker.



Types of OTC markets

The forex market

The foreign exchange market is the most common and the largest OTC market in the world. Forex trading typically takes place in OTC transactions which are executed apart from centralised exchanges.

One of the most inherent characteristics of the forex market is that traders can participate in currency exchanges 24 hours a day, five days a week, which is different from exchanges that operate between set times during the day.

Instead, forex traders can buy and sell currencies CFDs around the clock via a network that connects millions of participants from around the world who trade currencies for leisure, business, or speculative purposes. The forex market features brokers, banks, dealers, retail traders, institutional investors, hedge funds, and many others.

Comprehensive Review: [ZAR Forex Brokers](#).

What is the purpose of the OTC regulation?

The purpose of this new legislation is to regulate over-the-counter (OTC) derivative markets in South Africa. The goal of the new regulatory framework for OTC derivatives is to reduce the risk by creating a safer and regulated environment for those taking part in the market. This aligns South Africa to meet the G20 obligations in terms of regulation of the OTC derivatives market.

The ODP regulation requires brokers to perform enhanced due diligence on their clients, as trading speculative financial products is high risk. Another important point to note is that it enforces strict capital adequacy measures on brokers. It also puts the onus on the broker to submit end-of-day transaction reports to a central repository. The transaction details report provides the [FSCA](#) with transparency and ensures that all forex trading clients are treated fairly and that the broker is operating responsibly.

The pros of OTC trading

The pros of OTC trading include:

- The cost of trading is far less when trading the OTC market compared to traditional exchange trading.
- Greater transparency and superior trading conditions.
- Settlement in traditional exchange trading is t+3 days (trade plus three working days) but with OTC trading it is immediate/cash delivery.
- OTC trades are more flexible, and this means that traders can cater for their unique needs and trading objectives.

Why choose Khwezi Financial Services?

To address the space, the FSCA has created a regulatory and a legislative framework for the supervision of entities who wish to operate in the over-the-counter derivative providers (ODP) market, as an issuer or product provider.

In terms of the Financial Markets Act Regulations, the FSCA have authorised Khwezi Financial Services as an Over-the-Counter Derivatives Provider on 9 November 2021. Khwezi Financial Services is regulated to offer forex, indices, and commodities for trading.

Khwezi Financial Services stands out above the rest as the [first South African-owned forex trading platform with an ODP licence](#). There are many unregulated forex trading platforms in South Africa, but the ODP regulation stands to clean up the industry.

Monty Barnard, COO, says: "We are very pleased to be identified by the FSCA as one of the leading and competent forex trading platforms in South Africa. This shows that we are not a fly-by-night organisation. We are here to stay and will continue to deliver a consistent and dedicated service to our clients."

Khwezi Trade offer rand-based forex CFD trading accounts, providing safeguarding of client funds through segregated third-party administrative bank accounts. Unlike foreign brokers, your trading money does not go offshore, but remains within the borders of South Africa and thereby complying with the South African Reserve Bank laws.

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