



## Significant risks of trading CMC Markets Products

This document sets the major risks that can apply to trading CFDs. You should spend time reading and understanding this section and then working out how this applies to your personal circumstances, including your trading strategy.

CMC Markets Products are speculative products that can be highly leveraged and carry significantly greater risk than non-leveraged investments such as ordinary share trading. You should carefully read this section and then consider whether trading in the Products is right for you given your personal circumstances (financial, taxation and otherwise) before you begin trading with us.

This document should be read in conjunction with the PDS, the Terms and Conditions of Trading and the Order Execution Policy, which are available on our Website. Capitalised Terms used in this document are defined in the Glossaries contained in the PDS and/or the Terms and Conditions of Trading.

### 1.1 Trading may be affected by certain factors

The Prices of Products are derived from the prices in the Underlying Markets, which can be highly volatile. The Prices of Products and the Underlying Reference Instruments may fluctuate rapidly and over wide ranges and may reflect unforeseeable events or changes in conditions, none of which you can control. The Prices of Products may be influenced by, among other things, changing supply and demand relationships, governmental, agricultural, commercial and trade programs and policies, national and international political and economic events, interest rate fluctuations, changes in currency valuations, suspensions in trading in the Underlying Market and the prevailing psychological characteristics of the relevant marketplace.

The ability of the Platform to generate Prices and execute Orders is also dependent on the availability of prices and liquidity in the exchanges, markets and other venues from which we gather data. 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 the Platform and your Account.

Finally, if trading in the Underlying Market is affected by Circumstances Outside Our Control, we may take certain action. Please see the section titled "CMC Markets discretions" in the Terms and Conditions of Trading for further information.

### 1.2 Gapping

Financial markets may fluctuate rapidly and Prices of our Products are no exception. Any movements in our Prices will have a direct effect on your Account. Sometimes markets move so quickly that Gapping occurs.

Gapping 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 the Platform to execute a Pending Order at a Price between those two levels. All markets have limited Trading Hours which can impose a significant risk to your ability to place Orders and close Trades.

If Gapping occurs in the Underlying Market, it may also occur in the Price of the relevant Product and may mean you are unable to close out your Trade or open a new Trade at the Price at which you have placed your Order or may have liked to place your Order. In addition, there is no predetermined amount by which the adjusted Price of a Product can vary. Please see the Order Execution Policy for more information.

In addition, where you have a Stop Loss Order or Trailing Stop Loss Order, these may not be executed at the Target Price you have selected and as a result your Realised Loss could exceed the loss you anticipated when these Orders were placed.

### 1.3 Account Currency

Your Account is maintained in your Account Currency which will be New Zealand Dollars for New Zealand Clients.

If you are trading in a Product that is denominated in a currency different to your Account Currency, any Margin, Holding Costs, Deductions, credits, Adjustments, Realised Profits, Realised Losses 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 Value 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.

### 1.4 Warning about counterparty risk

As CMC Markets is the Product issuer, you are exposed to the financial and business risks, including the credit risk associated with trading with CMC Markets. If CMC Markets becomes insolvent, CMC Markets may be unable to meet its obligations to you.

CMC Markets has risk management and compliance systems in place to manage its risks including but not limited to financial, operational and credit risks. Funds are held with reputable financial institutions. CMC Markets has policies around monitoring Client Positions and Close-Out Levels. The CMC Markets Group monitors market risk on a daily basis against set limits.

Before entering a relationship with a new Hedging counterparty the CMC Markets Group undertakes a due diligence process. This process will include a review of a number of key factors that relate to the risk of dealing with the counterparty. These include the counterparty's

credit rating, reputation, market presence, funding arrangements, stock availability, trading platforms, reporting processes and fees and charges.

The names of our Hedging Counterparties are shown on our Website under the “Important Information” section. You may also contact the Client Management Team to obtain further information about the activities we undertake to mitigate counterparty risk and market risk, and the names of any Hedging Counterparties.

CMC Markets will transfer monies owed to Clients (which may include Client gains) to the segregated trust account (daily), from our operating cash account. Prior to segregation, you are an unsecured creditor in respect of monies owed which you should be aware of in the (unlikely) event that CMC Markets were to become insolvent.

CMC Markets maintains a written policy to ensure it maintains adequate financial resources and complies with the financial requirements of its Authorisation. The steps that are taken to ensure this include:

- Performing a daily adjusted surplus liquid funds calculation, ensuring that we meet the minimum liquid capital requirement set by the FMA; and
- Performing a daily client cash segregation calculation, ensuring that we hold adequate cash in our client trust account in order to meet our obligations to Clients. All Client funds are maintained in fully segregated trust accounts separate to CMC’s operating account.

If you require further information about CMC Markets’ financial position, please contact our Client Management Team and request a copy of our audited financial statements. These will be provided free of charge.

### 1.5 Risks associated with OTC derivatives

When you enter into any Trade with us through the 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 dependent on the Platform being in a position to accept Orders from you and to execute them. In certain circumstances this may not be possible (see section 1.1 (“Trading may be affected by certain factors”) for further information).

As there is no cooling off regime associated with OTC derivatives, subject to any Errors occurring, you are not able to cancel a Trade once it has been entered into.

In addition, all of your Trades with us are settled in cash, and you do not have any rights to any Underlying Reference Instrument.

### 1.6 We act as a market maker

Although the Prices generated by the 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 Reference Instrument. The profits or losses that you make from trading with us will depend on our prices, and not prices prevailing or shown anywhere else.

### 1.7 Potential loss caused by Spread

Because of the difference between the Buy Price and Sell Price of a Product, the relevant Product Price must move favourably before you can break even. In other words, even if the Product price does not move at all and you close out your Position, you will make a loss to the extent of the Spread and of any CMC Markets fees and costs which apply to the Product. Furthermore, the Spread may be larger at the time you close out the Position than it was at the time you opened it.

### 1.8 Conflicts of interest

We, our Associates or other Persons connected with us may have an interest, relationship or arrangement that is material in relation to any Product you enter into with us. You agree that we may conduct such business without your prior consent.

In addition, we may provide services to third parties whose interests may be in conflict or competition with your interests. We, our Associates or other Persons connected with us and the employees of any of them may, or may act on behalf of other Clients who may, take positions opposite to yours or may be in competition with you to acquire the same or a similar position. From time to time we may effect Trades with or through our Associates in connection with the Products and Services we provide.

We will not deliberately favour another Person over you, but will not be responsible for any loss which may result from such competition.

We are a Product issuer, not a broker. Accordingly, you will be trading Products directly with us, and not on any financial market. As a Product issuer, we set the Prices that refer to, but may not always be the same as, those in the Underlying Market. We will always act as a principal, not as an agent, for our own benefit in respect of all Trades with you.

We may also conduct trades as principal in the Underlying Reference Instruments on which Products are based, including shares and futures. In particular, we may at our sole discretion, Hedge our liability to you in respect of your Positions by undertaking trades in the Underlying Reference Instruments in the Underlying Markets. However, we have no obligation to do so and are under no obligation to inform you as to whether or not we have done so. These trading activities may affect (positively or negatively) the Prices at which you may trade Products.

## 1.9 Information technology

We will do our best to make the Platform available when you require, but we cannot guarantee that it will be available continuously. This is because from time to time:

- (a) errors and/or failures may occur in respect of technology, the internet may be subject to faults or events which may affect your access, and your systems, our systems or the systems of a third party, which you or we rely on, may fail to work properly (see section 4.7 of the Trading Terms and Conditions for more information about Circumstances Outside Our Control);
- (b) we may need to suspend availability of the Platform for maintenance, repairs, upgrades or any development-related issues. We will normally seek to carry out these works outside Trading Hours. If this occurs during Trading Hours relevant to any of your Trades we will, where reasonably practicable, provide you with prior notice of such suspension and, if necessary, suggest alternative ways for you to access your Account; and
- (c) we may need to suspend availability of our Client Management Team, for example, due to maintenance, repairs or upgrades to the offices and/or systems used by our Client Management Team. We will normally seek to do this outside of Trading Hours. If we need to suspend the availability of our Client Management Team during Trading Hours we will, where reasonably practicable, provide you with prior notice of such suspension and, if necessary, suggest alternative ways for you to place or modify Manual Orders.

You are responsible for making sure that you are able to access the Platform or contact our Client Management Team when you need to and when it is available. This responsibility includes having access to a device that can connect to the Platform and maintaining the device so that it functions properly and ensuring that you have the means to contact our Client Management Team.

If you cannot access the Platform directly, then you may be able to contact our Client Management Team by telephone to request that we access the Platform on your behalf. Except in relation to Manual Orders, our service is primarily provided online, therefore this facility is likely to be a much slower method of placing Orders or giving us other instructions than if you access the Platform yourself and you must not rely on our Client Management Team being available nor can we guarantee that our Client Management Team will be available to assist you to enter into or close Trades (e.g. because (i) our Client Management Team is busy helping other clients, (ii) members of our Client Management Team who speak your language are busy helping other clients, (iii) there is a technical problem with the telephone system, or (iv) you call outside our opening hours). In relation to Manual Orders, we will do our best to make the Client Management Team available when required by you, but during periods of high demand and due to other Circumstances Outside Our Control we cannot promise that you will always be able to access our Client Management Team immediately..

Where the Platform or any other content generated by us contains links to other sites and resources provided by third parties, these links are provided for your information only. We generally have no control over the content of those sites or resources and, subject to the paragraph below, we accept no responsibility for them or for any loss or damage that may arise from your use of them.

We do not accept any liability in respect of the operation of the Platform, except to the extent that it is caused by the negligent act or omission, fraud or dishonesty on the part of us or our employees, agents or representatives, or any other matter for which liability cannot be excluded under Applicable Law.

## 1.10 You may suffer losses in excess of the money you deposit with CMC Markets

When you trade with us, you risk losing more than the amount that you deposited with us (unless Shield Mode has been activated). 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.

Although the Platform has features that are designed to minimise your risk of loss, none of these are guaranteed and you should not rely on them.

Losses from your Trades: The amount of any loss for an individual Trade will be the amount that you owe us when that Trade is closed. Even over a short space of time this amount may exceed the amount of any Margin that you used to enter into the Trade. This is a feature of leveraged (also known as 'geared' or 'margin'd') instruments – you can lose more than your initial payment.

Opening a leveraged Trade means that you are only required to deposit a proportion of the total Trade value to open that Trade, and therefore you are able to take a larger position than your capital otherwise would enable you to. The remaining portion of the total Trade value is leverage. The higher the leverage the greater the impact that market fluctuations will have on your profits and losses. Consequently, the higher the leverage, the higher the risk involved.

Therefore, the impact of any Price movement on your Account will depend on the Trade size as well as the leverage of your Trade, rather than the amount of your Position Margin. A small movement in Price may have a large impact on your Account if you have entered into a highly leveraged Trade. In addition, when entering into a short Trade (i.e. a 'sell' Trade) it is possible to lose significantly more than the opening Trade value, since the amount by which the Price could increase may be greater than the initial Price at which you opened the Trade. Therefore, short Trades can be riskier than long Trades.

For example, if you invest \$1000 in a Margin Trade on a Product with a leverage of 50:1, you would have a position size equivalent to \$50,000. A 1% negative move in the value of that Product could then expose you to a loss of \$500. In contrast, if you invested \$1000 in a Margin Trade on a Product with a leverage of 500:1, your effective position size would be \$500,000 and therefore a 1% negative move in the value of that Product could expose you to a loss of \$5,000.

Certain trades have no Margin requirements (i.e. have 100% leverage). This carries high risk as without any Margin you will owe us the full value of your position when your Trade is closed and you will be expected to meet any trading losses immediately. You should therefore 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 (iii) 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).

Costs incurred through trading: Depending on the Trades you enter into, and how long you hold them for, we may require you to pay Holding Costs. These Holding Costs will be incurred on a daily basis when you keep a Trade on our products open overnight. In some cases, and particularly where you keep Trades open for a long time, the aggregate of these Holding Costs may exceed the amount of any profits or increase your loss. Please refer to section 4.3 of the PDS for further information on how Holding Costs are calculated.

### 1.11 Scope of Market Regulation

As Products are contracts with CMC Markets and are not traded on a licensed market, some of the protections associated with licensed markets are not available for trading in our Products. For example, trading on the ASX generally has the benefit of a guarantee system known as the National Guarantee Fund which provides protection from fraud or misconduct by brokers in connection with certain ASX trades.

The National Guarantee Fund does not apply to our Products nor any other compensation fund operated by an Underlying Market.

CMC Markets is, however, regulated in New Zealand by the FMA and is subject to the conditions set out in its Market Services Licence. See the PDS for more information.

### 1.12 Different products pose different risks

We offer numerous Products, which are derived from very different Underlying Reference Instruments. Each of these products poses specific risks which can differ widely from other products, for instance with respect to the range and speed of market fluctuations or with respect to their liquidity. Therefore, you should ensure that you understand the specific risks of a Product before you open a Trade on that Product.

Where a Product's Underlying Reference Instrument is itself a complex financial product that has its own multiple underlying instruments (a 'basket' of instruments), 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.

Cryptocurrencies, which are generally unregulated in themselves, are high-risk, speculative investments, which will impact any cryptocurrency Margin Trades that you enter with us. The value of cryptocurrencies, and therefore the value of Margin Trades linked to them, is extremely volatile. They are vulnerable to sharp changes in price due to unexpected events or changes in market sentiment. Margin Trades are leveraged products. Therefore the combination of increased volatility and leverage has the potential to significantly increase your losses if the market moves against you, relative to Margin Trades based on other Products. Accordingly, You should only invest in cryptocurrency Margin Trades if you consider that you have the knowledge and experience of, and fully understand the risks associated with, both CFDs and cryptocurrencies.

### 1.13 Risks of trading on credit

If you fund your Trades with us on credit, your risk will be significantly increased and if you make a loss using that money, you will still have to repay your credit including interest. Therefore, you must not rely on being able to redeem borrowed funds with any profits from Trades with us.

### 1.14 Your Trades are at risk of being closed automatically

At all times, your Account Revaluation Amount must stay above the Close-Out Level otherwise all your Margin Trade Positions may be closed by the 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 the Platform. Closely monitoring your Positions is very important because you might need to make immediate additional payments to avoid a Close-Out by the Platform. If we have set a Close-Out Warning Level for your Account, the Platform will attempt to notify you when your Account Revaluation Amount falls below the Close-Out Warning Level, although you should not rely on the Platform giving you this warning. To prevent closure of your 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.

See section the Account Close-Out sections of the PDS for more information.

### 1.15 Automated Trading and Algorithmic Execution

Automated Trading may be available via third parties on the some Platforms. You should not enter into Trades using Automated Trading unless you fully understand the risks involved. If you are in any doubt you should seek independent professional advice.

CMC Markets does not recommend or endorse any use of Automated Trading and you are responsible for all Trades you enter as the result of using Automated Trading. You are also responsible for ensuring that you have sufficient funds in your Account to satisfy any Trades automatically opened with Automated Trading.

Automated Trading will only be available when you are logged into the applicable Platform and connected to the internet. If you are not logged in to the Platform and connected to the internet, Automated Trading will not be triggered.

If we have made Algorithmic Execution available to you and where it is available on a Platform, you should not enter into Trades using Algorithmic Execution unless you fully understand the risks involved. If you are in any doubt you should seek independent professional advice.

You are responsible for all Trades you enter as the result of using Algorithmic Execution. Once you have initiated Algorithmic Execution, the Algorithm will continuously and independently place Orders based on parameters specified by you until those parameters are satisfied or you have successfully cancelled such Algorithmic Execution. You shall be responsible for and bound by any and all Trades arising or resulting from the relevant instance of Algorithmic Execution as a result.

Underlying Algorithms used in Algorithmic Execution may vary. When you use Algorithm Execution, Orders will be executed using an Algorithm of the relevant type selected on the Trading Platform, but the actual Algorithm used may be provided by any of our underlying brokers. As such, the underlying methodology may vary according to the actual Algorithm used and you may achieve a different result, depending on which Algorithm is chosen, regardless of the fact that one Algorithm shares the same execution objective as another Algorithm of the same type.

Cancellations and amendments may not take effect immediately. Cancellations and amendments to instances of Algorithmic Execution will only take effect once they have been received and processed by the Trading Platform. As a result, you may become responsible for and bound by Orders arising or resulting from an instance of Algorithmic Execution even after you have purported to cancel or amend it.

#### 1.16 Market Data

Market data displayed on a Platform is based upon the market data you subscribe for. Market data is displayed to you for indicative purposes only and may not match the Prices at which we enter into Trades with you. Fluctuations in financial markets, the delayed and/or limited nature of the market data you subscribe for and/or technical conditions may mean there is a significant difference (especially in volatile market conditions) between the market data displayed to you and the Price at which you enter into a Trade with us. This difference may either be to your advantage or disadvantage.