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Evaluation (challenge) model

From PropFirmLicenseWiki, the free encyclopedia of prop firm licensing · Last updated 28 November 2026

In short: In the evaluation model, a trader pays a fee to attempt a challenge with fixed rules, usually on a simulated account. Traders who pass get a funded account, often also simulated or with trades copied by the firm, and receive a share of its profits. Regulators' concerns focus on how firms earn from fees and on what traders are told. [1] [2] [3]

How a challenge works

1. The trader buys a challenge for a stated account size of simulated capital. The fee usually rises with the account size.
2. The trader must reach a profit target within rules such as a maximum daily loss and a maximum total loss. Breaking a rule ends the challenge.
3. A trader who passes, sometimes after a second stage, receives a funded account and a share of the profits it shows.
4. Payouts are paid by the firm. Whether any trade reaches a real market depends on the firm: many state that funded accounts are simulated.

What regulators have said

- The Belgian FSMA calls the model a “shadow investment game” and says that consumers must pay to pass a series of challenges, which is how the firms earn money from them. [1]
- Italy's Consob describes trading challenges, often tied to paid training courses, after which firms offer to switch the trader to supposedly real trading. [2]
- Spain's CNMV warns of the risk of fraud and says these services fall outside its supervision. [3]
- In the United States, the CFTC alleged in 2023 that My Forex Funds misled customers about how it made money. The court dismissed the case with prejudice in 2025 and sanctioned the CFTC. [4] [5]

Simulated or live?

Whether a firm's funded accounts are simulated or live matters for regulation. The Czech National Bank said in 2024 that platforms where traders use only demo accounts do not need authorisation, while some other funded-trader models may fall under MiFID.[6] Where real orders reach the market for clients, the firm executing them needs a licence.

Frequently asked questions

Is a prop firm challenge an investment?

Not usually in legal terms: it is a purchase of a service. That is why investor compensation schemes do not cover challenge fees.

Who pays the profit split?

The prop firm, from its own funds. If the firm fails, traders who are owed payouts are ordinary creditors.

References

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Source: https://propfirmlicensewiki.com/evaluation-model/
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