

# RISK INFORMATION

CFDs are complex instruments and are associated with a high risk of losing money quickly due to the leverage effect. **74.27% of small investor accounts lose money trading CFDs with this provider.** You should consider whether you understand how CFDs work and whether you can afford to enter into the high level of risk of losing your money. This risk information relates to trading in financial derivatives and applies to the Trading Account and the Brokerage Account.

## I. BASIC PRINCIPLES

Online trading in CFDs (CFD trading), as well as spot forex trading and futures transactions, is associated with a considerable level of risk and may, under certain circumstances, lead to a total loss of the invested capital, or even reserve liability for certain customers (for customers classified as professional and eligible counterparties who have selected an account model subject to reserve liability or to whom an account model subject to reserve liability is subsequently applied, see Account models and reserve liability). The risk of loss is limited to the available balance for private customers only in CFD trading, futures trading and spot forex trading. In the worst-case scenario, the loss for certain professional customers and eligible counterparties in CFD trading, futures trading and spot forex trading is practically unlimited in the event that the "Professional Classic" account model subject to reserve liability is selected or automatically applicable due to the trading account account exceeding the asset threshold of EUR 100,000.00. Therefore, we strongly recommend only trading with equity and risk capital from existing liquid funds. Please note that FXFlat does not provide investment advice and does not offer advice on legal and tax matters and excludes liability as far as possible (see disclaimer). Since, depending on the type of trading, the CFD, spot forex and futures field may offer leveraged investment opportunities with lower capital investment, you are aware that active online trading leads to much higher revenue, as is the case, for example, with traditional forms of investment. The low fees, which are based on the "volume moved" (and not on the capital invested), can therefore amount to a considerable sum, about which you have been informed accordingly. You confirm that you have provided truthful information about yourself in the process of establishing a business relationship and confirm that you are acting on your own account, on your own authority and in your own name, that you are an authorised user of the trading account and that you are responsible for the confidential management of your user ID and password. Furthermore, you are aware that this is an electronic platform with associated order routing. Losses resulting from, for example, power failures, errors in hardware and software and errors in the communication connection must be borne by you as the customer. The FXFlat website and affiliated websites do not constitute advertising, binding information or a declaration of any transaction of securities or other financial instruments by FXFlat. The information provided only constitutes legally non-binding information or risk warnings which FXFlat is legally obliged to provide to its customers or other users. This information does not constitute investment advice or a recommendation. In particular, you will not receive any tax advice. Transactions in CFDs, which are essentially concluded under the same conditions (see Special conditions), are primarily subject to the same risks with regard to the respec-

tive underlying assets in CFDs. The risks associated with CFDs, which also apply to the conclusion of spot forex transactions, are described in detail below in I. The risks associated with spot forex transactions are described in II. and, where the risks are identical to CFD trading, reference is made to the corresponding risk warnings for CFD trading. III. highlights the risks associated with spot forex trading which correspond to the risks associated with CFD forex trading. Future risks are dealt with in III.

### Account models and reserve liability in CFD trading, futures trading and spot forex trading

As far as the following provisions concerns the "Professional Plus" service package, these provisions shall only apply to users of this package with a contract concluded by 23.11.2022.

Provisions relating to the "Professional Classic" service package shall apply without restriction to all professional clients.

For users of the Metatrader: Private customers are not subject to any reserve liability in CFD trading, futures trading and spot forex trading. Professional customers and eligible counterparties are subject to reserve liability in CFD trading, futures trading and spot forex trading subject to the following conditions:

#### a) Reserve liability for the initial or subsequent "Professional Classic Account"

Professional customers and eligible counterparties which fall under the "Professional Classic Account" business unit are obliged to maintain funds in the trading account at all times (including during the day) in such an amount that a negative balance shown on the trading platform during the day and/or at the end of the day is covered at all times. The customer's obligation to demonstrate a positive net margin position for each individual trading account account applies at all times, irrespective of the bank's business hours and the operating hours of the trading platform. Price and market movements may lead to an increased margin requirement at any time, even if the reference market of the underlying asset is closed. Reserve liability therefore applies. A forced closure does not release the customer from their obligation to fulfil the contract and to make an additional contribution.

In principle, the professional customer can apply for a classification as a private customer with the result that there is no reserve liability with CFD and futures transactions and spot forex trading; however, FXFlat is not obliged to conclude or amend a contract in accordance with the application.

#### b) Initial or subsequent "Professional Classic Account" with reserve liability

For so-called professional customers and so-called eligible counterparties, reserve liability applies if the "Professional Classic Ac-

count" account package is selected or if trading assets exceed EUR 100,000, i.e. the professional customer must settle all claims arising from the transaction carried out on their behalf, including all fees, even if these exceed the assets the customer holds in the collective trust account with the bank. Customers are informed by the bank about their classification as a professional customer and their assignment to the "Professional Classic Account". A professional customer without reserve liability in the outset may become a professional customer with reserve liability by exceeding EUR 100,000 in trading assets; conversely, a professional customer may become a professional customer without reserve liability again by reducing the trading assets in a timely manner.

#### **c) Regrouping of "Professional Plus Account" (without additional contribution) into "Professional Classic Account" (with additional contribution) - avoidance option**

"Initial reserve liability" is incurred by the choice of the Professional Classic Account service package or by making a deposit exceeding EUR 100,000 into a collective trust account as part of the establishment of a business relationship before the first order for this collective trust account is issued. Several individual deposit transactions are regarded as one deposit and the amount of EUR 100,000 is deemed to be exceeded if EUR 100,000 is credited to the trust bank irrespective of immediate fee deductions by the trust bank. The customer will be informed by email and/or inbox of any assignment to the "Professional Classic" service package that differs from the selection of the "Professional Plus" service package. "Initial reserve liability is incurred" in the case of application of the "Professional Plus" service package if the total assets (equity) in the customer's collective trust account exceed EUR 100,000 at the end of the day and the customer does not transfer the total assets of less than EUR 100,000 to the reference account by means of a transfer instruction within 24 hours of receiving the notification email regarding the reassignment into the "Professional Classic" service package.

The balance at the end of the day shown under "Equity" or "Available balance" in the trading system is decisive for the total assets in respect of exceeding the threshold, as well as for falling below it within 24 hours. The customer will be informed about the

imminent reserve liability and the imminent deviating assignment to the "Professional Classic" service package by email and/or inbox message, together with information about the possibility of avoiding the reserve liability by means of a transfer instruction to the reference account.

#### **d) Customer obligation to check email account and inbox**

In addition to checking the inbox on the trading system, the customer is obliged to check the email account specified by the customer which is used for correspondence with the bank on a regular basis

#### **e) Reserve liability also for incoming positions before regrouping and orders placed**

All open positions and orders concluded before the application of the "Professional Classic" service package with the associated reserve liability fall within the "Professional Classic" service package application area, i.e. they are subject to reserve liability if these positions are closed after the application of the "Professional Classic" service package. With regard to the reserve liability (regrouping into no reserve liability), it is therefore not a question of receiving the position or the order here, but of closing the position. All open positions and orders concluded prior to the application of the "Professional Plus" service package with the associated lack of reserve liability still fall within the application area of the "Professional Classic" service package, i.e. they are still subject to reserve liability if these positions are closed after the "Professional Plus" service package has been applied. With regard to the reserve liability (regrouping into reserve liability), it is therefore not a question of receiving the position or the order here, but of closing the position.

#### **Inevitability of risks**

If one of the employees or sales partners tells the customer that the risks described below do not exist in the specific case or even assures the customer of profits or loss limits, this individual is acting without authorisation. The risks which are described cannot be avoided in any way. Reference is made to FXFlat Bank GmbH when the term "bank" is used in the following.

## **II. CFDS**

### **General points and definition of terms**

A CFD (contract for difference) is speculation on differences based on the development of the price of an underlying asset. CFDs are traded off-market and are therefore OTC (over-the-counter) products. Contracts for differences are derivative financial instruments. They therefore represent derived products (derivatives) that reflect the price performance of an underlying asset almost exactly. The purchase or sale of a CFD takes place at a market-relevant price, which the provider of the CFD contract specifies. CFDs are margin products. In contrast to the direct purchase of the underlying asset, when buying or selling CFDs, only a fraction of the capital has to be deposited as security (margin). Thus, a higher volume can be traded due to the lower capital employed and the capital employed can thus be leveraged (leverage effect). The amount of the security deposit is defined by a fixed percentage and may vary between products. Typical values are between 0.5% and 50% of the contract value. In the case of exotic and/or less liquid underlying assets, the margin requirement may well be higher. In addition to equity CFDs, CFDs on the underlying assets of indices, commodities, interest rates, futures and currencies can also be traded. Due to the almost exact participation of the CFD in the price performance of the underlying asset, the same functions, influencing factors and risks affect the price development of the underlying asset and the price development of the CFD. Investors

can speculate on both rising and falling prices with CFDs. CFDs can be used for hedging purposes or for pure speculation. If the customer buys a CFD on a share, the customer does not own the share. This means that all rights (e.g. voting rights at the annual general meeting) and obligations that may result from a direct investment in the reference value are also eliminated. Physical delivery or acquisition does not take place. The customer only has the right to compensation for the difference between the buying and selling price. In the case of a long position, dividends are paid to the holder (sometimes with deductions); in the case of short positions, the holder is charged. CFD positions are usually closed automatically for other price-relevant capital measures (such as stock splits). If an underlying asset is quoted in a foreign currency, the margin must be deposited in the relevant foreign currency when the CFD position is opened. The conversion of the account currency into the foreign currency takes place automatically when the position is opened. At the same time, the foreign currency is automatically converted back into the account currency when the position is closed. If the customer holds a long position in CFDs overnight, financing costs will be incurred and invoiced. If the overnight position is a short position, financing income is realised for the customer. The financing rate of the corresponding trading currency serves as the basis for the interest rate. On the part of the CFD provider, an additional surcharge or discount is applied.

## General risks associated with transactions CFDs

### Risk of loss

Buyers and sellers of CFDs only acquire the right to the settlement of any difference between the buying and selling price. This means that only cash settlement is possible for CFDs.

The price at which the open position was closed out is decisive for a loss or profit on the CFD position. If the expected price development has not occurred and the position has been closed out, the difference between the opening and closing prices multiplied by the number of contracts traded must be paid. In addition, due to the leverage effect already described, the amount of the loss may, in the worst-case scenario, cover the entire margin paid in (margin loss risk) and even exceed it (possibility of unlimited risk of loss for professional customers and eligible counterparties if the corresponding account model is applicable, private customers are exempt from reserve liability). The bank will only carry out the forced offsetting of open CFD positions in its own interest; the customer may not derive any rights from the forced offsetting which fundamentally did not take place or which was an option at an earlier stage. The customer also may not derive any rights from the underlying asset developing positively for the customer following a forced offset which took place.

### Market price risk

The market price risk is the risk of a change in the contract value as a result of a price change in the underlying asset to the disadvantage of the customer. The market price risk should therefore be understood as the potential loss resulting from uncertainty about future price developments. Consequently, any change in the price of a CFD constitutes a market price risk. The increased volatility on the financial markets in recent years has also increased the chances of rapid price gains but, of course, also losses. In addition to fundamental reasons, the psychology of market participants can also have a considerable influence on prices or rates. Very often, irrational factors have an effect on the general price development on the financial markets. News from politics and business, opinions and rumours can be interpreted differently by market participants. It is therefore all the more difficult to distinguish between rational and irrational factors and to derive a market opinion from these with regard to the future performance of an underlying asset or CFD.

### Leverage risk

The effects of market price risk are massively exacerbated by the leverage effect. CFDs are traded on a margin basis. Thus, an investor with a small margin can move with a much larger position in the market. The strong leverage increases both profit and loss opportunities. Even small price fluctuations can lead to a total loss of the invested capital if the loss exceeds the margin deposited and if no forced offsetting occurs beyond that. In volatile markets, intraday valuation losses can consume the margin so quickly that it is no longer possible to close the CFD position or add additional collateral and forced offsetting occurs immediately. In such volatile markets, a debit balance can even arise despite forced offsetting so that not only a total loss of the capital which has been paid in is incurred, but also possibly even losses exceeding this (see above, reserve liability applies only to customers classified as professional and eligible counterparties). Since the bank only carries out forced offsetting in its own interest and is under no obligation to the customer to carry out forced offsetting, the trading account may contain debit balances in a considerable amount, which the professional customer and the eligible counterparty must settle in contrast to the private customer. Here are two examples to illustrate the leverage effect and its consequences:

Available capital on the trading account: EUR 5,000

Margin requirement: 10%

Price of the CFD: EUR 100

In the case of a direct investment in the underlying asset, a maximum of  $(\text{EUR } 5,000 / \text{EUR } 100) = 50$  units could be purchased. The maximum possible trading volume, taking into account the 10% margin requirement, is EUR 50,000. Thus  $(\text{EUR } 50,000 / \text{EUR } 100) = 500$  CFDs can be bought at a price of EUR 100.

### Winning trade

Purchase price CFD price x number of CFDs = trading volume  
 $\text{EUR } 100 \times 500 = \text{EUR } 50,000$  trading volume.

The CFD price rises by 1% to EUR 101 before selling.

$\text{EUR } 101 \times 500 = \text{EUR } 50,500$  trading volume

Profit:  $\text{EUR } 50,500 - \text{EUR } 50,000 = \text{EUR } 500$

A 1% price increase has therefore led to an increase in the available capital of EUR 5,000 to EUR 5,500.

### Loss trade

Purchase price CFD price x number of CFDs = trading volume  
 $\text{EUR } 100 \times 500 = \text{EUR } 50,000$  trading volume.

The CFD price drops 1% to EUR 99 by the time it is sold.

$\text{EUR } 99 \times 500 = \text{EUR } 49,500$  trading volume

Loss:  $\text{EUR } 50,000 - \text{EUR } 49,500 = \text{EUR } 500$

A 1% price decrease has therefore led to a reduction in the available capital from EUR 5,000 to EUR 4,500. These examples show that the leverage effect creates enormous profit and loss potential. In the event of a loss, this can lead to a total loss or even more. To illustrate the leverage effect, the entire capital was invested in a single position in the examples.

### Reserve liability/resourcing period/forced offsetting

Losses may exceed and consume the capital provided on the trading account. Certain customers classified as professionals and eligible counterparties, in the event that the "Professional Classic" account model subject to reserve liability is selected or automatically applicable to the trading account on the basis of exceeding the asset threshold of EUR 100,000.00, are required to make additional contributions for the purpose of pure loss compensation. Private customers, on the other hand, are not. If losses result in the capital provided in the trading account no longer being sufficient to underpin open CFD positions, the customer must provide additional funds in good time. If this is not done or if the additional contribution or injection of funds does not take place in time, the bank may close the customer's position (forced offsetting). If losses remain despite forced offsetting, the specific professional customer and the eligible counterparty shall be fully liable for this if the "Professional Classic" account model subject to reserve liability is selected or if this automatically becomes applicable to the trading account due to the asset threshold of EUR 100,000.00 being exceeded and, in contrast to private customers, obliged to settle the resulting debit balance of the trading account. As a timely and thus effective supply of liquid funds usually takes at least one day after the customer initiates this to achieve entry in the trading account, the customer must consider that an additional contribution being initiated or supply of funds does not prevent a forced offset.

The bank only carries out the forced offset of open CFD positions in its own interest; the customer may not derive any rights from the forced offsetting which fundamentally did not take place or which was an option at an earlier stage nor from the fact that the underlying asset has developed positively for the customer following forced offsetting.

### Overnight risk

In the case of CFD positions held overnight, the price quoted at the start of the following business day (opening price) may differ significantly from the price quoted at the close of business on the previous day (closing price) (so-called overnight gap). This is due, in particular, to news becoming public after the close of trading (economics, politics, natural disasters) or developments on the stock exchanges with differing trading hours having a very strong influence on the opening price. In particular, this overnight gap may result in stop loss limits not effectively being sufficient to limit losses, as the opening price may have fallen well below the stop loss limit (for long positions) or far exceeded the stop loss limit (for short positions).

### Liquidity risk

The liquidity risk describes the possibility that positions cannot be closed or cannot be closed at a fair market price. This can happen if the bank is no longer able to hedge itself sufficiently, the volume traded on the markets is too low and/or there are general market disruptions. Too low a trading volume may also result in positions being only partially closed. Liquidity risks can occur with both OTC products and exchange-traded products. These risks can exist, above all, in illiquid markets with a high bid-ask spread or if individual transactions have a sustained influence on the market price. Technical problems or system failures may also occur, resulting in problems closing CFD positions. CFD products that cannot be traded 24 hours a day are subject to additional risks. The customer may not be able to react immediately to current events as position closing or opening is not possible outside trading hours. In the worst-case scenario, this results in a high risk of loss for the customer.

### Risks despite stop - limitations/non-implementation of risk limits

Transactions designed to exclude or limit the risks arising from the incoming CFD positions may not be possible or may only be possible at a loss-making market price. This refers to transaction types that automatically initiate the closing out of a transaction. These serve to limit losses or profits, e.g. stop and limit transactions. Under certain market conditions, they may not be complete, timely, at the defined price or even executed at all. This can lead to considerable losses. Stop limits, in particular, are frequently used to minimise risk. In principle, the risks can be limited to some extent with, for example, stop-market limits. However, especially in very volatile market phases with large price jumps, the measures which are taken may fail entirely or only succeed to an insufficient extent. This is the case when the closure can only be carried out at loss-making prices or not at all. This may result in higher losses than expected for the investor. The risk of a price gap, especially in overnight positions, should also always be considered.

### Currency risks

An additional currency risk arises if transactions are concluded in a currency other than that of the trading account or if the underlying asset is denominated in a foreign currency (e.g. gold or oil). There is therefore an additional risk due to exchange rate fluctuations. If the exchange rate changes between 2 currencies, this can have a negative impact on the CFD position, even without the CFD price changing.

### Tax risks

Since transactions in Germany are taxable, tax risks can also affect transactions. Investors should therefore also take into account the tax considerations associated with the transactions they conclude. Ultimately, what matters to the investor is the net return, i.e. the return after tax. The customer is obliged to inform themselves about the tax considerations before the intended transaction.

### Information risk

It is possible that a customer may not receive up-to-date, complete and correct information for the investment decision at any time and for each trading instrument. If insufficient information is available, this can always lead to incorrect decisions. The bank does not provide any investment advice and provides, at the request of the customer, some market information from third parties without any guarantee. The customer is responsible for ensuring that there is sufficient market information to support their investment decision.

### Counterparty default risk/insolvency risk/market maker risk

Counterparty default risk is the risk that a contracting party will not be able to meet its contractual payment obligations or will only be able to meet them in part. Consequently, one contracting party suffers a financial loss. This risk is not dependent on market events and can occur at any time. The insolvency risk is an expression of the general counterparty default risk. The customer shall bear the risk of bank insolvency, which, as a service provider, concludes CFD transactions with third parties (market makers) on behalf of and for the account of the customer. Although this risk is reduced in principle by the membership of the "Entschädigungseinrichtung für Wertpapierhandelsunternehmen EDW" (for the exact content and the exceptions to the right to compensation see [www.e-d-w.de](http://www.e-d-w.de)) in the amount of 90% of the claim, a maximum of EUR 20,000, the additional risks, including the risks of an insolvency-related forced closure at an unfavourable time for the customer and delayed payment by the EDW, are not covered. In the event of the insolvency of the trust bank, the customer continues to bear a temporal sweep-out risk, in which the bank maintains the trading account in its name, in which the margin of the various customers is held together (collective trust account).

The trading account is expressly kept by the trust bank and the bank as a collective trust account for each individual customer so that it does not fall into the insolvency estate. However, in the event of the bank becoming insolvent, it is to be expected that the payment to the customer will take some time. Furthermore, the customer bears the risk that the market maker or counterparty with whom the bank concludes CFD transactions on behalf of and for the account of the customer fails to fulfil the CFD contract or fails to fulfil it in full. This risk is borne by the customer, who, in this case, must take legal action against the market maker itself, which may entail special costs if the market maker is domiciled abroad. Reasons for the non-performance of the CFD contract by the market maker may be, for example, the insolvency of the market maker or the fact that the market maker is no longer able to hedge itself on the market or with third parties (e.g. through lending transactions). This may occur, for example, if market disruptions exist or loan agreements with third parties expire prematurely or are terminated. In such cases, forced closures may occur in the contract relationship between the market maker and the bank, which in turn lead to forced closures vis-à-vis the customer.

### Risks associated with the use of electronic systems/false entries/transmission risk

CFDs are traded directly via an electronic trading platform or, in emergency circumstances, by telephone with subsequent entry on the electronic trading platform. In the event of a disruption or failure of the trading platform, the opening or closing of CFD positions may become difficult, delayed or even impossible. The bank shall not be liable in accordance with the conditions for losses or lost profits unless such failure has been caused intentionally or by gross negligence on the part of the bank. The customer bears full responsibility for the use of its own electronic trade support systems. If, in the bank's opinion, a false entry (or

omitted entry) has been made in the trading system or in the daily and/or financial report based on this, the bank shall be entitled to carry out retrospective correction in accordance with the conditions. This may lead to forced offsetting and thus to losses or lost profits for the customer, which are justified even if it transpires that there was no false entry at a later stage. If a CFD contract is concluded by telephone, it must be clear and unambiguous in order to avoid misunderstandings and delays. Any offer made by an investor to the bank to conclude a contract must therefore contain certain essential information: This includes, in particular, the instruction to buy or sell, the exact designation of the CFD and the number. The risk can at least be limited by placing orders in a precise manner

#### **Mistrade risk**

In accordance with the conditions, the bank is entitled to retroactively cancel the opening or closing of a CFD position under certain time and content conditions. This may lead to forced offsetting and thus to losses or lost profits for the customer.

#### **Risk with credit-financed transactions**

If the investment amount is financed by credit, the risk increases. Should the market then develop contrary to expectations, the loan and interest must be repaid in addition to the loss incurred. Before entering into a transaction, customers should check their financial situation to ascertain whether they are in a position to repay the interest and the loan if losses are incurred instead of the expected profits. In principle, transactions should not be financed with loans.

#### **Day trading risks**

Day trading describes the buying and selling of financial instruments, including CFDs, on the same trading day. The aim is to achieve profits by exploiting the smallest price fluctuations of a single underlying asset. Day trading can lead to immediate losses if surprising developments cause the value of the financial instrument purchased to fall on the same day. In order to avoid further risks (overnight risks), a day trader may be forced to close the CFD position at a loss. The risk may additionally increase if investments are only made in underlying assets that are subject to a high fluctuation margin (volatility). Day trading also entails the risk that losses which have already occurred may be offset by new and even riskier transactions, which in turn will sustainably accelerate the customer's consumption of capital. Day trading requires in-depth knowledge and the customer is in competition, in particular, with professional and financially strong market participants. Day trading can lead to considerable costs due to the high number of transactions. Depending on the product, a fee per trade must be paid in addition to the spread. The high transaction costs can reduce expected profits or even lead to losses.

#### **Risks with online trading**

Online trading is associated with further technological risks. Due to system crashes, system errors, connection interruptions and hardware or software errors, customer orders may only be executed partially, not at all or delayed. These errors and malfunctions can result in high losses, which can exceed the invested capital.

#### **Risk of ancillary costs**

Online trading is associated with further technological risks. In addition to the margin to be provided, various additional costs are incurred when opening and/or closing CFD positions. Direct costs, i.e. costs that are directly linked to the transaction, are, for example, the spread (difference between purchase and sale price) and transaction costs. After position opening, further follow-up costs may occur, e.g. financing costs may be incurred

if a CFD position is held overnight (overnight positions). These costs should always be included in the investor's calculation as they can reduce profit expectations. Before opening a position, the customer should familiarise themselves with all possible costs incurred and take these into account in their trade planning. The higher the ancillary costs, the more the position must move in the expected direction in order to break even. If the position develops contrary to customer expectations, the ancillary costs increase the loss incurred. A high number of transactions therefore also leads to high ancillary costs, which can have a negative impact on profit expectations. An exchange rate indicates the value of a currency in another currency. It is defined as the price (expressed in domestic currency) that must be paid for a foreign currency. This type of quotation is also called price quotation. In the case of indirect quotation, the price of the home currency is expressed in a foreign currency. The euro is always quoted indirectly against all currencies. Thus, the exchange rate for the EUR/USD currency pair is expressed as the value of one euro in US dollars. The first currency always represents the base currency. The value of the base currency is always 1. The other currency indicates the price of the base currency and is also called the quoted currency. Due to the associated risks, forex CFD trading requires special knowledge, skills and experience and is therefore not suitable for every customer. Customers should therefore carefully consider whether trading in foreign exchange is an appropriate form of investment in light of their experience, investment objectives, financial capabilities and other investment-related personal circumstances. The typical risks of spot forex trading are explained below.

#### **Risk of loss and risk of leverage effect**

Although the settlement of a spot forex transaction on the basis of a margin payment reduces the amount of capital employed so that much higher trading volumes can be moved with a small amount of capital employed, this is offset by a high risk of loss. Due to the high leverage, minor price fluctuations can have an extreme effect on the capital invested. This can go as far as total loss or beyond. The following 2 examples illustrate the leverage effect:

##### **Example 1:**

Available capital on the trading account: EUR 10,000  
Margin requirement: 1%  
EUR/USD exchange rate: 1.5000

Trade direction: Long  
Purchase of 5 lots (1 lot = 100,000)

The investor goes long at a EUR/USD rate of 1.5000 with 5 lots. This means they buy EUR 500,000 with the expectation that the euro will appreciate against the US dollar. The transaction therefore has an equivalent value of USD 750,000 (500,000 x 1.5). In the case of a 1% margin requirement, however, they only have to deposit EUR 5,000 as margin. They can therefore effectively move EUR 500,000 with EUR 5,000, which corresponds to a leverage of 100. If the EUR/USD rate now rises to 1.5150, i.e. by 1 percent, the original position now has a value of USD 757,500 (500,000 x 1.5150). The investor thus makes a profit of USD 7,500 or EUR 4,950.50. The available capital thus increases to EUR 14,950.50. With regard to the capital employment of EUR 5,000, the investor gained a net yield of nearly 100%.

##### **Example 2:**

Available capital on the trading account: EUR 10,000  
Margin requirement: 1%

EUR/USD exchange rate: 1.5000  
Trade direction: Long  
Purchase of 5 lots (1 lot = 100,000)

The initial situation is the same as in example 1. The investor buys EUR 500,000 with the expectation of rising EUR/USD quotations. However, the EUR/USD exchange rate now falls to 1.4775, e.g. due to weak economic data from the eurozone. This corresponds to a decline of 1.5%. The original position had an equivalent value of USD 750,000. After the price decrease, however, it is only worth USD 738,750 ( $500,000 \times 1.4775$ ). The investor thus makes a loss of USD 11,250 or EUR 7,614.21. The available margin of EUR 5,000 would not be sufficient to cover this loss. In this case, the bank would demand additional margin contributions to compensate the account balance if the transaction had not yet been forced to close by an internal trading system to limit risk. Once a settlement has been made, the margin deposited would be sufficient to cover the losses incurred. The available capital would then fall to EUR 2,385.79. Based on the capital investment of EUR 5,000, the investor would have to accept a loss of approx. 152%. Should losses result in the total margin deposited no longer being sufficient for the open transactions, additional margin payments would have to be made to restore an even account balance. If the required capital

is not replenished within the set period, the open transactions are closed by the bank. This is done by means of an electronic trading system that automatically closes open customer positions with predefined loss limits. Should debit balances nevertheless arise on the trading account, the professional customer will be fully liable if the "Professional Classic" account model, which is subject to reverse liability, is selected or automatically applicable to the trading account due to the asset threshold of EUR 100,000.00 being exceeded. The professional customer is obliged to compensate for any losses incurred. Consequently, the risk of loss for professional customers (in contrast to private customers) is not limited to the capital employed. Also, due to the leverage effect already described, the amount of the loss can, in the worst-case scenario, cover the entire margin paid in (margin loss risk) and even exceed it and is unlimited upwards in the case of short positions (possibility of unlimited loss risk). The bank only carries out the forced offset of open CFD positions in its own interest; the customer may not derive any rights from the forced offsetting which fundamentally did not take place or which was an option at an earlier stage nor from the fact that the underlying asset has developed positively for the customer following forced offsetting.

### III FUTURES

#### General points and definition of terms

A forward contract or futures contract is an exchange-traded unconditional forward transaction on an underlying asset that is concluded at the daily price and the performance of which is in the future at an agreed point in time. The possible underlying assets are published on the trading platform. Futures are margin products. In contrast to the direct purchase of the underlying asset, when buying or selling futures, only a fraction of the capital has to be deposited as security (margin). Thus, a higher volume can be traded due to the lower capital employed and the capital employed can thus be leveraged (leverage effect). The amount of the security deposit is defined by a fixed percentage and may vary between products. Typical values are between 0.5% and 50% of the contract value. In the case of exotic and/or less liquid underlying assets, the margin requirement may well be higher. Due to the almost exact participation of the futures in the price performance of the underlying asset, the same functions, influencing factors and risks affect the price development of the underlying asset and the price development of the futures. Investors can speculate on both rising and falling prices with futures. Futures can be used for hedging purposes or for pure speculation. Physical delivery or acquisition of the underlying asset does not take place. The customer only has the right to compensation for the difference between the buying and selling price multiplied by the contract value per index point of the underlying asset. If an underlying asset is quoted in a foreign currency, the margin must be deposited in the relevant foreign currency when the futures position is opened. The conversion of the account currency into the foreign currency takes place automatically when the position is opened. At the same time, the foreign currency is automatically converted back into the account currency when the position is closed.

#### General risks associated with future transactions

##### Risk of loss

Futures transactions aim at a cash settlement between buyer and seller. The value of a long future is the difference between the current price and the issue price and the multiplier or contract value per index point of the underlying asset. Conversely, the value of a short future is the difference between the

issue price and the current price and the multiplier or contract value per index point of the underlying asset.

The price at which the open position was closed out is decisive for a loss or profit from the futures position. If the expected price development has not occurred and the position has been closed out, the difference between the opening and closing prices, multiplied by the number of contracts traded and the price per index point, must be paid. The leverage effect described below can also cause the amount of the loss, in the worst-case scenario, to cover the entire margin paid in (margin loss risk) and even exceed it (possibility of unlimited risk of loss). The bank will carry out the forced offset of futures positions solely in its own interest.

##### Market price risk

The market price risk is the risk of a change in the contract value as a result of a price change in the underlying asset to the disadvantage of the customer. The market price risk should therefore be understood as the potential loss resulting from uncertainty about future price developments. Consequently, any change in the price of a futures contract constitutes a market price risk. The increased volatility on the financial markets in recent years has also increased the chances of rapid price gains but, of course, also losses. In addition to fundamental reasons, the psychology of market participants can also have a considerable influence on prices or rates. Very often, irrational factors have an effect on the general price development on the financial markets. News from politics and business, opinions and rumours can be interpreted differently by market participants. It is therefore all the more difficult to distinguish between rational and irrational factors and to derive a market opinion from them with regard to the future performance of an underlying asset or futures.

##### Leverage risk

The effects of market price risk are massively exacerbated by the leverage effect. Futures are traded on a margin basis. Thus, an investor with a small margin can move with a much larger position in the market. The strong leverage increases both profit and loss opportunities. Even small price fluctuations can lead to a total loss of the invested capital if the loss exceeds the margin

deposited and if no forced offsetting occurs beyond that. In volatile markets, intraday valuation losses can consume the margin so quickly that it is no longer possible to close the futures position or add additional collateral and forced offsetting occurs immediately. In such volatile markets, a debit balance can even arise despite forced offsetting of the market so that not only a total loss of the capital which has been paid in is incurred, but also possibly even losses exceeding this (see above, reserve liability). Since the bank only carries out forced offsetting in its own interest and is under no obligation to the customer to carry out forced offsetting, the trading account may contain debit balances in a considerable amount, which the professional customer and the eligible counterparty must settle. The following examples are provided to illustrate the leverage effect and its consequences:

Available capital on the trading account: EUR 5,000

Margin requirement: EUR 500

Price of the futures: 12,000

Contract value (multiplier): EUR 5 per index point to the underlying asset

The total value of a futures contract is EUR 60,000 (market value x contract value).

The maximum possible trading volume, taking into account the margin requirement of EUR 500 per contract, is 10 futures contracts with a capital of EUR 5,000. Therefore, this means that  $(EUR\ 5,000 / EUR\ 500) = 10$  futures contracts can be bought at a price of EUR 12,000. The total volume amounts to EUR 600,000 with a margin requirement of EUR 5,000.

#### Winning trade

Purchase price futures price x number of contracts x contract value = trading volume  $12,000 \times 1 \times 5 = EUR\ 60,000$

The futures price rises by 1% to 12,120 points before selling.

$12,120\ points \times 5 = EUR\ 60,600$  trading volume

Profit:  $EUR\ 60,600 - EUR\ 60,000 = EUR\ 600$

A 1% price increase has therefore led to an increase in the available capital of EUR 5,000 to EUR 5,600.

In relation to the margin of EUR 500 used, this results in a return of 120%.

#### Loss trade

Purchase price futures price x number of contracts x contract value = trading volume  $EUR\ 60,000 = 12,000 \times 1 \times 5,000$ .

The price of the futures falls by 1% to EUR 11,880 before being sold.

$EUR\ 11,880 \times 5 = 59,400$  trading volume. Loss:  $EUR\ 59,400 - EUR\ 60,000 = - EUR\ 600$

A 1% price decrease has therefore led to a reduction in the available capital from EUR 5,000 to EUR 4,400. These examples show that the leverage effect creates enormous profit and loss potential. In the event of a loss, this can lead to a total loss or even more. The professional customer will be fully liable if the "Professional Classic" account model, which is subject to reverse liability, is selected or automatically applicable to the CFD, futures or spot forex account due to the asset threshold of EUR 100,000.00 being exceeded. The professional customer is then obliged to compensate for any losses incurred. Consequently, the risk of loss for professional customers (in contrast to private customers) is not limited to the capital employed. To illustrate the leverage effect, the entire capital was invested in a single position in the examples.

#### Reserve liability/resourcing period/forced offsetting

Losses may exceed and consume the capital provided

on the trading account. Certain customers classified as professionals and eligible counterparties, in the event that the "Professional Classic" account model subject to reserve liability is selected or automatically applicable to the trading account on the basis of exceeding the asset threshold of EUR 100,000.00, are required to make additional contributions for the purpose of pure loss compensation. Private customers, on the other hand, are not. If losses result in the capital provided on the trading account no longer being sufficient to underpin open futures positions, the customer must provide additional funds in good time. If this is not done or if the additional contribution or injection of funds does not take place in time, the bank may close the customer's position (forced offsetting). If losses remain despite a forced offset, the customer shall be fully liable for these and shall be obliged to settle the resulting debit balance of the trading account. As a timely and thus effective supply of liquid funds usually takes at least one day after the customer initiates this to achieve entry in the trading account, the customer must consider that an additional contribution being initiated or supply of funds does not prevent a forced offset.

The bank only carries out the forced offset of open futures positions in its own interest; the customer may not derive any rights from the forced offsetting which fundamentally did not take place or which was an option at an earlier stage nor from the fact that the underlying asset has developed positively for the customer following forced offsetting.

#### Liquidity risk

The liquidity risk describes the possibility that positions cannot be closed or cannot be closed at a fair market price. This can happen if the bank is no longer able to hedge itself sufficiently, the volume traded on the markets is too low and/or there are general market disruptions. Too low a trading volume may also result in positions being only partially closed. Liquidity risks may also occur with exchange-traded products. These risks can exist, above all, in illiquid markets with a high bid-ask spread or if individual transactions have a sustained influence on the market price. Technical problems or system failures may also occur, resulting in problems closing futures positions. Futures that cannot be traded 24 hours a day are subject to additional risks. The customer may not be able to react immediately to current events as position closing or opening is not possible outside trading hours. In the worst-case scenario, this results in a high risk of loss for the customer.

#### Risks despite stop - limitations/non-implementation of risk limits

Transactions designed to exclude or limit the risks arising from the incoming futures positions may not be possible or may only be possible at a loss-making market price. This refers to transaction types that automatically initiate the closing out of a transaction. These serve to limit losses or profits, e.g. stop and limit transactions. Under certain market conditions, they may not be complete, timely, at the defined price or even executed at all. This can lead to considerable losses. Stop limits, in particular, are frequently used to minimise risk. In principle, the risks can be limited to some extent with, for example, stop-market limits. However, especially in very volatile market phases with large price jumps, the measures which are taken may fail entirely or only succeed to an insufficient extent. This is the case when the closure can only be carried out at loss-making prices or not at all. This may result in higher losses than expected for the investor. The risk of a price gap, especially in overnight positions, should also always be considered.

#### Currency risks

An exchange rate indicates the value of a currency in another

currency. It is defined as the price (expressed in domestic currency) that must be paid for a foreign currency. This type of quotation is also called price quotation. In the case of indirect quotation, the price of the home currency is expressed in a foreign currency. The euro is always quoted indirectly against all currencies. Thus, the exchange rate for the EUR/USD currency pair is expressed as the value of one euro in US dollars. The first currency always represents the base currency. The value of the base currency is always 1. The other currency indicates the price of the base currency and is also called the quoted currency. Due to the associated risks, forex futures trading requires special knowledge, skills and experience and is therefore not suitable for every customer. Customers should therefore carefully consider whether trading in forex futures is an appropriate form of investment in light of their experience, investment objectives, financial capabilities and other investment-related personal circumstances.

An additional currency risk arises if transactions are concluded in a currency other than that of the trading account or if the underlying asset is denominated in a foreign currency (e.g. gold or oil). There is therefore an additional risk due to exchange rate fluctuations. If the exchange rate changes between 2 currencies, this can have a negative impact on the futures position, even without the futures price changing.

#### **Tax risks**

Since transactions in Germany are taxable, tax risks can also affect transactions. Investors should therefore also take into account the tax considerations associated with the transactions they conclude. Ultimately, what matters to the investor is the net return, i.e. the return after tax. The customer is obliged to inform themselves about the tax considerations before the intended transaction.

#### **Information risk**

It is possible that a customer may not receive up-to-date, complete and correct information for the investment decision at any time and for each trading instrument. If insufficient information is available, this can always lead to incorrect decisions. The bank does not provide any investment advice and provides, at the request of the customer, some market information from third parties without any guarantee. The customer is responsible for ensuring that there is sufficient market information to support their investment decision.

#### **Counterparty default risk/insolvency risk/market maker or subcontracting risk**

Counterparty default risk is the risk that a contracting party will not be able to meet its contractual payment obligations or will only be able to meet them in part. Consequently, one contracting party suffers a financial loss. This risk is not dependent on market events and can occur at any time. The insolvency risk is an expression of the general counterparty default risk. The customer shall bear the risk of the insolvency of the bank, which, as a service provider, concludes futures transactions with third parties (market makers) on behalf of and for the account of the customer or commissions third parties. Although this risk is reduced in principle by the membership of the "Entschädigungseinrichtung für Wertpapierhandelsunternehmen EDW" (for the exact content and the exceptions to the right to compensation see [www.e-d-w.de](http://www.e-d-w.de)) in the amount of 90% of the claim, a maximum of EUR 20,000, the additional risks, including the risks of an insolvency-related forced closure at an unfavourable time for the customer and delayed payment by the EDW, are not covered. The fact that the market maker or a commissioned third party falls into insolvency is covered up to a certain amount, if applicable, by its membership of a respective national compensation system. In the event of the insolvency of the trust bank,

the customer continues to bear a temporal sweep-out risk, in which the bank maintains the trading account in its name, in which the margin of the various customers is held together (collective trust account).

The trading account is expressly kept by the trust bank and the bank as a collective trust account for each individual customer so that it does not fall into the insolvency estate. However, in the event of the bank becoming insolvent, it is to be expected that the payment to the customer will take some time. Furthermore, the customer bears the risk that the market maker or counterparty with whom the bank concludes futures transactions on behalf of and for the account of the customer, or with which it commissions the order, fails to fulfil the futures contract or fails to fulfil it in full. This risk is borne by the customer, who in this case must take legal action against the market maker or contractor, which may entail special costs if the market maker or contractor is domiciled abroad. Reasons for the non-fulfilment of the futures contract by the market maker or contractor may be, for example, the insolvency of the market maker or contractor or the fact that the market maker or contractor can no longer hedge itself on the market or with third parties. This can occur, for example, if there are market disruptions. In such cases, forced closures may occur in the contract relationship between the market maker/contractor and the bank, which in turn lead to forced closures vis-à-vis the customer.

#### **Risks associated with the use of electronic systems/false entries/transmission risk**

Futures are traded directly via an electronic trading platform or, in emergency circumstances, by telephone with subsequent entry on the electronic trading platform. In the event of a disruption or failure of the trading platform, the opening or closing of futures positions may become difficult, delayed or even impossible. The bank shall not be liable in accordance with the conditions for losses or lost profits unless such failure has been caused intentionally or by gross negligence on the part of the bank. The customer bears full responsibility for the use of its own electronic trade support systems. If, in the bank's opinion, a false entry (or omitted entry) has been made in the trading system or in the daily and/or financial report based on this, the bank shall be entitled to carry out retrospective correction in accordance with the conditions. This may lead to forced offsetting and thus to losses or lost profits for the customer, which are justified even if it transpires that there was no false entry at a later stage. If a futures contract is concluded by telephone, it must be clear and unambiguous in order to avoid misunderstandings and delays. Any offer made by an investor to the bank to conclude a contract must therefore contain certain essential information: This includes, in particular, the instruction to buy or sell, the exact designation of the futures and the number. The risk can at least be limited by placing orders in a precise manner.

#### **Mistrade risk/cancellation of transaction by clearing house**

In accordance with the conditions, the bank is entitled to retroactively cancel the opening or closing of a futures contract under certain time and content conditions. This may lead to forced offsetting and thus to losses or lost profits for the customer. This applies, in particular, if a central clearing house terminates the contract.

#### **Risk with credit-financed transactions**

If the investment amount is financed by credit, the risk increases. Should the market then develop contrary to expectations, the loan and interest must be repaid in addition to the loss incurred. Before entering into a transaction, customers should check their financial situation to ascertain whether they are in a position to repay the interest and the loan if losses are incurred



instead of the expected profits. In principle, transactions should not be financed with loans.

### Day trading risks

Day trading describes the buying and selling of financial instruments, including futures, on the same trading day. The aim is to achieve profits by exploiting the smallest price fluctuations of a single underlying asset. Day trading can lead to immediate losses if surprising developments cause the value of the financial instrument purchased to fall on the same day. In order to avoid further risks (overnight risks), a day trader may be forced to close the futures position at a loss. The risk may additionally increase if investments are only made in underlying assets that are subject to a high fluctuation margin (volatility). Day trading also entails the risk that losses which have already occurred may be offset by new and even riskier transactions, which in turn will sustainably accelerate the customer's consumption of capital. Day trading requires in-depth knowledge and the customer is in competition, in particular, with professional and financially strong market participants. Day trading can lead to considerable costs due to the high number of transactions. Depending on the product, a fee per trade must be paid in addition to the spread. The high transaction costs can reduce expected profits or even lead to losses.

### Risks with online trading

Online trading is associated with further technological risks. Due to system crashes, system errors, connection interruptions and hardware or software errors, customer orders may only be

executed partially, not at all or delayed. These errors and malfunctions can result in high losses, which can exceed the invested capital.

### Risk of ancillary costs

Online trading is associated with further technological risks. In addition to the margin to be provided, various additional costs are incurred when opening and/or closing futures positions. Direct costs, i.e. costs that are directly linked to the transaction, are, for example, the spread (difference between purchase and sale price) and transaction costs. After position opening, further follow-up costs can occur, for example, increased margin requirements if a futures position is held overnight (overnight positions). In the case of futures positions held overnight, the price quoted at the start of the following business day (opening price) may differ significantly from the price quoted at the close of business on the previous day (closing price) (so-called overnight gap).

These costs should always be included in the investor's calculation as they can reduce profit expectations. Before opening a position, the customer should familiarise themselves with all possible costs incurred and take these into account in their trade planning. The higher the ancillary costs, the more the position must move in the expected direction in order to break even. If the position develops contrary to customer expectations, the ancillary costs increase the loss incurred. A high number of transactions therefore also leads to high ancillary costs, which can have a negative impact on profit expectations.

## IV. SPOT FOREX TRANSACTIONS

Spot forex transactions essentially follow the same principles as CFD trading (e.g. trading platform, quotation, margin, forced offsetting etc.), which is why you must familiarise yourself with the risks described in I.

**Unlike with CFD forex trading, overnight positions are not possible in spot forex trading.**

### General information on currencies and foreign exchange trading

Foreign exchange (FOREX or FX) represent foreign currencies in the form of deposit money. Cash is referred to as foreign notes and coins. Foreign exchange trading is therefore the exchange of currencies between each other by concluding transactions between the securities trading bank and the customer. The foreign exchange market is an OTC market (over-the-counter, i.e. off-market) and is based on a decentralised trading system. Major banks carry out foreign exchange trade with each other and quote rates 24 hours a day, 5 days a week. For a long time, foreign exchange trading was reserved for large banks only. They trade foreign exchange with each other in the so-called interbank market. Like a huge neural network, all market participants are electronically connected to each other and trade currencies directly or indirectly through financial instruments, such as options or swaps.

Forex transactions are divided into spot forex transactions and forward foreign exchange contract transactions. Spot forex transactions represent the exchange of one currency for another freely tradable currency. The value date, also called interest date, is 2 days after conclusion. The price on the spot market is based on the supply and demand principle and is called the cash price and/or spot price. The cash markets/spot markets are the currency markets with the highest liquidity

### Exchange rate

An exchange rate indicates the value of a currency in another

currency. It is defined as the price (expressed in domestic currency) that must be paid for a foreign currency. This type of quotation is also called price quotation. In the case of indirect quotation, the price of the home currency is expressed in a foreign currency. The euro is always quoted indirectly against all currencies. Thus, the exchange rate for the EUR/USD currency pair is expressed as the value of one euro in US dollars. The first currency always represents the base currency. The value of the base currency is always 1. The other currency indicates the price of the base currency and is also called the quoted currency.

### Applications of spot forex transactions

Speculation: Short-term price developments on the forex market can give rise to profit opportunities through the conclusion of a spot forex transaction. At the same time, high losses may arise if the share price does not develop as expected. However, overnight speculation is not possible.

### Settlement of spot forex transactions

Spot forex transactions represent the exchange of value development between the two contracting parties. The performance of the underlying asset is measured in the settlement currency. In the EUR/USD example, EUR is the base currency and USD is the settlement currency. In this example, the performance of EUR against USD is measured in USD. Due to the nature of the spot forex transaction as a difference transaction, the currencies are not exchanged directly, but the parties agree to compensate the profit or loss when closing the transaction in the settlement currency. The settlement currency (if it is not the same as the account currency) is converted directly into the account currency when the transaction is closed. The margin is raised as collateral. The amount of the margin depends on the leverage of the spot forex transaction. Foreign exchange is traded on an off-market basis.

### Risks associated with spot forex transactions

Due to the associated risks, spot forex trading requires special knowledge, skills and experience and is therefore not suitable for every customer. Customers should therefore carefully consider whether trading in foreign exchange is an appropriate form of investment in light of their experience, investment objectives, financial capabilities and other investment-related personal circumstances. The typical risks of spot forex trading are explained below.

#### Risk of loss and risk of leverage effect

Although the settlement of a spot forex transaction on the basis of a margin payment reduces the amount of capital employed so that much higher trading volumes can be moved with a small amount of capital employed, this is offset by a high risk of loss. Due to the high leverage, minor price fluctuations can have an extreme effect on the capital invested. This can go as far as total loss or beyond. The following 2 examples illustrate the leverage effect:

#### Example 1:

Available capital on the trading account: EUR 10,000  
Margin requirement: 1%  
EUR/USD exchange rate: 1.5000  
Trade direction: Long  
Purchase of 5 lots (1 lot = 100,000)

The investor goes long at a EUR/USD rate of 1.5000 with 5 lots. This means they buy EUR 500,000 with the expectation that the euro will appreciate against the US dollar. The transaction therefore has an equivalent value of USD 750,000 ( $500,000 \times 1.5$ ). In the case of a 1% margin requirement, however, they only have to deposit EUR 5,000 as margin. They can therefore effectively move EUR 500,000 with EUR 5,000, which corresponds to a leverage of 100. If the EUR/USD rate now rises to 1.5150, i.e. by 1 percent, the original position now has a value of USD 757,500 ( $500,000 \times 1.5150$ ). The investor thus makes a profit of USD 7,500 or EUR 4,950.50. The available capital thus increases to EUR 14,950.50. With regard to the capital employment of EUR 5,000, the investor gained a net yield of nearly 100%.

#### Example 2:

Available capital on the trading account: EUR 10,000  
Margin requirement: 1%  
EUR/USD exchange rate: 1.5000  
Trade direction: Long  
Purchase of 5 lots (1 lot = 100,000)

The initial situation is the same as in example 1. The investor buys EUR 500,000 with the expectation of rising EUR/USD quotations. However, the EUR/USD exchange rate now falls to 1.4775, e.g. due to weak economic data from the eurozone. This corresponds to a decline of 1.5%. The original position had an equivalent value of USD 750,000. After the price decrease, however, it is only worth USD 738,750 ( $500,000 \times 1.4775$ ). The investor thus makes a loss of USD 11,250 or EUR 7,614.21. The available margin of EUR 5,000 would not be sufficient to cover this loss. In this case, the bank would demand additional margin contributions to compensate the account balance if the transaction had not yet been forced to close by an internal trading system to limit risk. Once a settlement has been made, the margin deposited would be sufficient to cover the losses incurred. The available capital would then fall to EUR 2,385.79. Based on the capital investment of EUR 5,000, the investor would have to accept a loss of approx. 152%. Should losses result in the total margin deposited no longer being

sufficient for the open transactions, additional margin payments would have to be made to restore an even account balance. If the required capital is not replenished within the set period, the open transactions are closed by the bank. This is done by means of an electronic trading system that automatically closes open customer positions with predefined loss limits. Should debit balances nevertheless arise on the trading account, the professional customer will be fully liable if the "Professional Classic" account model, which is subject to reverse liability, is selected or automatically applicable to the trading account due to the asset threshold of EUR 100,000.00 being exceeded. This professional customer is then obliged to compensate for any losses incurred. Consequently, the risk of loss for professional customers (in contrast to private customers) is not limited to the capital employed if the "Professional Classic" account model is selected or automatically applicable to the trading account due to the asset threshold of EUR 100,000.00 being exceeded. Also, due to the leverage effect already described, the amount of the loss can, in the worst-case scenario, cover the entire margin paid in (margin loss risk) and even exceed it and is unlimited upwards in the case of short positions (possibility of unlimited loss risk). The bank only carries out the forced offset of open spot forex positions in its own interest; the customer may not derive any rights from the forced offsetting which fundamentally did not take place or which was an option at an earlier stage nor from the fact that the underlying asset has developed positively for the customer following forced offsetting.

#### Market price risk

With regard to the market price risk, the provisions set out in I. apply with the proviso that the market price risk for spot forex transactions relates to exchange rate fluctuations.

#### Reserve liability/resourcing period/forced offsetting

With regard to the reserve liability, the provisions set out in I. apply with the proviso that the reserve liability relates to the open spot forex transactions which are concluded.

#### Liquidity risk

With regard to the liquidity risk, the provisions set out in I. apply with the proviso that the liquidity risk relates to the open spot forex transactions which are concluded.

#### Risks despite stop limits

With regard to risks despite stop limits, the provisions set out in I. apply with the proviso that this risk relates to the spot forex transactions which are concluded.

#### Tax risks

With regard to tax risks, the provisions set out in I. apply with the proviso that this risk relates to the spot forex transactions which are concluded.

#### Information risk

With regard to the information risk, the provisions set out in I. apply with the proviso that this risk relates to the spot forex transactions which are concluded.

#### Counterparty default / insolvency risk / market maker risk

With regard to the counterparty default risk/insolvency risk/hedging risk, the provisions set out in I. apply with the proviso that this risk relates to the spot forex transactions which are concluded.

#### Risks associated with the use of electronic systems/false entries/transmission risk

With regard to the risks associated with the use of electronic

systems/false entries/transmission risks, the provisions set out in I. apply with the proviso this risk relates to the spot forex transactions which are concluded.

#### **Risks associated with credit-financed spot forex transactions**

With regard to the risks associated with credit-financed spot forex transactions, the provisions set out in I. apply with the proviso that this risk relates to the spot forex transactions which are concluded.

#### **Day trading risks**

With regard to the risks associated with day trading, the provisions set out in I. apply with the proviso that this risk relates to the spot forex transactions which are concluded.

#### **Risks despite stop limitation/non-implementation of risk limitations**

With regard to risks despite stop limitation/non-implementation of risk limitations, the provisions set out in I. apply with the proviso that this risk relates to the spot forex transactions which are concluded.

#### **Risks with online trading**

With regard to the risks associated with online trading, the provisions set out in I. apply with the proviso that this risk relates to the spot forex transactions which are concluded.

#### **Risks associated with ancillary costs**

With regard to the risks associated with ancillary costs, the provisions set out in I. apply with the proviso that this risk relates to the spot forex transactions which are concluded.

#### **Volatility risk**

The currency markets are subject to extreme price fluctuations on a daily basis. This is also the reason for the high level of appeal of foreign exchange trading. Due to the high volatility, there are high profit opportunities on the one hand, but also enormous loss potential on the other.

#### **Currency and exchange rate risk**

Profits and losses from spot forex transactions are mirrored for both buyer and seller and are basically unlimited.