

CMC MARKETS UK PLC

Risk Warning Notice

March 2016

Registered in England. Company No. 02448409

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CMC Markets UK Plc – Risk Warning Notice

(March 2016)

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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 CFD margin trades, Digital 100s, countdowns and our services. However, this notice does not and cannot explain all of the risks and other significant aspects involved in investing in our CFD margin trades, Digital 100s and/or countdowns. You should take sufficient time to read all the relevant information that we provide to you, including this risk warning notice, our Terms of Business, our Order Execution Policy Summary and the information on our website and platform.

Our products can carry a high risk to your capital as prices may move rapidly against you. When entering into CFD margin trades you can lose more than any initial investment and you may be required to make further payments. Please note that the higher the leverage (where applicable) the higher the risks involved. By comparison, your potential losses from Digital 100s and countdowns are limited to the amount of your Digital 100 amount or stake (as applicable).

You should not enter into CFD margin trades, Digital 100s and/or countdowns with us unless you fully understand the risks involved. If you are in any doubt you should seek independent professional advice.

1. CFD margin trades, Digital 100s and/or countdowns 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 CFD margin trades, Digital 100s and/or countdowns based on the information you provide us, and we will inform you if as a result of our assessment we consider that CFD margin trades, Digital 100s and/or countdowns may not be appropriate for you. However, our assessment does not relieve you of the need to carefully consider whether to invest in our products.

1.2 If we warn you that investing in CFD margin trades, Digital 100s and/or countdowns may not be appropriate for you on the basis of your knowledge and experience, then you should refrain from investing in CFD margin trades, Digital 100s and/or countdowns. If you nonetheless wish to enter into transactions in CFD margin trades, Digital 100s and/or countdowns, you should only invest using the live account once you have acquainted yourself sufficiently with CFD margin trades, Digital 100s and/or countdowns 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 CFD margin trades, Digital 100s and/or countdowns. 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 CFD margin trades, Digital 100s and countdowns are OTC derivatives.

- 3.1 When you enter into any CFD margin trade, Digital 100 and/or countdown 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 CFD margin trades, Digital 100s and/or countdowns directly with us, and also that those CFD margin trades or Digital 100s (or 'positions') can only be closed with us (your countdowns will be automatically closed and settled by our platform on expiry and cannot be closed by you). 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 CFD margin trades, Digital 100s and/or countdowns and/or close CFD margin trades and/or Digital 100s 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 CFD margin trades or Digital 100s on our products with us, and not anybody else; and likewise, you can open countdowns only with us. In certain circumstances it may not be possible to open or close CFD margin trades, Digital 100s and/or countdowns with us (see paragraphs 9, 11, 13 and 19 below).
- 3.2 In addition, all of your CFD margin trades, Digital 100s and/or countdowns 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 CFD margin trades through changes in our prices and from our countdowns where changes in our settlement prices mean your prediction is correct, 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. You can profit from our Digital 100s either directly through changes in our prices or where your prediction is correct.

4. We act as a market maker.

- 4.1 The prices generated by our platform will take into account current exchange and market data from various sources. 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 investing in trades, Digital 100s and/or countdowns 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 when you enter into CFD margin trades with us.

- 5.1 When you enter into CFD margin trades 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. **Although our platform has features that are designed to help minimise your risk of loss, none of these other than the shield mode and guaranteed stop loss orders are guaranteed and you should not rely on them.**
- 5.2 Losses from your CFD margin trades (does not apply to countdowns and Digital 100s):
- 5.2.1 The amount of any loss for an individual CFD margin trade will be the amount that you owe us when that CFD margin 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 CFD margin 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 margin trade 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 CFD margin trades and account will depend on the size of your CFD margin trade position in the relevant product as well as the margin rate(s) applicable to that CFD margin trade 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 CFD margin trades and account if you have entered into a large CFD margin trade with little margin. In addition, when entering into short CFD margin trades it is possible to lose more than the CFD margin trade value, since any increase in price may be more than the price at which you opened the CFD margin trade. Therefore, short CFD margin trades can be riskier than long CFD margin trades.
- 5.2.3 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 CFD margin 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 Costs incurred through investing:

- 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 CFD margin trades and Digital 100s, while others will depend on the type of CFD margin trade and/or the risk management measures you put in place on your CFD margin trades (for example, guaranteed stop loss orders carry an additional premium).
- 5.3.2 Depending on the CFD margin 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 CFD margin trades and will be determined by reference to the size of the CFD margin trade. In some cases, and particularly where you keep CFD margin 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 Terms of Business for further information on how commission and holding costs are calculated.

6. **You may lose your Digital 100 amount on any Digital 100.**

- 6.1 The Digital 100 amount, being the size of your Digital 100 multiplied by the relevant price, is deducted from the cash in your account at the time the Digital 100 is opened and you lose the entire Digital 100 amount if your prediction is incorrect.

7. You may lose your stake on any countdown.

7.1 The amount that you wish to be the subject of a countdown, the stake, is deducted from the cash in your account at the time the countdown is opened and you lose the entire stake if your prediction is incorrect.

8. Your CFD margin trades, Digital 100s and/or countdowns and positions are at risk of being closed automatically.

8.1 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 CFD margin 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 CFD margin trades and/or positions, you should deposit a sufficient amount of money into your account to cover any potential losses or costs from your CFD margin 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.

8.2 The automatic closure of your CFD margin trades and/or positions is aimed to prevent you incurring further losses and may close all CFD margin trades and/or positions on your account, not just CFD margin 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. Digital 100s and countdowns will not be closed as part of this process.

8.3 Once a countdown has been entered into, it cannot be closed by you. All countdowns will be closed and settled by our platform automatically on expiration of the countdown.

8.4 In addition, if you do not close your Digital 100s before the start of the pre-close period at the end of the applicable Digital 100 expiry, the Digital 100s will be closed by our platform automatically once the end of the applicable Digital 100 expiry is reached.

9. Market circumstances may impact your CFD margin trades, Digital 100s and/or countdowns.

9.1 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 for CFD margin trades where we cannot enter into a corresponding transaction to hedge our own risk (for example, due to the activities of an issuer of shares to which your CFD margin trades relate, which can sometimes restrict the market liquidity in those shares). Therefore, market circumstances may impact on your ability to place an order for a CFD margin trade or close a CFD margin trade with us. In contrast, if we enter into a corresponding transaction, 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.

9.2 Market circumstances may similarly impact on your ability to place an order for a Digital 100 or countdown or close a Digital 100 with us. Market circumstances may also impact our

ability to settle a Digital 100 or countdown on expiry. If an event occurs that prevents our platform from determining a price for a Digital 100 or the price applicable for a countdown, your Digital 100 or countdown could be cancelled or declared void.

9.3 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 CFD margin trades, Digital 100s, countdowns and account.

9.4 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 for a CFD margin trade between the two price levels, or for our platform to execute a pending order for a CFD margin trade at a price between those two levels. Gapping can result in you incurring significant losses (or profits) on an affected CFD margin trade. Certain markets also have limited trading hours which can impose a significant risk to your ability to place orders and close CFD margin trades or Digital 100s.

10. The price of a CFD margin trade or Digital 100 may be different from the price you see on our platform when you place an order.

10.1 There is a risk that the price and/or settlement price (as applicable) which you see through your device when you place an order will not be identical to the price at which the CFD margin trade, Digital 100 or countdown is executed at or settled against, and that the corresponding difference puts you at a disadvantage. We attempt to generate prices and settlement prices on a continuous basis and to have the currently applicable prices and settlement 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 and/or settlement prices 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.

11. Technical risks and other circumstances may affect your CFD margin trades, Digital 100s and/or countdowns.

11.1 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.

12. Different products pose different risks.

12.1 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 CFD margin trade, Digital 100 and/or countdown on that product.

- 12.2 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.
- 13. Foreign markets add further risks.**
- 13.1 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 CFD margin trades relating to foreign markets will also be affected by fluctuations in foreign exchange rates.
- 13.2 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 currency conversion rate at the relevant time (and in respect of unrealised profits or losses, in real time). Depending on the 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 CFD margin trades might be automatically closed), and on any eventual profits that you make or losses that you incur.
- 14. You should not finance your CFD margin trades, Digital 100s and/or countdowns with us on credit.**
- 14.1 If you fund your CFD margin trades, Digital 100s and/or countdowns 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 CFD margin trades, Digital 100s and/or countdowns with us.
- 15. Past performance does not constitute a reliable indicator of future performance.**
- 15.1 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.
- 16. We cannot guarantee protection of your money.**
- 16.1 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).
- 16.2 Money that may be owed by you to us under our 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).

16.3 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.

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

17. Countdowns are not currently subject to regulation by the FCA.

17.1 CMC Markets UK Plc is licensed and regulated by the Gambling Commission and not the FCA in respect of countdowns. Accordingly, in respect of countdowns, you will not be entitled to the protections applicable for CFD margin trades and Digital 100s, except for the segregation of any funds held in credit by you.

18. Tax treatment may vary.

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

19. Access to our platform via mobile applications.

19.1 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.

20. Limitations of features and third party content.

20.1 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.