# Leverage Policy

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## Contents



# Introduction

Global MarketsLtd (the **"Company"**, or **"FXGlobe"**) has established a leverage policy (hereinafter, the **"Policy"**) which applies to all its retail customers. The purpose of this Policy is to set out the leverage practices of the Company in order to increase investor protection.

'*Leverage' is the ratio of the transaction size to the actual investment used for margin. Leverage allows a client to trade without putting up the full amount. Instead a margin amount is required. For example, 50:1 leverage, also known as 2% margin requirement, means $2,000 of equity is required to purchase an order worth $100,000. Leverage increases both upside and downside to risk as the account is now that much more sensitive to price movements.*

# Scope & Applicability

The Policy applies to all *retail clients* who are speculating on the short-term movements in the price of CFD's which are complex products and it may be difficult for a majority of them to understand the risk involved. This is reflected in the requirement to assess appropriateness as part of the account opening process. We adopted a robust process to assess the knowledge and experience of retail clients and potential retail clients, to check whether they understand the risks involved and to determine whether the Company's products are appropriate for them.

Leverage acts as a modifier on an account. Not only does it enhance potential profits, but it also increases potential risks; it is for nearly all intents and purposes like trading with a much larger account. However, there is one major difference, and understanding this difference is critical to success. An account's losses can never exceed its cash balance.

# Our Commitment

Treating Customers Fairly is central to our corporate culture and ethos.

We have a duty to act honestly, fairly, professionally and in the best interests of our clients when dealing with them. In relation to Leverage and Margin, we are required:

a) To set leverage levels that reflect your knowledge and experience in trading in complex financial instruments like CFDs given that trading with leverage and margin is a key characteristic of trading in CFDs;

b) To have regard to our duty to treat you fairly by avoiding aggressive leverage practices towards you;

c) To have regard to the underlying performance fundamentals of the financial instrument on which the CFD is based, including historic volatility, depth of market [liquidity and trading volumes], market capitalization of the issuer and country of issuer of the underlying financial instrument, our ability to hedge market risk and the general political and economic environment. We adjust and calibrate the above variables in determining the leverage levels we offer for asset classes or financial instruments.

d) Given that we effectively provide the leverage for which you trade, to have regard to our own risk management appetite and risk bearing capacity and to have in place policies, procedures and practices to manage our (primarily) market risk emanating from such leverage and margin trading by our clients;

e) To apply regulatory requirements and caps as set by AOFA or any other regulator in any jurisdiction we offer our services to.

# Policy

Default Leverage

Clients, who have been classified as "retail clients" upon establishing a business relationship with the Company shall be granted by default leverage as below:

-200:1 for currency pairs;

-50:1 for commodities and indices;

-20:1 for individual equities and other reference values;

-5:1 for cryptocurrencies;

Considering the complex and risky instruments offered, the Company introduced to the potential clients in an objective manner a test to assess the client's financial experience and knowledge with a view to determining whether specific financial products are appropriate to the client.

Moreover, the Company's Policy is consistent with sound and effective risk management and intended to deter risk-taking beyond the Company’s expressed risk appetite and risk tolerance levels.

# Leverage Trading and Margin Key Terms

## What is Leveraged Trading?

Trading on leveraged capital means that you can trade amounts significantly higher than the funds you invest, which only serve as the margin. High leverage can significantly increase the potential return, but it can also significantly increase potential losses. The leverage is specified as a ratio, such as 1:10, 1:20, 1:50, 1:100 or 1:200. This means that you, as our client, can trade with amounts many of multiples than you could invest in a particular CFD without the margin we provide.

Sometimes the Leverage is expressed in percentage terms – and referred to as Margin requirement. For example, a leverage of 1:100 is a margin requirement of 1%.

**Example: If the leverage is 1:200 and if you as our client have $10,000 in your account, it means that can you open positions worth $2,000,000**

## What is a Spread?

The spread is the difference between the Bid price (selling price) and the Ask price (buying price) of the CFD.

## What is Initial/Required Margin?

Also known as the Initial Margin Requirement, the Initial Margin is the percentage of a financial instrument price that you, as the client, need to pay for with your own money. This requirement is basically the amount of collateral needed in order to open a margin account.

Required Margin or Margin Requirement refers to the amount you need in order to open and maintain a position, in addition to the initial loss that will occur due to the spread. The Required Margin is derived from the following formula: (Amount * Instrument Price) / Leverage + (Amount * Spread).

**Initial/Required Margin Example:**

**If you intend to buy one lot on GOLD CFD at a price of 1237.85 per**

**ounce. The leverage on the GOLD CFD is 1:200. The spread on the**

**Oil CFD is $0.13.**

**Your Margin requirement is calculated as follows: (100 * 1237.85) / 50 + (100 * 0.13) = $622.175**

## What is Equity?

In a nutshell, Equity can be defined as the value of your portfolio with us. Effectively it is the value of your funds with FXGlobe (which at any point in time include realized profits and losses) plus the unrealized profit and loss on your CFDs based on their latest quoted valuation.

## Introduction to Margin Level

The Margin Level indicates how close your account is to a margin call. It is calculated as Equity/Initial Margin and is typically shown in "%". When the margin level decreases, your account bears an increased risk of liquidation. We call this the Close Out (stop out) Level and explain it further below. You are advised that you should monitor this margin level at all times. Whilst we may from time to time send you notifications of your Margin Level reaching certain thresholds, you are reminded that under the Retail Client Investments Services Agreement between you and us it is your responsibility to monitor at all times the margin level and take relevant actions.

Relevant actions that you can take to restore your Margin Level include:

- Closing or hedging some of your open positions.
- Depositing more funds that can help in averaging down your position.

Please note that we do not provide advice for the trading decisions and actions you take, including with respect to the actions you may take to address the Margin Level requirements such as the ones we refer to above.

## What is Free Margin?

Free Margin is the sum of funds you have available to use as initial margin for new positions. This is calculated by subtracting the margin used for your current open positions from your Equity.

## What is Maintenance Margin?

Maintenance Margin refers to the minimum equity you need to have in order to keep your positions open. This is also commonly referred to as "maintenance requirement" or "minimum maintenance" and is the same as the Close Out we refer to above. At FXGlobe, the Maintenance Margin is currently 25%.

If your Maintenance Margin reaches 25%, your positions will start to liquidate starting from the position with the highest losses.

**Example:**

**You have an open position on USD/GBP with used margin of $1000. Your Balance is $10,000 and your Equity**

**$2000. This means that your maintenance margin is at 200% (Equity of $2000 divided by Margin used of**

**$1000). If your floating loss reaches $9,750 this means that your equity will become $250. Therefore your maintenance margin will be 250/1000 = 25% and a Margin Close Out will take place.**

## What is Used Margin?

Used Margin indicates the sum of margin being used by your current open positions. It is calculated by adding the initial margins of all your open positions.

**Example:**
**You open a position of 10,000 GBP/USD at 1.3005. Assume that the initial margin requirement is 0.5% (i.e. a leverage of 1:200). The margin used for your position is calculated as follows: (10,000*1.3005)/200 + 10,000*0.0002= $67.025**
**In addition you open a position of 100 units of the Facebook CFD at 164.40. Assume that the initial margin requirement is 5% (i.e. a leverage of 1:20). So the initial margin used for this position is calculated as follows: (100*164.40)/20 + 100*0.07 = $829.**
**Therefore, the total Used Margin that you see in your account with us is $67.025 + $829=$896.025.**

## What is Margin Level?

A margin level is calculated by dividing the current Equity and the Used

Margin. Margin level %= (Equity / Used Margin) * 100

Please note that we reserve the right to change at our sole discretion the margin requirements without prior notification to you, based on actual or expected (in our opinion) market volatility or our view of market conditions in general.

**Example:**
**Your Equity is: $1,000**
**Your wish to open a Buy position of $100,000 vs. GBP**
**Margin requirement: If for the GBP/USD pair, the margin requirement is 0.5% which equals $500. Margin Level**
**%: ($1,000 / $500) * 100 = 200 %**

If you are a n FXGlobe Web / Mobile Trader platform client, in the event that the value of your positions falls below % of the Initial Margin requirement, we will send you an email and/or any other notification. This notification acts as an early warning of the performance of your open positions with us. Please note that this is an additional service from us to you and does not create any obligation or responsibility on us, for either the performance of your trading account, or for notifying you of the current margin level and the action that you may wish to take. Please therefore monitor the performance of your positions on an ongoing basis and take the action you consider appropriate.
As mentioned above, the 25% margin level is the minimum margin you need to maintain for an open position. We reserve the right to change this minimum margin level at our discretion in anticipation of evolving market conditions. Should your equity fall below the minimum margin level of 25%, then we reserve the right to liquidate all or a part of your open trades and close any open positions at our discretion, until your account equity rises above the 25% margin level. We will liquidate positions starting from the position with the highest loss.
Please note that we do not provide advice for the trading decisions and actions you take, including with respect to the actions you may take to address the Margin Level requirements such as the ones we refer to above.

## Applicable Language

Please note that where you have been provided with a copy of this Policy other than in the English language, such Policy is provided to you for information purposes only. The English version of this Policy is the version that is binding on FXGlobe at all times.