# CMC MARKETS SINGAPORE PTE LTD
# RISK FACT SHEET
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cmc markets

## Risk Fact Sheet for CFDs

This Risk Fact Sheet is provided to you in accordance with Notice SFA N04-N15. It highlights the common risks of trading in CFDs and complements the Terms of Business, Order Execution Policy and associated Risk Warning Notice furnished by CMC Markets. This Risk Fact Sheet does not disclose all the risks of trading in CFDs. It is important to read the Terms of Business, Order Execution Policy and associated Risk Warning Notice before deciding whether to trade in CFDs. You should also carefully consider whether trading in CFDs is appropriate for you in the light of your experience, objectives, financial resources and other relevant circumstances. If you do not have a copy of the Terms of Business and associated Risk Warning Notice, please visit our website - www.cmcmarkets.com/en-sg/legal-documents or contact CMC Markets to request for a copy. You should not trade in CFDs if you do not understand the product or are not comfortable with the accompanying risks.

### Q1. What is my potential loss when I trade on Margin in CFDs?

When you enter into a CFD Margin Trade[1], you need to pay an initial Margin, which is based on a percentage of the value of the CFD Margin Trade. When you trade on Margin, you should be prepared to lose more than or all of your initial investment amount that you have paid as Margin to CMC Markets.

**Illustration 1**: The shares of XYZ Ltd are quoted at S$2.00 per share and you are buying 2,000 shares of XYZ Ltd as a CFD at S$2.00 per CFD. The  Margin is 10% so you have to put up an initial Margin of 10% * S$2.00 * 2,000 = S$400.

- The Price of XYZ Ltd then falls from S$2.00 to S$1.95. As such, you incur a loss of S$100 (S$1.95 – S$2.00) * 2,000.
- Due to adverse market information on XYZ Ltd, the Price falls further to $1.75. You incur a loss of S$500 (S$1.75 – S$2.00) * 2,000. The S$500 loss would be deducted from your initial Margin of S$400, which means you have to pay an additional S$100 arising from your incurred loss.
- In the worst case for long position, the shares of XYZ Ltd become worthless. You lose the full contract value of S$4000 (S$0 – S$2.00) * 2,000. This is similar to the situation where you bought 2,000 shares at S$2.00 per share, and lost your entire initial investment. You may also be liable for additional charges, costs and fees incurred.

### Q2. What will happen if I do not have enough Margin to cover my losses?

If the Account Revaluation Amount in your Account is less than the Margin required on your Account, CMC Markets will notify you via the Platform and by email to add funds to your Account in order to avoid automatic Account Close-Out as soon as possible. If you fail to add funds, and your Account Revaluation Amount falls below the applicable Close-Out Level displayed on the Platform, the Platform will initiate Account Close-Out in accordance with your Account Settings without notifying you. Therefore, you will need to monitor your Account closely to ensure that you deal with any warning notices promptly.  The current Close-Out Level is 50%.

**Illustration 2**: Referring to Illustration 1, the share price of XYZ Ltd falls from S$2.00 to S$1.95 and the notional value of the contract is now $3,900 (2,000 * $1.95). The margin requirements (assuming 10% margin rate) to maintain the contract is now S$390 (S$3,900 * 10%). With an unrealized loss of S$100 (S$2.00 – S$1.95) * 2,000 and margin of S$400, your net equity is now S$300 (S$400 – S$100). The firm issues you a margin call of S$90 to top up your margin to S$390 (assuming that the margin requirement is S$390). If you fail to pay the margin call by the next business day, the firm can close out your Position. If the share price of XYZ Ltd continues to fall and your loss exceeds S$X (i.e. X% of the margin requirement), the firm may close out your Position. In addition, you may be liable for additional charges, costs and fees incurred.

### Q3. How is the CFD quoted?

The Prices of Products are generated electronically by CMC Markets' Platform. These Prices will take into account market data from various sources and therefore may not match prices that you see elsewhere (including prices quoted on stock exchanges).

[1] Except where expressed otherwise, capitalised terms used in this Risk Fact Sheet have specific meanings as set out in Schedule 3 of the Terms of Business

**Q4. Can my order be executed at a Price that is less favourable than the Price quoted on the Platform, or the Price that I have submitted?**

Yes, this is stipulated in paragraph 3.3 of Schedule 1 of the Terms of Business. The Price at which an Order will be executed may be less favourable to you than the Price displayed on the Platform. This can happen when there is a change in our Price between the time your Order is placed and the time your Order is received or executed by our Platform (e.g., delay in the internet transmission of your Order, or rapid Price fluctuations in the financial markets during that period, 'gapping'). In particular, for Stop Loss Orders that are triggered for execution at the Target Price that you have indicated, it may be difficult or not possible to execute your Stop Loss Order at your Target Price, due to rapid price fluctuations or lack of liquidity in the markets. If any of the foregoing events happens, you may incur unexpected losses.

**Q5. Will my order be manually executed? If so, under what circumstances does the firm rely on manual execution?**

CMC Markets' Platform executes Orders (except Orders for Manual Products or Manual Orders) on an automated basis and does not rely on any manual intervention or dealing. However, Orders for Manual Products and Manual Orders are executed by CMC Markets' client management team.

**Q6. Where are my moneys kept and maintained? Can the firm use my moneys for its own purposes?**

Your moneys that you placed with CMC Markets are required by regulations to be maintained in segregated accounts with MAS licensed and approved banks and financial institutions.. Your moneys are segregated from CMC Markets' own moneys or assets, but may be kept in the same omnibus account with other customers of the firm. The firm is not permitted to use your money in the segregated account for its own purposes, including for settling its own dealings with its hedge counterparty.

**Q7. What will happen to my monies if CMC Markets becomes insolvent? Will I be able to get back my moneys?**

CMC Markets is your contractual counterparty and is obliged according to the Terms of Business to honour your CFD Margin Trades and any profits made. Each Business Day, CMC Markets will carry out client money reconciliations between money required to be held in the client money bank accounts against money held in segregated client bank accounts as at the close of the previous Business Day. Therefore, if CMC Markets becomes insolvent, you face the risk that CMC Markets will not be able to honour any profits that you made during the previous Business Day. As for your moneys that are held in the segregated account, these should be protected from the claims of CMC Markets' creditors. Nonetheless, the recovery and return of your moneys will take time, as this is subject to due process of CMC Markets' liquidation, including the reconciliation of all its customers' Positions and moneys.

**Q8. Under what circumstances can CMC Markets close my Position or void my CFD Margin Trade?**

Under the Terms of Business, CMC Markets can close out your Position or void your CMC Margin Trade when:

(i) a Specified Event or Circumstance Outside Our Control (clause 8.3 of the Terms of Business);

(ii) a Product is removed from the Platform (clause 9.4.2 of the Terms of Business);

(iii) your Account or Agreement with CMC Markets has been terminated (clause 9.6 of the Terms of Business).

The Price at which your CFD Margin Trade is closed out will depend on the available Price at that point in time, which may result in a loss to you.

**Q9. What are the commissions, fees and other charges that I have or may have to pay?**

Commission: This is charged when opening and closing a CFD Margin Trade or Position that references a share. Only executed Orders attract Commission. The Commission payable per CFD Margin Trade can be found in the product overview for the relevant instrument on the Platform.

Holding Cost: This is only applicable to CFD Margin Trades referencing cash contracts. At the end of each trading day (17:00 NY time), Positions that remain open in your Account will be subject to a cost known as a 'Holding Cost'. Holding Costs can be positive or negative depending on the direction of your Position (buy or sell) and the applicable Holding Cost rate. The Holding Cost payable per CFD Margin Trade can be found in the product overview for the relevant instrument on the Platform.

**Illustration 3**: The shares of XYZ Ltd are quoted at S$2.00 per share and you buy 2,000 shares of XYZ Ltd as a CFD at S$2.00 per CFD. The commission charged is S$2.00 * 2,000 * 0.5% = S$20.00. If you hold the 2,000 shares as a CFD overnight, you incur a daily financing interest. Assuming interbank rate is 1%, the daily interest charge is (S$4,000 * 3.5% / 365 days) = S$0.38.

**Q10. What happens when trading in the underlying share or asset is suspended or halted? How can I exit my Position and will I suffer losses?**

In event of a suspension where the Price of the underlying share is unavailable, in accordance with paragraph 11 of Schedule 1 of the Term of Business, CMC Markets will take appropriate action (in our reasonable opinion) to:

(i) replicate this in your Order or CFD Margin Trade;

(ii) reflect any action taken by counterparties to trades in respect of such underlying assets of the Product that we have entered into in order to hedge or offset our exposure to you; or

(iii) preserve the economic equivalent of your Order or CFD Margin Trade immediately prior to the Corporate Action or Adjustment Event which may have consequences on your CFD Margin Trade.

In the event of a prolonged period of suspension, the firm may require you to increase the margins, pay up the contract value in full, or close off your Positions at an appropriate price determined by the firm. In the worst case, you could lose 100% of the contract value. You may also be liable to pay additional charges, costs and fees incurred.

***Risk Disclosure Statement***

1. This statement is provided to you in accordance with regulation 47E(1) of the Securities and Futures (Licensing and Conduct of Business) Regulations (Rg 10).

2. This statement does not disclose all the risks and other significant aspects of trading in futures, options, over-the-counter derivatives contracts where the underlying is a currency or currency index ("**OTCD currency contracts**") and spot foreign exchange contracts for the purposes of leveraged foreign trading exchange ("**Spot LFX trading contracts**"). In light of the risks, you should undertake such transactions only if you understand the nature of the contracts (and contractual relationships) into which you are entering and the extent of your exposure to the risks. Trading in futures, options, OTCD currency contracts and Spot LFX trading contracts may not be suitable for many members of the public. You should carefully consider whether such trading is appropriate for you in light of your experience, objectives, financial resources and other relevant circumstances. In considering whether to trade, you should be aware of the following:

(a) Futures, OTCD currency contracts and Spot LFX trading contracts

(i) Effect of 'Leverage' or 'Gearing'

Transactions in futures, OTCD currency contracts and Spot LFX trading contracts carry a high degree of risk. The amount of initial margin is small relative to the value of the futures contract, OTCD currency contract or Spot LFX trading contract transaction so that the transaction is highly 'leveraged' or 'geared'. A relatively small market movement will have a proportionately larger impact on the funds you have deposited or will have to deposit; this may work against you as well as for you. You may sustain a total loss of the initial margin funds and any additional funds deposited with the firm to maintain your position. If the market moves against your position or margin levels are increased, you may be called upon to pay substantial additional funds on short notice in order to maintain your position. If you fail to comply with a request for additional funds within the specified time, your position may be liquidated at a loss and you will be liable for any resulting deficit in your account.

(ii) *Risk-Reducing Orders or Strategies*

The placing of certain orders (e.g. 'stop-loss' orders, where permitted under local law, or 'stop-limit' orders) which are intended to limit losses to certain amounts may not be effective because market conditions may make it impossible to execute such orders. At times, it is also difficult or impossible to liquidate a position without incurring substantial losses. Strategies using combinations of positions such as 'spread' and 'straddle' positions may be as risky as taking simple 'long' or 'short' positions.

(b) Options

(i) *Variable Degree of Risk*

Transactions in options carry a high degree of risk. Purchasers and sellers of options should familiarise themselves with the type of options (i.e put or call) which they contemplate trading and the associated risks. You should calculate the extent to which the value of the options would have to increase for your position to become profitable, taking into account the premium paid and all transaction costs.

The purchaser of options may offset its position by trading in the market or exercise the options or allow the options to expire. The exercise of an option results either in a cash settlement or in the purchaser acquiring or delivering the underlying interest. If the option is on a futures contract, OTCD currency contract or Spot LFX trading contract, the purchaser will have to acquire a position in the futures contract, OTCD currency contract or Spot LFX trading contract, as the case may be, with associated liabilities for margin (see the section on Futures, OTCD currency contracts and Spot LFX trading contracts above). If the purchased options expire worthless, you will suffer a total loss of your investment which will consist of the option premium paid plus transaction costs. If you are contemplating purchasing deep-out-of-the-money options, you should be aware that, ordinarily, the chance of such options becoming profitable is remote.

Selling ('writing' or 'granting') an option generally entails considerably greater risks than purchasing options. Although the premium received by the seller is fixed, the seller may sustain a loss well in excess of the amount of premium received. The seller will be liable to deposit additional margin to maintain the position if the market moves unfavourably. The seller will also be exposed to the risk of the purchaser exercising he option and the seller will be obligated to either settle the option in cash or to acquire or contract or spot LFX trading contract, the seller will acquire a position in the futures contract, OTCD currency contract or spot LFX trading contract, as the case may be, contract, with associated liabilities for margin (see the section on Futures, OTCD currency contracts and Spot LFX trading contracts above). If the option is 'covered' by the seller contract, spot LFX trading contract or another option, the risk may be reduced. If the option is not covered, the risk of loss can be unlimited.

Certain exchanges in some jurisdictions permit deferred payment of the option premium, limiting the liability of the purchaser to margin payments not exceeding the amount of the premium. The purchaser is still subject to the risk of losing the premium and transaction costs. When the option is exercised or expires, the purchaser is responsible for any unpaid premium outstanding at that time.

(c) Additional Risks Common to Futures, Options and Leveraged Foreign Exchange Trading

(i) *Terms and Conditions of Contracts*

You should ask the corporation with which you conduct your transactions for the terms and conditions of the specific futures contract, option, OTCD currency contract or spot. LFX trading contract which you are trading and the associated obligations (e.g the circumstances under which you may become obligated to make or take delivery of the underlying interest of a futures contract, OTCD currency contract or spot LFX trading contract transaction 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 interest.

(ii) *Suspension or Restriction of Trading and Pricing Relationships*

Market conditions (e.g illiquidity) or the operation of the rules of certain markets (e.g the suspension of trading in any contract or contract month because of price limits or 'circuit breakers') may increase the risk of loss by making it difficult or impossible to effect transactions or liquidate/offset positions. If you have sold options, this may increase the risk of loss.

Further, normal pricing relationships between the underlying interest and the futures contract, and the underlying interest and the option may not exist. This can occur when, e.g., 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 judge 'fair' value.

(iii) *Deposited Cash and Property*

You should familiarise yourself with the protection accorded to any money or other property which you deposit for domestic and foreign transactions, particularly in a firm's 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.

(d) Commission and Other Charges

Before you begin to trade, you should obtain a clear explanation of all commissions, fees and other charges for which you will be liable. These charges will affect your net profit (if any) or increase your loss.

(e) Transactions in Other Jurisdictions

Transactions on markets in other jurisdictions, including markets formally linked to a domestic market may expose you to additional risk. Such markets may be subject to a rule which may offer different or diminished investor protection. Before you trade, you should enquire about any rules relevant to your particular transactions. Your local regulatory authority will be unable to compel the enforcement of the rules of regulatory authorities or markets in other jurisdictions where your transactions have been effected. You should ask the firm with which you conduct your transactions for details about types of redress available in both your home jurisdiction and other relevant jurisdictions before you start to trade.

(f) Currency Risks

The profit or loss in transactions in foreign currency-denominated futures and options contracts (whether they are traded in your own or another jurisdiction) will be affected by fluctuations in currency rates whether there is a need to convert from the currency denomination of the contract to another currency.

(g) Trading Facilities

Most open-outcry and electronic trading facilities are supported by computer-based component systems for order-routing, execution, matching, registration or clearing of trades. As with all facilities and systems, they are vulnerable to temporary disruption or failure. Your ability to recover certain losses may be subject to limits on liability imposed by the one or more parties, namely the system provider, the market, the clearing house or member firms. Such limits may vary. You should ask the firm with which you conduct your transactions for details in this report.

(h) Electronic Trading

Trading on an electronic trading system may differ not only from trading in an open-outcry market but also from trading on other electronic trading systems. If you undertake transactions on an electronic trading system, you will be exposed to risks associated with the system including the failure of hardware and software. The results of any system failure may be that your order is either not executed according to your instructions or not executed at all.

(i) Off-Exchange Transactions

In some jurisdictions, firms are permitted to effect off-exchange transactions. The firm with which you conduct your transactions may be acting as your counterparty to the transaction. It may be difficult to impossible to liquidate an existing position, to assess the value, to determine a fair price or to assess the exposure to risk. For these reasons, these transactions may involve increased risks. Off-exchange transactions may be less regulated or subject to a separate regulatory regime. Before you undertake such transactions, you should familiarise yourself with the applicable rules and attendant risks.