# Leverage and Margin Policy and Procedure

*Reference No. 32*

**VERSION CONTROL**

| No | Revision Date | Revision Description | Author | Approved By | Distribution Date |
|---|---|---|---|---|---|
| 1 | 11/12/2018 | Created as Leverage Policy | AMLCO | Board of Directors | 11/12/2018 |
| 2 | 17/02/2021 | Updated to improved procedure, added Margin Policy | Risk Manager | Board of Directors | 17/02/2021 |

## 1 Introduction

The following describes principles and procedures that shall be adhered to during transactions that include any type of leverage and margin requirements. Skanestas Investments Limited (hereinafter called the "Company") provides only regulated financial instruments and is not involved in any complex speculative products such as CFD's, binary options and rolling spot forex.

## 2 Scope

This Leverage and Margin Policy (the "Policy") sets out how we set leverage and margin requirements when clients of the Company trade with us.

The Policy explains the key aspects of leverage trading with margin and what leverage levels we make available depending on the clients' knowledge and experience and regulatory requirements. It also outlines the impact on the clients' margin and account where negative market movements occur.

## 3 Applicability

This Policy applies to Company execution of orders on behalf of Retail clients and Professional clients according to the Regulations, as defined below. It does not apply to clients categorized as Eligible Counterparties as defined under the Regulations.

## 4 Key Definitions

***Stocks*** A stock is a type of security that signifies ownership in a corporation and represents a claim on part of the corporation's assets and earnings. The leverage on the stock is provided in the line of ancillary services permitted under Firm's license KEPEY 251/14. The procedure of granting of a leverage is described in Client Order Handling Procedure or can be done through a REPO agreement. The margin loan to client executed by signing of a margin loan agreement. The maximum leverage level is determined on case by case basis, based on risk - management of the Company and client's demand but expected not to be higher than **1:10**.

***Bonds*** A bond is a debt investment in securitized form, in which an investor loans money to an entity (typically corporate or governmental) which borrows the funds for a defined period of time at a variable or fixed interest rate. The leverage on bonds is provided in course of Repurchase transactions (REPOs) in which Company may enter on behalf of the client. The level of leverage occurred in course of bonds trading is determined by discount parameter which is integral part of a REPO and is provided by Client Order. The maximum leverage level is determined on case by case basis, in accordance with bond parameters and risk-management requirements, but expected not to be higher than **1:5**.

***Derivatives*** A derivative is a financial instrument with a price that is dependent upon or derived from one or more underlying assets. The derivative itself is a contract between two or more parties based upon the asset or assets. Its value is determined by fluctuations in the underlying asset. The **leverage** under these instruments may emerge as **a difference between collateral submitted and size of notional position gained**.

***Leverage*** 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 1:2, 1:5, 1:10, 1:25 etc. Leverage could be expressed in percentage terms – and referred to as the **Margin requirement.**

***Initial/Required Margin*** The Initial Margin Requirement is the amount of collateral required to open a position on a contract i.e. is the minimum required value in an account, necessary to open (either buy or sell) a position on a contract.

***Margin Rate*** Margin Rate is the ratio of amount of money needed to open a position, to the actual market exposure of that position.

***Maintenance Margin*** Maintenance Margin refers to the minimum equity you need to keep your positions open. This is also commonly referred to as "maintenance requirement" or "minimum maintenance". Failure to meet Maintenance Margin requirements will result in the liquidation of assets until the requirements are satisfied.

***Margin Call*** Margin Call means a request from the relevant Exchange or counterparty under the Broker's Agreement to provide additional Collateral (Margin) in the amount specified for particular Derivatives Transaction and calculated in accordance with relevant Exchange Rules or Broker's Agreement.

***Balance*** Balance is the value of funds with the Company (which at any point in time does not include unrealized profit and loss on your assets.

***Equity*** Equity 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 assets.

***Margin Level*** Margin Level is a percentage derived by: ML = Equity / Margin.

***Business Date*** The business date corresponds to the date the notice provided to client, also known as working day.

## 5 Applicable Leverages and Margins

5.1 All leveraged transactions are intended to benefit the client, in accordance with Appropriateness (Brokerage) and Suitability (Portfolio Management) tests result and are provided on the Client's expressed request. In the instance of the Brokerage operations company acts on the basis of Client Order in accordance with Client Order Handling Procedure, Best Execution policy and all other relevant internal and external regulations. In the instance of Portfolio management company acts in accordance with the Investment Mandate.

All of the leverage parameters implemented are recognized as instruments that fulfill demand for explicit risk appetite of the client. Withal, understanding of the leverage requires higher level of financial literacy due to higher market risk on the clients' side. Thus the leverage may not be allowed by the company on the basis of insufficient appropriateness and/or suitability revealed in the relevant test.

There are number of instances that involve leverage instruments and operations:

1. Transferable securities
    a) Bonds
    b) Repos
    c) Leveraged transactions with stocks

2. Derivatives
    a) Options
    b) SWAPs
    c) Futures
    d) Forwards

In the course of its business, Company uses only regulated instruments, which include listed futures and options, OTC options, forwards, SWAPs. The Company does not operate with complex speculative products such as CFDs, binary options and rolling spot forex, nor does Company have intention to operate with such instruments further.

Since regulated instruments have a recognized market rules and practice of handling in place, the Company is positioning itself within these confines and in accordance with risk-management procedures implemented. Therefore, leverage on the derivatives transactions executed on behalf of the Client, provided by the Company depends on the exchange parameters and additional self-imposed restrictions deliberately taken by the Company in course of risk-management procedures.

5.2. The total size of the initial Margin for the positions of the Client, determined by the Company or by the third party that may be an Exchange acting under Exchange Rules, or a counterparty of the Company under the Client's Agreements, accordingly.

5.3. In order to protect the Company and all of our Clients, the Company may modify Margin Requirements for any or all Clients for any open or new positions at any time, at the Company's sole discretion to adjust for unprecedented volatility in financial markets. The changes will promote reduction of leverage in Client portfolios and help ensure that Clients' accounts are appropriately capitalized. If the Company increases its margin requirements, it may prevent a Client from increasing positions size if the specific Client has insufficient equity.

**Important**: if the client is unsure about the leverage he/she is entitled to or the margin that is required, the Company strongly recommends that the client contacts the Company for these details. The information will be provided for reference only. The Company does not provide any investment advice or investment recommendation and expects the client to have received independent investment advice from an investment professional.

## 6 Margin Calls

6.1. In case Margin level decreased below the 50%, the Company may serve a "Margin Call" notice to a Client, in which case the Client shall immediately perform any of the following: deposit funds to its account with the Company in the amount that is no less than the amount required in the relevant notice or immediately close portion or all positions to fulfill Maintenance Margin Requirements.

*For the "Margin Level" and "Stop Out" calculation please refer to Appendix 1.

6.1. When choosing to provide additional funds the Client is obliged to serve the Company with a document confirming the transfer of funds to the Company's Clients' account.

6.2. It is the right but not an obligation of the Company to serve the Client with margin call notice.

*For the "Margin Call" Notice Example please refer to Appendix 2.

## 7 Positions Liquidation ('Stop Out')

7.1. In case the Margin Level decreased below 20%, the Company may serve a "Stop Out" notice to a Client and reserve the right, without any order from the Client, at its discretion; close any positions of the Client to the extent necessary to meet obligations and indebtedness of the Client.

7.2. The Company may, without the Client's Order, close all or part of the Client's Positions, if the Client violates limit established by the Company on the total amount of open positions.

7.3. The Company shall not be responsible for any losses and damages incurred to the Client due to close out of his positions and all the expenses to close Client's open positions shall be for the Client's account.

Client should contact our office to confirm his/her agreement to the amount of the collateral movement and settlement details.

If no reply is received within two business days SKANESTAS INVESTMENTS LIMITED reserve the right to close all or some portion of clients open positions for the purpose of Negative Balance prevention.

*For the "Stop Out" Notice Sample please refer to Appendix 3.

## 8 Risks Involved

Leveraged Trading is highly speculative and involves a significant risk of loss and is not suitable for all investors. The relevant risk warnings are included in the client agreements as well as a separate Risk Disclosure Statement that is published on the website of the Company as well as annexed to the Client Agreement(s).

# 9 Appendix 1

**“Margin Level” and “Stop Out” calculations**

Assume Client has Balance of 100.000 USD and willing to buy shares, futures contracts and bonds with total value of required margin for entire portfolio of 70.000 USD

On that stage, his account details will be as follow:

Balance: 100.000 USD

Portfolio Required Margin: 70.000 USD

Operational PnL: 0.00 USD

Client Equity: Balance + Operational PnL = 100.000 USD

Margin Level: Equity/Required margin= **142.86**%

With such Margin Requirements, “Margin Call” will become effective if Portfolio Open Positions lose more than 65.000 USD and “Stop Out” in case of loss greater than 86.000 USD

Margin Call:

Balance: 100.000 USD

Portfolio Required Margin: 70.000 USD

Operational PnL: -65.000 USD

Client Equity: Balance + Operational PnL = 35.000 USD

Margin Level: Equity/Required margin= 35.000/70.000 = **50%** (Margin Call)

Stop Out:

Balance: 100.000 USD

Portfolio Required Margin: 70.000 USD

Operational PnL: -86.000 USD

Client Equity: Balance + Operational PnL = 14.000 USD

Margin Level: Equity/Required margin= 14.000/70.000 = **20%** (Stop Out)

## 10 Appendix 2

### "Margin Call" Notice Sample

**SKANESTAS INVESTENTS LIMITED – the Company letterhead**

To: CLIENT NAME

Contact(s): BO, FINANCE, TRADING DESK

RE: MARGIN CALL

This notice is confidential, unauthorized use is forbidden. Please destroy if you are not the addressee.

Pursuant to the Client agreement between SKANESTAS INVESTMENTS LIMITED (Cyprus) and CLIENT NAME hereby confirm notice of the following Margin Call requirement(s) as of Close of Business DATE.

All figures below are in USD.*

Notification of Margin Call

Net EQUITY: 49.300.00

Collateral (Margin) Held: 100.000.00

Minimum Transfer Amount: 1,000.00

Rounding Amount: 1,000.00

Rounding Method: NEAREST

Margin Level: 49.30%

Please contact our office to confirm your agreement to the amount of the collateral movement and advise settlement details.

## 11 Appendix 3

**"Stop Out" Notice Sample**

**SKANESTAS INVESTENTS LIMITED – the Company letterhead**

To: CLIENT NAME

Contact(s): BO, FINANCE, TRADING DESK

RE: NOTICE OF POSITIONS LIQUIDATION

This notice is confidential, unauthorized use is forbidden. Please destroy if you are not the addressee.

Pursuant to the Client Agreement between SKANESTAS INVESTMENTS LIMITED (Cyprus) and CLIENT NAME hereby confirm notice of positions liquidation as of Close of Business DATE.

All figures below are in USD.*

Notification of Positions liquidation

Net EQUITY: 19.300.00

Collateral (Margin) Held: 100.000.00

Minimum Transfer Amount: 80,000.00

Rounding Amount: 1,000.00

Rounding Method: NEAREST

Margin Level: 19.30%