
Monex International Investments

CFD Trading Rules

Version 16.0

(Last accurate as at 07th March 2011)



MONEX
INTERNATIONAL INVESTMENT

Trading Hours

Trading for CFDs commences at:

- US stock CFDs
Monday to Friday = 13:30 GMT to 20:00 GMT (SUMMER).
Monday to Friday = 14:30 GMT to 21:00 GMT (WINTER).
- Hong Kong stock CFDs
Monday to Friday = 01:30 GMT to 04:00 GMT (SESSION I).
05:30 GMT to 08:00 GMT (SESSION II).
- Japan stock CFDs
Monday to Friday = 00:00 GMT to 02:00 GMT (SESSION I).
03:30 GMT to 06:00 GMT (SESSION II).

The time displayed on the platform is GMT +2.

Closing Price

The statement is based on the closing price, which was last displayed on the platform. The closing price indicated in the statement is the **bid** price for a long position, and the **ask** price for a short position.

End of Day Time for *SUMMER* is 20:30 GMT and 21:30 GMT for *WINTER*.

High - Low Price

Both the high and low stated are those of the **Bid** price unless stated otherwise.

Contract Size

- US Stock CFDs
Each lot comprises 1,000 shares.
- Hong Kong Stock CFDs
Each lot comprises 10,000 shares.
- Japan Stock CFDs
Each lot comprises 1,000 shares.

Bid/Ask Spread

For a list of spread, please refer to the *List of Companies* document.

Fixed spreads are quoted during normal market conditions. MII reserves the right to, in the case of volatile market conditions, widen the bid/ask spread.

Commission

Commission charged for all stock CFDs (US/Hong Kong/Japan Stock CFDs) is 0.5% of face value of opening trade. Commission is charged for both sides of the transaction at the point on opening the initial transaction and would be converted into USD using the rate at the particular time.

For example:

- 1) *You sell 5 lots (5,000 shares) of Citigroup at 3.05. The face value of this trade is US \$ 15,250.-. Hence you are charged US \$ 76.25 (0.5% of US \$ 15,250.-) upfront. Upon closing this trade you will not be charged any further commission.*
- 2) *You buy 0.5 lots (5,000 shares) of China Life at 29.20 so the face value for this trade is HK \$ 146,000.-. Assume on that particular moment **US \$ 1 = HK \$ 7.75**, hence you will be charged approximately US \$ 94.19 {(0.5% of HK \$ 146,000.-)/USDHKD} upfront and you will not be charged any further commission when you have squared the position.*

Margin Requirement

A margin of 10% is required for the total **Open Face value** of trades (long or short) unless explicitly stated otherwise.

Overnight Margin Requirement

At the end of the trading session, every client that plans to hold positions overnight needs to have a minimum of 10% as margin of the face value to do so. A failure to do so, will cause the position(s) to be closed (position is chosen based on the extent of loss incurred) automatically upon market close, hence reducing the margin requirement. The position closed depends on the exchange that last closed and caused the margin deficiency.

For example:

A client with a margin deposit of US \$ 10,000.- buys 1 lot of Cathay Pacific Airways Ltd at HK \$ 12.63. The margin required to enter this position is 10% of the face value which is US \$ 1,629.68 (Assuming US \$ 1 = HK \$ 7.75).

Upon HK market close, Cathay Pacific Airways Ltd is trading at HK \$ 12.63. When the US market opens, the client buys 8 lots of Alcoa at US \$ 10.00. The margin required to enter this position is US \$ 8,000.-, The aggregate margin required for all these positions is US \$ 9,629.68. Assume the trading session is approaching a close, and at this point Alcoa is trading at US \$ 9.80.

At this point, the client only has US \$ 8,400.- as equity, whereas the overnight margin requirement is US \$ 9,629.68.-. Hence the client is short of US \$ 1,229.68.

If the client intends to keep the entire position overnight, the equity must be at least equal to the margin requirement. Now the client has 2 choices:

- 1) Deposit an extra US \$ 1,229.68 to ensure the US \$ 9,629.68 margin requirement is maintained so as to maintain all the positions.
- 2) Close 2 lots of Alcoa at the current price (US \$ 9.80), so the margin required now for the remaining lots is US \$ 7,629.68. Hence our equity of US \$ 8,400.- is sufficient to maintain the position for overnight.

If neither of the two actions is executed, CFD position of Alcoa (which is listed on the US exchange) will be closed using the closing price to reduce the margin requirement so the remaining lots can be left open overnight.

Automatic Liquidation

MII reserves the right to automatically close out the client's positions incurring a loss, in the event that the margin deposit is not enough to cushion an adverse market move.

However in the case of a price gap causing equity to be **below or equal to 20%** of the margin requirement, the position(s) are automatically closed at the market open price for that session.

Typically, when the equity goes equal to 20% of the margin required, **the position is automatically closed based on the extent of lost incurred, even though the underlying market is closed.**

If the liquidation causes a negative equity, the client is **obliged** to deposit the required funds to clear the account to ensure equity is positive/zero.

For example:

- 1) Client with a deposit of US \$ 10,000.- buys 2 lots of Morgan Stanley at US \$ 25.00 (Margin requirement is US \$ 5,000.-). Assume Morgan Stanley closes at US \$ 28.00. On the next day when the HK market open, client sells 1 lot of Hutchison Whampoa Ltd at HK \$ 51.00 (Margin requirement is US \$ 6,580.65). Upon HK market close, Hutchison Whampoa Ltd is trading at HK \$ 54.00. The aggregate margin requirement for these positions is US \$ 11,580.65 whereas the equity at this point is US \$ 12,129.03 considering both the profit and loss incurred on both positions. Hence margin is sufficient to keep the positions overnight. When the US market opens, Morgan Stanley gaps down to US \$ 21.50. At this point, the margin requirement is unchanged, but the equity is now – US \$ 870.97 (less than

20% of margin requirement). Hence all positions will be automatically closed. The client has now a negative equity approximately US \$ 870.97 (excluding commission and overnight financing charge). The client is required to deposit this US \$ 870.97 as well as any associated commission and financing charges incurred in order to clear the account.

- 2) Client with a deposit of US \$ 10,000,- buy 2 lots of Morgan Stanley at US \$ 25.00 (Margin requirement is US \$ 5,000.-). Assume Morgan Stanley closes at US \$ 28.00. On the next day when the HK market open, client sells 1 lot of Hutchison Whampoa Ltd at HK \$ 51.00 (Margin requirement is US \$ 6,580.65). Upon HK market close, Hutchison Whampoa Ltd is trading at HK \$ 54.30..
- The aggregate margin requirement for these positions is US \$ 11,580.65 whereas the equity at this point is US \$ 11,741.94 considering both the profit and loss incurred on both positions. Hence margin is sufficient to keep the positions overnight.
- When the US market opens, Morgan Stanley gaps down to US \$ 23.00. At this point, the margin requirement is unchanged, but the equity is now US \$ 1,741.94 which is less than 20% of the margin requirement.
- The position incurring the largest loss will be automatically closed. In the case, it is Hutchison Whampoa Ltd. with a floating loss of US \$ 4,258.06 versus a floating loss of US \$ 4,000,- for Morgan Stanley.
- Upon closure of the Hutchison Whampoa Ltd. position, the equity remains at the amount US \$ 1,741.94 and the margin requirement is now reduced to US \$ 5,000,-. Hence the Morgan Stanley positions can remain open.

Position Hedging

Position hedging is allowed for CFDs. If one places an opposing trade against an already open trade, he/she is given the opportunity to liquidate the opening position or keep both hedged against each other. If both positions are kept overnight, financing charges are debited/credited to the account accordingly.

Margin charged is **only 10 % from the margin requirement** of the open positions.

Max Instrument Exposure

- US stock CFDs
Maximum exposure for **any** one instrument **per client** is US \$ 1,000,000,-
- Hong Kong stock CFDs
Maximum exposure for **any** one instrument **per client** is HK \$ 5,000,000,-
- Japan stock CFDs
Maximum exposure for **any** one instrument **per client** is ¥ 50,000,000,-

A client who opens a position worth over than the maximum exposure, will have their position **forcibly closed** and will incur spread for that particular instrument as a penalty.

For example:

- 1) A client with a margin deposit of US \$ 200,000,- has sufficient margin to trade worth US \$ 2,000,000,-. However, only US \$ 1,000,000,- maximum exposure is allowed for any one instrument. If he/she chooses to trade AAPL at US \$ 110.00, he can trade only 9 lots of it. If he/she buys 10 lots AAPL at US \$ 110.00 (Face value US \$ 1,100,000.-), 1 lot of his positions will be forcibly closed at US \$ 109.90. Hence he will incur the instrument spread as a loss.
- 2) You have a margin deposit with the amount is US \$ 100,000,- hence you can trade worth US \$ 1,000,000,- (\pm HK \$ 7,750,000,-). However, only HK \$ 5,000,000,- maximum exposure is allowed for any one instrument. If you choose to trade HKEx Limited with the price HK \$ 122.00, you can trade only 4 lots. But if you buy 5 lots of HKEx Limited at HK \$ 122.00, 1 lot of your positions will be forcibly closed at HK \$ 121.80. Hence you will incur the underlying spread as a loss.

Phone Trading

Phone trading can be conducted in any of the two scenarios:

- 1) MII server is experiencing disturbances.
- 2) Client is unable to have access to an internet connection.

Clients may call our dealing desk in order to obtain a quote on any of our share CFD. However in the case of high volatility in underlying share market, bid/ask spread for phone trading be significantly different than online trading.

Overnight Financing Charges

CFD positions closed before the end of day are not subject to overnight financing charges, and CFDs are therefore well suited to intra-day trading.

Financing charges are based on the **closing face value** of the outstanding open positions and not on the share traded.

- US Stock CFDs
Long (Buy) CFD positions held past the end of the day's trading incur overnight financing charge on the **closing face value**. The amount *charged* is a markup of 2% over the current LIBOR rate.

Short (Sell) CFD positions enable the position to *receive* interest amounting to 2% markdown from current LIBOR rate on the **closing face value**. If LIBOR is below 2%, the holder of a short CFD position will *pay* financing charge.

For example:

- 1) US LIBOR rate is currently at 3% and you buy 2 lots (2,000 shares) of Ford Motor at US \$ 11.30. You intend to keep this position for a night. Ford Motor closes at US \$ 11.00. Your closing face value of this position is US \$ 22,000.- (11.00 x 2,000 shares) Hence you must pay 5% (LIBOR + 2%) of the closing face value (US \$ 22,000.-).

The amount **charged for that day** is as follows:

$$= (-5\% / 360) \times \text{US } \$ 22,000.-$$

$$= - \text{US } \$ 3.06$$

- 2) You sell 0.5 lots (500 shares) of Morgan Stanley at US \$ 28.00. Assume that Morgan Stanley closes at US \$ 28.30. Your closing face value is US \$ 14,150.- (28.30 x 500 shares). US LIBOR for this week is currently at 3%, hence you receive 1% (Current LIBOR - 2% markdown) of the closing face value.

The amount **received for that day** is as follows:

$$= (1\% / 360) \times \text{US } \$ 14,150.-$$

$$= \text{US } \$ 0.39$$

- Hong Kong Stock CFDs

Long (Buy) CFD positions held past the end of the day's trading incur overnight financing charge on the **closing face value**. The amount *charged* is a markup of 2.5% over the current HIBOR rate.

Short (Sell) CFD positions enable the position to *receive* interest amounting to 2.5% markdown from current HIBOR rate on the **closing face value**. If HIBOR is below 2.5%, the holder of a short CFD position will *pay* financing charge.

For example:

- 1) Hong Kong Interbank Offered Rate (HIBOR) for this week is currently at 0.05% and you buy 1 lot (10,000 shares) of Li & Fung Ltd HK \$ 20.50. You intend to keep this position for a night. Li & Fung Ltd closes at HK \$ 20.45. Your closing face value is HK \$ 204,500.- (HK \$ 20.45 x 10,000 shares). Hence you must pay 2.55% (HIBOR + 2.5%) of the closing face value (HK \$ 204,500.-).

The amount **charged for that day** approximately is as follows:

$$= (-2.55\% / 360) \times \text{HK } \$ 204,500.-$$

$$= - \text{HK } \$ 14.49$$

$$= - \text{US } \$ 1.87 \text{ (Assuming US } \$ 1 = \text{HK } \$ 7.75)$$

- 2) You sell 1 lots CONOOC Ltd at HK \$ 9.20. Let's assume that CNOOC Ltd closes at HK \$ 9.25. HIBOR for this week is currently at 0.05%, hence you must pay 2.45% (HIBOR - 2.5% markdown) of the closing face value (HK \$ 92,500.-).

The amount **charged for that day** approximately is as follows:

$$= (-2.45\% / 360) \times \text{HK } \$ 92,500.-$$

$$= - \text{HK } \$ 6.30$$

$$= - \text{US } \$ 0.81 \text{ (Assuming US } \$ 1 = \text{HK } \$ 7.75)$$

- Japan Stock CFDs
Long (Buy) CFD positions held past the end of the day's trading incur overnight financing charge on the closing face value. The amount *charged* is a markup of 2% over the current TIBOR rate.

Short (Sell) CFD positions enable the position to *receive* interest amounting to 2% markdown from current TIBOR rate on the closing face value. If TIBOR is below 2%, the holder of a short CFD position will *pay* financing charge.

For example:

Tokyo Interbank Offered Rate (TIBOR) currently at 0.19%

- 1) You buy 1 lot (1,000 shares) of Konica Corp. at ¥ 910.- and intend to keep the position for a night. Let's assume that Konica Corp. closes at ¥ 901.-, so your closing face value is ¥ 901 x 1,000 shares = ¥ 901,000.-. Hence you must pay 2.19% (TIBOR + 2%) of the closing face value (¥ 901,000.-).

The amount **charged for that day** approximately is as follows:

$$= (-2.19\% / 360) \times ¥ 901,000.-$$

$$= - ¥ 54.81$$

$$= - US \$ 0.55 \text{ (Assuming US \$ 1 = ¥ 100.00)}$$

- 2) You Sell 1 lot (1,000 shares) of Sony Corp. at ¥ 2.155.-. Assume that Sony Corp. closes at ¥ 2.205.-, and you intend to keep that position for a night. So your closing face value is ¥ 2,205,000.- (¥ 2.205 x 1,000 shares), hence you must pay the overnight charges as big as 1.81% (TIBOR - 2% markdown) of the closing face value (¥ 2,205,000.-).

The amount **charged for that day** approximately is as follows:

$$= (-1.18\% / 360) \times ¥ 2,205,000.-$$

$$= - ¥ 110.86$$

$$= - US \$ 1.11 \text{ (Assuming US \$ 1 = ¥ 100.00)}$$

Orders Permitted

- 1) Limit/Stop Orders
- 2) Market Orders
- 3) Day Orders (DO)
- 4) If-DONE Orders
- 5) One Cancels the Other (OCO)

All types of Orders (except Market Orders) must be placed a certain distance from the current spot price. This distance is specified in the *List of Companies* document. All orders can only be placed during market open hours and are only valid until session close upon which they are all purged.

Limit Orders and Stop Orders are considered DONE if the Bid or Ask price is reached or been passed, depending on the Sell or Buy position respectively.

Day Orders are valid until the underlying market session close.

OCO (One Cancels the Other) is a Limit and Stop order combination where if one is hit, the other is automatically cancelled. Sell on the Bid price and Buy on the Ask price.

For example:

- | | |
|-----------------------------------|-----------------|
| Running JPM : 31.00 / 31.02 | Day High 31.00 |
| - Limit Sell 31.00 or below | DONE |
| - Limit Sell 31.01 or above | NOT DONE |
| - Stop Buy 31.02 or below | DONE |
| Running JPM : 30.80 / 30.82 | Day Low 30.80 |
| - Limit Buy 30.82 or above | DONE |
| - Limit Buy 30.81 or below | NOT DONE |
| - Stop Sell 30.80 or above | DONE |

When a transaction takes place based on a **WRONG QUOTATION**, MII has the right to make a Correction / Revoke the transaction depending on the market price at that point.

Short-Selling CFDs

Most stock CFDs can be short sold. For a list of participating stocks, please refer to the *List of Companies* document. When short selling CFDs, you can experience forced closure of a position if your CFDs get recalled. The risk is particularly high if the stock becomes hard to borrow due to takeovers, dividends, rights offerings (and other merger and acquisition activities) or increased hedge fund selling of the stock.

Dividend Adjustment for CFDs

Holders of long CFD positions will, when dividends are paid on the underlying share, qualify for a proportional payout.

Holders of short CFD positions will have to pay an amount equal to the full (gross) dividend paid on the underlying share.

To qualify for dividends receivable/payable, one must have the position open **on the day before** the ex-dividend date until exchange close.

Cash dividends are booked on the end of the business hours of the dividend ex-date and would be paid in the currency of the share.

Cash dividends are converted into USD using the rate at the end of the trading hours of the respective exchange.

For example:

- 1) Assume the ex-dividend date of Goldman Sachs (GS) is 23rd October and dividend is paid quarterly. The annual dividend paid is US \$ 1.40 per share. Hence the quarterly dividend is US \$ 0.35. If you have open a position of GS **before** ex-date, and keep the position open throughout the business day, you will qualify for any dividends paid or received on this share CFD.

If you are long GS, you will **RECEIVE** the dividend of US \$ 0.35 per share into your account. If you purchased 1,000 shares, you will receive an amount of US \$ 350.- as a cash adjustment into your account at the end of 23rd October.

If you are short GS, you will **PAY** the full gross dividend of US \$ 0.35 per share from your account. If you had sold 1,000 shares, you will be debited US \$ 350.- as a cash adjustment from your account at the end of 23rd October.

- 2) Assume the annual dividend of Toyota Motor Corp is ¥ 35.- per share and dividend is paid yearly. Assume that the ex-dividend date is 25th September, so if you have an open CFD buy position of Toyota Motor Corp, **before** ex-date, and keep the position open throughout the business day, you will qualify for any dividends paid or received on this share CFD.

If you are long Toyota Motor Corp, you will **RECEIVE** the dividend of ¥ 35.- per share into your account. If you had purchased 0.5 lots (500 shares), you will receive US \$ 175.- {¥ 17,500.- / 100 (Assuming USD/JPY was trading at 100.00 upon TSE close)} as a cash adjustment into your account at the end of 25th September.

If you are short Toyota Motor Corp, you will **PAY** the full gross dividend of ¥ 35.- per share from your account. If you had sold 0.5 lots (500 shares), you will be debited an amount of US \$ 175.- {¥ 17,500.- / 100 (Assuming USD/JPY was trading at 100.00 upon TSE close)} as a cash adjustment from your account at the end of 25th September.

Adjustments for Corporate Actions (Such as rights issues)

A CFD holder is not allowed to vote in company resolutions etc. However any corporate actions do affect holder of CFD positions. Examples of corporate actions include bonus issues, rights issues, share buybacks, takeovers, and cash returns of capital.

In the event of any corporate action for a particular stock, MII shall endeavor to communicate such an event as soon as reasonably possible. If the corporate action cannot be replicated by MII, for any reason MII may close and re-open your CFD position at a new price and/or vary terms of the trades and CFDs to preserve the equivalence of the rights and obligations of both the parties immediately prior to a corporate action.

If the underlying exchange (NYSE/NASDAQ, HKSE and TSE) purges/cancels any orders for any particular instrument, the same is done for your orders by MII.

To be eligible for any corporate action, one must have the position open before ex-date for that action.

Stock Splits and Reverse Stock Splits

Stock split would be automatically reflected in the system, by a change in quantity and price.

For example:

Assume you have the following position:

Buy 2 lots (2,000 shares) of JPM at US \$ 30.00 (Contract Value: US \$ 60,000.-).

Soon after, the stock underwent a stock split in the ratio of 1:2. Hence your position would be automatically be adjusted to the following:

Buy 4 lots (4,000 shares) of JPM at US \$ 15.00 (Contract Value: US \$ 60,000.-)

Hence the overall contract value is left unaffected. The reverse holds true for Reverse Stock splits.

Stock Exchanges for CFDs

- US Stock CFDs
Currently offered is based on underlying stock listed on both NASDAQ and NYSE.
- Hong Kong Stock CFDs
Currently offered is based on underlying stock listed on Hong Kong Stock.
- Japan Stock CFDs
Currently offered is based on underlying stock listed on Tokyo Stock Exchange.

For the latest current information on stocks offered, please refer to the *list of companies* document.

Monex International Investments (MII) does not assume responsibility for any loss of LOGIN or PASSWORD caused by clients' negligence

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MANAGEMENT

SIGNED,

Name and Valid Signature