Additional Disclosure

This document must be read and acknowledged by any clients, who upon the basis of information submitted are deemed not qualifiable to trade leveraged products such as Equities, CDFs, Options, Futures and Forex. This conclusion is based on the limited or no experience in trading Equities, Options, Futures, CFDs or Forex.

Clients without knowledge in trading leveraged products such as Options, Futures, CFDs or Forex need to obtain knowledge on the risk profile and the consequences involved with trading these products.

If you wish to continue your application to trade these products with us, then you must consider carefully the following:

- I am exposing myself to risk that I do not currently have the knowledge to control
- I am trading complex financial products in which I have little or no previous experience
- I am trading complex financial products in which I can lose more than I have deposited in my account and therefore expose myself to potential debt

You may proceed in trading with us; however, you should ensure that you familiarise yourself with the related products and fully understand the nature of the risks involved. You will find examples of such risks in this document and other educational resources on the CFS website. You may wish also to seek independent advice and training.

All trading on the platform is done on CFD contracts giving the clients the option to go "long" (to buy) and "short" (to sell) any position in Options, Futures, Forex, Shares and Bonds. The objective is to allow investors to gain leveraged exposure to the movement in an underlying asset whether moving up or down. The exposure is leveraged which make the investment more volatile than the underlaying asset.

We will in the following describe some different scenarios, these scenarios will not cover all risks in trading on the platform.

This is a Scenario describing out of control risk for a Trader:

Friday 18th June 2010

The Trader is allocating a balance of GBP500 of the trading account and taking an open short position of GBP150,000 against the USD at 1.4800.

This can also be expressed as short GBPUSD 150,000 at 1.4800. It is prudent to leave stop loss orders to cover potential losses on open positions, and so the Trader places the stop loss at 1.4835.

Saturday 19th June 2010 it was announced (market is closed):

"People's Bank of China Statementon Yuan Exchange-Rate Flexibility" – source: Bloomberg News [http://www.bloomberg.com/news/2010-06-19/people-s-bank-ofchina-statement-on-yuan-exchangerate-flexibility-text-.html]

The Consequence to a Margin Trade

£500 margin allocated to a position of GBP150,000 means that this trader was employing a leverage of 1:350, that's extremely high-risk trading. A regulated Investment Fund would consider 1:30 leverage to be extremely high risk.

Each pip movement for GBPUSD reflects a profit or loss to the open position of USD15.00. The calculation is made (0.0001 X 150,000 = 15.00). GBPUSD is trading around 1.4800 and so each $15.00 pip equals about £10.00 (15.00 / 1.48 = £10.14) equivalent value.

Upon the close of the market on Friday 18th June 2010 the market closed in GBPUSD at 1.4824, at this point the trader's open position had moved into a loss of 24 pips (1.4824 – 1.4800 = 24 pips).

24 pips equal £240.00.

You had placed a stop loss at 1.4835 in anticipation that should this trade ultimately be loss making, then you would endeavor to limit your losses to 35 pips (deal entry rate 1.4800 – stop loss rate 1.4835).

35 pips equal £350.00.

The news from the People's Bank of China was released on Saturday 19th June, at this time the Forex market is not trading, there are no banks quoting prices and hence there is no liquidity. The market can only react to this news upon the market opening at 22:00 GMT on Sunday 20th June (opening in Asia).

The market opens significantly higher at 1.4859. The broker can only execute the stop loss order left by the trader to cover your short position at the prevailing market rate. The stop loss that the trader had anticipated would be filled at 1.4835 with a loss of £350 now represents a loss of 59 pips, or £590.

The difference between the requested stop loss rate and actual stop loss is £90 more than what was committed to covering the trade and so the account is in £90 deficit and this amount is now owed to the broker and recoverable if not already held on the client's account.

Points to Note

The Trader wisely left a stop loss (capital protection) to cover the position but still incurred slippage as is possible in times of market volatility and market opening. In normal market conditions stop losses are likely, but not guaranteed, to be filled at or very close to the requested rate.

The Trader lost more money than was deposited to the account and so was indebted to the broker.

The Trader held a position over a period when the market closed and re-opened. In the case of forex, it was a weekend, other markets will close and re-open on a daily basis. Holiday periods where markets are closed for longer than usual may also lead to increased volatility and risk.

The Trader employed leverage of 1:350, that's extremely high. Whilst leverage of 1:400 is allowed, it is set only as a maximum and lower leverage could have been used. Had the position been a winning trade then The Trader would have benefited from this extremely high-risk strategy.

The broker has the right to recover any funds that are in deficit in a trading account.

The scenario explained is not the only potential high-risk loss situation, events with outcomes of a similar kind can happen at any time.

Good Practice for Traders

1) Leverage must be carefully considered when opening a trade, and further considered when having multiple trades.

2) It is a good idea to define the maximum loss acceptable before opening a new position and leaving a stop loss order accordingly. Though it must be remembered that stop losses may incur slippage and lose more money than originally defined as a maximum.

3) Be aware that markets may encounter extreme volatility, and certainly become more volatile during market openings, release of economic data or social/political news events.

4) Define a money management strategy where you will trade with a consistently sustainable level of leverage. Traders sometime employ money management based on a doubling principal, for example, deal sizes of 10,000, 20,000, 40,000, 80,000, and 160,000. Without a large deposit and means to cover heavy losses this can become an unsustainable strategy.

5) Before making a trade the market should be evaluated with your favoured method, that could be technical or economic analysis or other trading system. Only then, when the given factors are correct should you open a trade.

6) Define daily, weekly and monthly loss parameters. Traders who work for major banks are often managed in this way; they are forced to stop trading over a given time period if losses breach an originally agreed level. The Good Practice for Traders is not a complete list. It serves to highlight some characteristics of trading that are accepted to be of having a greater chance of success in financial markets.

Intraday Scenarios

Scenario one on an Index

The Trader buys an Index CFD at a size of $1 per point and initial margin amount of 10% and an underlying index price of 7,000, the initial investment will be $700 (10% x 7,000 x $1). The effect of leverage, in this case 10:1 (1/10). This means that each 1-point change in the underlaying Index will affect the value with $1.Market movment impact on this position Index CFD (inter day).

Trade details.

Index opening price	P	7,000
Margin %	M	10%
Trade size	TS	1
Margin Requirement	MR= P x TS x M	700
Notional value of the trade	TN = MR/M	700

Value impact on position.

LONG Performance scenario	Closing price (inc. spread)	Price change	Profit/ loss	SHORT Performance scenario	Closing price (inc. spread)	Price change	Profit/ loss
Favourable	7105	1.5%	£105	Favourable	6895	-1.5%	£105
Moderate	7035	0.5%	£35	Moderate	6965	-0.5%	£35
Neutral	7000	0.0%	£0	Neutral	7000	0.0%	£0
Unfavourable	6895	-1.5%	-£105	Unfavourable	7105	1.5%	-£105
Stress	6650	-5.0%	-£350	Stress	7350	5.0%	-£350

Scenario two on FX

The Trader do an FX CFD trade pair trade at a price of 1.3500 buy at a seise of $5 per point and initial margin amount of 5% the initial investment will be $675 (0.05 x 5% x 1,3500). The effect of leverage, in this case 20:1 (1/0.05). This means that each 1-point change in the underlaying pair will affect the value with $5. (In FX 1 points are on the fourth decimal, here 1.350**0**

The Trader do an FX CFD trade pair trade at a price of 1.3500 buy at a seise of $5 per point and initial margin amount of 5% the initial investment will be $675 (0.05 x 5% x 1,3500). The effect of leverage, in this case 20:1 (1/0.05). This means that each 1-point change in the underlaying pair will affect the value with $5. (In FX 1 points are on the fourth decimal, here 1.350**0**

Market movement impact on positions in FX CFDs (inter day).

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https://cfsmtrader.com

Trade details.

FX pair opening price	P	1.3500
Margin %	M	5%
Trade size	TS	1
Margin Requirement	MR= P x TS x M	675
Notional value of the trade	TN = MR/M	13,500

Value impact on position.

LONG Performance scenario	Closing price (inc. spread)	Price change	Profit/ loss	SHORT Performance scenario	Closing price (inc. spread)	Price change	Profit/ loss
Favourable	1.3702	1.5%	202	Favourable	1.3298	-1.5%	202
Moderate	1.3567	0.5%	67	Moderate	1.3433	-0.5%	67
Neutral	1.3500	0.0%	0	Neutral	1.3500	0.0%	0
Unfavourable	1.3297	-1.5%	-203	Unfavourable	1.3703	1.5%	-203
Stress	1.2825	-5.0%	-675	Stress	1.4175	5.0%	-675

Regards, CFSM Compliance Team