Leverage Policy

September 2023

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1. Conotoxia Ltd Leverage Policy (the “Policy”) is issued pursuant to, the requirements of:

➢ Circular C168 on ESMA’s Q&A document relating to the provision of Contracts for Difference and other speculative products to retail investors under MiFID (“Circular C168”).

➢ Circular C271 of the Cyprus Securities and Exchange Commission (hereafter “CySec”);

➢ EU Directive 2014/65/EU on Markets in Financial Instruments (hereafter “MiFID”);

➢ Law 87(I)/2017 for the Provision of Investments Services, the Exercise of Investment Activities and the Operation of Regulated Markets (hereafter “the Law”);

➢ ESMA/2016/1165 - Questions and Answers relating to the provision of CFDs and other speculative products to retails investors under MiFID;

➢ ESMA35-43-1135 – Notice of ESMA’s product intervention decisions in relation to CFDs and Binary Options;

➢ ESMA35-36-1262 – Questions and Answers on ESMA’s temporary product intervention measures on the marketing, distribution or sale of CFDs & Binary Options to retail clients;

➢ ESMA Decision (EU) 2018/796 of 22 May 2018 to temporarily restrict contracts for differences in the Union in accordance with Article 40 of Regulation (EU) No. 600/2014 of the European Parliament and of the Council.

2. Definitions

- Balance is a net amount held in the Client’s Account after all completed trades, transactions, deposits and withdrawals.
- Equity is the total capital value of the Client’s Account (balance +/- P/L of an open position). The total worth of the account if it were to close all of his open positions.
- Leverage offers a client the possibility to magnify the potential profits/losses of a trade. As such, leverage, gives the opportunity to open a position that is nominally larger than funds held on the account.
- Initial Margin is the amount of money required to open a trade. Margin is calculated based on the current market quote of the base currency of the trader’s account vs. base currency of the trader’s account, the volume requested, and the leverage level of the trader’s account.
- Free Margin it is the amount of funds available in the Client Account that can be used as margin for opening new positions. Free Margin = Equity - Used Margin

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- Margin Level indicates the ratio of equity to used margin.
- Margin Call is a warning message that occurs when Client's equity is less than the initial margin used to open the existing positions. Margin call occurs when the Margin Level is below 100%.
- Maintenance Margin is the minimum amount of equity that must be maintained in the Client's account to avoid triggering a liquidation process (Stop out).
- Stop Out occurs when a margin level of the trading account falls below the maintenance levels, then the least profitable positions (the positions with the higher loss) will start to be closing automatically one by one in order to release as much margin as possible and make free margin available to maintain the open positions. The purpose of the Stop out is to protect the Client's Equity and prevent falling into a negative balance.

3. Scope

Leverage Policy sets out what is leverage, leverage trading and its impact on investment outcomes, how we determine leverage and margin levels, with respect to our clients' trading. Each client willing to operate with Conotoxia Ltd will be made aware of this Policy before entering into any trading with the Company.

The Policy describes the key aspects of trading with margin and the leverage levels available depending on appropriateness test results and regulatory requirements.

4. Application

The Policy applies to services provided by Conotoxia Ltd to both retail and professional clients. It should be emphasized that the aim of this policy is to ensure that the leverage offered to Retail clients is in their best interest and to increase the investor protection.

Conotoxia offers to its retail clients a leverage ratio between 1:30 to 1:1 (depending on the financial instrument) for CFD trading. Under the Markets in Financial Instruments Directive, the Company may treat a client as an elective professional client if, after it assesses client's expertise, experience, and knowledge, it is reasonably assured that, in light of the nature of the transactions or services envisaged, the said client is capable of making his own investment decisions and understanding the risks involved.

The Company gives the ability to all existing or prospective clients to change the client categorization status and become an Elective Professional Client to obtain a higher leverage ratio.

However, in order to be classified as an Elective Professional Client, the following criteria must be met:

1) To satisfy at least two (2) of the following criteria (the "quantitative test"):

a) To have traded, in significant size, in the Forex/CFD market (or on another relevant market) at an average frequency of 10 transactions per quarter over the previous four quarters (either with the Company or other providers) in leveraged products such as Spot FX, CFDs, forwards, futures, swaps, options, or other derivative financial instruments;

b) The size of your financial instrument portfolio (including cash deposits and financial instruments) exceeds €500,000 (or the equivalent base currency of your trading account);

c) To work or have worked in the financial sector, for at least one year in a professional position, which requires knowledge of the transactions or services requested;

Any client wishing to be treated as an Elective Professional Client (either generally – for all future transactions and investment services, or in respect to a particular investment service, or transaction, or type of transaction, or product) needs to:

- Request this in writing by completing and submitting the form
- Provide the Company with signed form for Re-Categorization as an Elective Professional Client
- Consent that he understands that some of the protections and compensations right will be forgone

The Company distinguish another category of the client which is called Retail Experience Client. The said category has been introduced by the Polish Regulatory Body KNF. In order to be categorized as Retail Experience Client two out of three conditions must be met as per the client categorization policy:
1) Retail Client concluded in the last 24 months:
a) CFD opening transactions with a nominal value of equivalent of at least EUR 50,000 * in PLN each, with a frequency of at least 10 opening transactions per quarter over four quarters;
or
b) CFD opening transactions with a nominal value of equivalent of at least EUR 10,000 * in PLN each, with a frequency of at least 50 opening transactions per quarter over four quarters;
or
c) CFD opening transactions with a total nominal value of at least EUR 2.000.000 * in PLN, with at least 40 opening transactions per quarter in four quarters;
2) Retail Client has adequate knowledge of derivatives, including CFDs, supported by:
a) obtaining appropriate professional certificates, in particular: Investment Advisor, Securities Broker, Chartered Financial Analyst, Financial Risk Manager, Professional Risk Manager, ACI Dealing Certificate, ACI Diploma, or relevant field education;
or
b) completion of a minimum of 50 hours of training in derivatives, including CFDs, confirmed by obtaining relevant certificates or confirmations issued on the basis of knowledge verification by

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relevant training providers, within the last 12 months;
or
c) confirmation that you perform or performed activities or work or worked on the basis of an employment contract or other contractual relationship that is the basis for performing the function, for at least a year in a position that requires professional knowledge regarding transactions in CFDs or other derivatives.

* Equivalent amounts expressed in euros referred to in item 1 shall be determined using the average euro exchange rate announced by the National Bank of Poland on the day preceding the date of submission of the application by the retail customer in which the exchange rate was announced;
It should be noted that the Company has the right to request any supported documents in order to perform the assessment of the client categorization status.

5. Leverage mechanisms in practice

a. Example A – capital required

An investor buys 10 000 EUR for USD in the traditional currency exchange office and

through Conotoxia Forex Account. Exchange rate for EUR/USD = 1,10

Currency exchange office (Leverage 1:1, 100% margin)

capital required: 10.000 EUR x 1,10 = 11.000 USD

Conotoxia Forex Account (Leverage 1:100, 1% margin)

capital required: 10.000 EUR x 1,10 / 100 = 110 USD

b. Example B – maximum possible position to open

EUR/USD Rate: 1,10

Nominal value (1 lot): 100.000 EUR (or 100.000 x 1,10 = 110.000 USD)

Account assets: 1500 EUR

Margin level: 1%

Using all account resources (using the maximum leverage), the customer can open maximum long (buy) position on EUR/USD with nominal value:

1500 EUR / (1% x 100.000 EUR) = 1,5 lot (**150.000 EUR**)

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c. Example C – rate of return with and without leverage

Buy 10.000 EUR for PLN (sell PLN)

Buy rate = 4,30

Sell 10.000 EUR for PLN (buy PLN)

Sell rate = 4,02

The outcome of investment is the difference between PLN bought (at rate 4,02) and sold (at rate 4,30).

Currency exchange office (Leverage 1:1, 100% margin – capital involved 43.000 PLN)

(40.200 – 43.000) = -2.800, rate of return: -2.800/43.000 = -6,51%

Conotoxia Forex Account (Leverage 1:100, 1% margin, capital involved 430 PLN)

(40.200 – 43.000) = -2.800, rate of return: -2.800/430 = -651,2%

d. Example D – rate of return

Buy CFD contract based on DAX Index

Point value of DAX: 10 500 pts

Nominal Value 10 500 EUR

Margin Required 1% = 105 EUR

Sell previously bought contract at: 10 550

Clients account value: 1 500 EUR

Buy 1 CFD:

10 550 – 10 500 = 50 EUR, rate of return 3,3 %

Buy maximum possible number of CFD's (maximum leverage use):

14 CFD. x (10 550 - 10 500) = 700 EUR, rate of return 46,6%

6. To set the leverage and margin level on clients' accounts, Conotoxia Ltd is taking into account the following practices:

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- level of leverage must reflect clients' knowledge and experience in trading,
- aggressive leverage practices are not allowed towards clients,
- the default Leverage ratio is set between 1:30 to 1:2 depending on the financial instrument
- leverage level offered for different CFDs' is always determined and adjusted by considering criteria which influence the underlying on which the CFD is based, including historical volatility, liquidity and trading volumes, general political and economic environment and the Company's ability to hedge market risk,
- regulatory requirements and caps set by CySEC or any other regulator, in any of the jurisdictions the Company plans to offer its services,
- the Company's own risk bearing capacity and risk management practices and policies set out to manage company market risk coming from leveraged trades made by clients.

7. The Company offers to all its clients Negative Balance Protection as per the regulatory requirements in order to ensure that the maximum loss which may occur on the client's account never exceeds the client's available funds. In order to do so, the Company's margin close out/stop out restrictions are set at a minimum maintenance margin requirement of 50% on the sum of the initial margins.

8. Maximum available level of leverage allowed on specific CFD instruments for Retail Clients are as follows:

Maximum Leverage	Product
30:1	Major Currency Pairs
20:1	Non-Major Currency Pairs, Gold and Major Indices
10:1	Commodities except Gold and Non-Major Equity Indices

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5:1	For individual equities and ETFs
2:1	Cryptocurrency CFD
1:1	Single Stocks CFD and Single ETF CFD

9. Maximum available level of leverage allowed on specific CFD instruments for Experience Clients as per the Polish regulator are as follows:

Maximum Leverage	Product
100:1	Major Currency Pairs
20:1 – 100:1	Non-Major Currency Pairs (per symbol information can be found on contract specification)
100:1	Gold and Major Indices
10:1	Commodities except Gold and Non-Major Equity Indices
5:1	For individual equities and ETFs

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2:1	Cryptocurrency CFD
1:1	Single Stocks CFD and Single ETF CFD

10. Maximum available level of leverage allowed on specific CFD instruments for Professional Clients are as follows:

Maximum Leverage	Product
300:1	Major Currency Pairs
20:1 – 100:1	Non-Major Currency Pairs (per symbol information can be found on contract specification)
100:1	Gold and Major Indices
100:1	Commodities except Gold and Non-Major Equity Indices
5:1	For individual equities and ETFs
2:1	Cryptocurrency CFD

1:1	Single Stocks CFD and Single ETF CFD

11. The maximum allowable leverage limit is subject to change with or without prior notice to reflect current market conditions. Applicable leverage limits can be found on the Instrument Specification Table as presented above.

12. The Company can also reduce leverage limit for CFDs or rolling spot forex that may be the subject of actual or anticipated corporate actions or volatility at any time with or without prior notice.

13. ESMA's product intervention measures are not limited to clients who are based within the EEA but it applies to retails investors both residing in the EEA and to third countries. The MiFID II regime does not discriminate on the basis of the location of clients, but rather it applies to services provided by investment firms which are authorised in the EEA. Regulatory restrictions may exist in other jurisdictions irrespective of any retail client categorization. Therefore, the Company will monitor regulatory developments pertaining to the use of leverage or restriction on offering of CFDs in all countries where it offers its services and will adjust its terms of trading accordingly.

14. In line with the European Securities and Markets Authority's ('ESMA') temporary intervention measures (together, the 'ESMA Measures') - which lapsed for the final time in August 2019 - CySEC has permanently introduced ESMA Measures into national law pursuant to Article 42 of Regulation (EU) No 600/2014, or MiFIR. Therefore, the Company applies the rules as per the point 8 of the current policy.

The MiFID II/MiFIR regime does not provide for the case where the National Product Intervention Measures ('NPIMs') adopted by different NCAs are not the same. As a result, 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 legal certainty for 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;

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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.

In practice, a limited number of Member States of the EU28 to date materially diverge from the ESMA Measures and therefore by equivalence, the CyNPIMs. CySEC will dedicate supervisory resources to the application and enforcement of CyNPIMs. Retail investors located in the limited number of Member States that materially diverge from the ESMA Measures must be made fully aware of the level of protection afforded to them.

15. The Company's Leverage Policy is approved by the Board of Directors and is subject to periodic review,but at least annually.

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