# CMC MARKETS UK PLC

# Risk Warning Notice for CFDs

January 2015

Registered in England. Company No. 02448409

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## CMC Markets UK Plc – Risk Warning Notice for CFDs

## (January 2015)

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**It is important that you read and understand this risk warning notice before accepting it.**

**CMC Markets UK Plc (referred to below as "we", "us" or "our") is committed to treating you fairly. In this notice, we provide you with information to help you understand the nature and risks of our contracts for difference (CFDs) and our services. However, this notice does not and cannot explain all of the risks and other significant aspects involved in investing in our CFDs. You should take sufficient time to read all the relevant information that we provide to you, including this risk warning notice, our CFD Terms of Business, our Order Execution Policy Summary for CFDs, and the information on our website and platform.**

**Our CFDs can carry a high risk to your capital as prices may move rapidly against you. You can lose more than any initial investment and you may be required to make further payments. Please note that the higher the leverage, and particularly for trades that have no margin requirement, the higher the risks involved.**

**You should not enter into trades with us unless you fully understand the risks involved. If you are in any doubt you should seek independent professional advice.**

### 1. CFDs may not be appropriate for you.

1.1 When we process your application to open an account with us, we will conduct our own assessment of whether you have sufficient knowledge and experience to understand the risks involved in investing in CFDs based on the information you provide us, and we will inform you if as a result of our assessment we consider that CFDs may not be appropriate for you. However, our assessment does not relieve you of the need to carefully consider whether to invest in our CFD products.

1.2 If we warn you that investing in CFDs may not be appropriate for you on the basis of your knowledge and experience, then you should refrain from investing in CFDs. If you nonetheless wish to trade in CFDs, you should only invest using the live account once you have acquainted yourself sufficiently with CFDs through the demo account and fully understand the risks involved. If we tell you that we have insufficient information to perform our assessment, then you should consider carefully whether you still wish to proceed with your application and start investing with us.

### 2. We do not provide investment, tax, legal, regulatory or financial advice.

2.1 We do not provide investment, tax, legal, regulatory or financial advice relating to investments or possible trades in investments. Any information we provide to you is purely factual and does not take into account your personal circumstances (for example, information about trading processes or minimising potential risks). Therefore, you may wish to obtain independent professional advice from a suitably qualified advisor on any investment, financial, legal, regulatory, tax or similar matter before trading with us.

### 3. Our CFDs are OTC derivatives.

3.1 When you enter into any trade with us through our platform, you will be entering into an off-exchange (sometimes known as an 'over-the-counter', or 'OTC') derivative, which is non-transferable. This means you will enter into trades directly with us, and also that those trades (or 'positions') can only be closed with us. This involves greater risk than investing in a financial instrument such as a share which is transferable, or dealing in an exchange-traded derivative, because your ability to open and close trades is solely dependent on our platform being in a position to accept orders from you and to execute them. Therefore, you can only open and close trades on our CFDs with us, and not anybody else. In certain circumstances it may not be possible to open or close trades with us (see paragraphs 7, 9, 11 and 16 below).

3.2 In addition, all of your trades with us are settled in cash, and you do not have any rights to any underlying instrument (including ownership or voting rights in any underlying instrument).

3.3 You can only profit from our CFDs through changes in our prices, which is different from other assets, such as shares or currencies, where you can profit from real market fluctuations and where you may be entitled to dividends or interest.

**4. We act as a market maker.**

4.1 Although the prices generated by our platform will take into account current exchange and market data from various sources, they are not taken directly from any source. This means that our price may be different to any current exchange or market price, or another financial product provider's price, for the relevant underlying instrument. The profits or losses that you make from trading with us will be in relation to our prices solely, and not to prices prevailing or shown anywhere else.

**5. You may lose more than any deposit.**

5.1 When you transact with us, you risk losing more than the amount (if any) that you deposited with us and you may be required to make further payments. This is different to investing in other types of financial instruments, for example shares, where generally you only stand to lose the amount you pay for the asset that you buy. **<u>Although our platform has features that are designed to help minimise your risk of loss, none of these are guaranteed and you should not rely on them.</u>**

5.2 <u>Losses from your trades:</u>

5.2.1 The amount of any loss for an individual trade will be the amount that you owe us when that trade is closed. This will reflect the full value of your position. Even over a short space of time this amount may exceed the amount of any deposit (if any) that you held with us when entering into the trade. It is a feature of leveraged (also known as 'geared' or 'margined') instruments that you can lose more than any initial payment. Leverage means that you can proportionally over participate in market fluctuations (both as profits made or losses incurred). It is therefore important that you consider the size of your position in addition to the rate of leverage utilised. For instance: if a position in a particular CFD has a margin percentage of ten, then any market fluctuation will have an impact which is ten times higher than the margin amount (reflecting the full value of your position) than if you had traded without leverage or invested directly into the underlying instrument. Consequently, the higher the leverage rate, the higher the risk involved.

5.2.2 Therefore, the impact of any price movement on your trades and account will depend on the size of your position in the relevant CFD as well as the margin rate(s) applicable to that position, rather than the amount of any deposit held with us when you entered into the trade(s). So a small movement in price may have a large impact on your trades and account if you have entered into a large trade with little or no margin. In addition, when entering into short trades it is possible to lose more than the trade value, since any increase in price may be more than the price at which you opened the trade. Therefore, short trades can be riskier than long trades.

5.2.3 Certain trades have no margin requirements. This carries high risk as without any margin you will owe us the full value of any losses when your trade is closed and you will be expected to meet any such trading losses immediately. In addition, as these trades do not require margin to be posted, the size and number of positions that you are able to open may not be restricted by the amount deposited in your account (as it could be for margin trades, for which sufficient available equity is required in your account to cover the applicable trade margin before a trade can be entered into). We therefore strongly recommend that you ensure that you (i) carefully consider the size of your position; (ii) closely monitor the potential loss that you may suffer (as your losses may increase significantly even over a short period of time); and (ii) have sufficient available funds to cover any such losses. To minimise losses, you should consider using stop loss orders so that trades are closed before your losses exceed a certain level (please note that stop loss orders are not guaranteed unless you enter into a guaranteed stop loss order (if available).

5.2.4 Please note that the unrealised profit or loss displayed on our platform at any time may not accurately reflect the realised profit or realised loss that would be gained or incurred if you closed one or all of your open trade(s) immediately, particularly where a trade may be closed at a price that differs from the level 1 price. The unrealised profit or loss displayed on our platform is calculated using the current level 1 price.

5.3 <u>Costs incurred through investing:</u>

5.3.1 There are costs associated with trading with us. Some costs, such as spread (which is the difference between the buy price and the sell price of a particular product at any given time) will arise on all trades, while others will depend on the type of trade and/or the risk management measures you put in place (for example, guaranteed stop loss orders carry an additional premium).

5.3.2 Depending on the trades you enter into, and how long you hold them for, we may require you to pay commission and/or holding costs. Commission will be incurred on entering into certain trades and will be determined by reference to the size of the trade. In some cases, and particularly where you keep trades open for a long time, holdings costs will apply. The aggregate of these holding costs may exceed the amount of any profits or increase your loss. Please refer to our CFD Terms of Business for further information on how commission and holding costs are calculated.

5.3.3 You should close contra trades on the same day as they are opened. If you fail to do so we may apply an additional trading close spread factor which will reduce the amount of any profits or increase your loss. Please refer to our CFD Terms of Business for further information on trading close spread factors.

## 6. Your trades and positions are at risk of being closed automatically.

6.1 At all times, your account revaluation amount must stay above the close-out level(s) specified by our platform, otherwise the whole or a portion of your trades and/or positions may be closed by our platform. However, **we do not guarantee such closure and you must not rely on it**. It is your responsibility to monitor your positions closely and you will be able to monitor your account revaluation amount through our platform. Closely monitoring your positions is very important because you might have to make immediate additional payments to avoid a close-out by our platform. Our platform will attempt to notify you when your account revaluation amount falls to the percentage level or absolute amount specified on our platform, although you should not rely on our platform giving you this warning. To prevent closure of the whole or a portion of your trades and/or positions, you should deposit a sufficient amount of money into your account to cover any potential losses or costs from your trades. It is important to note that even an amount that you previously deposited and which appeared to be more than sufficient at the time, can very quickly become insufficient due to rapidly changing market conditions.

6.2 The automatic closure of your trades is aimed to prevent you incurring further losses and may close all trades and/or positions on your account, not just trades that are making a loss. This means that your losses (and any profits) will be realised, even if the price movements against you are only temporary.

6.3. In addition, if you do not close all contra trades before the close of trading each day, they will be closed by our platform automatically at 5pm Eastern Standard Time (EST) and an additional trading close spread factor applied. This applies equally to contra trades in respect of CMC products where trading is suspended intra-day and remains suspended at trading close, thereby preventing you from closing the trades.

## 7. Market circumstances may impact your trades.

7.1 The ability of our platform to generate prices and execute orders is dependent on the availability of prices and liquidity in the exchanges, markets and other venues from which we gather market data and similar information. In addition, because we maintain our own financial stability by hedging with other counterparties, we may be unable to execute your orders where we cannot enter into a corresponding trade to hedge our own risk (for example, due to the activities of an issuer of shares to which your trades relate, which can sometimes restrict the market liquidity in those shares). Therefore, market circumstances may impact on your ability to place an order or close a trade with us. In contrast, if we enter into a corresponding trade, to hedge our risk, this may have an influence on the underlying market conditions and consequently also on the prices we quote on our platform and your account.

7.2 Financial markets may fluctuate rapidly and the prices of our products are no exception. Any movements in our prices will have a direct and real time effect on your trades and account.

7.3 One form of price volatility that can happen regularly is called ‘gapping’. This occurs where there is a sudden shift in price from one level to another. This can be caused, for example, by unexpected economic events or market announcements, particularly where these occur outside trading hours. There may not always be an opportunity for you to place an order between the two price levels, or for our platform to execute a pending order at a price between those two levels. Gapping can result in you incurring significant losses (or profits) on an affected trade. Certain markets also have limited trading hours which can impose a significant risk to your ability to place orders and close trades.

## 8. The price of a trade may be different from the price you see on our platform when you place an order.

8.1 There is a risk that the price which you see through your device when you place an order will not be identical to the price at which the trade is executed, and that the corresponding difference puts you at a disadvantage. We attempt to generate prices on a continuous basis and to have the currently applicable prices shown on our platform as quickly as possible. However, technical conditions (e.g. the transfer rate of data networks or the quality of your internet connection, as well as rapid market fluctuations) may lead to a change in the applicable price between the time the order is placed by you and the time the relevant order is received by us or the order is executed by our platform. Such changes to the applicable price are due to fluctuations in the financial markets rather than on arbitrary interventions made by us. If such changes occur, the order is generally executed at the price applicable when the order is executed by our platform. Such movements in the prices may either be to your disadvantage or have a favourable impact. You can limit the effect of such movements in prices by using a boundary (on orders where this is available) or by placing a limit order.

**9. Technical risks and other circumstances may affect your trades.**

9.1 There is a risk that other circumstances may prevent us from executing orders, or prevent you from accessing our platform. These include, for example, system errors and outages, maintenance periods, internet connectivity issues or failures of third parties on whom you or we are dependent (for example, internet service providers or electricity companies). We have business continuity measures in place to deal with some of these issues, but in some circumstances you may not be able to access our platform. These technical risks and other circumstances can pose a significant risk to the execution of your orders.

**10. Different products pose different risks.**

10.1 We offer numerous products, which are derived from very different underlying instruments. Each of these products poses specific risks which can differ widely from other products, for instance with regard to the range and speed of price fluctuations or with respect to liquidity. Therefore, you should ensure that you understand the specific risks of a product before you open a trade on that product.

10.2 Where a product is based on multiple underlying instruments (a 'basket' product), this will have an impact on the risk of the product. The risk involved in a basket product will depend on the risks involved in its constituents. If the basket constituents share similarities (for example they all relate to the same sector or country) then this can make the product riskier. Also, if riskier constituents are given a higher weighting within the product, this will make the product riskier. If you choose to use a basket product then you should make sure that you understand the risks involved in all the different constituents, the risks involved in the overall combination of constituents that make up the product and the risks involved in how the constituents are given their respective weightings.

**11. Foreign markets add further risks.**

11.1 Foreign markets will involve different risks from UK markets. In some cases those risks will be greater, for example where those foreign markets are less well supervised, have greater or more rapid market fluctuations or when those markets are less liquid. This can impair our ability to generate prices. The potential for profit or loss from trades relating to foreign markets will also be affected by fluctuations in foreign exchange rates.

11.2 In particular, if you are trading in a product that is denominated in a currency different to the account currency of your account, any margin requirement, holding costs, and realised losses or realised profits and unrealised profits or losses will be converted to your account currency at the CMC currency conversion rate at the relevant time (and in respect of unrealised profits or losses, in real time). Depending on the CMC currency conversion rates (which may be different to those available elsewhere) and currency fluctuations, this may have an impact on your account revaluation amount on an ongoing basis (and therefore on whether or not your trades might be automatically closed), and on any eventual profits that you make or losses that you incur.

**12. You should not finance your trades with us on credit.**

12.1 If you fund your trades with us using credit (e.g. a bank loan or credit card), your risk will be significantly increased, and if you make a loss using that money, you will still have to repay your borrowing including interest. Therefore, you must not rely on being able to redeem borrowed funds with any profits from trades with us.

## 13. Past performance does not constitute a reliable indicator of future performance.

13.1 You should bear in mind that any past performance, simulation or prediction does not constitute a reliable indicator of future performance. Therefore, you cannot and must not rely on any past performance, simulation or prediction to indicate future performance.

## 14. We cannot guarantee protection of your money.

14.1 If you are categorised as a retail client, money that we hold on your behalf will be held in a segregated client money bank account separate from our own money, although this may not provide complete protection (for example, if the bank that we use becomes insolvent).

14.2 Money that may be owed by you to us under our CFD Terms of Business and agreement therein (for example, net unrealised losses and holding costs) will be transferred from the segregated client money bank account to our own account and will then be treated as our own money (which is not subject to the FCA's rules on client money).

14.3 If you are categorised as a professional client, we will also treat any amounts required to cover your potential liabilities to us (including margin) as our own money, and not as client money. We are permitted to use this money in the course of our own business and in the event of our insolvency you will rank as a general creditor if any of this money is due back to you.

14.4 You have the right to request a different client categorisation at any time.

## 15. Tax treatment may vary.

15.1 The tax treatment of your trading activities depends on your individual circumstances, and may be subject to change in future.

## 16. Access to our platform via mobile applications.

16.1 The functions that enable you to access our platform via mobile applications (so-called "apps") are not identical to the functions available to you when accessing our platform via a desktop computer. This may limit the information that you are able to see at any particular time and adversely affect your ability to take quick and reliable actions on our platform and to limit the related risks.

## 17. Limitations of features and third party content.

17.1 The accuracy, completeness and availability of any features or third party content (including market data) available on our website, on our platform and in emails cannot be guaranteed, and they are provided on an "as is" and "if available" basis.