



# Retail Risk Disclosure

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This disclosure outlines the risks associated with contracts-for-difference ("CFDs") and margin foreign exchange ("FX") products, both of which are types of over-the counter derivatives ("OTC Derivatives"). You should read this document in addition to your client agreements with Pepperstone Markets Limited and Pepperstone Financial Services LLC (together referred to as "Pepperstone", "we", "us" and "our").

Trading derivatives on margin is highly risky. It isn't suitable for everyone so please ensure that you fully understand the risks involved and take care to manage your exposure.

This document provides you with a non-exhaustive overview of the key risks that you should take into account when deciding whether to open an account and trade. **It doesn't explain all of the risks** involved with trading or how the risks relate to your personal circumstances. **It's your responsibility to consider whether the products and services that we offer are suitable for you in light of your personal circumstances, understand how the products and services work and whether you can afford to take the high risk of losing money rapidly, before you commit to any transaction or enter into any legally binding arrangement with us. We recommend that you seek professional advice if you're unsure.**

**Leveraged trading risks:** OTC Derivatives are leveraged products, which means that you can open a position(s) (also known as a "contract") without having to deposit the whole value of the position(s). Instead, you can post funds in the form of a deposit or "margin" to maintain each open trade on your account. This margin deposit allows you to trade more than the amount that you've posted. This is known as leverage. Using leverage will amplify your losses and you may rapidly lose all the funds that you deposited in your account as a margin, based on the fluctuation of the price of the underlying reference. **Please note that most retail clients that trade in OTC Derivatives lose money and many of them lose it rapidly.** You should also note that we don't guarantee the funds you deposit and the position(s) you hold. Pepperstone AU may use these deposits against losses generated by your transactions. You're at risk of losing your entire capital outlay. You're personally responsible for all losses resulting from your position(s). **You should carefully consider whether trading with leverage is suitable for you and you should only risk an amount of money that you can afford to lose.**

The amount of margin that we need you to deposit for a particular trade will depend on the underlying asset, its leverage and the value of the position(s) that you want to open. The margin requirement for a transaction is usually a small proportion of the overall contract value. If the markets move against you, you may need to deposit more funds in your account so that you're still able to meet your margin requirements and keep your position open. When the margin level required to maintain the open position(s) in your trading account falls below the minimum margin requirement, Pepperstone AU may (although it's not obliged to under any circumstances) issue you with a 'Margin Call'. When you have position(s) open in your trading account, it's your responsibility to ensure that you have enough funds available in your account to cover the margin requirements, while also factoring in any running profits or losses. When you're in a Margin Call:

- you continue to be solely responsible for covering all losses associated with your position(s); and
- we may close your position(s) at the current market prices until your account's margin level returns above the stop out level, which is 50% of the initial margin required for your position(s).

In some cases, even the closure of all your position(s) may leave your account with no balance. As a Retail Client, you will be entitled to negative balance protection.

It's crucial that you always monitor your position(s) closely when you use leverage, because profits and losses can change quickly and unexpectedly. If you're unable to tend to your position(s) during a certain period, you should manage your risk accordingly. Pepperstone may at any time, at its sole discretion, increase the margin requirements for your position(s) as appropriate, and you may be required to deposit additional funds into your trading account to cover the increased margin requirements. If you don't fund your account appropriately, Pepperstone is entitled to close one or more or all your open position(s).

**Stop loss mechanisms:** A stop loss order is an instruction to execute a trade once a specific price has been reached.

In a fast-moving market however, your requested level may no longer be available, as the market might have moved quickly and significantly past or away from your level. For this reason, we can't guarantee that we'll be able to close your position at the specific price set out in your stop loss order and you'll continue to be liable for your losses. The prices of OTC Derivatives and order execution can be affected by many factors, such as market volatility, limited liquidity, failure of electronic or telecommunications systems, and force majeure, none of which can be controlled by you or us. We do everything we can to get orders processed fairly and swiftly.

**No advice:** We provide products and services on any execution-only basis. You're solely responsible for any decisions that you make in relation to our products and services. While we may provide you with general factual information about how our various products and services work, we don't provide personal financial product advice or investment, regulatory, tax or legal advice.

**Inherent conflicts:** We acknowledge that due to the nature of our business relationship, various situations may arise which could pose a conflict of interest. We've implemented a number of policies to manage these situations. The following list of conflicts isn't exhaustive and other conflicts may occur during your business relationship with us. Please feel free to contact us if you have questions, would like to query potential area of conflict, need information regarding the benefits or downsides to either party or would like to object to any potential conflict.

As the counterparty, Pepperstone is the principal on the other side of your trade, and also sets the prices for our clients. When you sell, Pepperstone is the buyer. When you buy, Pepperstone is the seller. When you lose money on a transaction, Pepperstone may make money on the same transaction in addition to fees and commissions it may charge you. Because we have a large number of clients, some of our clients trade in opposing directions and have opposing interests. As a result, Pepperstone may conduct transactions on its own account to hedge the risk of these client transactions. Pepperstone decides on the trading conditions such as spread, margins and stop loss processes at its discretion. Whilst we make costs as transparent as possible, we have the right to amend these conditions as well as to unilaterally close our clients' positions.

We may work with other companies. Our staff may receive/pay benefits, commissions or remuneration which may depend on volumes of transactions conducted by clients. Additionally, our employees may receive small gifts and minor hospitality from other parties, provided that receipt is in compliance with our anti-bribery and corruption policy. Our employees are not permitted to deal on their own Pepperstone accounts, although they're allowed to trade using accounts held elsewhere. We may use and communicate non-independent research by third parties. We have internal procedures in place which set out how we manage such conflicts, including maintaining independence between employees involved in different activities, segregation of responsibilities and policy of independence which requires our employees to act in the best interest of our client and in compliance with our legal or regulatory obligations. In some instances, when conflicts of interest arise, we may decline to act for a client or potential client.

**Electronic trading platforms:** An electronic trading platform for OTC Derivatives isn't an exchange, nor does it connect to or route orders to an exchange. It's simply an electronic connection for communicating. Although our financial products and services are regulated, please note that the means through which you access these services (i.e. the trading platform), is not explicitly regulated by a financial services regulator. Your agreements with us govern how you use the platform.

Pepperstone endeavours to generate prices continuously and provide you with access to its trading platforms and/ or mobile application(s) throughout the trading sessions as indicated on its website. However, there are situations where this isn't possible, for example, instances of poor telecommunication or internet connectivity, or system errors.

This may cause prices to change between the time an order is placed and the time that Pepperstone receives the order. In addition, although rare, technical risks may impact the execution of your orders.

**OTC contracts:** OTC Derivatives aren't listed on any exchange. Trading in OTC Derivatives doesn't give you any ownership of or voting rights in the underlying assets.

The spreads quoted on the underlying market can substantially widen during news events and around the end of the trading session. The prices we offer can depend on a number of factors including the transaction size, term of the product, business relationship, the underlying market rates and any prevailing swap or rollover charges.

OTC Derivatives are traded at market prices. The cost of these transactions will either be included in the spread or charged at a fixed amount and will be deducted from your account separately. You can find this information in your contract notes and statements. Information about spreads and other detailed information about costs can be found on our Pepperstone Financial Services LLC website.

Although you don't own or have any rights in the underlying asset, we may need to reflect changes to the underlying asset in your position(s). This is especially relevant for equity-based markets and corporate actions. In these situations we strive to replicate the events of the underlying market and their respective conditions, but because you don't actually own the underlying asset, the conditions of the particular event may be less advantageous to you i.e. deadlines may be stricter and options more limited. We don't profit from the outcome of these events and the position(s) held by our clients. To the extent possible, we'll keep the value, rights and obligations attached to your position(s) the same as they were before the event.

**Borrowed funds:** Pepperstone doesn't allow you to use credit cards and similar arrangements to fund your account. Trading on borrowed funds, particularly if they carry high interest rates, may increase your losses and you mustn't rely on expected profits to repay borrowed funds.

**Product specifications:** Pepperstone offers a wide array of products which include, but are not confined to, Forex CFDs, Indices CFDs, Commodities CFDs, Share CFDs and Cryptocurrency CFDs. You can find all of the respective specifications on the Pepperstone Financial Services LLC website and within the trading platform. Even though the pricing of these

markets is based on an underlying asset, the product specifications of our contracts may differ from those of the underlying asset. It's important to note that CFDs are exclusively settled in cash and that you consult all sources and understand the product before starting to trade a new product.

In particular, you should consider the product specifications in the overall context of:

- market volatility - its usual price movement range as well as the likelihood of a sudden significant move;
- trading hours - spreads can widen, and pricing models can change depending on the trading sessions. Markets can close and reopen at much different prices. Markets can also be open during significant economic or world events; and
- currency - if you trade a product denominated in a currency other than the base currency of your account, you may be exposed to additional currency fluctuations.

The trading platform is not regulated however it is provided by Pepperstone which is authorised and regulated by The Securities Commission of The Bahamas.

**Cryptocurrency Risk:** CFDs are high risk investment products, which are volatile, creating opportunity for high financial returns or losses. Cryptocurrencies are also high risk instruments and their value can fluctuate significantly. Cryptocurrencies are also subject to technology risks. If you choose to invest in Cryptocurrency CFDs, you do so acknowledging that these instruments are much more volatile than traditional currencies, so sharp and sudden moves in the price could see you lose significant amounts of money very quickly.

We base the price of our Cryptocurrency Contracts on the Underlying Market, made available to us by the exchanges and Liquidity Providers that we trade with.

When you trade CFDs on Cryptocurrencies, you need to be aware of the risk of a "hard fork" occurring. A hard fork is when a single Cryptocurrency splits in two due to a split in the blockchain network (ledger of Cryptocurrency transactions) and occurs when a Cryptocurrency's existing code is changed. This can result in both an old and new version of the particular Cryptocurrency. In the event of a hard fork:

- a) we'll generally follow the blockchain that has the majority consensus of Cryptocurrency users. We reserve the right to determine which blockchain and Cryptocurrency unit has the majority consensus behind them and use this as a basis for Cryptocurrency Contracts; and
- b) there may be substantial price volatility around the event. We may suspend trading throughout if we don't have reliable prices from the Underlying Market.

If the hard fork results in a variable second Cryptocurrency becoming tradable on exchanges, we have access to then, in our absolute discretion, we may create an equivalent Contract or cash adjustment on your Account to reflect its value. We'll attempt to notify you of potential hard forks, but it's your responsibility to make yourself aware of the hard forks that could occur.

Due to the volatile nature of Cryptocurrencies, where there is an event of a consensus among the exchanges and the instrument is no longer offered, we can delist the instrument in short notice. We may enforce a limit on the total amount of Cryptocurrency exposure that you're allowed to maintain. This information is available on our website. or from our Support team on request to [support@pepperstone.com](mailto:support@pepperstone.com). We reserve the right to reduce or close your Cryptocurrency positions if your notional exposure size exceeds this limit.

The table below shows the percentage of retail client accounts (that is, accounts that are similar to the one that you may have) that made losses for the four most recently completed calendar quarters.

We require you to confirm that you've read, understood and agreed to this Retail Risk Disclosure before your application for an account to be processed. Once we have your agreement, we'll email you a copy of this Retail Risk Disclosure, with the timestamp of your electronic signature. If you don't understand or don't agree with this or other documents, please don't continue with your application and contact us at [support@pepperstone.com](mailto:support@pepperstone.com) for assistance.

