

MONEY MYTHS SERIES

Prop Firm Challenges and "Funded Trader" Programs: Who Gets Paid

Prop firm funded-trader challenges, checked against the firms' own terms, Topstep pass rates and the CFTC My Forex Funds case: who gets paid and what to know.

By Eric Ridley, attorney, Ridley Law · Updated September 2026 · Read online with live links: ridleylawoffices.com/prop-firms/

Part of our [money myths series](#), where we look at the money advice that spreads on Instagram, TikTok and YouTube and ask who gets paid when you follow it.

The pitch: "Don't risk your own money. Pass a prop firm challenge, trade a \$100,000 funded account and keep 80% to 90% of the profits."

The verdict: The "funded account" is usually simulated, and the firms' business runs on challenge fees. Topstep's own 2025 numbers show 16.8% of its challenges were passed and 0.71% of its simulated-funded traders moved to a live account. FTMO's site says all its accounts are demo accounts with fictitious funds. It's a paid trading game with a small chance of a payout, not a job.

16.8%

of Topstep's Trading Combines were passed (Topstep, 2025)

0.71%

of Topstep's Express Funded traders were moved to a live account (2025)

92%

of My Forex Funds customers never left demo accounts (undisputed, per the court, 2023)

\$310 million

in fees My Forex Funds collected, per the CFTC and a preliminary ruling (2023)

8% to 20%

commission FTMO pays affiliates on referred challenge fees

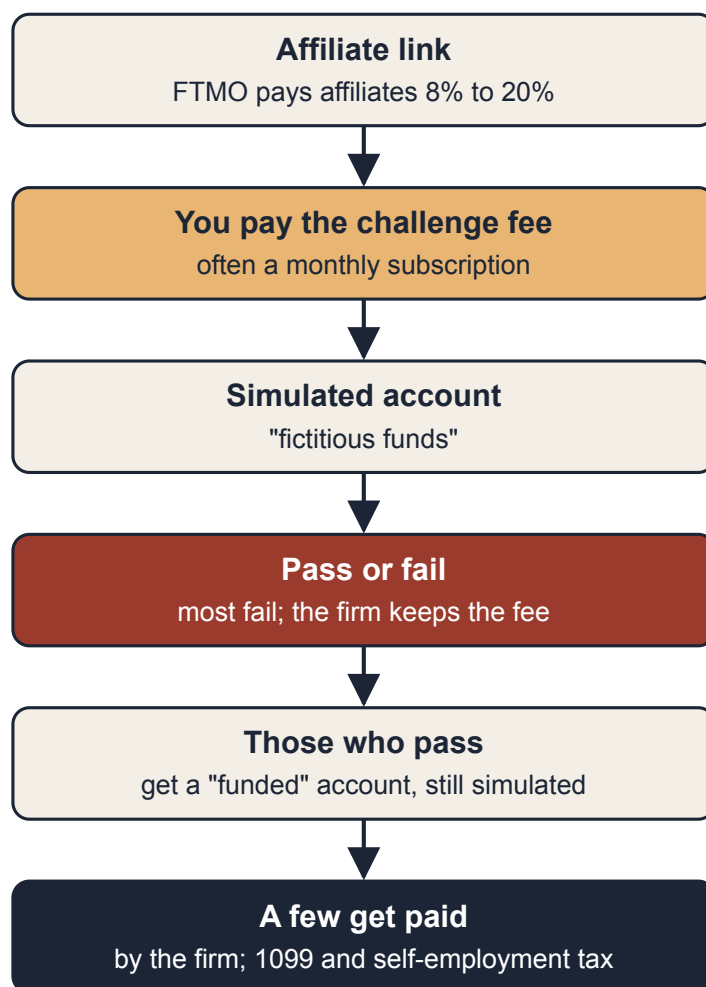
400+

firms selling these challenges, up from 10 five years earlier (Bloomberg, 2025)

Who gets paid when you follow this advice

- **The prop firm, through fees.** You pay to take the challenge, you usually don't get the fee back if you fail, and you can pay again to reset. FTMO's terms say the fee isn't refundable once paid unless expressly agreed. FundedNext's terms say no refund is available if you fail. Topstep's Combine is a monthly subscription that keeps rebilling until you cancel.
- **The influencer.** FTMO's affiliate program pays commissions of 8% to 20% on the challenges its affiliates refer, depending on volume. The "I just got funded" video often carries an affiliate code.
- **The trader, sometimes.** Topstep says 33.3% of the people who reached its funded level in 2025 got a payout of some size. The payout comes from the firm, not from a market, because the trading is simulated.

Belgium's financial regulator put it in one line: a good chance that some consumers never pass, and "This is how prop trading firms earn money from them."



How do prop firm challenges work?

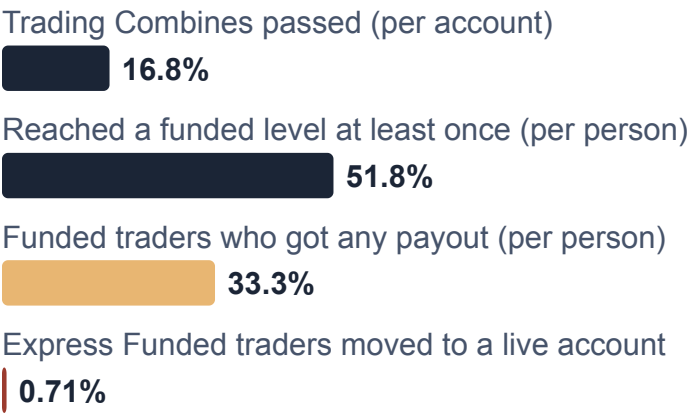
You pay a fee to trade a practice account under strict rules; if you hit a profit target without breaking a loss limit, you get a "funded" account, which at most retail-facing firms is still simulated (FTMO, Topstep and FundedNext terms).

FTMO's terms say its Challenge accounts "are accounts for simulated trading," and its website banner says all accounts it provides "are demo accounts with fictitious funds." FTMO adds that passing doesn't guarantee acceptance into its trader program. Topstep's terms define its Express Funded Account as one "using real-time simulated Data," and Topstep says it pays real money based on simulated trading results. FundedNext's terms say no orders are executed in the live market. FundedNext Ltd. is registered in the Comoros Islands, according to its terms.

The profit split is real money paid on fake trades. Topstep advertises a 90/10 split with payout caps on Express Funded Accounts. FTMO pays a "Reward" of 80% to 90% of profits made in a demo account. Topstep charges \$49 to \$229 a month depending on account size and path, plus a \$149 activation fee for each Express Funded Account on its Standard Path.

What percentage of traders pass a prop firm challenge?

Few firms publish it; Topstep does, and in 2025 16.8% of its Trading Combines were passed, while 0.71% of its Express Funded traders were called up to a live account (Topstep, 2025).



Source: Topstep's published 2025 statistics (January to December 2025). The four figures use different denominators and can't be multiplied into one funnel.

Topstep 2025 statistic	Share	Counted out of
Trading Combines passed	16.8%	All Combines started (one person can buy many)
Reached a funded level at least once	51.8%	People who started one or more Combines
Received a payout of any size	33.3%	People who reached a funded level
Called up to a Live Funded Account (real capital)	0.71%	People trading an Express Funded Account (simulated)

Read those numbers carefully, because they count different things. The 16.8% counts challenges, and one person can buy many. The 51.8% of people who reached a funded level at least once includes people who failed several times first. Topstep also says more than 63% of traders have lost an account in a single day. FTMO publishes marketing claims, including more than 4.5 million customers and more than \$650 million paid in rewards, but not its fee revenue, so you can't compare the two.

Interactive Brokers' required disclosure for its retail forex customers shows 46.50% of accounts were profitable in the third quarter of 2026, and the European Securities and Markets Authority found 74% to 89% of retail CFD accounts typically lose money. Prop challenges add a profit target and loss limits on top of those odds.

What happened in the CFTC's case against My Forex Funds?

It collapsed: in May 2025 a federal judge dismissed the CFTC's case with prejudice as a sanction for the agency's own misconduct, and later ordered the CFTC to pay \$3,148,484.22 of the defendants' legal fees (CFTC v. Traders Global Group, D.N.J.).

- **The allegations (August 2023).** The CFTC alleged that more than 135,000 customers paid at least \$310 million in fees to My Forex Funds, which operated through New Jersey and Canadian companies, and that the firm paid out about \$137 million. It alleged that fewer than 100 of the roughly 24,000 customers with "live" accounts ever had a single trade sent to a real market.
- **The preliminary ruling (November 2023).** Applying a preliminary, prima facie standard, the judge found the firm collected more than \$310 million in fees and paid at least \$159 million to successful customers. The opinion called it undisputed that 92% of customers never advanced out of demo accounts, and found that failed customers' accounts were closed and their fees kept. It also cut the asset freeze to \$12,080,000.
- **The ending (2025).** A Special Master, retired federal judge Jose Linares, found that a CAD \$31.5 million "transfer" the CFTC had cited to win the asset freeze was actually tax payments to the Canadian government, and that the CFTC "acted willfully and in bad faith on several occasions." Judge Edward S. Kiel adopted the recommendation on May 13, 2025, with no objection from either side, and dismissed the complaint with prejudice. The CFTC's acting chairman called the agency's conduct "inexcusable." Reuters reported the fee award in July 2025.

No court ever decided whether My Forex Funds defrauded anyone. What the record does show, from the firm's own data as the court described it, is how the money moved: most customers paid fees and traded demo accounts. Ontario's securities regulator made similar allegations in 2023, and in July 2024 Ontario's Capital Markets Tribunal extended the regulator's temporary order, with the firm's consent and the investigation ongoing.

Are prop firms legal in the United States?

No U.S. court has settled the question: the CFTC tried to treat one as an unregistered forex dealer and lost the case over its own conduct; regulators abroad have warned consumers, and Italy's CONSOB called them online trading "video games" in 2024, and Belgium's FSMA warned that the consumer never makes any actual trades.

A firm that actually handles customer money for forex or futures trading in the U.S. has to register and, for retail forex dealers, calculate each quarter the percentage of customer accounts that were profitable (17 C.F.R. § 5.18(i)). Whether a firm that sells simulator evaluations, and acts as the counterparty to its few "live" accounts, has to register was the question in *My Forex Funds*. The CFTC charged the firm with acting as an unregistered retail foreign exchange dealer. The court's preliminary ruling found a *prima facie* case, and the case then ended without a merits decision.

The closest U.S. enforcement precedent on the education side is the FTC's case against Warrior Trading, a day-trading course seller. The FTC said the company's own simulator data showed 74% of accounts lost money, and Warrior Trading agreed to pay \$3 million in refunds in 2022.

Are prop firm payouts taxed?

Yes: payouts are generally reported as independent-contractor income, and you owe self-employment tax if your net earnings reach \$400 (Topstep; IRS Topic 554).

Topstep says all its traders are independent contractors and issues Form 1099-NEC. It sent 2025 forms to U.S. traders with more than \$600 in payouts. For tax years after 2025, the IRS raised the threshold for most 1099 reporting to \$2,000, but the income is taxable whether or not you get a form. FTMO's terms say traders are solely responsible for their own taxes. Ask a tax professional how your fees and payouts should be reported.

When is a prop firm challenge legitimately fine?

When you treat the fee as the price of a trading simulator with rules and a small prize, and spend only what you'd spend on a hobby.

Some people like the structure, and the loss limits can teach discipline. A third of Topstep's funded participants got some payout in 2025, according to Topstep. Read the terms before you pay: look for "simulated," the refund policy, whether the subscription rebills, and the payout caps. If the firm is registered offshore and you can't tell who owns it, assume you'd have no practical recourse.

Prop firm challenge vs. learning with a free demo

	Prop firm challenge	Broker demo account, then a small real account
Cost to start	Fee per attempt; \$49 to \$229 a month at Topstep	Free demo; real account funded with money you choose
Is the trading real?	Simulated, per FTMO, Topstep and FundedNext terms	Demo is simulated; real account trades real markets
Who's paid if you fail	The firm keeps the fee	No one; you lose only what you traded
Disclosure of customer results	Voluntary; few firms publish	Registered forex dealers must publish profitability each quarter (17 C.F.R. § 5.18(i))
Recourse	Contract terms, often with an offshore company	CFTC/NFA-registered firm
Tax	Payouts are contractor income	Trading gains and losses under normal rules

What should you do instead?

1 Practice for free first

Use a broker's demo account until you have a written record of results. If you can't make money on a free simulator, a paid one won't help.

2 Read the firm's terms for three words

"Simulated," "refund" and "rebill." Then find the payout cap and any rule that lets the firm deny a payout.

3 Ignore the affiliate videos

Anyone posting a challenge discount code may be earning up to 20% of your fee.

4 If you want to trade real money, use a registered firm

Check the firm with the NFA and the CFTC, and trade an amount you can lose.

5 Keep your long-term money out of it

Fund your [401\(k\) match](#) and your emergency savings before you buy a challenge, and keep the beneficiary forms on your real accounts current with a [beneficiary designation audit](#).

Frequently asked questions

Are prop firms a scam?

Not all of them, but most retail prop firms sell simulated trading, and their revenue comes largely from fees. Read their own terms. FTMO's site says all its accounts are demo accounts with fictitious funds.

What happened to My Forex Funds?

The CFTC sued in 2023, alleging fraud and \$310 million in fees. In 2025 the court dismissed the case with prejudice as a sanction for the CFTC's misconduct and ordered the agency to pay about \$3.1 million of the firm's legal fees. No court ruled on the fraud allegations.

Do prop firms trade with real money?

At FTMO, Topstep's Express Funded level and FundedNext, no; their terms describe simulated accounts. Topstep says 0.71% of its Express Funded traders were moved to a live account in 2025.

How much does a prop firm challenge cost?

Topstep charges \$49 to \$229 a month, plus a \$149 activation fee on its Standard Path. Bloomberg reported that fees typically start below \$100 and that traders who fail can keep trying by paying again.

Do I pay taxes on prop firm payouts?

Yes. They're generally self-employment income, reported on Form 1099-NEC, with self-employment tax due once net earnings reach \$400.

Is a funded trader account the same as a job?

No. Topstep says all its traders are independent contractors, and FTMO's terms make traders responsible for their own taxes.

This page is general information about the law and published regulatory actions and company terms. It isn't legal, tax or investment advice for your situation. Allegations in the My Forex Funds case were never decided on the merits.

More in the [money myths](#) series: [trading signals](#) and [0DTE options](#) and [copy trading](#). For planning: [IRAs](#), [401\(k\)s](#) and [beneficiary assets](#).

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Questions about your own plan?

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