Risk Fact Sheet For Contracts For Differences

Prepared on: [30 August 2019]

1. This Risk Fact Sheet is provided to you in accordance with Notice SFA N04-N15. It highlights the common risks of trading in Contracts for Differences (CFDs) and complements the trading agreement and associated risk disclosures furnished by KGI Securities (Singapore) Pte. Ltd.

2. This Risk Fact Sheet does not disclose all the risks of trading in CFDs. It is important to read the trading agreement and associated risk disclosures 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 trading agreement and associated risk disclosures, please contact KGI Securities (Singapore) Pte. Ltd. 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 trade in CFDs you are required to place a margin deposit. The margin deposit is used as collateral for the CFD transaction. You will need to pre-fund the margin deposit before entering a trade. The amount of the margin required to be deposited is calculated based on a prescribed percentage of the value of your transaction. As CFD is a leveraged product, you can potentially lose more than or all of your initial margin deposit.

Illustration 1: You enter into a CFD to buy 10,000 ABC/DEF (A$/D$) currency pair at the rate of 2 (D$2 per A$1). The margin rate for ABC/DEF is 5%. A margin deposit of A$500 is required for the trade.

Margin Calculation: Margin Rate (5%) X Transaction Value (A$10,000) = Margin (A$500)

- Assuming the currency rate falls from 2 to 1.98, you will be running a marked-to-market unrealized loss of D$200 ((2 – 1.98) X 10,000)
- Assuming the rate falls further to 1.80, your marked-to-market unrealized losses will have increased to D$2,000 ((2 – 1.80) X 10,000). If you were to liquidate your position at the rate of 1.80, you would have realized a loss of D$2,000, which is larger than your margin deposit of AS500. You will be required to transfer moneys into your account to make good the over-loss.

Note: *The above example is just to illustrate a situation where losses may exceed the margin deposit. The example assumes no margin top ups.*

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

You are required to ensure you have cash balance in your account to meet the margin requirement. If the balance in your account is less than the margin required on your account, we will issue you a margin call to pay the margin shortfall by the next business day. The Company also have the right to increase the margin requirement. If you fail to meet the margin call by the next business day, we have the right to close out your positions without notifying you. Pursuant to our Margin Call Default Policy and Procedures, we may place stop-loss orders to liquidate your position if your cash balance falls below 60% of the margin requirement.

Illustration 2: Referring to Illustration 2, assume the currency rate of ABC/DEF falls from 2 to 1.98. You incur a loss of D$200 ((2 – 1.98) X 10,000). As a result, your margin balance is reduced to A$398.99 (A$500 – (D$200/1.98)). We will issue you a margin call of A$101.01 to top up your margin to A$500 (assuming that the margin requirement is A$500). If you fail to pay the margin call within the requested timeframe, we can liquidate your position. If the currency rate continues to fall within the trading day and your losses exceed A$200 (i.e. cash balance at 60% of margin requirement), we can place stop-loss order to close out your position once your losses hit A$350 (i.e. cash balance at 30% of margin requirement) without notice. In addition, you may be liable for additional charges, costs, fees incurred.

Q3. How is CFD quoted?

CFD is usually quoted by the CFD provider and it differs from provider to provider. CFD's quotes and the actual prices in the underlying product are often different. With regards to how much CFD's quotes deviate from the underlying product is dependent on a few factors, such as the product's liquidity and whether the market of that underlying security is an open or close one. However, some firms may provide CFD trading by acting only as an intermediary broker between the CFD liquidity provider and the investor.

Q4. Can my order be executed at a price that is less favourable than the price quoted on the trading system, or the price that I have submitted?

Yes. It is definitely possible. The price at the time of execution can be different from the time the order is actually received by the system. This is the same for the stop loss level that you place as well, the CFD contract might not be stopped out at the exact price level due to rapid price fluctuations and/or lack of liquidity. Morever, it could also be internet and/or systems connectivity related reasons.

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

Normally, order keyed in by client electronically or through calling in will be placed via the firm's system. Order will be executed electronically and does not rely on any dealer intervention. The client is able to view order keyed in through the platform. For call in order, the dealer will place the order into the system via the house account and will update the client's individual account only after execution.

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

All clients' moneys are required by regulations to be maintained in customer segregated accounts, separated from our own moneys or assets. Your margin deposit may be kept with other clients in customer segregated accounts. We are not permitted to use your money for our own purposes.

Q7. What will happen to my margins if the firm becomes insolvent? Will I be able to get back my moneys or other assets?

We are your contractual counterparty and we are obliged according to the terms and conditions of the trading agreement to honour your CFD trades and any profits made. Therefore, if we become insolvent, you face the risk that we will not be able to honour any profits that you made. All clients' moneys and assets are held in customer segregated accounts and will be protected from the claims of our creditors. Nonetheless, the recovery and return of your moneys or other assets will take time as it is subject to due process of the firm's liquidation, including the reconciliation of all its clients' positions and moneys.

Q8. Under what circumstances can the firm close my position or void my order?

Under the terms of our Margin Call Default Policy and Procedures, we can force liquidate your position or void your trade when:
(i) you are unable to meet the margin calls within the requested timeframe (refer to Margin Call Diagram);
(ii) your cash balance, based on marked-to-market valuation, falls below 60% of required margin. Liquidation orders, including but not limited to Market-On-Open, Market-On-Close and/or stop loss orders can be placed to limit losses at 30% of required margin (refer to Margin Call Diagram).

Note: The placing of stop loss and the eventual losses on liquidation is very much dependent on market conditions.

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

There are four types of possible charges when it comes to CFD trading, spread, holding costs, market data fees, and commissions. Spread is the difference between the buy and sell price, holding costs is an interest we charge when you hold an open CFD position, market data fees is a charge to gain access to the live prices of the CFD contracts you trade, and commissions is how much you pay per CFD contract. GST applies for Singapore accounts.

Commission: 1% of the total value of the underlying shares. GST is applicable to all commission charges

Finance Charge: Interest is chargeable on any CFD positions that are held open on a daily basis. Interest is charged at 1% of the total value of the underlying shares

Example 1: The shares of ABC firm are charged at $4 per share and 1000 shares of ABC firm (CFD) was bought at $4 per CFD. Commission charge would be (S$4 X 1000 shares X 1%) X 7% (GST) = S$42.8. If 1000 shares (CFD) is held overnight, your daily finance charge would be (S$4,000 X 1%) / 360 days = S$0.1.

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 the event of a suspension, holders of open positions will continue to be charged overnight interest. In the event of a prolonged suspension, the firm may require you to increase the margins, pay up for the contract value in full, or close your positions at a price determined by the firm. In the worst case, you could lose up to 100% of the contract value and may also be liable for additional charges, costs and fees.

ACNOWLEDGEMENT OF RECEIPT OF THIS RISK DISCLOSURE DOCUMENT
This acknowledges that I/we have received a copy of the Risk Disclosure Document and understand its contents.

Name of customer : ____________________ Signature of customer :__________________

Designation* : ____________________

Corporation Name* : ____________________

*For corporations only