

ALFA FINANCIALS (PTY) LTD.

RISK DISCLOSURE AND WARNINGS  
NOTICE FOR CLIENTS IN COMPLEX  
FINANCIAL PRODUCTS

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# RISK DISCLOSURE AND WARNINGS NOTICE FOR CLIENTS IN COMPLEX FINANCIAL PRODUCTS

## INTRODUCTION

- 1.1 This Risk Disclosure and Warning Notice (“Notice”) is provided to you (our Client and prospective Client) in accordance with the facilitation of Intermediary Services by Alfa Financials (PTY) Ltd. (“the Company”, “we”) because you are proposing to undertake dealings in contracts for differences in the form of trades. A responsible investment requires that you know all the implications and are willing to bear said implications.
- 1.2 All Clients and prospective Clients should read carefully the following risk disclosures and warnings contained in this Notice, before applying to the Company for a Trading Account and before they begin to trade with the Company. However, it is noted that this document cannot and does not disclose or explain all of the risks and other significant aspects involved in dealing in the Financial Instruments offered by the Company. This notice was designed to explain in general terms the nature of the risks involved when dealing in Financial Instruments on a fair and non-misleading basis.
- 1.3 The Company executes Client Orders in relation to the following Financial Instrument: Contracts for Differences (“CFDs”) in stocks, commodities, indices and currency pairs (FX), etc;

## PRODUCT DESCRIPTION

- 2.1 A CFD is an agreement to either buy or sell a contract that reflects the performance of, including amongst others, forex, precious metals, futures and shares; the profit or loss of is determined by the difference between the price a CFD is bought at and the price is sold at. CFDs are traded Over the Counter (OTC’) and on margin; it should be noted that no physical delivery of either the CFD or underlying asset is occurring. It should be noted that when Clients purchase, for example, CFDs on shares they are merely speculating on the share’s value to either increase or decrease. CFDs fluctuate in value during the day; the price movements of CFDs are determined by a number of factors including but not limited to speculation and availability of market information.
- 2.2 Engaging in this type of transaction can carry a high risk. As these transactions differ markedly from normal trades you should not engage in this form of Trading unless you understand the nature of the transaction you are entering into and the true extent of your exposure to the risk of loss. The amount that you may gain or lose will vary according to the extent of the fluctuations in the price of the index (“the underlying markets”) on which the trade is based instead of a sum pre-determinable when a normal trade is placed. For many members of the public, these transactions are not suitable; you should, therefore, consider carefully whether they are suitable for you in the light of your circumstances and financial resources.

- 2.3 Where entering into such transactions, the Company does so under a Client Agreement. You should satisfy yourself that dealing is conducted throughout in strict conformity with that Client Agreement and complain to the Company's Compliance Officer if you have reason to believe it is not. In considering whether to engage in this form of Trading, you should be aware of the following:

## **SPECIFIC WARNINGS TO ALL CLIENTS AND PROSPECTIVE CLIENTS**

- 3.1 CFDs are leveraged product and carry a high level of risk.
- 3.2 Trading CFDs may result in the loss of all your invested capital.
- 3.3 Trading CFDs may provide zero income.
- 3.4 Trading CFDs is subject to credit risk of the issuer.
- 3.5 Trading CFDs incurs costs including but not limited to fees and charge
- 3.6 Trading CFDs may incur conflicts of interest between the Client and the Company
- 3.7 Trading CFDs is not tantamount to the acquisition of the underlying asset.
- 3.8 CFDs are complex products and hard to understand by retail Clients

## **KEY RISK FACTORS**

- 4.1 Prior to trading CFDs, Clients should ensure that they understand the risks involved. CFDs are leveraged products, therefore, they carry a higher level of risk to Clients' capital compared to other financial products; for example government bonds and shares. Due to the fact that CFDs are leveraged products, engaging in CFD trading may not be suitable for all Clients and independent advice should be sought if necessary. The potential for profit must be balanced alongside prudent risk management given the significant losses that may be generated over a very short period of time when trading CFDs.

### **Market Risk**

CFDs fluctuate in value during the day; the price movements of CFDs are determined by a number of factors including but not limited to speculation and availability of market information.

### **Credit Risk**

When trading CFDs, Clients are effectively entering into over-the-counter ('OTC') transactions; this implies that any transaction opened with the Company cannot be closed with any other entity. OTC transactions may involve greater risk compared to transactions occurring on regulated markets, for example exchanges; this is due to the fact that in OTC transactions there is no central counterparty and either party to the transaction bears certain credit risk.

### **Counterparty Risk**

When trading CFDs, Clients run the risk of the Counterparty being unable to meet its obligations.

### **Interest Rate Risk**

Trading CFDs carries the risk of adverse movements in interest rates which may subsequently affect daily rollover (swap) rates related to open positions held overnight.

#### **Exchange Risk**

Trading CFDs may result in currencies fluctuating in appreciation and/ or depreciation consequently affecting an open position.

#### **Liquidity Risk**

Trading CFDs may result in a lack of available liquidity in the market to execute an order resulting in a Client being unable to close a position at a desired price and/ or time.

#### **Legal Risk**

Trading CFDs may be subject to changes in the applicable rules and regulations of a Client's jurisdiction which may affect the provision of investment and/ or ancillary services.

#### **Information Technology Risk**

The Company offers its services via an online trading platform, subsequently Clients may face connectivity issues resulting in the inability to access the trading platforms, bugs, and delays in prices and/ or execution amongst other related risks. For more information please review the software End User License Agreement of the Company.

- 4.2 The above does not contain an exhaustive list of all risk factors which may relate to trading CFDs. Clients should seek understand all risks prior to the commencement of trading CFDs and seek, where necessary, independent legal advice if required.

### **LEVERAGE (OR GEARING)**

- 5.1 CFD trading, unlike traditional trading, enables the Client to trade the markets by paying only a small fraction of the total trade value. It should be noted that high degree of "gearing" or "leverage" is a particular feature of this type of transaction. This stems from the margining system applicable to such trades that generally involves a comparatively modest deposit or initial margin in terms of the overall contract value, so that a relatively small movement in the underlying market can have a disproportionately dramatic effect on your trade. If the underlying market movement is in your favor, you may achieve a good profit, but an equally small adverse market movement can not only quickly result in the loss of your entire deposit, but may also expose you to a large additional loss unless you enter into a limited liability contract with the Company.
- 5.2 It should be noted that the Company shall monitor the leverage applied to Client's positions, at all times; the Company reserves the right to decrease the leverage depending on the Client's trade volume.

### **MARGIN**

- 6.1 Margin means the required funds available in a trading account for the purposes of maintaining an open position. The Client needs to ensure that he/ she has sufficient

margin on his/ her trading account, at all times, in order to maintain an open position. In addition, the Client needs to continuously monitor any open positions in order to avoid positions being closed due to the unavailability of funds; it should be noted that the Company is not responsible for notifying the Client for any such instances. If you deal on a credit basis, which may amongst other payments cover the initial margin requirements, the extent of your agreed credit facility does not limit your loss or financial liability and you can be subject to variation margin calls for an amount in excess of your facility. As a consequence the amount of capital that you are prepared to place at risk should be sufficient to cover your credit allocation and the possibility of subsequent variation margin calls, which will only be made once your credit allocation has been exceeded.

- 6.2 You may be called upon to deposit substantial additional variation margin, at short notice, to maintain your trade. If you do not provide such additional funds within the time required, your trade may be closed at a loss and you will be liable for any resulting deficit.
- 6.3 Fair stop-out means the closing of positions with the highest Margin in the event the Margin Level falls beneath the required minimum.
- 6.4 In the event a Client places a pending order, yet has insufficient margin for the order to be executed once the market price is reached, the Company shall reject this order.

## **CHARGES**

- 7.1 Subject to the instrument and/ or platform traded, the Company may charge where applicable any of the below:
  - Commission
  - Spread (mark-up)
  - Rollover (swaps)
- 7.2 Prior to placing any trades, you should receive from the Company written confirmation of all transaction or other charges for which you will be liable to the Company. However, the Company is unable to advise you of any other costs that you may incur in the course of dealing with it.
- 7.3 Although individuals investing in CFDs do not take physical delivery of the financial instrument independent tax advice should be sought, if necessary, to establish whether Clients are subject to any tax.

## **NO GUARANTEES OF PROFIT**

- 8.1 The Company provides no guarantees of profit nor of avoiding losses when trading in Financial Instruments. The Company cannot guarantee the future performance of the Client's Trading Account, promise any specific level of performance or promise that Client's investment decisions, strategies, will be successful/profitable. The Client has received no such guarantees from the Company or from any of its representatives. The Client is aware of the risks inherent in trading in Financial Instruments and is financially

able to bear such risks and withstand any losses incurred. The Client acknowledges and accepts that there may be other additional risks apart from those mentioned above.

## **OTHER IMPORTANT INFORMATION**

- 9.1 Alfa Financials (PTY) Limited ('Alfa') is a company registered in the Republic of South Africa with Registration Number 2014/211975/07 and is an authorized Financial Services Provider regulated by the Financial Services Board of the Republic of South Africa with a FSP license number 45695. Alfa is authorized to provide financial services in relation to the following financial products: Shares; Money-market instruments; Debentures and securitized debt; Warrants, certificates and other instruments; bonds; and derivative instruments.
- 9.2 A limited liability transaction limits the extent of your liability for loss in a transaction to an amount agreed by you prior to entering into such transaction, but you may sustain such loss in a relatively short time. You should take particular note of this aspect as specified in the Client Agreement. You are likely to incur additional costs in this type of transaction and you should obtain from the Company an explanation of these, if they are applicable. Such additional costs may take the form of a specific additional charge, or could be a "hidden cost" because the prices or spread on which these trades are based differ from those applicable to other trades that do not have limited liability.
- 9.3 The Company will not provide you with investment advice relating to investments or possible transactions in investments or from making investment recommendations of any kind. We may, however, give factual market information or information, in relation to a transaction about which you have enquired, as to transaction procedures, potential risks involved and how those risks may be minimized.
- 9.4 The Company holds your money in a segregated bank client account in accordance with the General Code of Conduct for Authorized Financial Services Providers and Representatives published under the FAIS Act, but this may not afford complete protection.
- 9.5 If you deposit collateral as security with The Company, you should ascertain from The Company how your collateral will be dealt with. Deposited collateral may lose its identity as the Client's property once it undertakes in dealings on its behalf. If you have reason to believe that The Company is not acting in accordance with representations that it has made to you, the terms of your Client agreement, the FAIS Act or the rules of the FSB, you should complain to the Company's Compliance Officer.