

EZInvest

LEVERAGE AND MARGIN POLICY

UPDATE ON THE DEFAULT LEVERAGE AS ISSUED BY ESMA

The European Securities and Markets Authority (ESMA) has formally intervened on a PAN-European basis with new measures on the provision of contracts for differences (CFDs) and Forex in regards to retail clients.

As from 1st of August 2018 the leverage limits on the opening of a position by a retail client vary according to the volatility of the underlying asset. Please see below the new leverages imposed until 31st of October 2018 unless renewed:

- 30:1 for major currency pairs;
- 20:1 for non-major currency pairs, gold and major indices;
- 10:1 for commodities other than gold and non-major equity indices;
- 5:1 for individual equities and other reference values;
- 2:1 for cryptocurrencies;

The relevant announcement by ESMA can be found [HERE](#)

1. Introduction

WGM Services Ltd (the “Company”, or “EZInvest”) 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.

The Policy is in accordance with the requirements of:

- a) Circular C168 of the Cyprus Securities and Exchange Commission concerning the updated version of ESMA Q&A document relating to the provision of CFDs and other speculative products to retail investors under MiFID,
- b) The question and answer 1 of Section 8 of ESMA/2016/1165 relating to the provision of CFDs and other speculative products to retail investors under MiFID.

The purpose of this Policy is to determine the default leverage granted to the Company’s clients and identify, under which conditions, clients may be granted higher or lower leverage than the default.

2. 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.

3. 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 CySEC or any other regulator in any jurisdiction we offer our services to.

4. 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 of **1:50**, unless provided otherwise in section 4.1 below. In addition retail clients may never lose more funds than those deposited in their trading account (i.e. negative balance protection)

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.

4.1. Conditions under which clients may be granted higher leverage

Clients who have been subjected to the appropriateness test and the Company has assessed that the financial instruments and investment services it offers are appropriate for them may be given the option if requested and within the dynamic cap levels (section 5.) to increase their leverage up to a maximum of:

- a) 1: 200 for CFDs. For further details refer to the Company's website.
- b) 1: 200 for FX. For further details refer to the Company's website.
- c) 1: 200 for commodities. For further details refer to the Company's website.
- d) 1: 200 for indices. For further details refer to the Company's website.
- e) 1: 200 for Bonds.
- f) 1:50 for stocks. For further details refer to the Company's website.

4.2. Clients who fail the appropriateness test

Clients who have been subjected to the appropriateness test and the Company has assessed that the financial instruments and investment services it offers are not appropriate for them shall not be allowed to increase leverage beyond:

- a) 1: 50 for CFDs/ indices/ commodities/ bonds.
- b) 1: 50 for FX.
- c) 1: 20 for stocks.

The Company has assessed a multitude of factors in establishing the maximum leverage thresholds for each category of underlying instruments. Such factors include inter alia the volatility over a period of time of each instrument, the prevailing regulatory framework and the Company's own experience with clients.

4.2. a. Clients who fail the appropriateness test requesting to be allowed to increase leverage

Further to the above, the aforesaid clients may apply to the Company via email requesting to be allowed to increase leverage beyond the levels set in the aforesaid paragraph up to the maximum levels stated in paragraph 4.2. The current appropriateness test is not score based and only one wrong answer deems the client as not eligible to pass the appropriateness test fails. In case that a client that has failed the

appropriateness test applies to the Company via email requesting to be allowed to increase leverage beyond the default max levels of his categorization, the company may increase to 50% of the maximum limits provided that in his appropriateness test the clients have scored correctly more than 50% of the relevant questions.

In case that a client who failed the test and had scored correctly less than 50% of the relevant questions in the appropriateness test, makes a request for increasing his leverage, the Company shall increase the leverage of the said clients in case where all the following apply,:

- a) Clients must have been registered with the Company for at least 6 months;
- b) Clients must have conducted with the Company at least 50 trades and at least 2 trades per trimester;
- c) Clients who have conducted the 50 trades in a time frame less than 3 months from the date of registration shall not be considered experienced enough to increase their maximum leverage. These clients shall be required to conduct at least 6 trades (on any instrument) for an additional trimester;
- d) Upon the clients' application to increase the leverage, the Company shall warn the clients again that, based on the answers given during the assessment of appropriateness, the financial products and investment services offered by the Company may not be appropriate for them.

5. Maximum Leverage and Caps

The maximum leverage and Caps the Company will offer shall be determined by the Risk Manager in coordination with the Compliance Function after his/her suggestion to the Board of Directors who shall either approve or reject (in either case justify their decision) the Risk Manager's suggestions.

The Risk Manager when setting the maximum leverage to be provided to clients shall take into account the following factors:

- a) The capital base and financial strength of the Company;
- b) The Risk Appetite of the Company;
- c) The Robust nature of the Company's risk management systems/procedures/policies;
- d) The asset class and instrument characteristics including but not limited to: liquidity and trading volumes, volatility and standard deviation, market cap, country of issuer, hedging capabilities, general economic climate and geopolitical events;
- e) The input of the Compliance Officer.

The Risk Manager shall perform regular reviews (at least annually) of the maximum leverage offered to Clients by reconsidering the abovementioned factors. The Risk Manager shall, where appropriate suggest to the Board of Directors to change the maximum leverage on offer who shall either approve or reject (in either case justify their decision) the Risk Manager's suggestion.

6. Leverage- Dynamic Cap Levels

Firm shall monitor the leverage applied to *client's* positions, at all times; the Firm will decrease the leverage depending on the *client's* Aggregate Exposures and or Account Equity.

Leverage Level (up to)	Leverage Level per Aggregate Exposures
1:200	If Aggregate naked exposure is > \$2,500,000 account leverage can be changed to a maximum level of 1:100*
1:100	If Aggregate naked exposure is > \$4,000,000 account leverage can be changed to a maximum level of 1:50*

Leverage Level (up to)	Account Equity
1:200	If Account Equity is > \$125,000 account leverage can be changed to a maximum level of 1:100*
1:100	If Account Equity is > \$250,000 account leverage can be changed to a maximum level of 1:50*

*** Margin Requirement for opening new and maintaining positions will be calculated on the new reduced leverage.**

7. Leverage Trading and Margin KEY TERMS

7.1. 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. 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 you can open positions worth \$2,000,000

7.2. What is a Spread?

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

7.3. 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: $(\text{Amount} * \text{Instrument Price}) / \text{Leverage} + (\text{Amount} * \text{Spread})$.

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

7.4. 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 EZInvest (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.

7.5. 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.

7.5.1. 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.

7.5.2. 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 EZInvest, 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.

7.5.3. 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 $\$67.025 + \$829 = \$896.025$.

7.5.4. What is Margin Level?

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

Margin level % = $(\text{Equity} / \text{Used Margin}) * 100$

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 an EZInvest.com 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.

8. Negative Balance Protection

We offer all our clients Negative Balance Protection. This means that you will never lose more than the amounts you invested with us.

9. 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 EZInvest at all times.