Description of FX Margin Trading and related risks

Description

Forex Margin Trading involves transactions where the bank provides an opportunity to trade Forex with substantial leverage. Even a small amount of deposited money (margin) can enable you to trade large volumes of currency, increasing the possible gain or loss compared to the amount invested.

When performing a Margin Trading transaction, it should be noted that as a result of a market price change, the amount of margin deposited on the account, from which losses are deducted, may become less than the level of the Required Margin, and in this case the investor receives a Margin Call, i.e. he has to replenish the trading account to restore the margin to the required level. Margin Calls may be made quickly or frequently, especially in times of high volatility. If the investor fails to replenish the account and the free equity falls to the Minimum Margin level, the bank has the right to close the customer's position under the current market price, and to cover the losses from the margin deposit, whether or not the customer agrees with this action. Depending on the leverage and the extent of the market movement the loss might be greater than the margin deposit and result in an additional claim against the customer. To limit losses you have an opportunity to use stop loss limits. This automatically closes your position when it reaches a price limit of your choice. There are however some circumstances in which a stop loss limit is ineffective - for example, where there are rapid price movements, or market closure. Thus stop loss limits cannot always protect you from losses.

If a position is opened and closed on the same day, the customer does not pay any fee or interest for the leverage. If a customer opens a position and does not want to close it on the same day, the customer pays the bank a fee in the form of swap points, calculated for the full amount of the trade. These costs can be complex to calculate and may outweigh the gross profits from a trade.

Risks

Forex Margin Trading carries a high level of risk with the possibility of losing more than your initial investment and may not be suitable for all investors. Before conducting transactions ensure that you fully understand the risks involved and seek independent advice if necessary.

Exchange rates fluctuate depending on several factors, including political situations, interest rates, monetary policy and inflation. Fluctuations are unpredictable, and the market could suddenly move against your interests. This will affect the price of your Forex contract and related potential gains and losses.

The smaller the margin is in relation to the underlying value of the contract, the greater the leverage. And the higher the leverage is, the more likely you are to lose your entire investment or more if exchange rates move in a direction you do not anticipate. It is very important to understand that although leverage can increase the returns on your investment, it can equally work against you by magnifying your losses.

Forex Margin Trading is not suitable for 'buy and hold' trading. It requires constant monitoring over a short period of time. Even maintaining your position overnight exposes you to greater risk and additional cost. Immediate action may be required to manage your risk exposure, or to post an additional margin. If the Margin Call is not met, the position(s) can be closed by the bank without your approval. There is a risk that you could lose some, all, or even more than your initial deposit. You cannot fully protect your investment, even with stop loss orders, as the actual price of the transaction might be far away from the stop loss limit given the market conditions. Don't use money you can't afford to lose.

In certain market conditions, when there are rapid movements on the market due to news or other events, you are also faced with Execution risk. Execution risk is associated with the fact that trades may not take place immediately, or at all. For example, there might be a time lag between the moment you place your order and the moment it is executed. In this period, the market might have moved against you. That is, your order is not executed at the price you expected, or in the case of a limit order, your order is not filled at all.

Some currency pairs are not actively traded or not traded at all on a 24-hour basis, even though you are able to place orders and conduct trades in this time. In such situations you are faced with Liquidity risk, which affects your ability to trade. It is the risk that the currency pair cannot be traded at the time you want to trade (to prevent a loss, or to make a profit) or the spread can be much wider than it is when the market is open, resulting in the unwanted execution of orders or inability of executing stop loss or limit orders at the indicated prices. There are risks associated with the trading of Forex through the internet trading platform including, but not limited to, the failure of hardware, software, and internet connection and security risks. Since Versobank AS does not control signal power, its reception or routing via the internet, configuration of your equipment or reliability of its connection or used security measures, we cannot be responsible for communication failures, distortions, delays or the risk of a third party gaining unauthorised access to the trading platform and the resulting losses when trading via the internet.

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You should only consider Forex Margin Trading if:

• you have extensive experience of trading in volatile markets,

• you fully understand how they operate, including all of the risks and costs involved,

• you are aware that the greater the leverage, the greater the risk,

• you understand that your position can be closed whether or not you agree with the decision to close your position,

- you have sufficient time to manage your investment on an active basis.