DOO FINANCIAL

LEVERAGE POLICY

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DOO FINANCIAL

LEVERAGE POLICY

1. INTRODUCTION

The purpose of this Policy is to ensure that the level of leverage made available by Doo Financial Cyprus Ltd (hereinafter the "**Company**") to each *Retail Client* for trading is at the Client's best interests.

The Company offers investment services to its Clients related to Contracts for Difference (hereinafter the "**CFDs**"). CFDs are considered highly risky and *complex financial instruments* given, *inter alia*, the leverage element that they entail.

Trading with the use of leverage enables traders to control positions that exceed the value of their initial investment. This maximizes the Client's potential profits, were the market move in the Client's favor, but in case of adverse market movement, leverage would increase the potential Client losses.

European Securities and Markets Authority (ESMA) is of the opinion that leverage offers *Retail Client* the possibility to magnify the potential profits of a trade, however it also magnifies the possible losses. Because it is possible for the losses incurred to be higher than the amount of funds originally invested, leveraged instruments such as CFDs and rolling spot forex are riskier than non-leveraged instruments. The leverage component also adds an additional level of complexity, which means that many *Retail Clients* would have difficulty understanding how leverage impacts the risks involved when trading CFDs or other similar leveraged product.

To this end, the Policy shall determine the (maximum) levels of leverage ratios which will be made available to each *Retail Client* based on the Company's offer to its *Retail Clients* for trading, taking into consideration the Client's background and experience in trading *complex financial instruments*, his/her understanding of the risks entailed by *leveraged* financial instruments, as well as the idiosyncratic characteristics of the underlying asset to each underlying asset that the Client wishes to invest in (through CFDs).

This Policy aims to identify how leverage ratios are established having regarded the following factors:

- The capital base and financial strength of the Company.
- The risk appetite and risk management of the Company.
- The underlying asset class and financial instrument characteristics, including among others liquidity and trading volumes, volatility and standard deviation, market capitalization, country of issuer, hedging capabilities, general economic climate and geopolitical events, as applicable.

This Policy is handled and supervised by the Company's Senior Management. It shall be reviewed on at least an annual basis or more frequently and shall be, as may be required, updated to reflect changes in regulatory obligations (See also Section 6 of this Policy). The Compliance Officer shall assist in this respect with his feedback and guidance.

The Board of Directors shall remain responsible to ensure that this Policy is applied correctly and consistently and that is reviewed on an at least annual basis.

2. SCOPE

This Policy applies to all financial instruments offered by the Company and made available to its *Clients*.

3. LEGAL & REGULATORY FRAMEWORK

This Policy is issued pursuant to, and in compliance with the requirements of Directive 2014/65/EU of the European Parliament and of the Council of 15 May 2014 on markets in financial instruments and amending Directive 2002/92/EC and Directive 2011/61/EU (MIFID II) and the Law of the Republic of Cyprus No. 87(I)//2017 regarding the provision of investment services, the exercise of investment activities and the operation of regulated markets, as amended from time to time.

In addition to the above, this Policy complies with:

- ESMA's Product intervention Decision (EU) 2018/796.
- Circular 271 on ESMA Product Intervention Decision on CFDs and Binary Options.
- Circular 168 on Updated version of ESMA's Q&A document relating to the provision of CFDs and other speculative products to retail investors under MiFID.
- Consultation Paper (CP-02-2019) and the subsequent Policy Statement (PS-04-2019).
- Cyprus National Product Intervention Measures (hereinafter the "**CyNPIMs**").
- Directive DI87-09 for the restriction on the Marketing, Distribution or Sale of Contracts for Differences CFDs to Retail Clients.

4. DEFINITIONS

"Account Equity" shall mean the Balance plus or minus any Floating Profit or Loss that derives from an Open Position and shall be calculated as: Equity = Balance + Floating Profit - Floating Loss.

"**Products**" shall mean the financial instruments offered by the Company: Forex (Rolling Spot FX), Contract for Differences, which are all known as a "complex" financial instrument according to the relevant laws and regulation.

"**Leverage**" is ratio of the margin requirement imposed by the Company per each Product when opening a new position to the total volume. For example, if the Company requires a minimum 2% margin in a Client account related to CFDs, this means that a Client must have at least 2% of the total notional value of an intended position available as margin in his/her account, before proceeding with the placement of the order. Expressed as a ratio, 2% margin is equivalent to a 50:1 leverage ratio (1 divided by 50 = 0.02 or 2%).

5. ALLOCATION OF SUITABLE LEVERAGE TO THE CLIENTS

Leverage levels offered to *Retail Clients* must be always in-line with the applicable regulations (Directives or Circulars of CySEC and ESMA as those may be amended from time to time).

As per Directive DI87-09 Restriction in relation to the Marketing, Distribution or Sale of Contracts for Differences ("CFDs"), CySEC's Consultation Paper (CP-02-2019) and the subsequent Policy Statement (PS-04-2019) to *Retail Clients:*

- The restriction of leverage limits from 30:1 to 2:1 on the opening of a position by a retail Client.
- The adoption of the same leverage limits for all retail clients, with ranges from 2:1 to 30:1 dependent on the type and volatility of the underlying asset:
    - 30:1 for major currency pairs.
    - 20:1 for non-major currency pairs, gold, and major indices.
    - 10:1 for commodities other than gold and non-major equity indices.
    - 5:1 for individual equities and other reference values.
    - 2:1 for cryptocurrencies.
- The introduction of a margin close-out, when the Clients' funds fall to 50% of the margin needed to maintain their open positions on their CFD account.
- The introduction of a negative balance protection per account basis, so that retail Clients cannot lose more than the total funds in their trading account.
- The prohibition of firms from offering cash or other inducements to encourage retail clients to trade.
- The requirement of firms to provide standardised risk warnings informing potential customers the percentage of their retail client accounts.
- A territorial approach in relation to Cyprus National Product Intervention Measures for the provision of services on a cross-border basis to resident of other Member States and in third countries outside the EEA.
- More specifically, in case that the National Product Intervention Measures (hereinafter the "**NPIMs"**) adopted by different National Competent Authorities (hereinafter the "**NCAs**") are not the same as the ESMA Measures. Further to this, CySEC has adopted a territorial approach to the cross-border marketing, sale and distribution of CFDs either through a branch or tied agent, in order to provide protection to market participants operating in such jurisdictions where there may not be uniform application of the ESMA Measures and therefore the level of protection afforded to retail investors may not be the same.
- Where there is such divergence between CyNPIMs and the measures introduced by another NCA, the content and application of CyNPIMs varies based on the country of residence of the client. Where an entity falling under CySEC's supervision markets, distributes or sells CFDs to a resident of:
    - Cyprus, CyNPIMs will have the content of the ESMA Measures except for the risk warning for new CFD providers.
    - A Member State where the NCA has introduced NPIMs, CyNPIMs will have the content of the measures taken by the NCA of the respective Member State.
    - A Member State where the NCA has not introduced NPIMs, CyNPIMs will have the content of the ESMA measures except for the risk warning for new CFD providers.
    - A third country, CyNPIMs will have the content of the ESMA measures except for the risk warning for new CFD providers.

Further a margin close out rule on a per account basis is applicable (Stop-out level). This will standardize the percentage of margin (at 50% of the minimum initial required margin) at which the Company is required to close out one or more of a *Retail Client*'s open CFDs. Negative balance protection on a per account basis for all *Retail Clients* accounts. Prior to a stop-out, a margin call notification will appear on the Client's trading platform in case the equity of the account falls at or below 100% of the required margin for the open positions of the account.

The aim of the Leverage Policy shall also be to ensure that the maximum loss of Clients at any point in time never exceeds the Client's available funds. To this effect, the Company's systems, liquidity provider agreements and terms of business/Client agreement shall be setup in such a way that the Clients' balance in case it ever becomes negative shall be zeroed without any obligations/liabilities from/against the Clients.

For all Professional Client, a maximum leverage up to 1:500 applies. It should be noted that certain jurisdictions apply a cap on leverage levels irrespective of a client's Assessment of Appropriateness Classification. For example, in Malta maximum leverage of 1:100 applies if Client is classified as Elective Professional Client.

6. APPLICATION AND CONTROLS

The Company's Senior Management shall regularly review and update this Policy from time to time as shall be necessary to adhere to changes in the relevant legislation and level of risk.

Further, the Company's Brokerage Department shall be performing periodically and on a consistent basis statistical analysis of the market the results of which shall be provided to the Compliance Officer, the Risk Manager, and the Senior Management for assessing the Company's Leverage Offers, as well as the Margin Call and Stop Out Levels.

Moreover, the Risk Manager of the Company shall be responsible for monitoring on an ongoing basis the actual trading activity of Clients receiving the high Leverage in conjunction with the Company's Capital Basis and financial strength and suggest rectifying actions to the Company's Senior Management, where deemed necessary.

Rectifying actions might be any or a combination of the following:

a. Limit the size of a Client's positions that a Client is allowed to have open at each point in time.
b. Increase the margin/call stop-out levels for the Client.
c. Request from the Company's Shareholder(s) to increase the Company's Own funds thus creating a Capital Buffer above the Company's regulatory required minimum own funds which will protect the Company in case of abrupt adverse market movements.
d. any other actions deemed necessary and appropriate by the Risk Manager in order to protect the Company's Capital Base and financial strength Position in case of abrupt adverse market movements (see also Section 6 of this Policy).
e. any other action deemed necessary by the Risk Manager to protect the Company's Capital Base and financial strength Position in case of abrupt adverse market movements (see also Section 6 of this Policy).

Finally, the Senior Management of the Company shall be responsible for ensuring that this Policy which is part of the Company's Client Acceptance Policy (CAP) is followed and maintained by the relevant personnel.

7. OTHER

7.1. Leverage, Margin Call Level and Stop Out levels during extreme conditions

During expected extreme volatility is expected (e.g., in periods of news announcements or geopolitical events such as elections or referendums) the offered Leverage shall be reduced accordingly to the levels decided by the Risk Manager in conjunction with the Company's Senior Management and the Compliance Officer.

The details of the reductions/changes shall be duly notified to Clients including any temporary changes in the Leverage Offers. In case that the Liquidity providers of the Company amend the leverage levels offered, the amendment must take effect either immediately or as soon as reasonably possible.

The above-mentioned changes shall not be considered by the Company unless these are justified by the circumstances or expectations on the market movements.

7.2. Negative Balance Protection

The aim of this Policy shall also be to ensure that the maximum loss of Clients at any point in time never exceed the Client available funds. To this effect, the Company's systems and terms of business/Client agreement shall be setup in such a way that the Clients' balance in case it ever becomes negative shall be zeroed without any obligations/liabilities from/against the Clients.