Annex C

Guideline No: SFA xx-Nxx
Issue Date: [xx-xx-xxxx]

GUIDELINES TO MAS NOTICE ON RISK FACT SHEET FOR CONTRACTS FOR DIFFERENCES

1 Purpose of these Guidelines

1.1 These Guidelines are issued by the Monetary Authority of Singapore (the "Authority") pursuant to section 321 of the Securities and Futures Act (Cap. 289) ("SFA"). They provide guidance to CMS licence holders and exempt financial institutions in the preparation of a Risk Fact Sheet for contracts for differences required under the MAS Notice on Risk Fact Sheet for Contracts for Differences ("the Notice").

1.2 The expressions used in these Guidelines shall, except where expressly defined in these Guidelines or where the context otherwise requires, have the same meanings as those found in the Notice.

2 Guidance on the Preparation of the Risk Fact Sheet

2.1 The Annex to the Notice sets out the template for the Risk Fact Sheet. CMS licence holders and exempt financial institutions should adhere to the format (including question and answer structure), and headings and sub-headings set out in the template.

2.2 The Annex to the Notice is reproduced in these Guidelines together with guidance notes to assist CMS licence holders and exempt financial institutions in the preparation of the Risk Fact Sheet. The guidance notes are presented as italicised statements in square brackets in the Annex to the Notice. The guidance notes elaborate on the scope of the questions and provide examples of the responses to these questions. These guidance notes and examples are not meant to be prescriptive or exhaustive.

2.3 CMS licence holders and exempt financial institutions should include any additional information that is important for their customers to understand the relevant contract for differences. Where relevant, diagrams and numerical illustrations should be used to better explain and present the key risks to the customer.

Annex to the Notice

Risk Fact Sheet for Contracts for Differences

Prepared on: [DD/MM/YY]

1. This Risk Fact Sheet is provided to you in accordance with Notice SFA xx-Nxx. It highlights the common risks of trading in Contracts for Differences (CFDs) and complements the trading agreement and associated risk disclosures furnished by [*the firm*].

2. 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 [*the firm*] to request for a copy. You should not trade in CFDs if you do not understand the product or are not comfortable with the accompanying risks.

Q.1 What is my potential loss when I trade on margin in CFDs?

[*Explain how margin is computed, and highlight to the customer that he or she can lose more than the initial margin amount deposited with the CFD dealer. Illustrate with a worked example.*]

[*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 the firm.*

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]. [The firm] 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.*]

Q.2 What will happen if I do not have enough margin to cover my losses?

[*Explain when and how the margin call will be made and the firm's policy and procedures to close out the customer's position, especially any automatic close-outs without notice.*]

[*If the cash balance in your account is less than the margin required on your account, the firm will issue you a margin call to pay the margin shortfall by the next business day. If you fail to meet the margin call, the firm 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. Pursuant to clause [ ] of your trading agreement with us, we may liquidate your positions if your total losses exceed more than X% of the margin requirement.*

Illustration 2
Referring to Illustration 1, the share price of XYZ Ltd falls from S$2.00 to S$1.95. You incur a loss of S$100 [(S$1.95 - S$2.00) X 2,000]. Your margin balance is reduced to S$300 as a result. The firm issues you a margin call of S$100 to top up your margin to S$400 (assuming that the margin requirement is S$400). If you fail to pay the margin call by the next business day, the firm 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), the firm may close out your position. In addition, you may be liable for additional charges, costs and fees incurred.]

Q.3 How is the [*CFD*] quoted?

[*Explain how the CFD bid-ask prices are quoted based on the firm's business model and offering. Explain the potential conflicts of interest that may arise from the pricing model.*]

[*The firm has two pricing models for its products – the direct market access (DMA) model and the non-DMA model. For the 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 or if there is sufficient liquidity.*

For the non-DMA model, the firm determines and quotes its own prices which 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] prices quoted by the firm may deviate significantly from the underlying or last available reference price, or the firm may charge additional spreads to its prices. Because the firm deals with you as principal for its own account, there is a risk of conflict of interests as the firm may quote you a price that is less favourable to you than what is available in the underlying exchange or market to avoid losses in its own account.]

Q.4 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?

[*Explain if the customer's trades may be executed at a price worse than the order entered by the customer, as provided for in the trading agreement, and the circumstances under which this may happen, e.g. stop-loss orders.*]

[*Yes, this is stipulated in paragraph XX of the agreement. Quotes for prices for dealing in the firm'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.*]

Q.5 Will my order be manually executed? If so, under what circumstances does the firm rely on manual execution?

[*Explain if the customer's order can be manually executed, and the circumstances under which this may happen. If applicable, highlight the risk of deviation between the customer's order price and executed price.*]

[*The firm'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 the firm's trading system. This can happen if there is insufficient or unavailable liquidity in the underlying market for the firm to hedge its own risk exposure. In this regard, the firm has the discretion to determine the price of the [CFD] [pursuant to clause [ ] of your trading agreement with us.*]

Q.6 Where are my margins kept and maintained? Can the firm use my margins for its own purposes?

[*State and explain that margins are kept in segregated trust accounts.*]

[*Your moneys or other assets that you placed with the firm are required by regulations to be maintained in segregated accounts with certain specific entities. Your moneys or other assets are segregated from the firm's own moneys or assets, but may be kept in the same omnibus account with other customers of the firm. The firm 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.*]

Q.7 What will happen to my margins if [*the firm*] becomes insolvent? Will I be able to get back my moneys or other assets? [*Highlight the counterparty risk to the customer and the implications on the recovery of the customer's money or other assets in the event of the insolvency of the counterparty.*]
[*The firm 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 the firm becomes insolvent, you face the risk that the firm 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 the firm's creditors. Nonetheless, the recovery and return of your moneys or other assets will take time, as this is subject to due process of the firm's liquidation, including the reconciliation of all its customers' positions and moneys.*]
Q.8 Under what circumstances can [*the firm*] close my position or void my order? [*Explain all the situations where the firm has the right to close out or void the customer's position without consent. Make reference to the applicable paragraphs in the agreement.*]
[*Under the terms of the trading agreement, the firm can close out your position or void your trade when:* *(i) you are unable to meet the margin calls within the required timeframe (paragraph X of agreement);* *(ii) there is a trading system failure that result in erroneous prices at which your trades are executed (paragraph X of agreement); etc.* *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.*]
Q.9 What are the commissions, fees and other charges that I have or may have to pay? [*State and explain the various fees, commission and charges imposed on the customer. Explain with a worked example.*]
[*Commission: Imposed at 0.5% of the total value of the underlying shares. 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 0.5% of the total value of the underlying shares.* ***<u>Illustration 4</u>*** *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 X 2,000 X 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 X 0.5% / 360 days) = S$0.06.*]

Q.10 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? [*Explain the firm's policy and procedures in dealing with situations when the underlying asset of the contract for differences is suspended or halted, and how the customer can exit the position.*]
[*In event of a suspension where the price of the underlying share is unavailable, the firm may allow you to exit your [CFD] position at a price determined by the firm (at paragraph X of the trading agreement). During the period of suspension, holders of long positions will continue to be charged interest if the positions are held overnight.* *In the event of a prolonged period of suspension, the firm 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 the firm. 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.*]

ACKNOWLEDGEMENT OF RECEIPT OF THIS RISK FACT SHEET

This acknowledges that I/we have received a copy of the Risk Fact Sheet and understand its contents.

Name of customer : ________________ Signature of customer :_______________________

Designation* : ______________________

Corporation Name* : ______________________

*For corporations only