RISC DECLARATION CFD TRADING (CONTRACTS FOR DIFFERENCE)

A contract for difference (CFD for short) is a form of a total return swap. Two parties agree to exchange the performance and income of an underlying for interest payments during the term. It thus reflects the leveraged price development of the underlying asset.

Contracts for difference belong to the group of derivative financial instruments. They are highly speculative instruments with the risk of a total loss of the capital originally invested and of obligations to make additional contributions.

FUNCTIONALITY

With Contracts for Difference, investors can bet on both rising and falling prices of the underlying asset (see also Long and Short). The investor does not trade the underlying asset itself, but only its price and price changes. CFDs themselves have no nominal value.

In contrast to futures, contracts for difference do not have a standardized term or contract size and can be freely negotiated by the counterparties. When trading in contracts for difference, a security deposit (margin) must be deposited on the underlying position because the provider or market maker is exposed to the investor's credit risk. Since this margin only makes up a small part of the actual value of the underlying asset, there is a “leverage effect”. Brokers usually offer a range of leverage between 5: 1 to 100: 1. Mathematically, a position is opened with the purchase or sale of contracts for difference. It is closed by financial difference compensation and not by purchasing the base value.

COSTS

The following costs can arise when trading CFDs:

- Transaction costs, including Trading Fees and the Bid-Ask Spread,
- Possible intermediary costs if the customer has opened the trading account through an intermediary,
- Financing costs if long positions are held overnight as this is a leveraged deal.

The cost details for CFDs refer to the total leveraged amount.

RISKS IN CFD TRADING

Since CFDs are usually leveraged transactions, there are risks beyond the total loss of the stake: If there is no longer enough free capital available in the account to provide the security in full, the position is closed. However, due to price jumps it can happen that the position is closed at a price beyond the security deposit. Then the investor has to inject more money over and above his deposited capital.

In over-the-counter trading in contracts for difference, the quoted prices can therefore differ from those on the reference exchange - possibly to the detriment of the customer. This has the potential to trigger orders from customers at a significantly less favorable rate, in order to enter into an offsetting transaction with a higher profit margin.

Compared to certificates and warrants, the credit risk for private investors with contracts for difference is partially covered by the statutory deposit insurance.

SPECIAL RISKS IN CFD TRADING

In accordance with our internal “Code of Conduct” guidelines, we have an obligation to inform our customers; in particular, we draw your attention to the risks associated with a certain type of business. In doing so, we adhere to the information obligation as follows:

1. The information obligation is to be fulfilled depending on the business experience and technical knowledge of the customer.

2. Basically, we can assume that every customer knows the risks that are usually associated with buying, selling and holding CFD trading. This includes in particular the creditworthiness and price risks of stocks, bonds, investment fund shares, foreign exchange and precious metals.

3. The information obligation relates to the particular risk structure of certain types of business and not to the specific risks of individual transactions.

4. For types of business whose risk potential goes beyond what is customary for buying, selling and holding positions, we can fulfil our duty to provide information in a standardized or individualized manner.

5. We are under no obligation to provide information about the risks of certain types of business if the customer states in a special written declaration that he is familiar with the risks of individual types of business, which must be precisely identified, and that he does not receive additional information.

Trading CFDs is associated with special risks and therefore requires, in accordance with our provisions, that the customer is adequately informed about the nature of such transactions and the special risks associated with them. By signing the account opening documents, the customer declares that he is aware of the risks usually associated with buying, selling and holding CFDs. This includes in particular the creditworthiness and price risks of stocks, bonds, investment fund units and foreign exchange.