Daweda Exchange Ltd

License Number: 289/16

LEVERAGE AND MARGIN POLICY

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Leverage and Margin Policy – Version Control

Date	Details of Amendment	Amended by	Distributed to Staff	Distribution Date

1. INTRODUCTION

Daweda Exchange Agents Ltd, located at 88, Agias Sophias Street, 3066 Limassol, Cyprus (the “Company”) is authorized and regulated by the Cyprus Securities and Exchange Commission (the “CySEC”) under license number 289/16.

2. SCOPE

This Leverage and Margin Policy (the “Policy”) sets out how we set leverage and margin levels and procedures when you trade with our leveraged products.

The Company’s leveraged financial instruments (the “Leveraged products”) are the following:

- Financial Contracts for Differences (“CFDs”) on Indices, Commodities and Forex (Currency Pairs).

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

3. 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, this Policy complies with Circular C271 which has been issued by CySEC on 4 June 2018 pursuant to the European Securities and Markets Authority Decision (EU) 2018/796 to temporarily restrict contracts for differences in the Union, which is applicable from 1 August 2018.

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.

4. 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 above. If you are an Eligible Counterparty as defined under the Regulations, this Policy does not apply to you.

5. 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 such products;

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 instruments on which our Leveraged products are 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 and/ or ESMA.

6. FACTORS CONSIDERED

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

- Client's Knowledge & Trading experience: With a series of questions during the account opening application, we determine the client's financial strength, financial knowledge, trading experience, and trading style;
- The risk appetite and risk management of the Company,
- The capital base and financial strength of the Company, as calculated and monitored based on the Company's Capital Adequacy;
- Asset Class: The Company's leverage ratios for different asset classes and financial instruments are presented in Section 8 of this policy.

7. CLIENTS' CATEGORISATION

A. Retail Clients

For Retail Clients, a lower leverage limit applies, in accordance with Section 8 of this Policy, unless the Retail Client has opted to change this level to a higher leverage ratio by sending an email to the Dealing Department at rto@dawedafx.com 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:

1) **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 experienced based on their results in the appropriateness test, the maximum allowed leverage limit will be given in accordance with Section 8 of this Policy.

Experienced Retail Clients have the choice to change (i.e. lower) the leverage ratios they trade with via the trading platform, subject to the caps that we may apply based on our internal principles of risk appetite and on the applicable regulatory requirements. We reserve the right to introduce additional leverage levels.

2) **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. As such, the lower leverage limit in accordance with Section 8 will be given to those Clients. These restrictions will apply until the Client undertakes 30-40 trades in three (3) consecutive months. Also, we are giving the option to those Clients to further lower the leverage in order to limit their exposure.

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 in trading CFDs, 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. lower than the lower leverage limits mentioned in Section 8) 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).

Regarding those Clients with no education, knowledge and experience, 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 lower leverage limit in accordance with Section 8 will be offered to these Clients. Following a time period of four (4) months from the time that the lower leverage limit will be offered, a new appropriateness test should be conducted so that for the Company to increase the leverage ratio of the particular Clients, if it is deemed appropriate for the Company to proceed as such.

B. Professional Clients

With respect to Professional Clients, as these are defined in the Company's Client Categorization Policy, the maximum allowed leverage limit applicable to each financial instrument/ underlying asset class in accordance with Section 8 is offered as a default.

Professional Clients have the choice to change (i.e. lower or re-increase) the leverage ratios they trade with via the trading platform, 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.

8. LEVERAGE RATIOS FOR DIFFERENT ASSET CLASSES AND FINANCIAL INSTRUMENTS

We enable you to trade the Company's Leveraged Products via our web and any mobile trading platforms.

With respect to Retail Clients, the amount of available leverage depends, inter alia, on the results of the assessment of appropriateness of the Client.

In accordance with the applicable regulations, 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.

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

A. Financial Contracts for Differences ('CFDs')

I. Retail Clients

Minimum Margin Collected at opening transactions (Values Expressed as % of the notional value of the CFD)					
	Category 1	Category 2	Category 3	Category 4	Category 5
Experienced Retail Investors	3,33%	5%	10%	20%	20%
Less Experienced Retail Investors	6,66%	10%	20%	50%	50%

Maximum Leverage at opening transactions (Values Expressed as Maximum Leverage Granted per Category)					
	Category 1	Category 2	Category 3	Category 4	Category 5
Experienced Retail Investors	1:30	1:20	1:10	1:5	1:5
Less Experienced Retail Investors	1:15	1:10	1:5	1:2	1:2

Category 1: Major Currency Pairs

Category 2: Non-major Currency Pairs, Gold and major Indices

Category 3: Commodities other than Gold, non-major equity Indices

Category 4: Individual Equities and other reference values

Category 5: Cryptocurrencies

II. Professional Clients

Please visit our Website at www.dawedafx.com regarding all financial instruments/ underlying asset classes which may be offered by us and the applicable maximum leverage limit based on each category of products. The maximum applicable ratios at any point in time can be found at the Company's website www.dawedafx.com

9. KEY TERMS - LEVERAGE TRADING AND MARGIN

9.1. 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, for example 1:2, 1:5, 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 Leveraged Product without the margin we provide. Sometimes the Leverage is expressed in percentage terms – and referred to as Margin requirement. For example, a leverage of 1:10 is a margin requirement of 10%.

Example: If the leverage is 1:20 and if you as our client have $1,000 in your account, it means that you can now open trades worth $20,000.

9.2. What is a Spread?

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

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

9.3. 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 1:10. The spread on the Oil CFD is $0.03. Your Margin Requirement is calculated as follows: (10 * 51.30) / 10 + (10 * 0.03) = $51.6

9.4. 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.

9.5. 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.

9.5.1. 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.

9.5.2. 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. If your Maintenance Margin reaches 50%, your positions will start to liquidate starting from the position with the highest losses.

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 $9,750 this means that your equity will become $250. Therefore, your maintenance margin will be 250/500 = 50% and a Margin Close Out will take place.

9.5.3. 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 EUR/USD at 1.1175.

Assume that the initial margin requirement is 3.33% (i.e. a leverage of 1:30). The margin used for your position is calculated as follows:

(10,000*1.1175)/30 + 10,000*0.0002= $374.5

In addition, you open a position of 100 units of the Apple CFD at 107.70. Assume that the initial margin requirement is 20% (i.e. a leverage of 1:5). So, the initial margin used for this position is calculated as follows:

(100*107.7)/5 + 100*0.07 = $2,161.

Therefore, the total Used Margin that you see in your account with us is **$374.5 + $2,161=$2,535.5.**

9.5.4. What is Margin Level?

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

Margin level %= (Equity / Used Margin) * 50

The margin requirement is specific for each asset class/ instrument and can be found here.

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. CHF

Margin requirement: If for the USD/CHF pair, the margin requirement is 3,33% which equals $3,330. Margin Level

%: ($1,000 / $3,330) * 100 = 30 %

9.6. Our 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 web trading platform or your mobile/ tablet app.

As mentioned above, the 50% 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 50%, 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 50% 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.

10. NEGATIVE BALANCE PROTECTION

We offer all our clients Negative Balance Protection. "Negative Balance Protection" means the limit of a client's aggregate liability for all CFDs connected to a CFD trading account with us to the funds available in that specific CFD trading account. This means that our Clients will never lose more funds than the amount of funds they have invested with us.

11. MARGIN CLOSE-OUT PROTECTION

We offer all our Clients Margin close-out protection. Margin close-out protection means the closure of one or more of a client's open CFDs on terms most favorable to the client in accordance with Articles 24 and 27 of MiFID II when the sum of funds in the CFD trading account and the unrealized net profits of all open CFDs connected to that account falls to less than half (i.e. 50%) of the total initial margin protection for all those open CFDs.

12. CONFLICTS OF INTEREST

The Company is required to establish, implement and maintain an effective Conflicts 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.

13. OFFERING FINANCIAL INSTRUMENTS IN CERTAIN JURISDICTIONS

Some financial instruments 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 ("Terms and Conditions"). The Policy does not constitute an offer, invitation or solicitation to buy or sell financial instruments.

14. 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 the Company at all times.