

## RISK DISCLOSURES FOR FINANCIAL INSTRUMENTS & INVESTMENT SERVICES

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TTCM Capital Markets Limited, a limited liability Vanuatu Financial Services Company, incorporated under the laws of Vanuatu, and registered with the Vanuatu Financial Services Commission ("VFSC") under Company number 40292. TTCM is regulated as under the Dealers in Securities (Licensing) Act (CAP.70) as a Principal by the VFSC.

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## RISK DISCLOSURES FOR FINANCIAL INSTRUMENTS & INVESTMENT SERVICES

### INTRODUCTION

'**TTCM Capital Markets Limited**', (herein after "TTCM" or "the Company") is a limited liability Vanuatu Financial Services Company, incorporated under the International Companies Act of Vanuatu and registered with the Vanuatu Financial Services Commission ("VFSC") under Company number 40292. TTCM is regulated as under the Dealers in Securities (Licensing) Act as a Principal by the VFSC.

The Company is operating in accordance with the Dealers in Securities (Licensing) Act (CAP70) of Vanuatu (the "*Prevention of fraud (investments)*"), as has been amended on 16 June 2017 and/or from time to time and the Act on International Companies of Vanuatu (CAP222), which was implemented in Vanuatu by the *Vanuatu Financial Services Commission*.

This notice is provided to you in accordance with the above-mentioned "**Markets in Financial Instruments Legislation**", because you are considering dealing with the Company in certain financial instruments provided by the Company ("**Financial Instruments**").

The Financial Instruments, in respect of which the Company is entitled to provide Investment Services (as defined hereinafter) to you under its '*Vanuatu*' license, include the following:

- a. Transferable securities.
- b. Money-market instruments.
- c. Units in collective investment undertakings.
- d. Options, futures, swaps, forward rate agreements and any other derivative contracts relating to securities, currencies, interest rates or yields, or other derivatives instruments, financial indices or financial measures which may be settled physically or in cash.
- e. Options, futures, swaps, forward rate agreements and any other derivative contracts relating to commodities that must be settled in cash or may be settled in cash at the option of one of the parties (otherwise than by reason of a default or other termination event).
- f. Options, futures, swaps, and any other derivative contract relating to commodities that can be physically settled provided that they are traded on a regulated market or/and an MTF.
- g. Options, futures, swaps, forwards and any other derivative contracts relating to commodities, that can be physically settled and not being for commercial purposes, which have the characteristics of other derivative financial instruments, having regard to whether, inter alia, they are cleared and settled through recognised clearing houses or are subject to regular margin calls.
- h. Derivative instruments for the transfer of credit risk.

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- i. Financial contracts for differences.
- j. Options, futures, swaps, forward rate agreements and any other derivative contracts relating to climatic variables, freight rates, emission allowances or inflation rates or other official economic statistics that must be settled in cash or may be settled in cash at the option of one of the parties (otherwise than by reason of a default or other termination event), as well as any other derivative contract relating to assets, rights, obligations, indices and measures not otherwise mentioned in this Part, which have the characteristics of other derivative financial instruments, having regard to whether, inter alia, they are traded on a regulated market or an MTF, are cleared and settled through recognised clearing houses or are subject to regular margin calls.

The investment and ancillary services, which the Company is entitled to provide to you under its Vanuatu license, in respect of the Financial Instruments referred to hereinabove (“**Investment Services**”), include the following:

- a. Reception and transmission of orders in relation to one or more Financial Instruments.
- b. Execution of orders on behalf of clients.
- c. Portfolio Management.
- d. Safekeeping and administration of Financial Instruments for the account of clients, including custodianship and related services such as cash/collateral management.
- e. Foreign exchange services where these are connected to the provision of investment services.
- f. Investment research and financial analysis or other forms of general recommendation relating to transactions in Financial Instruments.

This notice is for use by clients of the Company (and its direct or indirect subsidiaries and affiliates, all such companies being referred to collectively or, as the context may require, individually, as the Company) and must not be relied on by anyone else. It cannot disclose all the risks and other significant aspects of the Financial Instruments you may purchase, sell or subscribe for from or through the Company, but is intended to give you information on and a warning of the risks associated with them so that you are reasonably able to understand the nature and risks of the services and of the specific types of investment being offered and, consequently, to take investment decisions on an informed basis. You should also read any product/transaction specific disclosures that may be included in any product/transaction specific documentation provided to you.

You must not rely on the guidance contained in this notice as investment advice based on your personal circumstances, nor as a recommendation to enter into any of the services or invest in any of the Financial Instruments listed below. Where you are unclear as to the meaning of any of the disclosures or warnings described below, we would strongly recommend that you seek independent

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legal or financial advice.

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You should not deal in these or any other Financial Instruments unless you understand the nature of the contract you are entering into and the extent of your exposure to risk. You should also be satisfied that the Financial Instrument and/or service is suitable for you in light of your circumstances and financial position and, where necessary, you should seek appropriate independent advice in advance of any investment decisions.

Risk factors may occur simultaneously and/or may compound each other resulting in an unpredictable effect on the value of any investment. In any of the situations described below, the use of leverage (which has the effect of magnifying potential positive or negative outcomes) may significantly increase the impact on you of any of the risks described.

The Company will not be liable for any margin call or losses that the Client may suffer, including but not limited to losses due to Stop-out Level, if the trading benefit is withdrawn for any reason pursuant to the applicable "Client Agreement - Terms and Conditions of Business". The Company ensures that losses will never exceed the total available funds across the Clients' Company trading portfolio (negative balance protection).

In addition, the client accepts that the Company reserves the right to immediately terminate the client's access to the trading platform(s) and recover any losses caused by the client, in the event that the Firm determines, at its sole discretion, that the client voluntarily and/or involuntarily abuses the 'Negative Balance Protection' offered by the Company, by way of, but not limited to, hedging his/her exposure using his/her trading accounts, whether under the same profile or in connection with another client(s); and/or requesting a withdrawal of funds, notwithstanding any of the provisions of this Agreement, during a specific timeframe, in accordance with Termination clauses of Client Agreement - Terms and Conditions of Business (CHAPTER N: TERMINATION OF CLIENT RELATIONSHIP AND LIQUIDATION OF ACCOUNTS).

All Financial Instruments carry a certain degree of risk and even low risk investment strategies contain an element of uncertainty. The types of risk that might be of concern will depend on various matters, including how the instrument is created, structured or drafted. The specific risks of a particular Financial Instrument or transaction will depend upon the terms of the Financial Instrument or transaction and the particular circumstances of, and relationships

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between, the relevant parties involved in such Financial Instrument or transaction. Different instruments involve different levels of exposure to risk and in deciding whether to trade in such instruments or become involved in any Financial Instruments, you should be aware of the guidance set out below.

## 2. PRODUCTS AND INVESTMENTS

- 2.1. Set out below is an outline of the major categories of risk that may be associated with certain generic types of Financial Instruments, which should be read in conjunction with Parts III and IV below.

### A. SHARES AND OTHER TYPES OF EQUITY INSTRUMENTS

#### a. *General*

2.1.1. A risk with an equity investment is that the company must both grow in value and, if it elects to pay dividends to its shareholders, make adequate dividend payments, or the share price may fall. If the share price falls, the company, if listed or traded on-exchange, may then find it difficult to raise further capital to finance the business, and the company's performance may deteriorate *vis-à-vis* its competitors, leading to further reductions in the share price. Ultimately the company may become vulnerable to a takeover or may fail.

2.1.2. Shares have exposure to all the major risk types referred to in Section 3 below. In addition, there is a risk that there could be volatility or problems in the sector that the company is in. If the Company is private, i.e. not listed or traded on an exchange, or is listed but only traded infrequently, there may also be liquidity risk, whereby shares could become very difficult to dispose of.

#### b. *Ordinary shares*

2.1.3. Ordinary shares are issued by limited liability companies as the primary means of raising risk capital. The issuer has no obligation to repay the original cost of the share, or the capital, to the shareholder until the issuer is wound up (in other words, the issuer company ceases to exist). In return for the capital investment in the share, the issuer may make discretionary dividend payments to shareholders, which could take the form of cash or additional shares.

2.1.4. Ordinary shares usually carry a right to vote at general meetings of the issuer. There is no guaranteed return on an investment in ordinary shares for the reasons set out in 2.1.1. above, and in a liquidation of the issuer, ordinary shareholders are amongst

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the last with a right to repayment of capital and any surplus funds of the issuer, which could lead to a loss of a substantial proportion, or all, of the original investment.

**c. Preference shares**

2.1.5. Unlike ordinary shares, preference shares give shareholders the right to a fixed dividend the calculation of which is not based on the success of the issuer company. They therefore tend to be a less risky form of investment than ordinary shares.

2.1.6. Preference shares do not usually give shareholders the right to vote at general meetings of the issuer, but shareholders will have a greater preference to any surplus funds of the issuer than ordinary shareholders, should the issuer go into liquidation.

**d. Depositary Receipts**

2.1.7. Depositary Receipts (ADRs, GDRs, etc.) are negotiable certificates, typically issued by a bank, which represent a specific number of shares in a company, traded on a stock exchange which is local or overseas to the issuer of the receipt. They may facilitate investment in the companies due to the widespread availability of price information, lower transaction costs and timely dividend distributions.

2.1.8. The risks involved relate both to the underlying share and to the bank issuing the receipt. In addition, there are important differences between the rights of holders of ADRs and GDRs, (together, "**Depositary Receipts**") and the rights of holders of the shares of the underlying share issuer represented by such Depositary Receipts. The relevant deposit agreement for the Depositary Receipt sets out the rights and responsibilities of the depositary (being the issuer of the Depositary Receipt), the underlying share issuer and holders of the Depositary Receipt which may be different from the rights of holders of the underlying shares.

2.1.9. For example, the underlying share issuer may make distributions in respect of its underlying shares that are not passed on to the holders of its Depositary Receipts. Any such differences between the rights of holders of the Depositary Receipts and holders of the underlying shares of the underlying share issuer may be significant and may materially and adversely affect the value of the relevant instruments. Depositary Receipts representing underlying shares in a foreign jurisdiction (in particular an emerging market jurisdiction) also involve risks associated with the securities markets in such jurisdictions.

**e. Penny shares**

- 2.1.10. There is an extra risk of losing money when shares are bought in some smaller companies, including so called penny shares. There is a big difference between the buying price and the selling price of these shares. If they have to be sold immediately, you may get back much less than you paid for them. The price may change quickly and it may go down as well as up.

**B. WARRANTS**

- 2.1.11. A warrant is a time-limited right to subscribe for shares, debentures, loan, stock or government securities and is exercisable against the original issuer of the underlying securities. A relatively small movement in the price of the underlying security could result in a disproportionately large movement, unfavourable or favourable, in the price of the warrant. The prices of warrants can therefore be volatile.
- 2.1.12. The right to subscribe for any of the Financial Instruments listed in Section 2.1.A. above or 2.1.C. or 2.1.D. below which a warrant confers, is invariably limited in time, with the consequence that if the investor fails to exercise this right within the pre-determined time-scale, the investment becomes worthless.
- 2.1.13. If subscription rights are exercised, the warrant holder may be required to pay to the issuer additional sums (which may be at or near the value of the underlying assets). Exercise of the warrant will give the warrant holder all the rights and risks of ownership of the underlying investment product.
- 2.1.14. A warrant is potentially subject to all of the major risk types referred to in Section 3 below.
- 2.1.15. You should not buy a warrant unless you are prepared to sustain a total loss of the money you have invested plus any commission or other transaction charges.
- 2.1.16. Some other instruments are also called warrants but are actually options (for example, a right to acquire securities which is exercisable against someone other than the original issuer of the securities, often called a covered warrant). For these instruments, see Section 2.1.44. below.

## **C. MONEY-MARKET INSTRUMENTS**

- 2.1.17. A money-market instrument is a borrowing of cash for a period, generally no longer than six months, but occasionally up to one year, in which the lender takes a deposit from the money markets in order to lend (or advance) it to the borrower.
- 2.1.18. Unlike in an overdraft, the borrower must specify the exact amount and the period for which he wishes to borrow. Like other debt instruments (see Section 2.1.D. below), money-market instruments may be exposed to the major risk types in Section 3 below, in particular credit and interest rate risk.

## **D. DEBT INSTRUMENTS/BONDS/DEBENTURES**

- 2.1.19. All debt instruments are potentially exposed to the major risk types in Section 3 below, in particular credit risk and interest rate risk.
- 2.1.20. Debt securities may be subject to the risk of the issuer's inability to meet principal and /or interest payments on the obligation and may also be subject to price volatility due to such factors as interest rate sensitivity, market perception of the creditworthiness of the issuer, general market liquidity, and other economic factors, amongst other issues. When interest rates rise, the value of corporate debt securities can be expected to decline. Fixed-rate transferable debt securities with longer maturities/lower coupons tend to be more sensitive to interest rate movements than those with shorter maturities/higher coupons.

## **E. UNITS IN COLLECTIVE INVESTMENT SCHEMES**

- 2.1.21. Collective investment schemes and their underlying assets are potentially exposed to all of the major risk types referred to in Section 3 below.
- 2.1.22. There are many different types of collective investment schemes. Generally, a collective investment scheme will involve an arrangement that enables a number of investors to 'pool' their assets and have these professionally managed by an independent manager. Investments may typically include gilts, bonds and quoted equities, but depending on the type of scheme, may go wider into derivatives, real estate or any other asset. There may be risks on the underlying assets held by the scheme and investors are advised, therefore, to check whether the scheme holds a number of different assets, thus spreading its risk. Subject to this, investment in such schemes may reduce risk by spreading the investor's investment more widely than may have been possible if he or she was to invest in the assets directly.

- 2.1.23. The reduction in risk may be achieved because the wide range of investments held in a collective investment scheme can reduce the effect that a change in the value of any one investment may have on the overall performance of the portfolio. Although, therefore, seen as a way to spread risks, the portfolio price can fall as well as rise and, depending on the investment decisions made, a collective investment scheme may be exposed to many different major risk types.
- 2.1.24. The valuation of a collective investment scheme is generally controlled by the relevant fund manager or the investment adviser (as the case may be) of the collective investment scheme.
- 2.1.25. Valuations are performed in accordance with the terms and conditions governing the collective investment scheme. Such valuations may be based upon the unaudited financial records of the collective investment scheme and any accounts pertaining thereto. Such valuations may be preliminary calculations of the net asset values of the collective investment schemes and accounts. The collective investment scheme may hold a significant number of investments which are illiquid or otherwise not actively traded and in respect of which reliable prices may be difficult to obtain. In consequence, the relevant fund manager or the investment adviser may vary certain quotations for such investments held by the collective investment scheme in order to reflect its judgement as to the fair value thereof.
- 2.1.26. Therefore, valuations may be subject to subsequent adjustments upward or downward. Uncertainties as to the valuation of the collective investment scheme assets and/or accounts may have an adverse effect on the net asset value of the relevant collective investment scheme where such judgements regarding valuations prove to be incorrect.
- 2.1.27. A collective investment scheme and any collective investment scheme components in which it may invest may utilise (inter alia) strategies such as short-selling, leverage, securities lending and borrowing, investment in sub-investment grade or non-readily realisable investments, uncovered options transactions, options and futures transactions and foreign exchange transactions and the use of concentrated portfolios, each of which could, in certain circumstances, magnify adverse market developments and losses. Collective investment schemes, and any collective investment scheme components in which it may invest, may make investments in markets that are volatile and/or illiquid and it may be difficult or costly for positions therein to be opened or liquidated. The performance of each collective investment scheme and any collective investment scheme component in which it may invest is dependent on the performance of the collective investment scheme managers in

selecting collective investment scheme components and the management of the relevant component in respect of the collective investment scheme components.

2.1.28. In addition, the opportunities to realise an investment in a collective investment scheme is often limited in accordance with the terms and conditions applicable to the scheme and subject to long periods of advance notice (during which the price at which interests may be redeemed may fluctuate or move against you).

2.1.29. There may be no secondary market in the collective investment scheme and therefore an investment in such a scheme may be (highly) illiquid.

## **F. DERIVATIVES, INCLUDING OPTIONS, FUTURES, SWAPS, FORWARD RATE AGREEMENTS, DERIVATIVE INSTRUMENTS FOR THE TRANSFER OF CREDIT RISK, FINANCIAL CONTRACTS FOR DIFFERENCES**

2.1.30. The risks set out in Sections 2.1.30. through 2.1.39 below may arise in connection with all types of derivative contracts, whether it is in the form of a listed instrument, an OTC instrument, or a securitised product such as a note or a certificate.

### **a. Derivatives Generally**

2.1.31. A derivative is a financial instrument, the value of which is derived from an underlying asset's value. Rather than trade or exchange the asset itself, an agreement is entered into to exchange money, assets or some other value at some future date based on the underlying asset. A premium may also be payable to acquire the derivative instrument.

2.1.32. There are many types of derivative, but options, futures and swaps are among the most common. An investor in derivatives often assumes a high level of risk, and therefore investments in derivatives should be made with caution, especially for less experienced investors or investors with a limited amount of capital to invest.

2.1.33. If a derivative transaction is particularly large or if the relevant market is illiquid (as may be the case with many privately negotiated off-exchange derivatives), it may not be possible to initiate a transaction or liquidate a position at an advantageous price.

2.1.34. On-exchange derivatives are subject, in addition, to the risks of exchange trading generally, including potentially the requirement to provide margin. Off-exchange derivatives may take the form of unlisted transferable securities or bi-lateral "over the counter" contracts ("**OTC**"). Although these forms of derivatives may be traded

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differently, both arrangements may be subject to credit risk of the Issuer (if

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transferable securities) or the counterparty (if OTCs) and, like any contract, are subject also to the particular terms of the contract (whether a one-off transferable security or OTC, or a master agreement), as well as the risks identified in Section 3 below.

- 2.1.35. In particular, with an OTC contract, the counterparty may not be bound to “close out” or liquidate this position, and so it may not be possible to terminate a loss-making contract. Off-exchange derivatives are individually negotiated. As the terms of the transactions are not standardised and no centralised pricing source exists (as exists for exchange traded instruments), the transactions may be difficult to value. Different pricing formulas and financial assumptions may yield different values, and different financial institutions may quote different prices for the same transaction. In addition, the value of an off-exchange derivative will vary over time and is affected by many factors, including the remaining time until maturity, the market price, price volatility and prevailing interest rates.
- 2.1.36. Derivatives can be used for speculative purposes or as hedges to manage other investment or economic risks. In all cases the suitability of the transaction for the particular investor should be very carefully considered.
- 2.1.37. You are therefore advised to ask about the terms and conditions of the specific derivatives and associated obligations (e.g. the circumstances under which you may become obligated to make or take delivery of an underlying asset and, in respect of options, expiration dates and restrictions on the time for exercise). Under certain circumstances the specifications of outstanding contracts (including the exercise price of an option) may be modified by the exchange or Clearing House to reflect changes in the underlying asset.
- 2.1.38. Normal pricing relationships between the underlying asset and the derivative may not exist in all cases. This can occur when, for example, the futures contract underlying the option is subject to price limits while the option is not. The absence of an underlying reference price may make it difficult to assess ‘fair’ value.
- 2.1.39. The points set out below in relation to different types of derivative are not only applicable specifically to these derivatives but are also applicable more widely to derivatives generally. All derivatives are potentially subject to the major risk types in Section 3 below, especially market risk, credit risk and any specific sector risks connected with the underlying asset.

**b. *Futures/Forwards/Forward rate agreements***

2.1.40. Transactions in futures or forwards involve the obligation to make, or to take, delivery of the underlying asset of the contract at a future date, or in some cases to settle the position with cash. They carry a high degree of risk. The 'gearing' or 'leverage' often obtainable in futures and forwards trading means that a small deposit or down payment can lead to large losses as well as gains. It also means that a relatively small movement can lead to a proportionately much larger movement in the value of your investment, and this can work against you as well as for you.

2.1.41. Futures and forwards transactions have a contingent liability, and you should be aware of the implications of this, in particular margining requirements: these are that, on a daily basis, with all exchange-traded, and most OTC off-exchange, futures and forwards, you will have to pay over in cash losses incurred on a daily basis and if you fail to, the contract may be terminated. See, further, Paragraphs A and B of Section 4 below.

**c. *Options***

2.1.42. There are many different types of options with different characteristics subject to the following conditions.

(i) **Put option**: a put option is an option contract that gives the holder (buyer) of the option the right to sell a certain quantity of an underlying security to the writer of the option at a specified price (the strike price) up to a specified date (the expiration date).

(ii) **Call option**: a call option is an option contract that gives the holder (buyer) the right to buy a certain quantity of an underlying security from the writer of the option, at a specified price (the strike price) up to a specified date (the expiration date).

2.1.43. **Buying options**: Buying options involves less risk than selling options because, if the price of the underlying asset moves against you, you can simply allow the option to lapse. The maximum loss is limited to the premium, plus any commission or other transaction charges. However, if you buy a call option on a futures contract and you later exercise the option, you must acquire the future. This will expose you to the risks described under 'futures' and 'contingent liability investment transactions'. Certain options markets operate on a margined basis, under which buyers do not pay the full premium on their option at the time they purchase it. In this situation you may subsequently be called upon to pay margin on the option up to the level of



your premium. If you fail to do so as required, your position may be closed or liquidated in the same way as a futures position.

- 2.1.44. ***Writing options:*** If you write an option, the risk involved is considerably greater than buying options. You may be liable for margin to maintain your position (as explained in Section 2.1.40. above) and a loss may be sustained well in excess of the premium received. By writing an option, you accept a legal obligation to purchase or sell the underlying asset if the option is exercised against you, however far the market price has moved away from the exercise price. If you already own the underlying asset which you have contracted to sell (known as '***covered call options***') the risk is reduced. If you do not own the underlying asset (known as '***uncovered call options***') the risk can be unlimited. Only experienced persons should contemplate writing uncovered options, and then only after securing full details of the applicable conditions and potential risk exposure.
- 2.1.45. Depending on the type of option entered into, there may be increased exposure to market risk (see Section 3: Generic Risk types, Paragraph D – Market Risk below) when compared to other Financial Instruments. There are several option styles including (but not limited to) American-, European- and Bermuda-style.
- 2.1.46. An '***American-style option***' may be exercised at any time prior to its expiration.
- 2.1.47. A '***European-style option***' may only be exercised on a specific date, its expiration date.
- 2.1.48. A '***Bermuda-style option***' may be exercised on certain specified dates during the term of the transaction.
- 2.1.49. If you buy an American-style call option and the relevant market price of the underlying asset never rises above the strike price on the option (or if you fail to exercise the option while such condition exists), the option will expire unexercised and you will have lost the premium you paid for the option.
- 2.1.50. Similarly, if you buy an American-style put option and the relevant market price for the underlying asset does not fall below the option strike price (or if you fail to exercise the option while such condition exists), the option will not be exercised and you will have lost the premium you paid for the put option.
- 2.1.51. Purchasing European-style or Bermuda-style options may carry additional market risk since the option could be "***in-the-money***" for part or substantially all of the holding period but not on the exercise date(s). A call option is "***in-the-money***" if the

strike price is lower than the relevant market price for the underlying asset. A put option is “*in-the-money*” if the strike price is higher than the relevant market price for the underlying asset.

- 2.1.52. It is even possible for the holder of an exercised, “*in-the-money*” option to lose money on an option transaction. Such a situation exists whenever the value received under the option fails to exceed the purchaser’s costs of entering into the option transaction (the premium and any other costs and expenses).
- 2.1.53. If you are a potential writer of an option, you should consider how the type of option affects the timing of your potential payment and delivery obligations thereunder. As the writer of a European-style option, the timing of any payment and delivery obligations is predictable. Absent early termination, no settlements will be necessary prior to the expiration date. As the writer of an American-style option, however, you must be certain that you are prepared to satisfy your potential payment and delivery obligations at any time during the exercise period (possibly quite soon following the sale of the option).
- 2.1.54. ***Traditional options:*** Certain London Stock Exchange member firms under special exchange rules write a particular type of option called a ‘traditional option’. These may involve greater risk than other options. Two-way prices are not usually quoted and there is no exchange market on which to close out an open position or to effect an equal and opposite transaction to reverse an open position. It may be difficult to assess its value or for the seller of such an option to manage his exposure to risk.

**d. *Contracts for differences***

- 2.1.55. Certain derivatives are referred to as contracts for differences. These can be options and futures on the FTSE 100 index or any other index of an exchange, as well as equity, currency and interest rate swaps, amongst others. However, unlike other futures and options (which may, depending on their terms, be settled in cash or by delivery of the underlying asset), these contracts can only be settled in cash.
- 2.1.56. Investing in a contract for differences carries the same risks as investing in a future or an option as referred to in Sections 2.1.F.b. and 2.1.F.c. above. Transactions in contracts for differences may also have a contingent liability.

**e. Precious metals, rolling 'forex' or currency options**

- 2.1.57. Investing in precious metals, rolling forex or currency options carries similar risks as investing in a future and you should be aware of these. Transactions in precious metals, rolling forex or currency options may also have a contingent liability and you should be aware of the implications of this as set out below. In addition to standard industry disclosures, you should be aware that margined precious metals and currency trading are some of the riskiest forms of investment available in the financial markets and are only suitable for sophisticated individuals and institutions. Given the possibility of losing an entire investment, speculation in the precious metals or foreign exchange market should only be conducted with risk capital funds that if lost will not significantly affect your personal or institution's financial wellbeing.
- 2.1.58. If you have pursued only conservative forms of investment in the past, you may wish to study precious metals or currency trading further before continuing an investment of this nature. You must also realize that the limited risk in buying options means you could lose the entire option investment should the option expire worthless.
- 2.1.59. If you wish to continue with your investment, you acknowledge that the funds you have committed are purely risk capital and loss of your investment will not jeopardize your style of living nor will it detract from your future retirement program. Additionally, you fully understand the nature and risks of precious metals and currency investments, and your obligations to others will not be neglected should you suffer investment losses.

**f. Swaps**

- 2.1.60. A swap agreement is a derivative where two counterparties exchange one stream of cash flows against another stream, calculated by reference to an “*underlying*” (such as securities' indices, bonds currencies, interest rates or commodities, or more intangible items).
- 2.1.61. A swap agreement may also be combined with an option. Such an option may be structured in two different ways.
- 2.1.62. On the one hand, “*swaptions*” are transactions that give the purchaser of the ‘*swaption*’ the right, against payment of a premium, to exercise or not to exercise, until the agreed maturity date, its right to enter into a pre-agreed swap agreement.

- 2.1.63. On the other hand, “caps”, “floors” and “collars” enable a party, against payment or receipt of a premium, to protect itself against, or to take an exposure on, the variation on the value or level of an underlying.
- 2.1.64. A major risk of off-exchange derivatives, (including swaps) is known as counterparty risk, whereby a party is exposed to the inability of its counterparty to perform its obligations under the relevant Financial Instrument. For example, if a party, A, wants a fixed interest rate loan and so swaps a variable rate loan with another party, B, thereby swapping payments, this will synthetically create a fixed rate for A. However, if B goes insolvent, A will lose its fixed rate and will be paying a variable rate again. If interest rates have gone up a lot, it is possible that A will struggle to repay.
- 2.1.65. The swap market has grown substantially in recent years, with a large number of banks and investment banking firms acting both as principals and as agents utilising standardised swap documentation to cover swaps trading over a broad range of underlying assets. As a result, the swap market for certain underlying assets has become more liquid but there can be no assurance that a liquid secondary market will exist at any specified time for any particular swap.

## **G. COMBINED INSTRUMENTS/BASKETS**

- 2.1.66. Any combined instruments, such as a bond with a warrant attached, is exposed to the risk of both those Financial Instruments and so combined Financial Instruments may contain a risk which is greater than those of its components generally, although certain combined instruments may contain risk mitigation features, such as principal protected instruments.
- 2.1.67. The value of a basket of Financial Instruments (such as shares, indices etc.) may be affected by the number and quality of reference assets included in such basket.
- 2.1.68. Generally, the value of a basket that includes reference assets from a number of reference asset issuers or indices will be less affected by changes in the value of any particular reference asset included therein than a basket that includes fewer reference assets, or that gives greater weight to some reference assets included therein. In addition, if the reference assets included in basket are concentrated in a particular industry, the value of such a basket will be more affected by the economic, financial and other factors affecting that industry than if the reference assets included in the basket are in various industries that are affected by different economic, financial or other factors or are affected by such factors in different ways.

## 3. GENERIC RISK TYPES

### A. GENERAL

- 3.1. The price or value of an investment will depend on fluctuations in the financial markets outside of anyone's control. Past performance is no indicator of future performance. The nature and extent of investment risks varies between countries and from investment to investment. These investment risks will vary with, amongst other things, the type of investment being made, including how the Financial Instruments have been created or their terms drafted, the needs and objectives of particular investors, the manner in which a particular investment is made or offered, sold or traded, the location or domicile of the Issuer, the diversification or concentration in a portfolio (e.g. the amount invested in any one currency, security, country or issuer), the complexity of the transaction and the use of leverage.
- 3.2. The risk types set out below could have an impact on each type of investment.

### B. LIQUIDITY

- 3.3. The liquidity of an instrument is directly affected by the supply and demand for that instrument and also indirectly by other factors, including market disruptions (for example a disruption on the relevant exchange) or infrastructure issues, such as a lack of sophistication or disruption in the securities settlement process.
- 3.4. Under certain trading conditions it may be difficult or impossible to liquidate or acquire a position. This may occur, for example, at times of rapid price movement if the price rises or falls to such an extent that under the rules of the relevant exchange trading is suspended or restricted. Placing a stop-loss order will not necessarily limit your losses to intended amounts, but market conditions may make it impossible to execute such an order at the stipulated price. In addition, unless the contract terms so provide, a party may not have to accept early termination of a contract or buy back or redeem the relevant Financial Instrument and there may therefore be zero liquidity in the Financial Instrument.
- 3.5. In other cases, early termination, realisation or redemption may result in you receiving substantially less than you paid for the Financial Instrument or, in some cases, nothing at all.

### C. CREDIT RISK

- 3.6. Credit risk is the risk of loss caused by borrowers, bond obligors, guarantors, or counterparties failing to fulfil their obligations or the risk of such parties' credit quality deteriorating. Exposure to the credit risk of one or more reference entities is particularly relevant to any credit linked Financial Instrument such as credit linked notes, and the potential losses which may be
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sustained, and the frequency and likelihood of such losses occurring, when investing in credit linked Financial Instruments may be substantially greater than when investing in an obligation of the reference entity itself.

## **D. MARKET RISK**

### **a. General**

3.7. The price of investments goes up and down depending on market supply and demand, investor perception and the prices of any underlying or allied investments or, indeed, sector, political and economic factors. These can be totally unpredictable.

### **b. Overseas markets**

3.8. Any overseas investment or investment with an overseas element can be subject to the risks of overseas markets which may involve different risks from those of the home market of the investor. In some cases, the risks will be greater. The potential for profit or loss from transactions on foreign markets or in overseas denominated contracts will be affected by fluctuations in overseas exchange rates.

### **c. Emerging Markets**

3.9. Price volatility in emerging markets, in particular, can be extreme. Price discrepancies, low trading volumes and wide pricing spreads can be common and unpredictable movements in the market not uncommon.

3.10. Additionally, as news about a country becomes available, the financial markets may react with dramatic upswings and/or downswings in prices during a very short period of time. Emerging markets generally lack the level of transparency, liquidity, efficiency, market infrastructure, legal certainty and regulation found in more developed markets.

3.11. For example, these markets might not have regulations governing market or price manipulation and insider trading or other provisions designed to “level the playing field” with respect to the availability of information and the use or misuse thereof in such markets. They may also be affected by sector, economic and political risk. It may be difficult to employ certain risk and legal uncertainty management practices for emerging markets investments, such as forward currency exchange contracts or derivatives.

3.12. The impact of the imposition or removal of foreign exchange controls at any time should be considered, as well as potential difficulties in repatriation of assets. The risks associated with nationalisation or expropriation of assets, the imposition of confiscatory or punitive taxation, restrictions on investments by foreigners in an emerging market, sanctions, war and

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revolution should also be considered.

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## **E. CLEARING HOUSE PROTECTIONS/SETTLEMENT RISK**

- 3.13. On many exchanges, the performance of a transaction may be “*guaranteed*” by the exchange or clearing house. However, this guarantee is usually in favour of the exchange or clearing house member and cannot be enforced by the client who may, therefore, be subject to the credit and insolvency risks of the firm through whom the transaction was executed. There is, typically, no clearing house for off-exchange OTC instruments which are not traded under the rules of an exchange (although unlisted transferable securities may be cleared through a clearing house).
- 3.14. Settlement risk is the risk that a counterparty does not deliver the security (or its value) in accordance with the agreed terms after the other counterparty has already fulfilled its part of the agreement to so deliver. Settlement risk increases where different legs of the transaction settle in different time zones or in different settlement systems where netting is not possible.
- 3.15. This risk is particularly acute in foreign exchange transactions and currency swap transactions.

## **F. INSOLVENCY**

- 3.16. The insolvency or default of the firm with whom you are dealing, or of any brokers involved with your transaction, may lead to positions being liquidated or closed out without your consent or, indeed, investments not being returned to you. There is also insolvency risk in relation to the investment itself, for example of the company that issued a bond or of the counterparty to off-exchange derivatives (where the risk relates to the derivative itself and to any collateral or margin held by the counterparty).

## **G. CURRENCY RISK**

- 3.17. In respect of any foreign exchange transactions and transactions in derivatives and securities that are denominated in a currency other than that in which your account is denominated, a movement in exchange rates may have a favourable or an unfavourable effect on the gain or loss achieved on such transactions.
- 3.18. The weakening of a country’s currency relative to a benchmark currency or the currency of your portfolio will negatively affect the value of an investment denominated in that currency. Currency valuations are linked to a host of economic, social and political factors and can fluctuate greatly, even during intra-day trading. Some countries have foreign exchange controls which may include the suspension of the ability to exchange or transfer currency, or the devaluation of the currency. Hedging can increase or decrease the exposure to any one currency, but may not eliminate completely exposure to changing currency values.

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## **H. INTEREST RATE RISK**

- 3.19. Interest rates can rise as well as fall. A risk with interest rates is that the relative value of a security, especially a bond, will worsen due to an interest rate increase. This could impact negatively on other Financial Instruments. There are additional interest rate related risks in relation to floating rate instruments and fixed rate instruments; interest income on floating rate instruments cannot be anticipated. Due to varying interest income, investors are not able to determine a definite yield of floating rate instruments at the time they purchase them, so that their return on investment cannot be compared with that of investments having longer fixed interest periods. If the terms and conditions of the relevant instruments provide for frequent interest payment dates, investors are exposed to the reinvestment risk if market interest rates decline. That is, investors may reinvest the interest income paid to them only at the relevant lower interest rates then prevailing.
- 3.20. Changes in market interest rates have a substantially stronger impact on the prices of zero coupon bonds than on the prices of ordinary bonds because the discounted issue prices are substantially below par. If market interest rates increase, zero coupon bonds can suffer higher price losses than other bonds having the same maturity and credit rating.

## **I. COMMODITY RISK**

- 3.21. The prices of commodities may be volatile, and, for example, may fluctuate substantially if natural disasters or catastrophes, such as hurricanes, fires or earthquakes, affect the supply or production of such commodities. The prices of commodities may also fluctuate substantially if conflict or war affects the supply or production of such commodities. If any interest and/or the redemption amount payable in respect of any Financial Instrument is linked to the price of a commodity, any change in the price of such commodity may result in the reduction of the amount of interest and/or the redemption amount payable. The reduction in the amount payable on the redemption of an investment may result, in some cases, in you receiving a smaller sum on redemption of a Financial Instrument than the amount originally invested in such Financial Instrument.

## **J. REGULATORY/LEGAL/STRUCTURAL RISK**

- 3.22. All investments could be exposed to regulatory, legal or structural risk. Returns on all, and particularly new, investments are at risk from regulatory or legal actions and changes which can, amongst other issues, alter the profit potential of an investment.
- 3.23. Legal changes could even have the effect that a previously acceptable investment becomes illegal. Changes to related issues such as tax may also occur and could have a large impact on profitability. Such risk is unpredictable and can depend on numerous political, economic and

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other factors. For this reason, this risk is greater in emerging markets but does apply everywhere. In emerging markets, there is generally less government supervision and regulation of business and industry practices, stock exchanges and over-the-counter markets.

- 3.24. The independence of judicial systems and their immunity from economic, political or nationalistic influences remain largely untested in many countries. Judges and courts in many countries are generally inexperienced in the areas of business and corporate law. Companies are exposed to the risk that legislatures will revise established law solely in response to economic or political pressure or popular discontent. There is no guarantee that an overseas investor would obtain a satisfactory remedy in local courts in case of a breach of local laws or regulations or a dispute over ownership of assets. An investor may also encounter difficulties in pursuing legal remedies or in obtaining and enforcing judgments in overseas courts.
- 3.25. In the case of many Financial Instruments, there will be no legal or beneficial interest in the obligations or securities of the underlying reference entity but rather an investor will have a contractual relationship with the counterparty only and its rights will therefore be limited to contractual remedies against the counterparty in accordance with the terms of the relevant Financial Instrument.
- 3.26. In all cases the legal terms and conditions of a Financial Instrument may contain provisions which could operate against your interests. For example, they may permit early redemption or termination at a time which is unfavourable to you, or they may give wide discretion to the issuer of securities to revise the terms applicable to securities. In other cases, there may be limits on the amounts in relation to which rights attaching to securities may be exercised and in the event that you hold too many (or too few) securities, your interests may be prejudiced and should scrutinise these carefully. In some cases, the exercise of rights by others may impact on your investment.
- 3.27. For example, a Financial Instrument such as a bond or note may contain provisions for calling meetings of holders of those bonds or notes to consider matters affecting their interests generally (including yours) and may permit defined majorities to bind all holders, including holders who did not attend and vote at the relevant meeting and holders who voted in a manner contrary to the majority. Further, in some cases amendments may be made to the terms and conditions of bonds or notes without the consent of any of the holders in circumstances set out in general conditions attaching to such bonds or notes.

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## **K. OPERATIONAL RISK**

- 3.28. Operational risk, such as breakdowns or malfunctioning of essential systems and controls, including IT systems, can impact on all Financial Instruments. Business risk, especially the risk that the business is run incompetently or poorly, could also impact on shareholders of, or investors in, such a business. Personnel and organisational changes can severely affect such risks and, in general, operational risk may not be apparent from outside the organisation.

## **L. CONFLICTS**

- 3.29. In the ordinary course of their respective businesses, the Company and any of its Associates, will be subject to various actual and potential conflicts of interest which may operate against your interests.

## **4. TRANSACTION AND SERVICE RISKS**

### **A. CONTINGENT LIABILITY INVESTMENT TRANSACTIONS**

- 4.1. Contingent liability investment transactions, which are margined, require you to make a series of payments against the purchase price, instead of paying the whole purchase price immediately. You may sustain a total loss of the margin you deposit with your dealer to establish or maintain a position. If the market moves against you, you may be called upon to pay substantial additional Margin at short notice to maintain the position. If you fail to do so within the time required, your position may be liquidated at a loss and you will be liable for any resulting deficit. Even if the Transaction is not margined, it may still carry an obligation to make further payments in certain circumstances over and above any amount paid when you paid when you entered into the contract. Contingent liability transactions, which are not traded on or under the rules of a recognised or designated investment exchange, may expose you to substantially greater risks.
- 4.2. Especially if you trade in futures, contracts for differences or sell options, you may sustain a total loss of the margin you deposit with your firm to establish or maintain a position. If the market moves against you, you may be called upon to pay substantial additional margin at short notice to maintain the position. If you fail to do so within the time required, your position may be liquidated at a loss and you must be responsible for the resulting deficit. Even if a transaction is not margined, it may still carry an obligation to make further payments in certain circumstances over and above any amount paid when you entered the contract.

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## **B. COLLATERAL**

- 4.3. If you deposit collateral as security with a firm, the way in which it will be treated will vary according to the type of transaction and where it is traded. There could be significant differences in the treatment of your collateral, depending on whether you are trading on a regulated market, with the rules of that exchange (and the associated clearing house) applying, or trading on another exchange or, indeed, off-exchange. Deposited collateral may lose its identity as your property once dealings on your behalf are undertaken.
- 4.4. Even if your dealings should ultimately prove profitable, you may not get back the same assets which you deposited, and may have to accept payment in cash. You should ascertain from the firm how your collateral will be dealt with. Deposited collateral may lose its identity as your property once dealings on your behalf are undertaken. Even if your dealings should ultimately prove profitable, you may not get back the same assets, which you deposited and may have to accept payment in cash.

## **C. ELECTRONIC TRADING**

- 4.5. Trading via the Company's Online Trading Facility may differ from trading on other electronic trading systems as well as from trading in a conventional or open market. Customers that trade on an electronic trading system are exposed to risks associated with the system including the failure of hardware and software and system down time, with respect to the Company's Online Trading Facility, the individual customer's systems, and the communications infrastructure (for example the internet) connecting the platform with customers.

## **D. WEEKEND RISK**

- 4.6. Various situations, developments or events may arise over a weekend (from 00.00.01 A.M. Vanuatu Time (GMT +2) on Saturdays, through 00.00.00 P.M. Vanuatu Time (GMT +2) on Sundays) when the markets generally close for trading, that may cause the currency markets to open at a significantly different price from where they closed on Friday afternoon.
- 4.7. Our customers will not be able to use the Company's Online System to place or change orders over the weekend and at other times when the markets are generally closed. There is a substantial risk that stop-loss orders left to protect open positions held over the weekend will be executed at levels significantly worse than their specified price.

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## **E. EFFECT OF ABSOLUTE TITLE TRANSFER**

4.8. Where your collateral is subject to total title transfer to us, you should note that:

- a. the assets cease to be your assets and you will no longer have a proprietary claim over them. They will not be held subject to the rules of the applicable regulator in safe custody (where they are financial instruments) or subject to client money protection (where they are cash). The assets become our assets and we can deal with them in our own right;
- b. you will have an unsecured contractual claim against us for re-transfer of equivalent assets; and
- c. as a result, the assets will not be subject to a trust or otherwise insulated in our insolvency. And, in such event, you may not receive back everything so transferred to us and you will only rank as a general creditor.

## **F. SHORT SALES**

4.9. Selling “*short*” means to sell financial instruments that you do not own at the time of the sale. The seller has an obligation to deliver the Financial Instrument sold at the settlement date which will generally be a few days later than the trade date, so he will either go into the market to buy the relevant financial instruments for delivery or he will “*borrow*” the relevant financial instruments under a stock lending arrangement (for further detail on this see below).

4.10. Short selling is a technique used by investors who want to try to profit from the falling price of a financial instrument. If the price of the financial instrument drops after the investor has sold short (in other words at the time when he is buying or borrowing the relevant financial instruments for delivery), the investor will make a profit. If, however the price of the financial instrument rises after the investor has sold short, the investor will have automatically made a loss, and the loss has the potential to get bigger and bigger if the price of the financial instrument continues to rise before the investor has gone into the market to buy or borrow the financial instrument to settle the short sale.

## **G. OFF-EXCHANGE TRANSACTIONS**

4.11. Certain exchanges as recognised or designated investment exchanges. Transactions which are traded elsewhere may be exposed to substantially greater risks.

## **H. LIMITED LIABILITY TRANSACTIONS**

- 4.12. Before entering into a limited liability transaction, you should obtain from the firm a formal written statement confirming that the extent of your loss liability on each transaction will be limited to an amount agreed by you before you enter into the transaction.
- 4.13. The amount you can lose in limited liability transactions will be less than in other margined transactions, which have no predetermined loss limit. Nevertheless, even though the extent of loss will be subject to the agreed limit, you may sustain the loss in a relatively short time.
- 4.14. Your loss may be limited, but the risk of sustaining a total loss to the amount agreed is substantial.

## **I. COMMISSIONS/TRANSACTION COSTS**

- 4.15. Before you begin to trade, you should obtain details of all commissions and other charges for which you must be liable.
- 4.16. When Financial Instruments are purchased or sold, several types of incidental costs (including transaction fees and commissions) are incurred in addition to the current price of the security. These incidental costs may significantly reduce or even exclude the profit potential of the Financial Instruments. For instance, credit institutions as a rule charge their clients for own commissions which are either fixed minimum commissions or pro-rata commissions depending on the order value.
- 4.17. To the extent that additional domestic or foreign parties are involved in the execution of an order, including but not limited to domestic dealers or brokers in foreign markets, you must take into account that you may also be charged for the brokerage fees, commissions and other fees and expenses of such parties (third party costs).
- 4.18. In addition to such costs directly related to the purchase of Financial Instruments (direct costs), you must also take into account any follow-up costs (such as custody fees). You should inform yourself about any additional costs incurred in connection with the purchase, custody or sale of an investment before investing. The effect of transaction costs (for example on a new issue of securities) may result in the issue price of such securities falling below the market value when trading starts.

## **J. SUSPENSIONS OF TRADING AND GREY MARKET INVESTMENTS**

- 4.19. Under certain trading conditions it may be difficult or impossible to liquidate a position. This may occur, for example, at times of rapid price movement if the price rises or falls in one trading

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session to such an extent that under the rules of the relevant exchange trading is suspended or restricted. Placing a stop-loss order will not necessarily limit your losses to the intended amounts, because market conditions may make it impossible to execute such an order at the stipulated price.

4.20. Transactions may be entered into in:

- a. a security whose listing on an exchange is suspended, or the listing of or dealings in which have been discontinued, or which is subject to an exchange announcement suspending or prohibiting dealings; or
- b. a grey market security, which is a security for which application has been made for listing or admission to dealings on an exchange where the security's listing or admission has not yet taken place (otherwise than because the application has been rejected) and the security is not already listed or admitted to dealings on another exchange.

4.21. There may be insufficient published information on which to base a decision to buy or sell such securities.

## **K. DEPOSITED CASH AND PROPERTY**

4.22. You should familiarise yourself with the protections accorded to you in respect of money or other property you deposit for domestic and foreign transactions, particularly in the event of a firm insolvency or bankruptcy. The extent to which you may recover your money or property may be governed by specific legislation or local rules. In some jurisdictions, property, which had been specifically identifiable as your own, will be pro-rated in the same manner as cash for purposes of distribution in the event of a shortfall.

## **L. STABILISATION**

4.23. Transactions may be carried out in securities where the price may have been influenced by measures taken to stabilise it.

4.24. Stabilisation enables the market price of a security to be maintained artificially during the period when a new issue of securities is sold to the public. Stabilisation may affect not only the price of the new issue but also the price of other securities relating to it. Regulations allow stabilisation in order to help counter the fact that, when a new issue comes on to the market for the first time, the price can sometimes drop for a time before buyers are found.

4.25. Stabilisation is carried out by a *'stabilisation manager'* (normally the firm chiefly responsible for bringing a new issue to market). As long as the stabilising manager follows a strict set of rules, he is entitled to buy back securities that were previously sold to investors or allotted to

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institutions which have decided not to keep them. The effect of this may be to keep the price at a higher level than it would otherwise be during the period of stabilisation.

4.26. The Stabilisation Rules:

- a. limit the period when a stabilising manager may stabilise a new issue;
- b. fix the price at which he may stabilise (in the case of shares and warrants but not bonds); and
- c. require him to disclose that he may be stabilising but not that he is actually doing so.

4.27. The fact that a new issue or a related security is being stabilised should not be taken as any indication of the level of interest from investors, nor of the price at which they are prepared to buy the securities.

## **M. NON-READILY REALISABLE INVESTMENTS**

4.28. Both exchange listed and traded and off-exchange investments may be non-readily realisable. These are investments in which the market is limited or could become so. Accordingly, it may be difficult to assess their market value and/or to liquidate your position.

## **N. STOCK LENDING/REPO'S**

4.29. The effect of lending (or '*repo*'ing') securities to a third party is to transfer title to them to the borrower (or repo purchaser) for the period that they are lent (or '*repo*'ed'). At the end of the period, subject to default of the borrower (or repo purchaser), the lender (or repo seller) receives back securities of the same issuer and type. The borrower's (or repo purchaser's) obligation to transfer equivalent securities is secured against collateral (which is usually transferred by a title transfer mechanism pursuant to market standard agreements). There is, accordingly, credit risk. Lending (or '*repo*'ing') securities may affect your tax position.

## **O. STRATEGIES**

4.30. Particular investment strategies will carry their own particular risks.

4.31. The placing of certain orders (e.g. "*stop loss*" or "*stop limits*" orders) that are intended to limit losses to certain amounts may not always be affected because market conditions or technological limitations may make it impossible to execute such orders. Strategies using combinations of positions, such as "*spread*" and "*straddle*" positions, may be just as risky or even riskier than simple "*long*" or "*short*" positions.

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## 5. MISCELLANEOUS

- 5.1. This notice cannot and does not disclose or explain all of the risks and other significant aspects involved in dealing in all Financial Instrument and investment services.
- 5.2. The Company reserves the right to review and/or amend its Risk Disclosure statements, at its sole discretion, whenever it deems fit or appropriate.
- 5.3. Our Risk Disclosure statements are not part of our Terms and Conditions of Business and are not intended to be contractually binding or impose or seek to impose any obligations on us which we would not otherwise have, but for the *Markets in Financial Instruments Legislation*.

## 6. GENERAL RISK DISCLOSURE

### A. CONTRACTS FOR DIFFERENCE (CFDS) OR SPOT FOREIGN EXCHANGE (SPOT FOREX) TRADING

- 6.1. As a Client of the Company, you unreservedly acknowledge and accept that trading in Contracts for Difference (CFDs) or Spot Foreign Exchange (Spot Forex) trading carries with it a significant level of risk and may not be suitable for all investors. Contracts for Difference (CFDs) and Spot Foreign Exchange (Spot Forex) are off-exchange (sometimes known as an 'over-the-counter', or 'OTC') derivative products, the price of which is determined by the fluctuations in price of certain underlying assets (e.g. commodities, indices, spot metals and/or currencies) and they should, therefore, be regarded as highly speculative investments.
- 6.2. The risk arises from the "gearing" or "leverage" (i.e. the funds required at the outset compared to the size of the trade entered into), which is available in CFD and Spot Forex trading, which generally involves a comparatively modest margin deposit as a proportion of the total consideration for the transaction, so that a relatively small movement in the underlying market can have a disproportionately dramatic effect on your transaction. If the underlying market movement is in your favour, you may achieve a good profit, but an equally small adverse market movement can not only quickly result in the loss of your entire margin deposit, but may also expose you to a large additional loss over and above your initial margin deposit. You may be called upon to deposit substantial additional margin, at short notice, in

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order to maintain your position. If you do not provide such additional funds within the time required, your position may be closed at a loss and you will be liable for any resulting deficit.

- 6.3. Furthermore, the value of an investment in CFDs or a Spot Forex trading may be affected by a variety of factors, including but not limited to, price volatility, market volume, foreign exchange rates and liquidity.
- 6.4. In addition, these leveraged instruments are short-term trading tools and commission is charged on the leveraged amount (not the margin deposit). Accordingly, substantial costs may build up when trading frequently and you should evaluate potential losses against affordability. You should also be aware that leverage risk can be amplified through the use of a credit facility or any form of borrowing to fund your CFD or Spot Forex trading, particularly credit cards.
- 6.5. Accordingly, you should not engage in CFD or Spot Forex trading unless you understand the nature of such trading, the nature of each particular transaction you are entering into and the true extent of your exposure to the risk of loss. In order to engage successfully in CFDs or Spot Forex Trading, you should be experienced in dealing in derivatives and understand the “*geared*” or “*leveraged*” nature of these products. Do not invest funds you cannot afford to lose.
- 6.6. Please also note that past performance is not necessarily a guide to future performance and that regulatory changes in taxation, corporations and other laws, as well as fiscal, monetary and regulatory policy changes may affect your dealings in CFDs or Spot Forex trading. If in any doubt, please seek further independent and professional advice.

## **B. NO GUARANTEES**

The Company does not and cannot guarantee the initial capital of your portfolio or its value at any time or any money invested in your dealings in CFDs or Spot Forex trading.

- 6.7. You unreservedly acknowledge and accept that, regardless of any information which may be offered by the Company, the value of any Investment in may fluctuate downwards or upwards and it is even probable that the investment may become of no value.
- 6.8. You further unreservedly acknowledge and accept that you may run a significant risk of incurring losses and damages as a result of your dealings in CFDs or Spot Forex trading and you accept and declare that you are willing to undertake this risk.

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- 6.9. You should not engage in CFD or Spot Forex trading, unless you understand the nature of such trading, the nature of the particular transaction you are entering into and the true extent of your exposure to the risk of loss. In order to engage successfully in CFDs or Spot Forex Trading, you should be experienced in dealing in derivatives and understand the geared or leveraged nature of these products.

## **C. WARRANTIES AND REPRESENTATIONS**

- 6.10. You acknowledge and warrant that you are aware of the risks, which may be involved in any investment directly or indirectly in CFDs or Spot Forex trading and that you fully understand:
- a. the extent of the economic risk to which you are exposed as a result of such transactions (and that you have determined that such risk is suitable for you in light of your specific experience in relation to such transaction and your financial objectives, circumstances and resources;
  - b. the nature and fundamentals of the transaction and the market underlying such transactions;
  - c. the legal terms and conditions for such transactions.
- 6.11. You also acknowledge and warrant that you fully understand the terms and conditions of the transactions to be undertaken, including, without limitation:
- a. the terms as to price, term, expiration date, restrictions and of the terms material to the transaction;
  - b. any terms describing risk factors, such as volatility, liquidity, and so on; and the circumstances under which you may become obliged to make or take delivery of a leveraged transaction.
- 6.12. You further acknowledge that the high degree of leverage can work against you as well as for you, due to fluctuating market conditions. Trading in CFDs or Spot Forex trading can lead to large losses as well as gains in response to a small market movement.
- 6.13. You acknowledge that if the market moves against you, you may not only sustain a loss of funds, but you may also incur further liabilities to the Company.
- 6.14. You acknowledge and accept that you may sustain substantial losses on a contract or trade if the market conditions move against your position. You also acknowledge that it is in your interest fully to

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understand the impact of market movements, in particular the extent of profit/loss you would be exposed to when there is an upward or downward movement in the relevant rates and the extent of loss if you have to liquidate a position if market conditions move against you.

- 6.15. You also understand that under certain market conditions, you may find it difficult or impossible to liquidate a position, to assess a fair price or assess risk exposure. This can happen, for example, where the market for a transaction is illiquid, or where there is a failure in electronic or telecommunications systems, or where there is the occurrence of an event commonly known as “**force majeure**”.
- 6.16. You are aware that placing contingent orders, such as “**stop-loss**” orders, will not necessarily limit your losses to the intended amounts, as it may be impossible to execute such orders under certain market conditions.
- 6.17. You also acknowledge and accept that because the prices and characteristics of over-the-counter transactions are individually negotiated and there is no central source for obtaining prices, there are inefficiencies in transaction pricing.
- 6.18. You consequently accept that the Company cannot and does not warrant that the Company’s prices, or the prices, which the Company secures for you, are or will at any time be the best price(s) available to you.
- 6.19. You declare and warrant that you have read, comprehend and unreservedly accept the following:
  - a. Information of the previous performance of a Financial Instrument does not guarantee its current and/or future performance. The use of historical data does not constitute a binding

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safe forecast as to the corresponding future performance of the Financial Instruments to which the said information refers.

- b. Some Financial Instruments may not become immediately liquid as a result, *e.g.* of reduced demand, and you may not be in a position to sell them or easily obtain information on the value of these Financial Instruments or the extent of the associated risks.
- c. When a Financial Instrument is traded in a currency other than the currency of your country of residence, any changes in the exchange rates may have a negative effect on its value, price and performance.
- d. A Financial Instrument on foreign markets may entail risks different to the usual risks of the markets in your country of residence. In some cases, these risks may be greater. The prospect of profit or loss from transactions on foreign markets is also affected by exchange rate fluctuations.
- e. A derivative Financial Instrument (*i.e.* an option, future, forward, swap, contract for difference) may be a non-delivery spot transaction giving an opportunity to make profit on changes in currency rates, commodity or indices.
- f. The value of the derivative Financial Instrument may be directly affected by the price of the security or any other underlying asset, which is the object of the acquisition.
- g. You must not purchase a derivative Financial Instrument unless you are willing to undertake the risks of losing entirely all the money which you have invested, and also any additional commissions and other expenses incurred.
- h. You acknowledge and accept that there may be other risks which are not contained above.

6.20. You understand that you should be prepared to take the risk that your trades in Financial Instruments may be or may become subject to tax and/or any other duty for example because of changes in legislation or your personal circumstances. The Company does not warrant that no tax and/or any other stamp duty will be payable. You are personally liable for any taxes and/or any other duties, which may accrue in respect of your trades.

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- 6.21. In order to comply with applicable laws and regulations, the Company will classify prospective Clients, either as a *'Retail Client'*, a *'Professional Client'* when considering the application for opening an account, based on the information provided to the Company.
- 6.22. Prior to applying for an account you should carefully consider whether investing in a specific Financial Instrument is suitable for you in light of your circumstances and financial resources. Investing in some Financial Instruments entails the use of "*gearing*" or "*leverage*". Leverage means the use of various Financial Instruments or borrowed capital, such as margin, to increase the potential return of an investment. In considering whether to engage in this form of investment, you should be aware of the following:
- a. You may be called upon to deposit substantial additional margin, at short notice, to maintain your investment. If you do not provide such additional funds within the time required, your investment position may be closed at a loss and you will be liable for any resulting deficit. With regards to transactions in derivative Financial Instruments, the Company is entitled, upon its discretion, to start closing positions when margin is less than 50%.
  - b. Investments in the Financial Instruments of the kind described herein may not be undertaken on a recognized or designated investment exchange and, accordingly, they may expose you to greater risks than 'on exchange' transactions. The terms and conditions and trading rules may be established solely by the counterparty. You may only be able to close an open position of any given contract during the opening hours of the execution venue of your transaction. You may also have to close any position with the counterparty with whom it was originally entered into. In regard to transactions in Financial Instruments with the Company, the Company is using an Electronic Trading Platform(s) for transactions in Financial Instruments, which does not fall into the definition of a recognized exchange, as this is not a Multilateral Trading Facility.
  - c. The Company is prohibited from providing you with investment advice relating to investments or possible transactions in investments and/or from making investment recommendations of any kind. This prohibition is subject to an exception where advice given amounts to the giving of factual market information or information, in relation to a transaction about which the Client has enquired, as to transaction procedures, potential risks involved and how those risks may be minimized.

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## **D. RISKS OF ONLINE TRADING**

- 6.23. Your access and/or use of the Company's Electronic Trading Platform(s), or any portion thereof, may be restricted, intermittent or unavailable during periods of peak demands, extreme market volatility, systems, upgrades or for other reasons. The Company makes no express or implied representations or warranties to you regarding the availability, usability, condition or operation thereof. The Company does not warrant that the access to, or use of the Company's Electronic Trading Platform(s) will be uninterrupted or error free, or that the Company's Electronic Trading Platform(s) will meet any particular requirements or criteria of processing, performance or quality.
- 6.24. Under no circumstances, including negligence, shall the Company or anyone else involved in creating, producing, delivering or managing any part of the Company's Electronic Trading Platform(s) be liable for any direct, indirect, incidental, special or consequential damages that result from the use of or inability to use any part of the Company's Electronic Trading Platform(s), or out of any breach of any warranty, including, without limitation, those for business interruption or loss of profits.
- 6.25. You expressly acknowledge and agree that your access and use of the Company's Electronic Trading Platform(s) is at your sole and exclusive risk. You assume full responsibility for any risk of loss resulting from the use of, or materials or data obtained through the Company's Electronic Trading Platform(s). Neither the Company, nor any of the Company's directors, officers, employees, agents, contractors, affiliates, third party vendors, facilities, information providers, licensors, exchanges, clearing organizations or other suppliers providing data, information, or services, warrants:
- a. that the Company's Electronic Trading Platform(s) will be uninterrupted or error free; neither does the Company, nor any of the Company's directors, officers, employees, agents, contractors, affiliates, third party vendors, facilities, information providers, licensors, exchanges, clearing organizations or other suppliers providing data, information, or services, make any warranty as to the results that may be obtained from the use of the Company's Electronic Trading Platform(s), or as to the timeliness, sequence, accuracy, completeness, reliability or content of any information, service, or transaction provided through the Company's Electronic Trading Platform(s); or
  - b. that your computer systems will be unaffected or undamaged by any malicious software; or
  - c. that any data will not be intercepted by any third party.

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- 6.26. In the event that your access to the Company's Electronic Trading Platform(s), or any part thereof, is restricted or unavailable, you agree to use other means to place the orders or access information, such as calling the Company and/or the Company representative(s) via the telephone.
- 6.27. By placing an order through the Company's Electronic Trading Platform(s), you acknowledge that orders may not be reviewed by a registered representative prior to execution. You agree that the Company is not liable to you for any losses, lost opportunities or increased commissions that may result from your inability to use the company's Electronic Trading Platform(s) to place orders or access information.
- 6.28. This notice cannot, and does not, disclose or explain all of the risks and other significant aspects involved in dealing in all Financial Instruments and Investment Services provided by the Company. You will be informed in more detail of the risks involved based on the categorization assigned to you by the Company and the Investment Services and Financial Instruments selected.

Should you have a question about the Risk Disclosures set forth herein please direct your questions to our Compliance Department: [compliance@traders-trust.com](mailto:compliance@traders-trust.com).

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