

## Significant risks of dealing in CFDs with CMC

All capitalised terms not defined under this section shall have the meaning ascribed to them in section 10 (Glossary) of the Product Disclosure Statement (PDS).

Carefully consider whether dealing in contracts for difference (CFDs) is appropriate for you in the light of your financial circumstances. In deciding whether or not you wish to become involved in dealing in CFDs with CMC Markets Singapore Pte. Ltd. (CMC), you should be aware CFDs are speculative products that are highly leveraged and carry significantly greater risk than non-g geared investments such as share trading and you could both gain and lose large amounts of money. You may sustain losses in excess of the moneys you initially deposit and also in excess of the Margin required to establish and maintain any CFDs position with CMC.

CMC will not give you any general or personal financial product advice. As CMC will only be providing general information, this general information will not take into account your objectives, financial situation or needs. Accordingly, you should obtain your own financial, legal, taxation and other professional advice as to whether CFDs are an appropriate investment for you.

CMC shall not be deemed (directly or indirectly) to render any advice as regards the degree of risk of any CFD that you deal in with CMC. No liability (whether direct or indirect, actual or contingent) whatsoever is accepted for any direct or consequential loss arising from the use of or reliance on the PDS.

You may suffer losses in excess of the moneys you deposit with CMC.

You could sustain a loss greater than the Margin required to establish and maintain a CFD position. In addition you could be required to pay further funds representing losses and other fees on your open and closed CFD positions. For example, if the Margin payable at the time a CFD is opened for a Share CFD position is \$1,000, and the market moves against your position, you could lose much more than the initial \$1,000 you outlaid to open the position.

For an example of suffering a loss greater than funds deposited, please refer to Example 22 in the Annexure to the PDS.

### Risks resulting from Margin Calls

If the CFD price moves against your CFD position you may be required, at short notice, to deposit further moneys with CMC in order to satisfy your Total Margin Requirement (set out in section 3.10 of the PDS and maintain your position. This is known as being on Margin Call. The amount of the additional Margin may be substantial. If you fail to provide those additional funds when required, your position may be liquidated at a loss and you will be liable for any shortfall in your Account resulting from that failure.

CMC may require the payment of additional Margin during the term of a CFD, in addition to the Margin required when you enter into a CFD transaction. Failure to pay the additional Margin Requirements and meet your Margin Call obligations promptly may result in:

- some or all of your open positions being closed or liquidated by CMC;
- you being prevented from opening new positions or extending existing positions; and
- you being liable for interest charges on negative or debit balances.

### Derivative markets are speculative and volatile

Derivative markets can be highly volatile. The prices of CFDs and the Underlying Reference Instruments and Indices may fluctuate rapidly and over wide ranges and may reflect unforeseeable events or changes in conditions, none of which can be controlled by you.

The prices of CFDs will be influenced by, amongst other things, changing supply and demand relationships, governmental, agricultural, commercial and trade programs and policies, national and international political and economic events and the prevailing psychological characteristics of the relevant marketplace.

Dealing may be affected by factors in the Underlying Market, the performance of the Underlying Reference Instruments or the occurrence or existence of certain events.

The prices of the CFDs are derived from the prices in the Underlying Markets.

Sometimes markets move so quickly that "gapping" occurs. Gapping is the exposure to loss from failure of market prices or rates to follow a "smooth" or continuous path due to external factors such as world, political, economic and specific corporate events. If "gapping" occurs in the Underlying Market, it will also occur in the price of the relevant CFD and may mean that you are unable to close out your position or open a new position at the price at which you have placed your order or may have liked to place your order.

The Underlying Market may also lack liquidity, caused by insufficient trading activity, or because the aggregate of all requests for orders at a particular price or range of prices determined by CMC exceeds the available volume in the relevant Underlying Markets. This may affect the ability of CMC to offer the relevant CFD in sufficient volume to allow you to close out your position or open a new position. Alternatively, CMC may re-quote the price at which it offers the CFDs to you. Refer to section 7.3 and clauses 5.3 and 8.1(o) of the Terms of Business (TOB).

Finally, if trading in the Underlying Market is affected by Exceptional Market Conditions, CMC may use its discretion to determine if you are able to place an order to close out your position or open a new position. Refer to section 3.17 of the PDS for a description as to how CMC exercises its discretions.

As a result, a potentially profitable deal may not be executed, or it may not be possible to close out a position in a timely fashion at the price you require. This may lead to reduced profits and higher losses.

CMC has the right to close your open position, limit the size of your open position or refuse orders to establish new positions, by giving you notice orally or in writing. Refer to clause 8.3 of the TOB.

An investment in a CFD is not an investment in the Underlying Reference Instruments and you have no rights in respect of such Underlying Reference Instruments. However, the performance of the Underlying Reference Instruments will have a direct effect on the value of the CFD. CMC has not performed, nor will it at any time perform, any investigation or review of the Underlying Reference Instruments, nor does it make any guarantee or express or implied warranty in respect of the performance of the Underlying Reference Instruments or the selection thereof.

The value and/or settlement of the CFDs may also be affected by the occurrence or existence of certain events such as (but not limited to) credit performance of the Underlying Reference Entities, mergers and disposals, trading suspension, price source disruption, material change in the calculation and/or composition of indices comprising a basket of stocks or indices etc.

## Foreign exchange exposure

Your Account is maintained in the currency you have nominated, that is, the Base Currency.

Where you deal in a CFD that is denominated in a currency other than the Base Currency of your Account, all margins, profits, losses and financing credits and debits in relation to that CFD are calculated using the currency in which the CFD is denominated.

Accordingly, your profits or losses may be affected by fluctuations in the relevant foreign exchange rate between the time the order is placed for the CFD and the time the position is closed, liquidated, offset or exercised.

Upon closing a position in a CFD that is denominated in a currency other than the Base Currency of your Account, you will be able to request that the foreign currency balance is converted to the Base Currency of your Account. CMC may automatically convert these balances back into your Base Currency if your Total Equity balance falls below US\$200 (or currency equivalent). Any conversion will be at the CMC Exchange Rate quoted by CMC (and which may be different to the price quoted for a Forex CFD). Until the foreign currency balance is converted to the Base Currency, fluctuations in the relevant foreign exchange rate may affect the ultimate profit or loss made on the CFD position in the Base Currency.

## Interest rate fluctuations

The interest that you receive or pay in relation to your Account balance will be affected by fluctuations in the interest rates specified by CMC for the currency in which your Account is denominated.

Should you deal in a CFD denominated in a foreign currency, the fluctuations in the relevant Financing Rate will also affect your profits and losses.

## Warning about segregated trust accounts

It is important to note that CMC holding your moneys in one or more segregated trust accounts as described in section 6.9 of the PDS may not afford you absolute protection. The purpose of segregated trust accounts is to segregate our customers' moneys, including your moneys, from our own funds. However, individual customers' moneys are co-mingled into one or more segregated trust accounts. Segregated trust accounts may not insulate your moneys from a default in the segregated trust accounts. However, it is CMC's policy to top-up a segregated trust account from CMC's own funds where there is a deficit in that account due to the default of a customer.

Should there be a deficit in the segregated trust accounts and in the unlikely event CMC becomes insolvent before it topped-up the segregated trust account in deficit, you will be an unsecured creditor in relation to the balance of the moneys owing to you.

In the event that you become an unsecured creditor of CMC, you will need to lodge a proof of debt with the liquidator for the amount of moneys that are owing to you as evidenced by your Account statements. The liquidator then assesses all proofs of debt to determine which creditors are able to share in the assets of the company, and to what extent, depending on the amounts owing to them and any priority they may have to be paid.

## Loss caused by spread

Because of the difference between the buying and selling price of a CFD, the relevant CFD price must move favourably before you can break even. In other words, even if the CFD price does not move at all and you close out your position, you will make a loss to the extent of the spread and of any CMC charges and Commissions which have been charged.

Furthermore, the spread may be larger at the time you close out the position than it was at the time you opened it.

## Changes in Margin Percentage

CMC may under clauses 7.8 and 38.1 of the TOB exercise its right to alter the Margin Percentage in relation to any of its CFDs at any time at its discretion. Notification of this alteration can be given to you either orally or in writing. The alteration will take immediate effect over the affected open positions. This change will affect your Margin Requirement.

Refer to section 3.15 of the PDS for further information.

## CMC as the product issuer

As CMC issues the CFDs, you are exposed to the financial and business risks, including credit risk, associated with dealing with CMC. That is, if CMC were to become insolvent it may be unable to meet its obligations to you.

You should also refer to section 3.16 of the PDS, where information about CMC's conflicts of interest is discussed. These conflicts of interest arise because CMC is the issuer of the CFDs to you, and therefore CMC has an opposing interest in the price at which you deal and the subsequent movement in the CFD price.

## Not a regulated market

As the CFDs are contracts with CMC and are not traded on a licensed market, some of the protections associated with licensed markets are not available for trading in CFDs.

## Regulatory changes

Changes in taxation and other laws, government, fiscal, monetary and regulatory policies may have a material adverse effect on your dealings in CFDs with CMC.

## Operational risk

Operational risk in relation to the Marketmaker® trading platform is inherent in every CFD transaction. For example, disruptions in CMC's operational processes such as communications, computers, computer networks, software or external events may lead to delays in the execution and settlement of a transaction. CMC does not accept or bear any liability whatsoever in relation to the operation of the Marketmaker® trading platform, except to the extent that it is caused by the fraud or dishonesty on the part of CMC or its employees, agents or representatives.

## CMC's powers on default, indemnities and limitations on liability

If you fail to pay, or provide security for, amounts payable to CMC or fail to perform any obligation included in the CFD Customer Agreement, CMC has extensive powers to take steps to protect its position. These powers include the power to close out positions (see sections 3.13, 5.2 and 5.15 of the PDS) and the power to charge default interest (see sections 4.3 and 6.8 of the PDS). Under clause 30 of the TOB you also indemnify CMC and its employees, agents and representatives against certain losses and liabilities. Further, CMC's liability to you is expressly limited. You should read the TOB carefully to understand these matters.

## Liquidation

CMC has the right to close out a CFD without your agreement, in a number of circumstances. Accordingly, you may not be able to anticipate or control the time at which a CFD position is closed out. Please refer to section 3.14 of the PDS as well as clause 8.1 of the TOB for further information.

## SFA Risk Disclosure Statement

This statement is provided to you in accordance with section 128(1) of the Securities and Futures Act (Cap. 289).

This statement does not disclose all the risks and other significant aspects of trading in futures, options and leveraged foreign exchange. In light of the risks, you should undertake such transactions only if you understand the nature of the contracts (and contractual relationships) into which you are entering and the extent of your exposure to the risks. Trading in futures, options and leveraged foreign exchange may not be suitable for many members of the public. You should carefully consider whether such trading is appropriate for you in the light of your experience, objectives, financial resources and other relevant circumstances. In considering whether to trade, you should be aware of the following:

### (a) Futures and Leveraged Foreign Exchange Trading

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

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

#### (ii) Risk-Reducing Orders or Strategies

The placing of certain orders (e.g. 'stop-loss' orders, where permitted under local law, or 'stop-limit' orders) which are intended to limit losses to certain amounts may not be effective because market conditions may make it impossible to execute such orders. At times, it is also difficult or impossible to

liquidate a position without incurring substantial losses. Strategies using combinations of positions, such as 'spread' and 'straddle' positions may be as risky as taking simple 'long' or 'short' positions.

## (b) Options

### (i) Variable Degree of Risk

Transactions in options carry a high degree of risk. Purchasers and sellers of options should familiarise themselves with the type of options (i.e. put or call) which they contemplate trading and the associated risks. You should calculate the extent to which the value of the options would have to increase for your position to become profitable, taking into account the premium paid and all transaction costs. The purchaser of options may offset its position by trading in the market or exercise the options or allow the options to expire. The exercise of an option results either in a cash settlement or in the purchaser acquiring or delivering the underlying interest. If the option is on a futures contract or leveraged foreign exchange transaction, the purchaser will have to acquire a futures or leveraged foreign exchange position, as the case may be, with associated liabilities for margin (see the section on Futures and Leveraged Foreign Exchange Trading above). If the purchased options expire worthless, you will suffer a total loss of your investment which will consist of the option premium paid plus transaction costs. If you are contemplating purchasing deep-out-of-the-money options, you should be aware that, ordinarily, the chance of such options becoming profitable is remote.

Selling ('writing' or 'granting') an option generally entails considerably greater risk than purchasing options. Although the premium received by the seller is fixed, the seller may sustain a loss well in excess of the amount of premium received. The seller will be liable to deposit additional margin to maintain the position if the market moves unfavourably. The seller will also be exposed to the risk of the purchaser exercising the option and the seller will be obligated to either settle the option in cash or to acquire or deliver the underlying interest. If the option is on a futures contract or a leveraged foreign exchange transaction, the seller will acquire a futures or leveraged foreign exchange position, as the case may be, with associated liabilities for margin (see the section on Futures and Leveraged Foreign Exchange Trading above). If the option is 'covered' by the seller holding a corresponding position in the underlying futures contract, leveraged foreign exchange transaction or another option, the risk may be reduced. If the option is not covered, the risk of loss can be unlimited.

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

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

### (i) Terms and Conditions of Contracts

You should ask the corporation with which you conduct your transactions for the terms and conditions of the specific futures contract, option or leveraged foreign exchange transaction which you are trading and the associated obligations (e.g. the circumstances under which you may become obligated to make or take delivery of the underlying interest of a futures contract or a leveraged foreign exchange transaction and, in respect of options, expiration dates and restrictions on the time for exercise). Under certain circumstances, the specifications of outstanding contracts (including the exercise price of an option) may be modified by the exchange or clearing house to reflect changes in the underlying interest.

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

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

Further, normal pricing relationships between the underlying interest and the futures contract, and the underlying interest and the option may not exist. This can occur when, e.g., the futures contract underlying the option is subject to price limits while the option is not. The absence of an underlying reference price may make it difficult to judge 'fair' value.

### (iii) Deposited Cash and Property

You should familiarise yourself with the protection accorded to any money or other property which you deposit for domestic and foreign transactions, particularly in a firm's insolvency or bankruptcy. The extent to which you may recover your money or property may be governed by specific legislation or local rules. In some jurisdictions, property which had been specifically identifiable as your own will be pro-rated in the same manner as cash for purposes of distribution in the event of a shortfall.

## (d) Commission and Other Charges

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

(e) Transactions in Other Jurisdictions

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

(f) Currency Risks

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

(g) Trading Facilities

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

(h) Electronic Trading

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

(i) Off-Exchange Transactions

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

## ACKNOWLEDGEMENT OF RECEIPT OF THIS RISK DISCLOSURE STATEMENT

This acknowledges that I/we have received a copy of the **RISK DISCLOSURE STATEMENT** and understand its contents.

Signature of customer \_\_\_\_\_

Name of customer \_\_\_\_\_

Designation\* \_\_\_\_\_

Corporation Name\* \_\_\_\_\_

Signature of Witness \_\_\_\_\_

Name of Witness \_\_\_\_\_

Date \_\_\_\_\_

\* For corporations only

Note:

"Margin" means an amount of money, securities, property or other collateral, representing a part of the value of the contract or agreement to be entered into, which is deposited by the buyer or the seller of a futures contract or in a leveraged foreign exchange transaction to ensure performance of the terms of the futures contract or leveraged foreign exchange transaction.

**CMC Markets Singapore Pte. Ltd.**  
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