# LEVERAGE AND MARGIN POLICY

Lykke Cyprus Ltd

June 2018

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# 2. INTRODUCTION

Lykke Cyprus Ltd (hereinafter referred to as the "Company) is a Cyprus Investment Firm licensed and regulated by the Cyprus Securities and Exchange Commission ("CySEC") with License Number 363/18. The Company is located at Kofteros Business Center, Ayias Fylaxeos 182, Office 103, 1st Floor, 3083, Limassol, Cyprus.

# 3. SCOPE

This Leverage and Margin Policy (the "Policy") sets out how we set leverage and margin levels and procedures when you trade in Contracts of Difference ("CFDs") with us.

The purpose of this Policy is to explain the key aspects of leverage trading and what leverage levels we make available depending on your knowledge and experience and regulatory requirements. It also outlines the impact on your margin and account where negative market movements occur.

# 4. LEGAL AND REGULATORY FRAMEWORK

This Policy is issued pursuant to, and in compliance with the requirements of EU Directive 2014/65/EU on Markets in Financial Instruments ("MiFID II") and the Investment Services and Activities and Regulated Markets Law of the Republic of Cyprus Law 87(I)/2017, which transposed MiFID II into Cyprus legislation.

Furthermore, the Policy is complies with Circular C271 which has been issued by CySEC on 4 June 2018 pursuant to ESMA's product intervention decision on CFDs and Binary Options issued on 1 June 2018 which decision starts to apply from 1 August 2018 for CFDs

In this Policy, we collectively refer to all the above legislations, regulations and guidelines as "Regulations". This Policy has been approved by our Board of Directors. Also, it is the Company's policy to review the present Policy once a year, and where relevant amendments need to be made, the Company's Compliance function shall be responsible for the update of this Policy, prior to its submission at the Board of Directors for its further approval.

# 5. APPLICABILITY

This Policy applies to the Company's execution of orders on behalf of Retail clients and Professional clients according to the Regulations and Laws, as defined below. If you are an Eligible Counterparty as defined under the Regulations this Policy does not apply to you.

# 6. COMPANY'S COMMITMENT

Treating Customers fairly is vital to our corporate culture and ethos and attitude. The Company has 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, the Company is 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, if applicable, 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 CySEC and/or ESMA.

## 7. FACTORS CONSIDERED

The Company takes into consideration the following factors when determining the maximum allowed leverage:

a. Client's Knowledge & Trading experience: With a series of questions in the account opening application we determine the client's financial strength, financial knowledge, trading experience, and trading style.
b. The risk appetite and risk management of the Company
c. The capital base and financial strength of the Company, as calculated and monitored based on the Company's Capital Adequacy
d. Asset Class: based on the instrument specifics, leverage on CFDs can go up to 1:30
e. Account Size: Any account with deposits above 10,000 EUR (USD or GBP) can only get leverage up to 1:30 or 1:20 depending on the underlying asset class as described in this Policy. Experienced retail clients with deposits less than 10k can also request a maximum 1:30 or 1:20 leverage.

## 8. CLIENTS' CATEGORISATION

For Retail Clients, a lower leverage limit which cannot exceed a default level of 1:10 applies, unless the retail client has opted to change this default level to a different leverage ratio by sending an email to brokerage@lykke.com.cy and we are satisfied with the retail client's knowledge and experience in trading in complex financial instruments like CFDs. In general, we internally classify Retail Clients as follows:
**Experienced Retail Clients**: Clients that score high marks in our Appropriateness test, demonstrating satisfactory knowledge and experience in trading in complex financial instruments like CFDs.
Regarding clients who are considered as experts based on their results in the appropriateness test, a default leverage of 1:10 will be given and if these clients submit a relevant request by email to brokerage@lykke.com.cy regarding the increasing of their leverage, this can be increased up to 1:30 or 1:20 depending on the asset class if the client in question deposits above 10,000 (EUR, GBP, or USD).The level can also be increased up to 1:30 or 1:20 if the client in question maintains a balance in his/ her account below 10,000 (EUR, GBP, or USD).
Experienced Retail Clients have the choice, to change the leverage ratios they trade with subject to the caps that we may apply based on our internal principles of risk appetite and tolerance. We reserve the right to introduce additional leverage levels.
Only if a client requests a higher ratio, the default ratio can be increased. Provided that such an increase is justified based on the profile of the client.

**Less Experienced Retail Clients:** Clients that score average marks in our Appropriateness test. Whilst such clients are deemed to possess certain knowledge and experience in trading in complex financial instruments like CFDs, their trading is only enabled after they receive extensive risk warnings which they acknowledge, accept and consent to. In order to further protect these clients, we are introducing restrictions on the leverage they can use for their trading with us. These restrictions will apply until the client undertakes 40 trades in 4 consecutive months, with a minimum of 2 trades in each of the four months. We restrict the leverage ratio to 1:30 or 1:20 or at any lower level that we may apply based on our internal principles of risk appetite and tolerance. Also, we are giving the option to those clients to lower the leverage in order to limit their exposure, i.e. the maximum possible leverage limit shall not be offered as the default offer to those clients. Depending on the client's knowledge and experience, the leverage ratio may be limited for a period of time, i.e. to a maximum of 1:30 or 1:20, or to a lower level based on regulatory or the Company's internal risk management policies.

If a client who fails the appropriateness test is directed towards educational tools, webinars or demo trading platforms with the aim of improving his/ her knowledge and experience to trade CFDs or other speculative products, the firm should subsequently conduct another appropriateness test before determining whether the product or service is appropriate for the client.

If a retail client has demonstrated limited or no actual experience of trading in CFDs, whether or not the client passed the appropriateness test, it may be in the client's best interest, if the firm chooses to allow the client to proceed in such a situation, to limit the level of leverage available to that client and/ or to limit the sum that the client can invest, in any one transaction for a period of time (i.e. in their first 6 months of trading).

If a client fails the appropriateness test, this client shall be directed towards educational tools, webinars or demo accounts so that he/ she improves his/ her knowledge and experience to trade CFDs or other speculative products and familiarize himself/ herself with such trading. However, if the Company chooses to allow the client to proceed with his/ her standard account (not a demo account), then the Company should limit the level of leverage available to that client (i.e. 1:05) and/ or limit the sum that the client can invest, in any one transaction for a period of time (i.e. in his/ her first 6 months of trading).

In general, the default level of leverage shall be 1:10 and this will be reduced to 1:05 regarding those clients with no education, knowledge and experience. Also, regarding these clients and for the first two (2) months from the time that these persons will become clients of the Company, the Company will offer various options and tools so that for these persons to educate themselves through demo accounts and/ or webinars and following the aforementioned period, the leverage of 1:05 will be offered to these clients. Following a time period of four (4) months from the time that the ratio of 1:05 will be offered, a new appropriateness test should be conducted so that for the Company to increase the leverage ratio of the particular clients (i.e. 1:10), if it is deemed appropriate for the Company to proceed as such.

## 9. LEVERAGE RATIOS FOR DIFFERENT ASSET CLASSES

We enable you to trade CFDs via the mobile trading platform.

The amount of available leverage depends, inter alia, on the results of the assessment of appropriateness of the client.

The Company offers different categories of margin requirements depending on the particular asset in order for the client to manage the exposure of the account in a more efficient way during volatile markets. The main idea is to protect the clients' accounts by requiring lower margin requirements for less volatile instruments and higher margin requirements for higher volatile instruments. This concept is illustrated below.

CFDs relate to underlying asset classes and financial instruments. We set out here below the class together with the maximum leverage levels we make available through our trading platforms:

| Margin Collected at opening transactions referred to Financial Instruments Listed in | | | |
|---|---|---|---|
| (Values Expressed as % of the nominal value of open positions) | | | |
| | | Category 1 | Category 2 |
| Experienced Retail Investors | Account above 10.000EUR | 3.33% | 5.00% |
| | Account below 10.000EUR | 3.33% | 5.00 % |
| Less Experienced Retail Investors | | 3.33% | 5.00% |

| Maximum Leverage at opening transactions referred to Financial Instruments Listed in | | | |
|---|---|---|---|
| (Values Expressed as Maximum Leverage Granted per Category) | | | |
| | | Category 1 | Category 2 |
| Experienced Retail Investors | Account above 10.000EUR | 1:30 | 1:20 |
| | Account below 10.000EUR | 1:30 | 1:20 |
| Less Experienced Retail Investors | | 1:30 | 1:20 |

**Categories:**

**Category 1 (Major Currency pairs) (Leverage Range 1:5 - 1:30):** CFDs where the underlying currency pair is composed of any two of the following currencies: USD, EUR, JPY, GBP, CAD, CHF.

**Category 2 (Non-major currency pairs) (Leverage Range 1:5 - 1:20):** CFDs where the underlying currency pair is composed of at least one of the USD, EUR, JPY, GBP, CAD, CHF.

**Comments:**

a. Leverage is applied on an asset class basis or on any other basis or per financial instrument as we may determine at our discretion. Subject to change with or without notice to reflect market conditions. The applicable leverage ratios at any point in time can be found on the official website.
b. The default leverage offered during the account opening process is set at 1:10. The maximum leverage 1:30 or 1:20 offered to any client depends on their level of experience in trading CFDs and the underlying asset class. The amount of available leverage depends on the results of your assessment of appropriateness.
c. ESMA prescribes a minimum default leverage ratio of maximum 1:30 for major currency pairs and of maximum 1:20 for non-major currency pairs. We reserve the right to reduce leverage ratios for CFDs in financial instruments that maybe the subject of actual or anticipated corporate actions, with or without notice to you, in order to address likely market and financial instrument volatility. Where possible we will give you up to 8 business days' notice of such change so as to enable you to take the action you consider appropriate.

# 10. KEY TERMS – LEVERAGE TRADING AND MARGIN

## 10.1 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. Please see below an explanation on our "Negative Balance Protection" where we guarantee that you cannot lose more funds than what you have invested.

The leverage is specified as a ratio, such as 1:10, 1:20, 1:30. This means that you, as our client, can trade with amounts many times higher 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 1:20 is a margin requirement of 5%.

**Example: If the leverage is 1:30 and if you as our client have $1,000 in your account, it means that you can now open trades worth $30,000.**

## 10.2 What is Spread?

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

**Example: If the quote for the EUR/ USD pair is 1.2910 against 1.2913, then the spread is 3 pips.**

## 10.3 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).

**Example: If you intend to buy a CFD on 10 barrels of oil at a price of 51.30 per barrel.**

**The leverage on the Oil CFD is 1:100. The spread on the Oil CFD is $0.03.**

**Your Margin requirement is calculated as follows: (10 * 51.30) / 100 + (10 * 0.03) = $5.43**

## 10.4 What is Equity?

In short, Equity can be defined as the value of your portfolio with us. Effectively it is the value of your funds with the Company (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.

## 10.5 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.

## 10.6 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.

## 10.7 What is Maintenance Margin and "Margin Stop"?

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".

**Example: You have an open position on EUR/USD with used margin of $500. Your Balance is $10,000 and your Equity $900. This means that your maintenance margin is at 180% (Equity of $900 divided by Margin used of $500). If your floating loss reaches $9,500 this means that your equity will become $500. Therefore, your maintenance margin will be 500/500 = 50% and a Margin Close Out will take place, resulting in the closure of your position.**

The Company sets the Margin Close Out level at 100% of Minimum Required Margin following the ESMA's product intervention measures dated 1 June 2018, applying from 1 August 2018 for CFDs.

## 10.8 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 EUR/USD at 1.1175.**

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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*1.1175)/200 + 10,000*0.0002= $57.87**

In addition, you open a position of 100 units of the Apple CFD at 107.70. 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*107.7)/20 + 100*0.07 = $545.50.**

Therefore, the total Used Margin that you see in your account with us is $57.87 + $545.50=$603.37.

**Example:**

**Your Equity is: $1,000**

**Your wish to open a Buy position of $100,000 vs. CHF**

**Margin requirement: If for the USD/CHF pair, the margin requirement is 0.5% which equals $500. Margin Level**

**%: ($1,000 / $500) * 100 = 200 %**

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.

## 11. MARGIN CALL POLICY

We advise you that it's your sole responsibility to monitor the margin level of your positions in real-time via your Trading Platform.

The 100% 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 100%, 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 100% margin level. We will liquidate positions starting from the position with the highest loss or the last order placed.

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.

## 12. NEGATIVE BALANCE PROTECTION

We offer all our clients Negative Balance Protection on a per account basis. This means that our clients will never lose more than the amounts they invested with us.

## 13. CONFLICTS OF INTEREST

The Company is required to establish, implement and maintain an effective conflict of interest policy which shall specify the procedures put in place by the Company for identifying and responsibly managing and controlling and, where necessary, disclosing the conflicts of interest arising in relation to its business. For more information, please refer to the Company's Conflicts of Interest policy.

## 14. OFFERING CFDs IN CERTAIN JURISDICTIONS

CFDs are not eligible for sale in certain jurisdictions or countries. This Policy is not directed to any jurisdiction or country which is included in the Company's Banned Jurisdictions as this is defined in the Investment Services Agreement. The Policy does not constitute an offer, invitation or solicitation to buy or sell CFDs.

## 15. 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 always binding on the Company.