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# **Monex International Investments**

## **CFD Trading Rules**

**21st November 2008 (Rev 10.0)**

## Trading Hours

Trading for US stock CFDs commences at:

Monday to Friday : 13:30 GMT to 20:00 GMT (SUMMER)

Monday to Friday : 14:30 GMT to 21:00 GMT (WINTER)

The time displayed on the platform is GMT +2

## Closing Price

The statement is based on the closing price at a fixed time which is at 20:00 GMT (Summer) and 21:00 GMT (Winter). The closing price indicated in the statement is the bid price for a long position, and the ask price for a short position.

## High - Low Price

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

## Contract Size

Each lot comprises 1,000 shares.

## Margin Requirement

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

## 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 10 % from the margin requirement for hedged positions as they are viewed to have been closed already.

## Max Trade Size per Instrument

The maximum trade size for any one instrument is \$1,000,000. A client who opens a position worth over \$1,000,000 will have their position forcibly closed and will incur spread for that particular instrument as a penalty

*For example:*

*A client with a margin deposit of \$200,000 has sufficient margin to trade worth \$2,000,000. However, only \$1,000,000 trade size is allowed for any one instrument. If he chooses to trade AAPL (assuming AAPL : \$110.00), he can trade only 9 lots of it. If he buys 10 lots of AAPL at \$110.00 (Face value: \$1,100,000), 1 lot of his positions will be forcibly closed at 109.90. Hence he will incur the instrument spread as a loss.*

## 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.

Typically, when the equity goes equal to 20% of the margin required, the position is automatically closed. The position chosen to be closed is the one incurring the largest loss

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. 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:*

*A client with a deposit of \$2,000 buys 2 lots of Morgan Stanley at \$10.00. Assume Morgan Stanley closes at \$10.00 that day, and the next day market gaps down to \$8.80. The position will be automatically closed as at this price as equity is less than 20% of the margin requirement. Due to the extent of the gap, the client has now a negative equity, -\$400 (excluding commission and overnight financing charge). The client is expected to deposit this \$400 (as well as commission and financing charges) in order to clear the account.*

## Bid/Ask Spread

Bid/ask spread for CFDs is fixed at 2 points (\$0.02). Exceptions are for the stocks AAPL and GOOG where spread is 10 points (\$0.10) and 30 points (\$0.30) respectively. 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 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.

*For example:*

*Assume you sell 2 lots (2,000 shares) of Citigroup at 18.00. The face value of this trade is \$36,000. Hence you are charged \$180 (0.5% of \$36,000) upfront. Upon closing this trade you will not be charged any further commission.*

## 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.

**Long 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 2.0% over the current LIBOR rate.

**Short CFD** positions enable the position to *receive* interest amounting to 2.0% 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 1,000 shares of Citigroup at \$20.00. You intend to keep this position for a night. Citigroup closes at 19.00. Your closing face value is \$19 x 1,000 shares = \$19,000. Hence you must pay 5.0% (LIBOR + 2%) of the closing face value (\$19,000).*

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

$$\begin{aligned} &= -5.0\% / 360 \times \$19,000 \\ &= -\$2.64 \end{aligned}$$

- 2) *You sell 1,000 shares of Morgan Stanley at \$20.00. Assume Morgan-Stanley closes at \$22.00. Your closing face value is \$22 x 1,000 shares = \$22,000. Current LIBOR is 3%, hence you receive 1% (Current LIBOR - 2% markdown) of the closing face value (\$22,000).*

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

$$\begin{aligned} &= 1\% / 360 \times \$22,000 \\ &= \$0.61 \end{aligned}$$

## Overnight Margin Requirements

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 margin requirements

*For example:*

*A client with a margin deposit of \$10,000 and buys 10 lots of Morgan Stanley at \$10.00. The margin required to enter this position is 10% of the face value (\$100,000) which is \$10,000. Assume MS drops to \$9.80.*

*At this point, the client only has \$8,000 as equity, whereas the margin requirement is \$10,000 to sustain this position overnight. Hence the client is short of \$2,000.*

*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 \$2,000 to ensure the \$10,000 margin requirement is maintained so as to maintain all 10 lots.*
- 2) Close 2 lots at the current price at \$9.80. The margin required now for the remaining 8 lots is \$8,000. Hence our equity of \$8,000 is sufficient to maintain 8 lots overnight*

*If neither of the two actions is executed, 2 lots of the 10 lots will be closed to reduce the margin requirement required for open CFD positions so the remaining 8 can be left open overnight*

## Orders Permitted

- 1) Limit/Stop Orders
- 2) Market Orders
- 3) Day Orders (DO)
- 4) If-DONE Orders
- 5) One Cancel 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 *Trading Facts* document. All orders can only be placed during market open hours and are only valid until market 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 US market close (20:00 GMT for Summer and 21:00 GMT for Winter)

**OCO** (One Cancel 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

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.

## 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.

Dividends are paid in the currency of the share.

*For example:*

*Assume the ex-dividend date of Goldman Sachs (GS) is 23<sup>rd</sup> October and dividend is paid quarterly. The annual dividend paid is \$1.40 per share. Hence the quarterly dividend is \$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 \$0.35 per share into your account. If you purchased 1,000 shares, you will receive \$350 as a cash adjustment into your account at the end of 23<sup>rd</sup> October*

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

## **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 orders 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 or NASDAQ for US CFD) 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 Splits**

A 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 GE at \$30.00 (Contract Value: \$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 GE at \$15.00 (Contract Value: \$60,000)*

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

## **Stock Exchanges for CFDs**

Currently offered are select US CFDs based on underlying stocks listed on both NASDAQ and NYSE. For the latest current information on stocks offered, refer to the *List of Companies* document.

## 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.

*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,**

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Name and Valid Signature