LEVERAGE POLICY
(hereafter "the Policy")

RED MARS CAPITAL LTD.

Contents

1. **Introduction** ... 3
2. **The use of leverage when offering leveraged products to Clients** ... 3
3. **Leverage ratio** ... 3
   3.1. **Default Leverage** ... 3
4. **Appropriateness Test and leverage** ... 5
5. **Due diligence and leveraged products** ... 6
6. **Negative balance protection ("NBP")** ... 6
7. **Incentives** ... 7
8. **Margin Close Out rule** ... 7
9. **Initial Margin Protection** ... 7
10. **Margin Requirements and Leverage Rules** ... 8
11. **Risk Management Function provisions** ... 8
12. **Policy Review** ... 9

FIRST APPENDIX ... 10

Initial Due-Diligence (KYC) Questions ... 10

Source of Funds and Wealth ... 11

Understanding the Risks ... 13

1. Introduction

Red Mars Capital Ltd has established a Leverage Policy in accordance with the requirements of:

a) Article 25(1) of the Investment Services and Activities and Regulated Markets Law 87(I)/2017, as amended, in relation to conduct of business obligations when providing investment services to clients;
b) CySEC Circular C168, concerning the provision of CFDs and other speculative products to retail investors under MiFID;
c) Policy Statement (PS-04-2019) – Imposition of National Measures in relation to the marketing, distribution and sale of CFDs – 27.09.2019
d) DI87-09 - Prohibition of marketing, distribution or sale of CFDs to retail clients

The purpose of the Policy is set out the rationale behind the establishment of leverage ratios having regard to factors such as:

- The capital base and the robustness of the Company;
- The risk appetite and risk strategy of the Company;
- Target group Financial Instruments: The asset class and the instrument characteristics, including, inter alia, liquidity and trading volume of transactions, the volatility and standard deviation, the market capitalization, the country of issuer, the hedging capabilities, the general climate and the geopolitical events and circumstances.
- Target Client Group.

2. The use of leverage when offering leveraged products to Clients

Spot Forex ("**FX**") and Contract for Differences ("**CFDs**") are leveraged products. Leverage offers a client the possibility to magnify the potential profits of a trade; however, it also magnifies the possible losses. Because it is possible for losses incurred to be higher than the sum originally invested, leveraged instruments such as Rolling Spot Forex and Contract for Differences are riskier than non-leveraged instruments.

Furthermore, the impact of leverage on the risks of the product and service, including the risk of loss and the transactional costs involved, increases the complexity of the instrument (the leverage component also adds an additional level of complexity). Therefore, many retail clients would have difficulty understanding how leverage impacts the risks involved when trading Spot FX and CFDs or other similar leveraged products.

Considering that a CIF must, when providing investment and ancillary services to clients, act honestly, fairly and professionally in accordance with the best interests of its clients, the CIF has determined the leverage levels offered to retail clients as per the below.

3. Leverage ratio

3.1. Default Leverage

- **Spot Forex on Major currency pairs:** This category provides for leverage limits set on the Major Currency pairs. The Company has designed its trading systems in a way that offers retail clients with a default and highest leverage limit, of 30:1. It is a prerequisite that a Client who registers with the Company, successfully passes the appropriateness test, and deemed to possess the necessary and suitable knowledge and experience. It is clearly provided that the Client will have the possibility to change the default and maximum leverage cap of 30:1, which can be decreased to a lower leverage ratio reaching down to 1:1.

- **Spot Forex on Non-major pairs:** This category provides for leverage limits set on the Non-major pairs, which include both the Crosses pairs and the Exotic pairs. The Company has designed its trading systems in a way that offers retail clients with a default and highest leverage limit, of 20:1. It is a prerequisite that a Client who registers with the Company, successfully passes the appropriateness test, and deemed to possess the necessary and suitable knowledge and experience. It is clearly provided that the Client will have the possibility to change the default and maximum leverage cap of 20:1, which can be decreased to a lower leverage ratio reaching down to 1:1.

- **CFDs on the Precious Spot Metal of Gold, XAU/USD:** This category provides for leverage limits set on Gold, XAU/USD. The Company has designed its trading systems in a way to offer retail clients with a default and maximum leverage limit of 20:1. It is a prerequisite that a Client who registers with the Company, successfully passes the appropriateness test, and deemed to possess the necessary and suitable knowledge and experience. It is clearly provided that the Client will have the possibility to change the default and maximum leverage cap of 20:1, which can be decreased to a lower leverage ratio reaching down to 1:1.

- **CFDs on Major Equity Indices:** This category provides for leverage limits set on CFDs on Major Equity Indices. The Company has designed its trading systems in a way to offer retail clients with a default and maximum leverage limit of 20:1. It is a prerequisite that a Client who registers with the Company, successfully passes the appropriateness test, and deemed to possess the necessary and suitable knowledge and experience. It is clearly provided that the Client will have the possibility to change the default and maximum leverage cap of 20:1, which can be decreased to a lower leverage ratio reaching down to 1:1.

- **CFDs on Commodities other than Gold and Non-major equity indices:** This category provides for leverage limits set on CFDs on Commodities other than Gold, XAU/USD and Non-major Equity Indices, including CFDs on Energies. The CIF has designed its trading systems in a way to offer retail clients with a default and maximum leverage limit of 10:1. It is a prerequisite that a Client who registers with the Company, successfully passes the appropriateness test, and deemed to possess the necessary and suitable knowledge and experience. It is clearly provided that the Client will have the possibility to change the default and maximum leverage cap of 10:1 to a lower leverage ratio, which can be decreased to a lower leverage ratio reaching down to 1:1.

- The above-mentioned leverage limits are applicable on the opening of a position by a Retail Client.

- For all types of trading accounts and all financial instruments categories, the ***minimum trading leverage limit available will be 1:1***, at the discretion of the Client's Risk Appetite.

- Retail Clients with suitable trading experience can choose any of the provided trading strategies on their trading account.

- A standardized Risk Warning, including the maximum losses a client can suffer on both Spot FX and CFD trading is by default displayed on the Company's website.

4. Appropriateness Test and leverage

In order to evaluate the clients' knowledge and experience, the Company applies, as part of the account opening process, the appropriateness test. During the Appropriateness Test the Company requests information on client's or potential client's knowledge and experience in the investment field relevant to the specific type of product or service offered or demanded in order to ensure that the client or potential client understands the risks involved with the product or service that will be offered. The objective of this is to enable the Company to determine whether the product or service is appropriate for the client.

Considering the complex nature of Spot FX and CFDs and the best interests of the client, in cases where the assessment of appropriateness indicates that the product or service is not appropriate for a retail client or where insufficient information is available to assess appropriateness, the Company takes the following measures:

a) Appropriateness Test;
b) The Company sends to the Client the following risk warnings, based on the Client's total scoring:

1. **<u>FAIL the Appropriateness Test – the following Risk Warning given to Client:</u>**

   Risk Warning:

   Based on the information you have provided to us by your answers, **<u>we do not consider that you have the appropriate knowledge and experience</u>** to understand the risks involved in trading Forex and/ or CFDs and trading high risk leveraged products is not suitable for you. We recommend opening a demo account to get a better understanding of our products and undergoing some education on leveraged Forex and CFD trading.

2. **<u>PASS the Appropriateness Test – the following Risk Warning given to Client:</u>**

   Risk Warning:

   Based on the information you have provided to the Company, the latter considers that your knowledge and experience in trading Spot Forex and/or CFDs is appropriate for the opening of a trading account. Please note that even knowledgeable and well experience investors may experience large potential losses equivalent to the deposited capital. Should you wish to continue the default and **<u>maximum leverage limits</u>** available to you are as follows:

   - 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.

In order to proceed, the client must answer to the following:

''I acknowledge the Company's warning regarding trading in Forex and/or CFDs and I wish to proceed with my application. I confirm that I have sufficient knowledge and experience and I understand the risks involved in trading Spot Forex and/or CDFs.''

- Yes; or
- No.

5. Due diligence and leveraged products

If following the assessment and due diligence, it appears, that a particular complex product will never meet the best interests of its clients, and therefore such product is not appropriate for the client (not eligible), the Company shall reject the Client`s request and it will not proceed with the provision of the respective service or product.

6. Negative balance protection ("NBP")

The Company ensures, that the maximum loss for retail clients at any point in time never exceeds the clients' available funds. Negative balance protection (hereinafter, "NBP") shall be provided on a per trading account basis. This measure ensures an overall guaranteed limit on retail client losses.

The Company adequately manages the risks emanating from the Negative Balance Protection (that may arise in exceptional cases) in order to comply with CySEC' s requirements imposed by virtue of CySEC' s Circular 168, Policy Statement (PS-04-2019) and DI87-09.

In accordance with the abovementioned CySEC' s requirements and ESMA measures on the implications of Negative Balance Protection and on the Adequacy of Risk Transferring Arrangements, an Investment Firm may collaborate with Liquidity Providers without an additional buffer if the Liquidity Providers are:

a) Credit Institutions or Investment Firms domiciled in a third country for which there is an equivalent decision for the purposes of Article 107(4) of Regulation (EU) No 575/2013 (CRR). The relevant articles in the Commission Implementing Decision 2014/908/EU are:
Article 1 for Credit Institutions,
Article 2 for Investment Firms.

The annexes of the Commission Implementing Decision are amended from time to time. However, amendments are only relevant if they concern either Article 1 or Article 2 of the Commission Implementing Decision. It is provided that in order for CIFs not to be required to maintain an additional Common Equity Tier 1 (hereinafter, "CET 1") capital buffer, there must be an equivalent decision in relation to the specific type of entity they collaborate with (e.g. specifically for investment firms if they collaborate with an investment firm); or

b) EEA regulated entities (Credit Institutions of Investment Firms); or
c) Credit Institutions or Investment Firms domiciled in a member of G20.

For this purpose, the Company will sign an LP Contractual Agreement with the UK-based LMAX Global, which is an FCA regulated firm and is a member of the G20 list; therefore, currently it is not deemed for the Company to maintain a minimum additional capital buffer as per CYSEC guidelines.
Further, CIFs operating under a 125K Limited Licence must make sure that they have adequate agreements in place to ensure that the market risk is assumed by the Liquidity Provider rather than by themselves, in order to comply with the NBP and still remain as a 125K firm. To this end, the Company will sign an LP Contractual Agreement where the LP unequivocally agrees:

1. to assume responsibility for the market risk associated with each trading position of the clients of the CFD Broker operating under a €125,000 Limited Licence;

and

2. to assume responsibility and cover any negative balances that may appear in the trading accounts of the retail clients of the CFD Broker operating under a 125k Limited Licence, on a per account basis.

To ensure its compliance with the relevant regulatory requirements, the Company entered into a Contractual Arrangement with its Liquidity Provider (“LP”), which confirms the LP`s responsibility for a negative balance protection to all its retail Clients` accounts, ensuring that the Client's maximum losses from trading CFDs, including all related costs, are limited to the total funds related to trading CFDs, which are in the Client's CFD trading account.

7. Incentives

The Company does not offer any trading benefits, which may breach the duty of the Company to act honestly, fairly and professionally and in the best interests of its retail clients and/or incentivize retail clients to trade in complex and not suitable for them products.

8. Margin Close Out rule

The CIF trading systems shall guarantee a margin close out rule on a per account basis. This will standardize the percentage of margin (at 50% of minimum required margin) at which the CIF is required to close out one or more retail client’s open CFDs.

9. Initial Margin Protection

Margin requirements increase, when the funds available in a trading account increase. This arises from the fact, that costs increase for hedging open orders. Subsequently, leverage is changing as well.

Different Margin requirements may apply to different financial instruments. Therefore, the Company`s trading platform is set up with the following initial margin percentage based on the underlying asset:

a) 3,33 % of the notional value of the CFD when the underlying currency pair is composed of any two of the following currencies: US dollar, Euro, Japanese yen, Pound sterling, Canadian dollar or Swiss franc;
b) 5 % of the notional value of the CFD when the underlying index, currency pair or commodity is:
    i. any of the following equity indices: Financial Times Stock Exchange 100 (FTSE 100); Cotation Assistée en Continu 40 (CAC 40); Deutsche Bourse AG German Stock Index 30 (DAX30); Dow Jones Industrial Average (DJIA); Standard & Poors 500 (S&P 500); NASDAQ Composite Index (NASDAQ), NASDAQ 100 Index (NASDAQ 100); Nikkei Index (Nikkei 225); Standard & Poors / Australian Securities Exchange 200 (ASX 200); EURO STOXX 50 Index (EURO STOXX 50);
    ii. a currency pair composed of at least one currency that is not listed in point (a) above; or
    iii. gold;
c) 10 % of the notional value of the CFD when the underlying commodity or equity index is a commodity or any equity index other than those listed in point (b) above;
d) 50 % of the notional value of the CFD when the underlying is a cryptocurrency; or (e) 20 % of the notional value of the CFD when the underlying is: (i) a share; or (ii) not otherwise listed in this Annex.

10. Margin Requirements and Leverage Rules

During the publication of *high importance economic news*, margin requirements for new transactions are calculated based on a maximum leverage of 10:1. The change in margin requirements can only occur for the positions opened for the financial instruments affected by the published news. Clients receive a notification about the intended change in the mailbox of their trading platform, approximately one hour before the change in margin requirements. The said notification specifies the affected currency pairs, the maximum leverage allowed and the time period of the increased margin requirements. This rule shall take effect 15 minutes before the publication of the news and continues to apply 5 minutes after the occurrence of the event. When the specified period has passed, the margin on positions opened during the period are re-calculated based on the amount of funds in the account and the selected leverage value.

Additionally, margin requirements may change before weekends and holidays. From Friday, 19:00 GMT (three hours before the forex market closes), to Sunday, 23:00 GMT (two hours after the forex market opens), the margin requirements for new positions to be opened within the aforesaid time period are calculated based on a maximum leverage of 10:1.

Within two hours after market opening (by Sunday, 23:00 GMT), the margin on positions opened during the period of increased margin requirements is calculated based on the amount of funds in the account and the leverage chosen by the client.

The Company has pre-defined initial and maintenance margin amounts which are all described on the Company's website and can also be observed in the trading platform, namely MT5.

Additionally, the Company will, as a means of its Risk Management Function and Business Continuity Planning, ***deploy at all times an additional five percent (5%) minimum capital buffer, in excess of the minimum Capital Requirement as set by the CRD IV Directive***.

The Company`s own trading platform –MetaTrader 5 (MT5) offers broad range of functionalities like easy set-up of Negative Balance Protections per account basis, default leverage and margin close out, hence it eases Company`s compliance with CySEC`s National Product Intervention Measures.

11.Risk Management Function provisions

The Company has assessed a multitude of factors in establishing the maximum leverage thresholds for each category of underlying instruments. Such factors include inter alia the volatility over a period of time for each instrument, the prevailing regulatory framework and the Company's own experience with the trading attitude of its clients.

The maximum leverage of the Company will offer shall be determined by the Risk Manager after his / her recommendation to the Board of Directors who shall either approve or reject the Risk Manager's recommendation. The Risk Manager when setting the maximum leverage to be provided to clients shall take into consideration the following factors:

a) The applicable restrictions by the legal framework applicable for CIFs;
b) The Capital Base and financial position of the Company;
c) The Risk Appetite of the Company;
d) The robustness of the Risk Management Framework: The Company's risk management systems / procedures / policies;
e) Target group Financial Instruments: The asset class and the instrument characteristics,

including, inter alia, liquidity and trading volume of transactions, the volatility and standard deviation, the market capitalization, the country of issuer, the hedging capabilities, the general climate and the geopolitical events and circumstances; and
f) Target Client Group.

The Risk Manager bears the responsibility to perform regular reviews (both periodically and annually) of the maximum leverage offered to clients by considering all the previously-mentioned factors. The Risk Manager shall when appropriate suggest to the Board of Directors to change the maximum leverage. Thereafter the BOD, will assess the general situation and decide whether to approve or reject the Risk Manager's suggestion.

12.Policy Review

The applicability of the Policy is reviewed at least annually by the Board of Directors in the context of an internal review for compliance with the relevant legislation. Moreover, the Senior Management with the assistance of the Compliance Function will periodically review the Policy, as and when applicable, and adjust it should the need arise for leverage ratio to be amended.

FIRST APPENDIX

Initial Due-Diligence (KYC) Questions

#	Field	Options	Scoring
1	**First Name**		
2	**Last Name**		
3	**Select your Country**		5 (Standard)
4	**Phone Number**		
5	**Email Address**		
6	**Date of birth**	Day / month / year	
7	**Place of birth**		
8	**Gender**	Male / Female	
9	**Nationality**		
10	**Address**		
11	**City**		
12	**Postal Code**		
13	**Years in current Address**	0-3 / 3+ Years	
14	**Previous Address, City, Postal Code, Country of Residence** *To be answered only in the case that the answer in Q13 is 0-3 Years*		
15	**Tax Identification Number (TIN)/Social Insurance Number**		
16	**Tax domicile**		
17	**Type of Identification**	Passport / Identification	
18	**Date of Expiry**	Day / month / year	
20	**Are you a US Reportable Person?** **If Yes: Please provide us with your T.I.N number**	Yes/No	
21	**Leverage** *This will be compliant with the Leverage Policy of the Company*	Select	
22	**Are you a Politically Exposed Person (PEP), or have any close relationship with a Politically Exposed Person (PEP)?**	Yes/No	
23	**What is the profession/industry you work in?**	Please specify	

Source of Funds and Wealth

Questions	Options	Scoring	MAX
What is the **source of funds** that you intend to trade with?	Savings/Investments Salary/Employment Income from property Pension Fund Benefits/Borrowing	3 5 2 0 0	5
What is your **employment** status?	Employed Self-employed Retired Student Unemployed	5 4 0 2 0	5
What is your total estimated **annual income**?	0 – 14.999,99 EUR 15.000 – 49.999,99 EUR 50.000 – 199.999,99 EUR More than 200.000 EUR	1 2 3 4	4
What is your estimated **net worth**?	0 - 14.999,99 EUR 15.000 – 49.999,99 EUR 50.000 – 199.999,99 EUR More than 200.000 EUR	2 2 3 4	4
What is your **annual spare / unused income**?	0 – 14.999,99 EUR 15.000 - 49.999,99 EUR 50.000 – 199.999,99 EUR More than 200.000 EUR	2 2 3 4	4
How many **dependents** do you have? *Please specify*	*Insert number*	{0} 4 {1} 3 {2} 1 {>2} 0	4
What is the **estimated amount of deposited funds**?	0 – 14.999,99 EUR 15.000 – 49.999,99 EUR 50.000 – 199.999,99 EUR More than 200.000 EUR	4 3 2 1	4
What is the **purpose and reason for requesting the establishment** of the business relationship?	Speculative Hedging Investment Risk management Diversification Regular trading	4 3 3 2 2 1	4
What is the **estimated yearly turnover (deposits)** for the account?	0 – 14.999,99 EUR 15.000 - 49.999,99 EUR 50.000 – 199.999,99 EUR More than 200.000 EUR	4 3 2 1	4
Please specify the **origin of deposited funds**	Bank Visa/Mastercard	No Score	

Education and Experience

Questions	Options	Scoring	MAX
What is your **education**?	None College Diploma Degree PhD Post graduate	0 1 2 3 4 4	4
Have you **had financial services related education** or **have you worked in the financial services industry for a year during the last two (2) years**?	Yes, I have been an experienced self-directed investor Yes, I have had financial services related education All of the above None of the above	3 3 4 0	4
How many years of experience do you have trading **Forex**, Commodities and / or **CFDs**?	Up to 1 year 1-2 years 2-3 years More than 3 years I have never traded these products	1 2 3 4 0	4
Over the past two (2) years how **frequently** have you traded **CFDs**?	Less than 10 times 10-20 times 21-40 times More than 40 times Never	2 3 4 5 0	5
Over the past two (2) years how **frequently** have you traded **Forex**?	Less than 10 times 10-20 times 21-40 times More than 40 times Never	2 3 4 5 0	5
What is your **average trade size** / volume for the above financial instruments?	Less than 10 lots 10-100 lots 100-1.000 lots Greater than 1.000 lots Never	2 4 4 5 0	5

Understanding the Risks

Questions	Options	Scoring	MAX
Do you have any **experience or relevant qualification** to understand the nature of the risks involved in trading leveraged products?	Yes No	5 0	5
What percentage of your invested money can you **afford to lose**?	<10% <20% <50% <75% ≤100%	0 2 4 5 6	6
Please indicate **which statement represents the characteristics of Contract for Difference (CFD):**	A Contract for Difference (CFD) is a popular form of derivative trading In CFD trading, the trader never actually owns the underlying asset All of the above None of the above	0 0 6 0	6
What would be the **required margin for 1 lot (100,000) EURUSD, if your leverage is 1:100**?	1.000 EUR 10.000 EUR 2.000 USD 1.000 USD	6 0 0 0	6
Are you aware that the leverage nature of Forex and CFDs investments significantly increases the **risk of loss of some or all of your invested capital**?	Yes No	6 0	6
Are you aware that **market price volatility may impact adversely your investment**?	Yes No I do not understand the effect	6 0 0	6