



# PRIOR CAPITAL

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## RISK DISCLOSURE POLICY FOR TRADITIONAL FINANCIAL INSTRUMENTS

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*This is not a marketing material, but an informative policy about the risks associated when Clients are dealing with financial products in compliance with Markets in Financial Instruments Directive II (MiFID II) and the Investment Services and Activities and Regulated Markets Law of 2017 (Law 87(I)/2017)*

Following the implementation of the Markets in Financial Instruments Directive II (MiFID II) 2014/65/EU of the European Parliament and of the Council of 15 May 2014 on Markets in financial instruments and amending Directive 2002/92/EC and Directive 2011/61/EU (MiFID II) as well as the Investment Services and Activities and Regulated Markets Law of 2017 (Law 87(I)/2017), the Company provides this Disclosure with information about the risks associated when Clients are dealing with financial products. This Disclosure cannot and does not dispose or explain all the risks and other significant aspects involved in trading with traditional financial instruments.

Updated on

AUGUST 2, 2019

**Risk Warning:** *The investment value can both increase and decrease, and the investors may lose all their invested capital. Before undertaking any such transactions, you should ensure that you fully understand the risks involved and seek independent advice if necessary.*

## **RISK DISCLOSURE**

All Clients and prospective Clients are strongly advised to read carefully the risk disclosures and warnings contained in this document.

### **GENERAL**

Prior Capital CY Ltd (former PriorFX Ltd) (hereafter the “Company”), is an Investment Firm authorised and regulated by the Cyprus Securities and Exchange Commission (hereafter the “CySEC”) under the License No. CIF221/13. The business name Prior Capital CY, and the domain names [www.priorcapital.eu](http://www.priorcapital.eu) and [www.priorfx.com](http://www.priorfx.com) are owned by the Company incorporated and registered under the Laws of the Republic of Cyprus under the Certificate Registration Number HE321360. The Head Office of the Company is located at 196 Arch. Makarios III Ave., Ariel Corner, 3030 Limassol, Cyprus.

The Company is authorised to provide the following Investment and Ancillary Services;

a) Investment Services:

- Reception and Transmission of orders in relation to one or more financial instruments;
- Execution of orders on behalf of Clients;
- Dealing on Own Account;
- Portfolio Management;
- Provision of Investment Advice.

b) Ancillary Services:

- Safekeeping and administration of financial instruments, including custodianship and related services;
- Granting credits or loans to one or more financial instruments, where the firm granting the credit or loan is involved in the transaction;
- Advice to undertakings on capital structure, industrial strategy and related matters and advice and services relating to mergers and the purchase of undertakings;
- Foreign exchange services where these are connected to the provision of the investment services;
- Investment research and financial analysis or other forms.

Prior Capital CY Ltd provides this notice with information about the risks associated when Clients are dealing with financial products. This notice does not purport to disclose or discuss all the risks and other significant aspects of any transaction, so the Client undertakes and warrants to consult with his/her own legal, tax and financial advisers prior to entering into any particular transaction. When making decision to operate at various securities markets, the Client must bear in mind that investment in securities and other financial assets may carry a risk of non-gaining expected income and occurrence of loss of all of the funds invested (or any part thereof), or even more. The Client should be aware that there are significant risks in investing in the capital markets. The extent of a risk assumed by the Client at investment in financial assets, securities according to subsequent Investment Strategy shall be assessed by possible adverse changes in many parameters, not all of which may be forecasted. Firstly, these are system parameters, being peculiarities of current social – political and economic conditions of the world economic development, including, economics of the Russian Federation and other Emerging Markets.

Risks arising out of the possibility of worsening of systemic parameters are not connected with any financial instrument. They may not constitute an object of reasonable impact and management on the part of the Company, they are not subject to diversification and reduction. We refer the following risks to those related and treated as the main system risks: risk of changes in political situation, risk of adverse (from the viewpoint of essential business conditions) changes in the legislation, macro- and micro-economical risks (sharp devaluation of national currencies, crisis at the market of government debt

instruments, banking crisis, currency crisis, hyperinflation, dependency on individual sector(s) (including oil and gas industries), directly or indirectly resulting from political and legislative risks. Force-majeure risks, primarily those of environmental and geopolitical nature (external military operations, strikes), as well as stoppage in work of stock exchanges and essential element of political interference in various jurisdictions are also categorized as system risks.

The latest version of this document is available to you at the following [link](#).

## **FINANCIAL INSTRUMENTS**

The Financial Instruments, in respect of which the Company is entitled to provide Investment Services (as defined hereinafter) to the clients under its license, include the following:

- (1) Transferable securities;
- (2) Money-market instruments;
- (3) Units in collective investment undertakings;
- (4) Options, futures, swaps, forward rate agreements and any other derivative contracts relating to securities, currencies, interest rates or yields, emission allowances or other derivatives instruments, financial indices or financial measures which may be settled physically or in cash;
- (5) Options, futures, swaps, forwards and any other derivative contracts relating to commodities that must be settled in cash or may be settled in cash at the option of one of the parties' other than by reason of default or other termination event;
- (6) Options, futures, swaps, and any other derivative contract relating to commodities that can be physically settled provided that they are traded on a regulated market, a MTF, or an OTF, except for wholesale energy products traded on an OTF that must be physically settled;
- (7) Options, futures, swaps, forwards and any other derivative contracts relating to commodities, that can be physically settled not otherwise mentioned in point 6 of this Section and not being for commercial purposes, which have the characteristics of other derivative financial instruments;
- (8) Derivative instruments for the transfer of credit risk;
- (9) Financial contracts for differences;
- (10) Options, futures, swaps, forward rate agreements and any other derivative contracts relating to climatic variables, freight rates or inflation rates or other official economic statistics that must be settled in cash or may be settled in cash at the option of one of the parties other than by reason of default or other termination event, as well as any other derivative contracts relating to assets, rights, obligations, indices and measures not otherwise mentioned in this Section, which have the characteristics of other derivative financial instruments, having regard to whether, inter alia, they are traded on a regulated market, OTF, or an MTF;

Different instruments involve different levels of exposure to risk and in deciding whether to trade in such instruments or become involved in any Financial Instruments, you should be aware of the guidance set out below. Generally, only experienced investors capable to understand and assess substantial risks and making independent decisions on practicability of investment in the light of substantial risks may invest in securities, financial instruments of emerging markets economics. The Company does not and cannot guarantee the initial capital of the Client's portfolio or its value at any time.

## **TYPES OF RISKS RELATED TO FINANCIAL INSTRUMENTS**

All financial products carry a certain degree of risk and even low risk investment strategies contain an element of uncertainty. The price or value of an investment will depend on movements in the financial markets outside of anyone's control. Past performance is no indicator of future performance.

The nature and types of investment risks will depend on various matters, including the type of investment being made, how the investment has been created, structured or drafted, the needs and

objectives of particular investors, the manner in which an investment is made or offered, sold or traded, the location or domicile of the issuer, the diversification and concentration in a portfolio (e.g. the amount invested in any one currency, security, country or issuer), the complexity of the transaction and the use of borrowing or leverage. Different risks may occur simultaneously and/ or may compound each other resulting in an unpredictable effect on the value of the investments. The risks identified in this document common to many of the investments that are offered through the Company. The following general risks should be considered when making any investment decision or contemplating any form of allocation to such investments:

### **MARKET/PRICE RISK**

The value of a financial instruments may fluctuate dramatically due to different market factors including the price or level of any underlying reference asset, level of interest rates, credit quality of the issuer and guarantor (where applicable), foreign exchange rates, volatility, liquidity and tenor remaining on the financial instrument (if relevant). Such financial instrument may depreciate in value as quickly as it may appreciate and can also become valueless. Investing in such financial instrument is as likely to incur losses as it is to make profit. Past performance should not be used as an indicator of future performance. It is the risk of the Fund/Portfolio to lose value due to a decline in securities prices, which may sometimes happen rapidly or unpredictably.

### **TECHNICAL RISKS**

The Client is warned of the following technical risks:

(a) The Client and not the Company shall be responsible for the risks of financial losses caused by failure, malfunction, interruption, disconnection or malicious actions of information, communication, electricity, electronic or other systems.

(b) The Company has no responsibility if unauthorized third persons gain access to Client information, including electronic addresses, electronic communication and personal data, access data when this is due to the Client's negligence or when the above are transmitted between the Company and the Client or any other party, using the internet or other network communication facilities, telephone, or any other electronic means or post.

(c) The Client acknowledges that the internet may be subject to events which may affect his access to the Company's system(s), including but not limited to interruptions or transmission blackouts, software and hardware failure, internet disconnection, public electricity network failures or hacker attacks.

Unless otherwise specified at the Agreement, the Company is not responsible for any damages or losses resulting from such events which are beyond its control or for any other losses, costs, liabilities, or expenses (including, without limitation, loss of profit) which may result from the Client's inability to access the Company's Systems or delay or failure in sending orders or Transactions.

### **UNDERPERFORMANCE RISK**

This is not a deposit. There is no guarantee from Company or any other party that you will be able to earn returns under your managed portfolio that will be greater than or at least equal to any potential return you may have earned. There is also a risk that you may not receive any returns and may in fact incur losses on your investment.

### **POLITICAL RISKS**

Constitute a possibility of occurrence of losses or reduction in the amount of profits resulting from the governmental policy. Thus, a political risk is connected with possible changes in policies of the government, other governmental bodies, and changes in priority lines of the government activities. Any changes at the political arena may exert influence on the possibility of repatriation of capital, dividends received, and profits gained, and on the whole, on rights of investment and ownership of investments.

Political risks also mean corruption in the governmental, administrative and financial systems, disadvantageous international relations and/or international economic sanctions, and/or international attention to functioning of their governmental, administrative and financial systems, to work on countering to laundering of illegal funds and financial crimes, as well as contribution in international activity on countering to terrorism. Sanctions may be imposed on a country on the whole as well as on any individual or corporate entity of a country or may be connected with a country. There also exists a substantial risk that guarantees of an investor's security may not be always observed, and the policy on stimulation of foreign investments may be terminated. One cannot positively affirm that securities or other relevant assets will not be nationalized, requisitioned, confiscated or subject to compulsory reorganization.

## **LEGAL RISKS**

The applicable legislation is subject to frequent and substantial changes, that may have an adverse effect on capability of the Company and the Client to carry out activities connected with effectuation of Investment Strategy, agreed with the Client, to fulfil provisions set forth in the Agreement entered into. Legal practice often gives rise to questions concerning applicability of these or those legislative regulatory legal acts, instructions, decisions and letters issued by various regulatory bodies, as a result of which there is a risk of imposition of penalties or other claims with regard to activities carried out by the Company and the Client in spite of measures taken for observance of effective norms and rules, which may affect financial performance and damage activities carried out by the Company and performance of subsequent Portfolio of the Client. Changes in currency control regulations, licensing requirements, tax legislation, laws regulating capital and securities markets; formation of the judicial practice substantially changing the existing state of affairs may adversely affect activities carried out by the Company and the Client including, in some cases, such changes may result in losses, inexpediency to carry out activities connected with financial instruments.

Legal systems of emerging markets are exposed to the following risks:

- inconsistency of some legislative regulations, provisions and instructions;
- difficulties in interpretation of applicable laws due to absence of accumulated judicial practice;
- existing substantial gaps in terms for adoption of laws and approval of legislative instruments and instructions explaining their application in practice;
- lack of administrative control over fulfilment of adopted changes in the legislation;
- insufficient working out of questions connected with the securities market, tax legislation.

Adoption by governmental bodies of legislative instruments or instructions may entail additional temporary and cash expenses and adversely affect activities carried out by the Company and the Client, connected with the securities market and financial instruments as well as with management over Portfolio. Besides, governmental and municipal bodies may also change rules of law, adopt legislative instruments, change or cancel previously concluded Agreements, withdraw licenses and permits, conduct extraordinary tax inspections, administrative inquiries and carry out legal prosecution. This may involve the Client and the Company in losses as a result of payment of penalties and fines, additional judicial, legal and other expenses. Taking into account the latest events in the international economics tax laws of a number of jurisdictions are subject to frequent changes, and some of legislative instruments connected with current taxes are comparatively new. Therefore, in practice application of these legislative instruments and instructions is often not clear. Differences in opinions regarding legal interpretation of the procedure for calculation and payment of taxes and dues among governmental bodies may create substantial difficulties when fulfilling requirements of the tax legislation in connection with management over Portfolio. In a number of cases legal risks also include lack of complete and established regulation of capital markets and lack of compensating schemes for investors or their limited nature. Therefore, there is a significant lack of legal clarity concerning the nature and scope of rights of investors and their opportunity to exercise their rights.

## **LIMITATION OF RESPONSIBILITY**

The Company shall not bear any responsibility for losses or damage caused by changes in laws, legislative instruments, rules for their interpretation or inconsistent or voluntary application of laws or legislative instruments by any regulatory body. Neither the Company, nor its Associates bear any responsibility if they act in accordance with usual commercial practice of western investment consultants. Neither the Company, nor its Associates shall bear any responsibility for losses or damage caused by wrong identification or non-identification of forged documents and for the avoidance of doubt, the Company is not obliged to verify signatures of Authorized Representatives. Neither the Company, nor its Associates shall bear any responsibility for losses or damage caused by legal incapacity of the Client or its Authorized Persons.

## **CORPORATE MANAGEMENT**

In a number of cases the level of disclosure of information on business and assets of issuers, whose Instruments are acquired, is significantly lower than that at more developed markets. Thus, holders of relevant financial instruments may have not sufficient and up-to date information to control activities of relevant issuers. In this regard at emerging markets legal protection for minority interest holders is often insufficient and tools for protection from improper management are undeveloped. Fiduciary duties of Company with regard to a Company or security holders are limited, laws prohibitive divestiture of Company assets or any other under cost transactions are underdeveloped. Besides, there may also exist any legal and practical obstacles for control and termination of activities of regulatory bodies, including but not limited to activities of management companies.

## **TAXATION**

There is significant uncertainty in respect of the status of investors (internal and foreign) and taxation of instruments, which are comparatively new for emerging markets. Therefore, current interpretation of tax laws or their application in practice may be changed or any individual law may be changed subject to retroactivity effect. The Company, acting in interests of the Client and the Client itself may become an object of taxation, not operating in the course of investment, and this may affect results of investment activity on the whole. There is no any guarantee that relevant double taxation agreements entered into or adopted and currently implemented will not be amended. It is necessary to notice that proceeds from securities sales or receipt of any dividends and other income may subject to taxes, dues, charges. Different transactions may have different tax implications and the tax consequences of any transaction is dependent upon your individual circumstances and may be subject to change in the future.

## **LIQUIDITY RISK**

Liquidity Risk is connected with occurrence of losses at sales of securities, other assets due to changes in valuation of their investment qualities by market participants and slowdown in probability to sell them at required price. In particular this risk may be manifested as the need arises to quickly withdraw funds from the securities market. Many securities, other financial instruments, in which the Client may invest according to respective Investment Strategy, will not be offered at the stock exchange or at any organized trading floor. Therefore, there is a risk that investments will not be liquid and investment appraisal will be hampered.

## **CURRENCY RISK**

Currency Risk is characterized by the risk of probable adverse change in one currency against another one, as a result of which a part of income may be lost and in exceptional circumstances direct losses may be suffered. In some cases, securities and other financial instruments are denominated in a currency, which outside of a country, where it is a functional currency, may not be converted into other currencies, though subject to some restrictions, some of these currencies are converted within a country

of origin. The value of investments denominated in US dollars or in any other hard currency may be significantly changed depending on an unstable currency exchange rate and high inflation. Currency exchange rate may be changed between the date of transaction and the date of purchase of a required currency for performance of payment obligations. Accordingly, the purchase price denominated in a local currency may be higher than on the date of a relevant transaction. Some cases may give rise to questions connected with currency control affecting the capability to transfer and to withdraw funds to and from a country, as well as convertibility of their currencies. Therefore, it is necessary to pay special attention to observance of formalities, connected with currency control and obtainment of all required licenses, including, as may be required, registration of initial investments. Exchange control regulations are often subject to changes and it may turn out that the Client, The Company or investors in general will not be capable to convert a local currency into a freely convertible currency. At the worst, banking accounts may be freeze.

## **INVESTMENT RESTRICTIONS**

In some cases, foreign investments in financial instruments are or may be restricted from the legal point of view or may become restrictive by reasons uncontrollable by the Company or the Client. This might affect liquidity, value of securities, other financial instruments and the total value of investments. Sometimes such restrictions are contained in documents, which are not always easy to obtain. The Client understands that in some cases holding of some types of securities, financial Instruments are restricted by requirements to citizenship, nationality or the place of residence. The Company assumes that incapacity of the Client in accordance with the concluded Agreement to establish conditions for purchase of financial instruments by local Associates of the Company does not create imputed beneficiary ownership. There is also a risk that local authorities will consider existing agreements as bearing agency nature, vesting the Client with the beneficiary ownership to financial instruments. The Client hereby acknowledges that this may have significant negative consequences. The Client confirms that it has been informed of risks connected with acquisition of securities relevant to emerging markets, including (but not limited to) risks connected with synthetically investments in developing countries, as well as that it assumes these risks, and all these circumstances may result in total loss of investments on the Client's account, as well as in payment of additional funds for high risk strategies.

## **PRICE RISK**

Price Risk is a risk of changes in value of shares of enterprises and government securities, commodity and other instruments, which may result in changes in value of assets and therefore in losses.

## **INTEREST RATE CHANGE RISK**

Interest rate change risk is a risk of losses resulting from adverse change in interest rate affecting the market value of various assets, including fixed yield securities. Interest rates can rise as well as fall. A risk with interest rates is that the relative value of a security, especially a bond, may worsen due to an interest rate increase. This could impact negatively on other products. There are additional interest rate related risks in relation to floating rate instruments in that interest income on floating rate instruments cannot be anticipated.

## **COUNTERPARTY RISK**

The insolvency of the firm with whom you are dealing, or of any brokers involved with your transaction, may lead to positions being liquidated or closed out without your consent or, indeed, investments not being returned to you.

## **COUNTRY RISKS**

Different jurisdictions may decide to impose exchange controls or other limitations or restrictions. Furthermore, the Client should be aware that there are significant additional risks in investing in securities of any issuer located in higher risk countries, including but not limited to the Russian

Federation (sanctions risks) and, for instance, certain countries of the African continent (collectively, the “Higher Risk Countries”) which are not typically associated with well developed markets. It is highly speculative, involves a high degree of risk and may result in the loss of the entire investment. Generally, such investment is only suitable for sophisticated investors who fully understand and appreciate the risks involved. Accordingly, the Client should exercise particular care in evaluating the risks involved and must decide for themselves whether, in the light of those risks, investment is appropriate.

### **CREDIT RISK**

Credit Risk is a risk of partial or complete non – performance of financial obligations by a party to an Agreement or an issuer of one or another financial instrument or suffering by the Company, the Client of financial losses under such agreements or securities, other financial instruments. In this regard there is also a Risk of Bankruptcy of a Counterpart to a Transaction, which lies in probable insolvency of a counterpart to delivery an instrument or to effect payment, or to carry out any other counter delivery to AWM, which in turn will lead to losses incurred by the Portfolio. It should be also noted that in some cases there is also an Issuer’s Bankruptcy Risk, lying in probable insolvency of an issuer of securities, other financial instrument, which may lead to sharp fall in prices (up to total loss in liquidity) for such securities (in case of shares) or incapability to redeem them or to receive coupon yield (in case of debt securities). Applicably to shares this risk is to the most extent determined by financial standing and paying capacity of the issuer. The Client acknowledges that fixed yield securities, structured products and OTC options are exposed to the credit risk. Fixed yield securities of lower quality are more exposed to the credit risk if compared to those of higher quality. The Client also acknowledges that with regard to fixed yield securities there are risks connected with early redemption. Issuers of fixed yield securities may not early redeem the principal debt on securities especially, when interest rates are reducing. Therefore, there may be a situation when requested by the Client the Company will be incapable to reinvest the principal debt at a beneficial rate, thereby reducing profits expected by the Client on the Portfolio. On the other part, growing interest rates may lead to early redemption at the rate, which is lower than that expected. This substantially extends terms for redemption of relevant securities making them more sensible to interest rate fluctuations, which makes their value more volatile. The Client agrees that low rating debt securities are exposed to additional risks. Government bonds are also exposed to a risk and in some circumstances of political, diplomatic, social or economic nature in some developing countries – issuers of low-quality bonds interest or principal amount may be not paid when due. There is also a risk of illegal actions in respect of investor’s assets and investor’s rights protected by law on the part of third persons including the issuer, registrar, and depository.

### **INFLATION RISK**

The risk that returns in relation to a product may not keep pace with inflation. A high rate of inflation may reduce the value of future income or redemption amounts in relation to the product.

### **RISK OF BORROWING TO FUND INVESTMENTS**

Investors should always be aware of the risks associated with borrowing to increase their exposure to a particular investment. Borrowing can increase profits if the investment that is purchased using the loan increases in value. However, if the investment decreases in value, the losses caused to the investor as a result of the greater exposure to the investment, the costs of the loan and the obligation to provide more collateral and/or to repay the loan at a time which may be most disadvantageous to the borrower, can increase losses substantially.

### **INFORMATION RISK**

The information that is available to investors when making investment decisions in certain investments can vary in quality and accuracy depending on a number of factors, for example, the jurisdiction of the



issuer of the investment, the nature of the investment and the obligations applicable to the issuer. For example, bonds or shares issued by emerging market issuers may suffer from such deficiencies.

## **EMERGING MARKETS RISK**

The term "emerging market" means a securities market in a country which is generally characterized by political instability, precarious financial markets, a potentially weak economy, a potentially challenging legal/regulatory environment and uncertainty concerning that country's economic development. Investments made in emerging markets generally entail specific risks which are not encountered in developed markets. Bonds issued by emerging markets issuers may pay a higher return, but this may not compensate fully for the additional risks involved. See also "Emerging Markets" below.

## **SUSPENSIONS OF TRADING**

Each stock or commodities exchange may in certain circumstances be prompted to suspend or limit trading in all securities or commodities which it lists. Such a suspension would render it impossible for an investor to liquidate positions and would accordingly expose the investor to losses and delays in their ability to obtain reimbursement upon demand.

## **SPECIFIC TYPES OF RISKS RELATED TO FINANCIAL INSTRUMENTS**

### **RISKS OF DERIVATIVES**

A derivative is a financial instrument, the value of which is derived from an underlying asset's value. The Client must understand that there are significant risks of trading in derivatives, including futures, swaps, options and agreements for difference. You shouldn't deal with derivative instruments if You do not clearly understand the essence of an agreement to be signed, instrument acquired and a degree of risk. Though derivatives may be used for management of investment risks, some types of investments are not appropriate for the majority of investors. Various instruments are exposed to various risk level; when deciding whether to commence trading in such instruments or not it is necessary to understand the level of risks connected with debt to equity ratio, (specifically a risk that a small deposit or the first instalment may result in significant losses and/or a risk that relatively small market fluctuations may result in disproportionately major change in the cost of Your investments both profitable and not). Transactions with futures involve contingent liabilities, and the Client must be aware of their consequences and, in particular, of margin requirements. Transactions subject to contingent liabilities with margin require from the Client to effect a number of payments in consideration for the purchase price instead of a lump sum payment of the total amount of purchase. If the Client authorizes the Company to effect transactions with futures, agreements for difference or options the Client may come up against total loss of a margin deposit opened for creation of maintenance of a certain position.

**IF THE CLIENT SUFFERS LOSSES DUE TO MARKET FLUCTUATIONS, THE CLIENT MAY BE REQUIRED TO PAY SIGNIFICANT EXTRA MARGIN WITHIN SHORT TERMS FOR MAINTENANCE/PRESERVATION OF ITS POSITION. IF THE CLIENT FAILS TO DO SO IN DUE TIME, ITS POSITION MAY BE LIQUIDATED AT A LOSS, AND THE CLIENT MAY BECOME RESPONSIBLE FOR EMERGED DEFICIT.**

Transactions subject to contingent liabilities, which are carried out not on recognized or qualified investment exchanges may involve the Client into a higher risk. As concerns options, only experienced professionals may work with uncovered options subject to preliminary obtainment of complete information on current conditioned and potential risk. In spite of the fact that some over-the-counter markets may be highly liquid, transactions with over-the-counter or «non-transferable» derivative instruments may involve a higher risk than investment in market derivative instruments due to the lack of a stock exchange, on which a position may be opened or closed. Therefore, liquidation of a current position as well as assessment of value of the position on an exit transaction or a risk may not be possible. There are no instructions on purchase and sale offer, and if any, they are established by dealers

on relevant instruments, in which connection it may be difficult to set a fair price. When engaging into margin trading in the subsequent Portfolio pursuant to the agreed Investment Strategy, the Client shall bear all risks related to decrease in the value or total loss of the Assets, existing on the relevant account and securing claims to the Client under those positions, not secured by the Client's Assets. Thus, in this case amount of Assets that is sensible to the risk of changes in value or interest rate shall be greater than if subsequent strategy would not include margin trading, when all Client's obligations are secured with the Client's Assets. In other words, in case of margin trading the Client may suffer the losses inappropriately soon and greater than those without margin trading. In margin selling of the financial instruments losses that the Client may face are not limited. The position shall be closed notwithstanding changes in the value of financial instruments. There at the current market value of the financial instruments may many times exceed the value of the instruments calculated under margin transaction. One of the keys, but not the only issues that may affect the Client's exposure to risk, is a requirement to continually maintain the margin level, reflecting sufficiency of security provided by the Client. In cases where on face level of security would decrease, the Company for the assets of the Client or for its own assets will have to manage the level to the satisfactory value notwithstanding the market value and losses. Thus, we additionally draw your attention to peculiarities of risks arising on futures agreements. Within a trading day due to changes in quotations on futures agreements a variation margin is charged on the Client's account. A variation margin is calculated as a difference between a closing price and an opening price multiplied by a number of Agreements in the client's portfolio on a specified asset (for futures Agreements on RTS index an obtained figure is divided into a price move and multiplied by a fixed interest of the current dollar rate). Based on logic of the trading system it is assumed that a client opens a future position every morning and closes it before the prom clearing, opens it after the prom clearing and closes it at the time of the main clearing. If the client opens a position within a trading day, then a current market quotation will be an opening price. If the client opens a position before clearing, then the current market quotation on a relevant futures Agreement will be a closing price.

## **REPOS AND STOCK LENDING**

Repos (and stock lending) are not strictly derivatives but are often grouped with them as they have some similar structural features. The term repo refers to a sale and repurchase transaction in securities, normally fixed income securities such as bonds. The repo is in effect for a specific period, and at the end of the period the repo purchaser transfers title to equivalent securities (of the same issuer and type) to the repo seller. Since you are not the owner of the securities during the period of the repo, you will not have voting rights nor will you directly receive dividends or other corporate actions although you will normally be entitled to a payment from the repo purchaser equivalent to the dividend you would otherwise have received and the repo purchaser will be required to account for you for the benefit of corporate actions. Repos also entail counterparty default risk and operational risks such as the non-settlement or delay in settlement of instructions. Stock lending (or securities lending) agreements are very similar to repos in structure. The risks are therefore broadly similar in terms of losing rights over securities transferred and, in particular, being subject to counterparty default risk. However, stock lending agreements normally require any payments to be transferred to the lender, so the risks of lower payments transfer to the lender rather than to the borrower. Whereas most repo takes place so that the seller can obtain cash, stock lending is driven by the borrower who wants to hold the securities for a particular time. The borrower will therefore need to consider carefully the reasons it has for holding the securities under a stock lending agreement.

## **TRANSACTION RISK**

Transaction Risk is a risk connected with breakdowns, malfunction or failures of any transfer system, communications facilities, software, computer or any other equipment, hardware or any stock exchange or registration system, closure or faults of stock exchanges, trading floors or registrars, errors or differences in extracts if such errors of differences resulted from technical errors. Options There are many different types of options with different characteristics subject to the following conditions. **(a) Buying options:** Buying options usually involves less risk than selling options because, if the price of

the underlying asset moves against you, you can simply allow the option to lapse. The maximum loss is limited to the premium, plus any commission or other transaction charges. However, if you buy a call option on a futures contract and you later exercise the option, you will acquire the future. This will expose you to the risks described under 'futures'. **(b) Writing options:** If you write an option, the risk involved is considerably greater than buying options. You may be liable for margin to maintain your position and a loss may be sustained well in excess of the premium received. By writing an option, you accept a legal obligation to purchase or sell the underlying asset if the option is exercised against you, however far the market price has moved away from the exercise price. If you already own the underlying asset which you have contracted to sell (when the options will be known as 'covered call options') the risk is reduced. If you do not own the underlying asset ('uncovered call options') the risk can be unlimited. Only experienced persons should contemplate writing uncovered options, and then only after securing full details of the applicable conditions and potential risk exposure. **(c) Traditional options:** Traditional options may involve greater risk than other options. Two-way prices are not usually quoted and there is no Exchange market on which to close out an open position or to effect an equal and opposite transaction to reverse an open position. It may be difficult to assess its value or for the seller of such an option to manage his exposure to risk. Certain options markets operate on a margined basis, under which buyers do not pay the full premium on their option at the time they purchase it. In this situation you may subsequently be called upon to pay margin on the option up to the level of your premium. If you fail to do so as required, your position may be closed or liquidated in the same way as a futures position. Futures and Forwards Transactions in forwards and futures involve the obligation to make, or to take, delivery of the underlying asset of the contract at a future date, or in some cases to settle the position with cash. They carry a high degree of risk. The "gearing" or "leverage" often obtainable in futures trading means that a small deposit or down payment can lead to large losses as well as gains. Thus, a relatively small movement in the value of the underlying asset can lead to a proportionately much larger movement in the value of the investment, which may be either favourable or unfavourable for the client. Contracts for differences Futures and options contracts can also be referred to as contracts for differences. These can be options and futures on any index, as well as currency and interest rate swaps. However, unlike other futures and options, these contracts can only be settled in cash. Investing in a contract for differences carries the same risks as investing in a future or an option and you should be aware of these as set out in above. Transactions in contracts for differences may also have a contingent liability and you should be aware of the implications of detailed below. Off-exchange transactions in derivatives While some off-exchange markets are highly liquid, transactions in off-exchange or 'non-transferable' derivatives may involve greater risk than investing in on-exchange derivatives because there is no Exchange market on which to close out an open position. It may be impossible to liquidate an existing position, to assess the value of the position arising from an off-exchange transaction or to assess the exposure to risk. Bid prices and offer prices need not be quoted, and, even where they are, they will be established by dealers in these instruments and consequently it may be difficult to establish what a fair price is. You should ask to be advised if a particular derivative is arranged on exchange or in an off exchange derivative transaction.

## **RISK OF OVER-THE-COUNTER ("OTC") PRODUCT**

**Loss of Capital Risk:** you may loss capital in OTC product investment in whole or in part. **General Market Risk:** the general economic and political climate, general movements in local and international capital and stock markets, prevailing and anticipated economic conditions, investor sentiment and other events and factors will have impact (positively or negatively) on the value of the OTC product. **Interest Rate Risk:** the value of the OTC product with fixed income may have an inverse relationship to interest rate. When interest rate rises, the value of the relevant product falls and vice versa. **Liquidity Risk:** the OTC product is less liquid and may not have secondary market. **OTC Derivatives Loss of investment:** there is a risk that the client will pay an upfront amount, but never receive any benefit from the transaction.

**Legal risk:** if a counterparty goes into default and the derivative is terminated, the ability to recover value from the transaction is ordinarily dependent on netting gains against losses across different transactions and the value of the transactions against the value of the collateral. Leverage risk: derivatives may be entered into on a highly geared or leveraged basis. This may mean that even a relatively small movement in the value of the underlying asset or other specified factor(s) could result in a disproportionately large movement, unfavourable or favourable, in the amount payable between the parties to the transaction.

**Market Risk:** as derivatives are priced on the basis of an underlying asset or other value, the client will be exposed to the market risks that affect the underlying. However, the economic return of a derivative transaction may not be identical to the economic return of holding the underlying, and may include an adjustment for fees or commissions, financing charges, hedging costs or break costs.

**Operational risk:** losses may occur due to the failures of processes and systems used in monitoring derivative transactions, including calculating and making payments or deliveries, exercising rights (such as options rights) before their expiry, monitoring lifecycles events and delivering notices in a timely manner.

**Swaps Interest rate:** An interest rate swap may involve one party paying the other a variable rate of interest in exchange for payment by the other party of a fixed rate of interest, each calculated on the same notional amount. The party that pays the variable rate of interest will be exposed to the risk of a rise in the variable interest rate but will benefit from a fall in that interest rate. The receiver of the variable rate of interest will be exposed to the risk of a fall in the variable interest rate but will benefit from a rise in that interest rate.

**Market risk:** the risk of loss arising from adverse changes in the value of a derivative instrument as a result of movements in the underlying market rate. **Credit Risk:** the risk that a counterparty may fail to meet its contractual payment obligations through insolvency or default. For derivatives, the amount at risk is not the face value of the transaction but the positive fair value or replacement value of the transaction.

## FUNDS

A fund is an investment vehicle into which investors can make an investment by purchasing a unit, share or interest ('unit') in the fund. The fund is usually managed by a third party who invests the fund's cash and assets. The units represent the investor's interest in the fund and the value of the units purchased is often determined by the value of the underlying Investments made by the fund (although where the units in the fund are listed or traded on a market, the units may trade or be sold at a discount to net asset value). There are many different types of fund available including hedge funds, private equity funds, mutual funds and unit trusts. A fund may be structured as a limited partnership, an investment Company (onshore or offshore), a unit trust or an investment trust. Depending on the legal structure of the fund, units in the fund may be listed on a stock Exchange and the fund may be either open-ended (being, generally, a fund that confers on investors a right to redeem their interests in the fund) or closed-ended. Some fund structures are more exposed to risk than others due to, amongst other things, the markets they invest in, the nature of their assets and the extent of their leverage.

Dealing in any type of fund may involve the following risks and you should carefully read any prospectus, offering memorandum or other fund literature prior to making any investment:

(a) Transferability and withdrawal: units in funds may not be readily redeemable or transferable or there may not be a market for such units. In such cases, an investor may have to hold his interest until such time as the fund is wound up or a secondary market develops for those units — this may involve the investor holding his interest for a substantial period of time. If the fund is an open-ended fund, restrictions may apply to the redemption of the units that may result in an investor being unable to

liquidate his investment in the fund at the time of his choosing. There may also be fees payable on redemption of units.

(b) Regulation: some funds may not be regulated in the jurisdiction of their establishment, or elsewhere, meaning that certain investor protections or restrictions on activity applicable, in a given jurisdiction, to a regulated fund may not apply to such funds.

(c) Leverage: some funds may borrow funds under credit facilities in order to satisfy redemption requests, pay certain organizational expenses and finance the acquisition of Investments. As such, leverage exposes the fund to capital risk and interest costs that may reduce the value of an investor's investment in the fund.

(d) Rights of participation: investors in funds, generally, have very limited rights of participation in respect of their units and the power to make all decisions, without the consent of investors, is usually delegated to the investment Company of the fund.

(e) Strategy: some funds specialize in particular asset classes or geographical sectors, meaning risk may be concentrated in the relevant assets classes or geographical sectors. Some funds choose strategies which the market would regard as high risk. The investment strategy of a fund may be such that the fund faces strong competition for the purchase of assets from other investors, thereby reducing the investment opportunities available to the fund.

(f) Valuations: it may be difficult to determine the net asset value of a fund which has invested in illiquid underlying assets, and therefore it may be difficult to value the underlying units of the fund.

(g) Underlying assets: the underlying assets of a fund can be diverse and cover both long and short positions and a full range of assets, including derivatives. A fund may be exposed to markets risks and risks associated with particular trading activities — for example, off exchange trading, short selling, leveraged trading, frequent portfolio turnover and speculative position limits — which may result in losses for the fund or periods of fund underperformance. The risks associated with a direct investment by an investor in the underlying asset are also relevant in determining the risks associated with an investment by the fund in the underlying asset.

(h) Management of the fund: the operation and performance of a fund will be dependent upon the performance of the fund's investment Company. Generally, a fund will rely upon the investment Company to make investment decisions consistent with the fund's investment objectives and the investment Company, in turn, will be dependent upon its key personnel carrying out their roles with due care and skill. The investment Company and its affiliates (if any) may be in a position to provide services to other clients' which conflict directly or indirectly with the activities of the fund and could prejudice investment opportunities available to, and investment returns achievable by, the fund. If the agreement between the fund and the investment Company is terminated, the fund may not be able to find a suitable replacement for the investment Company, potentially leading to losses for the fund and periods of fund underperformance. You should carefully consider whether an investment in a fund is suitable for you taking account of your financial circumstances and the specific risks involved and be prepared to sustain a total loss of the money you have invested.

## **SHARES AND OTHER TYPE OF EQUITY INSTRUMENTS (INCLUDING DEPOSITARY RECEIPTS)**

**General risk:** a share purchaser does not lend funds to the company, but makes a special contribution and, as such, becomes a co-owner of the corporation. He thus participates in its development as well as in chances for profits and losses, which makes it difficult to forecast the precise yield on such an investment. An extreme case would be if the company went bankrupt, thereby wiping out the total sums invested.

**Price risk:** share prices may undergo unforeseeable price fluctuations causing risks of loss. Price increases and decreases in the short-medium and long-term alternate without it being possible to determine the duration of those cycles. General market risk must be distinguished from the specific risk attached to the company itself. Both risks, jointly or in aggregate, influence the evolution of share prices.

**Dividend risk:** the dividend risk per share mainly depends on the issuing company's earnings and on its dividend policy. In case of low profits or even losses, dividend payments may be reduced or not made at all.

**Investment manager risk:** when investing in a fund, the investor is exposed to the skill and expertise of the investment manager in ensuring that the investment objectives of the fund are met.

## **BONDS**

**Interest rate risk:** uncertainty concerning interest rate movements means that purchasers of fixed-rate securities carry the risk of a fall in the prices of the securities, if interest rates rise. The longer the duration of the loan and the lower the interest rate, the higher a bond's sensitivity to a rise in the market rates.

**Credit risk:** the value of a bond will fall in the event of a default or reduced credit rating of the issuer. Generally, the higher the rate of interest, the higher the perceived credit risk of the issuer. **Insolvency risk:** The solvency of an issuer may change due to one or more of a range of factors including the issuing entity, the issuer's economic sector and/or the political and economic status of the countries concerned. The deterioration of the issuer's solvency will influence the price of the securities that it issues. **Currency risk:** for bonds denominated in a different currency than the investor's home currency, the risk that the exchange rate between the two currencies moves.

**Early redemption risk:** the issuer of a bond may include a provision allowing early redemption of the bond if market interest rates fall. Such early redemption may result in a change to the extended yield. **Money Market Instruments Market risk:** when the equity and debt markets are extremely volatile, investing in money market instruments is generally considered to be lower risk.

**Currency risk:** investors are also exposed to currency risk insofar as underlying assets are denominated in a currency other than the one in which their investment was made.

## **WARRANTS**

**Leverage risk:** as warrants often involve a high degree of leverage, the price of a warrant can be highly volatile. A relatively small movement in the price of the underlying security can result in a disproportionately large movement, favourable or unfavourable, in the value of the warrant.

**Market risk:** a relatively small movement in the price of underlying securities can lead to a disproportionately large movement, unfavourable or favourable, in the price of the warrant. The prices of warrants can be volatile.

**Loss of investment:** the right to subscribe, which a warrant confers, is invariably limited in time. If the right is not exercised within the pre-determined time scale, the investment becomes worthless. Losses resulting from warrants can exceed the amount invested when commissions or other transaction charges are included.

**Time limitation:** it is essential for anyone who is considering of purchasing warrants to understand that the right to subscribe is invariably limited in time with the consequence that if the investor fails to exercise this right within the predetermined time scale then the investment becomes worthless.

## **DEBT INSTRUMENTS**

Investors should be aware that they may not receive the full allocation they apply for, and that any debt instruments they do receive may decline in value from the par value of issuance. All debt instruments are potentially exposed to the major risk types, in particular credit risk and interest rate risk.

## **TYPES OF RISKS RELATED TO CRYPTOCURRENCIES**

**Market Risk:** CFDs on Bitcoins and/or other Cryptocurrencies shall be traded like any other Financial Instrument currently available on the Company's trading platform(s). Having said that, market risk warnings in relation to such CFDs are presented under full transparency in the Company's legal documentation titled "Risk Disclosure", which is disseminated to clients during the account opening process and is always available to them through the Company's website.

**Idiosyncratic Risks associated to Cryptocurrencies and abnormal price fluctuations of Cryptocurrencies:** Adequate risk warnings shall be disseminated to the interested clients and/or potential clients regarding the lack of regulation over Bitcoin and/or other Cryptocurrencies, instability and volatility of the price of such assets as well as the factors that may determine sudden movements in the price fluctuations of the cryptocurrencies, in order to alert and protect investors, prior to entering into transactions related to the price value difference of the Bitcoin and/or other Cryptocurrencies, against other traditional/fiat currencies.

Stricter margin call levels shall be implemented when dealing with such transactions as well as limitation on the leverage allowed for opening such positions involving Bitcoins and/or other Cryptocurrencies.

Moreover, the Company has in place a negative protection policy as well as the necessary settings on the platform which will not allow Clients to lose more than their invested capital. Levels of protection can be elevated in the case of Bitcoin and/or other Cryptocurrencies related trading activities.

**Risks associated to the potential high degree of anonymity of Bitcoin and/or other Cryptocurrencies (fully nullified):** The reasons behind the controversy created around the Bitcoin and/or other Cryptocurrencies, related to the risks for becoming a suitable monetary alternative for drug dealing and money laundering it's understandable. The Company wishes to clarify that actual payments in any cryptocurrencies will NOT be accepted by the Company. The Company will apply the same level of strictness in applying its due diligence procedures as applied to all other high-risk clients.

**Other Risks:** The Risk Disclosure Policy should carefully read in conjunction with Terms of Business (Client Agreement) to help you understand the risks that might arise when trading with products, such as the ones chosen. However, it should be noted that it is impossible for this Risk Disclosure Policy to contain all the risks and aspects involved.

## **KEY COSTS OF INVESTING**

Making any investment will also involve costs and charges which will vary depending on the nature of the service being offered and the product in which an investor is investing. These costs can be material and may have a negative impact on the returns that an investor expects to realize from the investment.

Where you invest through the Company you will be provided with a fee schedule which sets out our current transaction and other costs, which shows the basis on which the Company receives from and/or shares remuneration with the providers of products which you have purchased and/or sold.

In relation to some investments that you purchase such as equities and bonds, the Company charges one-off transaction fees, while in others there are ongoing fees which are charged throughout the term of the product. In addition, when you purchase a product such as a fund (described above), there are

ongoing fees deducted by the investment manager of the fund and the providers of services and counterparties to the fund which will reduce the value of your investment. You should consider carefully the costs of any investment and should you require any further information you should contact the Company.

## **COLLATERAL**

If you invest in strategy with leverage and deposit collateral as security with us, the way in which it will be treated will vary according to the type of transaction and where it is traded. There could be significant differences in the treatment of your collateral depending on whether trading: on a recognized designated investment Exchange, with the rules of that Exchange (and the associated clearing house) applying or trading off exchange. Deposited collateral may lose its identity as your property once dealings on your behalf are undertaken. Even if dealings should ultimately prove profitable, we may not get back the same assets, which we deposited and may have to accept payment in cash.

## **INSOLVENCY**

In the event of the Company's insolvency or default, positions may be liquidated or closed without clients' consent and against clients' wishes. In certain circumstances, clients may not get back the actual assets, which have been lodged as collateral and may have to accept any available payments in cash.

Segregated Funds will be subject to the protections conferred by Applicable Regulations.

## **MONITOR AND REVIEW**

The Company will, on a regular basis, monitor and assess the effectiveness of this Risk Disclosure in order to deliver the best possible service for the Client, and, where appropriate, the Company reserves the right to correct any deficiencies in this Disclosure and make improvements to it.

The Company will review the Risk Disclosure at least annually.