

## RISK FACT SHEET FOR CONTRACTS FOR DIFFERENCES

Prepared on: 04/10/19

The Risk Fact Sheet is provided to you in accordance with Notice SFA N04-N15. It highlights the common risks of trading in Contracts for Differences (CFDs) and complements the trading agreement and associated risk disclosures furnished by UOB KAY HIAN Private Limited (UOBKH). This Risk Fact Sheet does not disclose all the risks of trading in CFDs. It is important to read the trading agreement and associated risk disclosures before deciding whether to trade in CFDs. You should also carefully consider whether trading in CFDs is appropriate for you in the light of your experience, objectives, financial resources and other relevant circumstances. If you do not have a copy of the trading agreement and associated risk disclosures, please contact UOBKH to request for a copy or download via <https://www.utrade.com.sg>. You should not trade in CFDs if you do not understand the product or are not comfortable with the accompanying risks.

### **Q1. What is my potential loss when I trade on margin in CFDs?**

When you enter into a CFD transaction, you need to pay an initial margin, which is based on a percentage of the value of the trade. When you trade on margin, you should be prepared to lose more than or all of your initial investment amount that you have paid as margin to UOBKH.

**Illustration 1:** The shares of XYZ Ltd are quoted at S\$2.00 per share and you are buying 2,000 shares of XYZ Ltd as a CFD at S\$2.00 per CFD. UOBKH sets the margin at 10% so you have to put up an initial margin of 10% X S\$2.00 X 2,000 = S\$400.

- The share price of XYZ Ltd then falls from S\$2.00 to S\$1.95. As such, you incur a loss of S\$100 (S\$1.95 – S\$2.00) X 2,000.
- Due to adverse market information on XYZ Ltd, the share price falls further to \$1.75. You incur a loss of S\$500 (S\$1.75 – S\$2.00) X 2,000. The S\$500 loss would be deducted from your initial margin of S\$400, which means you have to pay an additional S\$100 arising from your incurred loss.
- In the worst case, the shares of XYZ Ltd become worthless. You lose the full contract value of S\$4000 (S\$0 – S\$2.00) X 2,000. This is similar to the situation where you bought 2,000 shares at S\$2.00 per share, and lost your entire initial investment. You may also be liable for additional charges, costs and fees incurred.

### **Q2. What will happen if I do not have enough margin to cover my losses?**

There are two margin call situations you can encounter:

- i. If the cash balance in your account is less than the margin required on your account, UOBKH will issue you a margin call to pay the margin shortfall by the second business day.
- ii. For account's margin ratio that exceeds 125%, the account holder has to pay the margin shortfall by the next business day.

Pursuant to clauses E10.1 of your Master Trading Agreement with us, if you fail to meet the margin call, UOBKH has the right to close out your CFD positions without notifying you. Therefore, you will need to monitor your account closely to ensure that you deal with any margin calls promptly.

**Illustration 2:** Referring to Illustration 1, the share price of XYZ Ltd falls from S\$2.00 to S\$1.95 and the notional value of the contract is now \$3,900 (2,000 x 1.95). The margin requirements (assuming 10% margin rate) to maintain the contract is now S\$390 (S\$3,900 x 10%). With an unrealized loss of S\$100 (S\$2.00 – S\$1.95) x 2,000 and margin of S\$400, your net equity is now S\$300 (S\$400 – S\$100). UOBKH issues you a margin call of S\$90 to top up your margin to S\$390 (assuming that the margin requirement is S\$390). If you fail to pay the margin call by the stipulated day, UOBKH can close out your position. If the share price of XYZ Ltd continues to fall and your loss exceeds S\$X (i.e. X% of the margin requirement), UOBKH may close out your position. In addition, you may be liable for additional charges, costs and fees incurred.

### **Q3. How is the CFD quoted?**

UOBKH has two pricing models for its products – the CFD direct market access (CFD DMA) model and the CFD non-DMA model. For the CFD DMA model, the CFD prices will correspond directly to prices of the reference instrument quoted in the underlying exchange or market. Therefore, the CFD prices will only be available if the underlying exchange or market is open and if there is sufficient liquidity.

For the CFD non-DMA model, the firm obtains quotes from its counterparties whose prices are referenced to, but may differ, from the actual prices in the underlying exchange or market. In particular, when the underlying exchange or market is not open or has insufficient liquidity, the CFD non-DMA prices quoted may deviate

**RISK FACT SHEET FOR CONTRACTS FOR DIFFERENCES**

significantly from the underlying or last available reference price, the firm may also charge additional spreads to the prices.

**Q4. Can my order be executed at a price that is less favourable than the price quoted on the trading system, or the price that I have submitted?**

Yes, this is stipulated in clauses of section E7 of your Master Trading Agreement with us. Quotes for prices for dealing in UOBKH's products are indicative only and not guaranteed. This can happen when there is a change in our quoted price between the time your order is placed and the time your order is received or executed by our system (e.g., delay in the internet transmission of your order, or rapid price fluctuations in the financial markets during that period). In particular, for stop-loss orders that are triggered for execution at the stop price level that you have indicated, it may be difficult or not possible to liquidate your position at your stop price level, due to rapid price fluctuations or lack of liquidity in the markets. If any of the foregoing events happens, you may incur unexpected losses.

**Q5. Will my order be manually executed? If so, under what circumstances does UOBKH rely on manual execution?**

UOBKH's system executes your orders on an automated basis and does not rely on any manual intervention or dealing, unless your orders do not pass the pre-execution checks carried out by UOBKH's trading system. This can happen if there is insufficient or unavailable liquidity in the underlying market for UOBKH to hedge its own risk exposure. In this regard, UOBKH has the discretion to determine the price of the CFD *pursuant to clauses of section E7 of your Master Trading Agreement with us.*

**Q6. Where are my margins kept and maintained? Can UOBKH use my margins for its own purposes?**

Your moneys or other assets that you placed with UOBKH are required by regulations to be maintained in segregated accounts with certain specific entities. Your moneys or other assets are segregated from UOBKH's own moneys or assets, but may be kept in the same omnibus account with other customers of UOBKH. UOBKH is not permitted to use your money or other assets in the segregated account for its own purposes, including for settling its own dealings with its hedge counterparty.

**Q7. What will happen to my margins if UOBKH becomes insolvent? Will I be able to get back my moneys or other assets?**

UOBKH is your contractual counterparty and is obliged according to the terms and conditions of the trading agreement to honour your CFD trades and any profits made. Therefore, if UOBKH becomes insolvent, you face the risk that UOBKH will not be able to honour any profits that you made. As for your moneys or other assets that are held in the segregated account, these should be protected from the claims of UOBKH's creditors. Nonetheless, the recovery and return of your moneys or other assets will take time, as this is subject to due process of UOBKH's liquidation, including the reconciliation of all its customers' positions and moneys.

**Q8. Under what circumstances can UOBKH close my position or void my order?**

Under the terms of the trading agreement, UOBKH can close out your position or void your trade when:

- (i) you are unable to meet the margin calls within the required timeframe (pursuant to clause E10.1 of your Master Trading Agreement with us);
- (ii) Any of the situations as listed in all clauses of section E13 of your Master Trading Agreement with us.

The price at which your CFD is closed out will depend on the available price of the underlying share or asset at that point in time, which may result in a loss to you.

**Q9. What are the commissions, fees and other charges that I have or may have to pay?**

UOBKH commission, fees and other charges may include but are not limited to the following items. Please refer to the product FAQ on <https://www.utrade.com.sg> for the latest information.

Commission: Applicable to all CFDs. All commission charges are subjected to the Goods and Services Tax (GST).

Finance Charge: A financing fee is charged on any CFD positions that are held overnight on a daily basis. Finance charge is set at a percentage (e.g 0.5% p.a) and is charged based on 100% of the end-of-day marked to market value of your CFD positions.

**RISK FACT SHEET FOR CONTRACTS FOR DIFFERENCES**

**Illustration 4:** The shares of XYZ Ltd are quoted at S\$2.00 per share and you buy 2,000 shares of XYZ Ltd as a CFD at S\$2.00 per CFD. The commission charged is  $S\$2.00 \times 2,000 \times 0.5\% = S\$20.00$ . In addition, GST of S\$1.40 (7% of S\$20.00) is levied. If you hold the 2,000 shares as a CFD overnight, you incur a daily financing interest. The daily interest charge is  $(S\$4,000 \times 0.5\% / 365 \text{ days}) = S\$0.05$ .]

**Q10. What happens when trading in the underlying share or asset is suspended or halted? How can I exit my position and will I suffer losses?**

In event of a suspension where the price of the underlying share is unavailable, UOBKH may allow you to exit your CFD position at a price determined by UOBKH (at section E13.5 to E13.9 of the Master Trading Agreement with us). During the period of suspension, holders of open (long or short) positions will continue to be charged interest if the positions are held overnight.

In the event of a prolonged period of suspension, UOBKH may require you to increase the margins, pay up the contract value in full, or close off your positions at an appropriate price determined by UOBKH. In the worst case, you could lose 100% of the contract value. You may also be liable to pay additional charges, costs and fees incurred.

<b>Acknowledgement of Receipt of the Risk Fact Sheet</b>
I/we hereby acknowledge that I/we have received a copy of this Risk Fact Sheet and Form 13 Risk Disclosure Statement on contracts for differences (“CFDs”) and fully understand its contents.
<b>Name of customer</b>
<b>Designation*</b>
<b>Corporation Name*</b>
<b>Signature of customer/Authorised signatory*</b>
<b>Date</b>
*For corporations only