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Important ESMA Regulatory Update

July 2018

Client Q&A

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1. Who is ESMA?

The European Securities and Markets Authority (ESMA) is an independent EU Authority that contributes to safeguarding the stability of the European Union's financial system by enhancing the protection of investors and promoting stable and orderly financial markets.

2. What do the new updates involve?

ESMA has formally adopted new measures on the provision of contracts for differences (CFDs) to Retail investors. Those measures restrict the marketing of CFDs as well as their leverage and margin close out.

- a) Leverage limits on the opening of a position by a retail client from 1:30 to 1:2, which vary according to the volatility of the underlying:
 - 1:30 for major currency pairs;
 - 1:20 for non-major currency pairs, gold and major indices;
 - 1:10 for commodities other than gold and non-major equity indices;
 - 1:5 for individual equities and other reference values;
 - 1:2 for cryptocurrencies;
- b) margin close-out rule on a per account basis. This will standardize the percentage of margin (at 50% of minimum required margin) at which providers are required to close out one or more retail client's open CFDs;
- c) Negative balance protection on a per account basis. This will provide an overall guaranteed limit on retail client losses;
- d) A restriction on the incentives offered to trade CFDs; and
- e) A standardized risk warning, including the percentage of losses on a CFD provider's retail investor accounts.

3. Where can I find more information about these new ESMA measures?

For further information, you may read ESMA's official notice [here](#) or simply go through the file featuring relevant [Questions and Answers](#).

4. When are the new rules going to be implemented?

The changes will come into force as of August 01, 2018. HotForex has already started taking necessary action for those changes in order to ensure a smooth and seamless transition.

5. Are the new measures permanent?

According to ESMA, these measures will apply for three months, at which point they may be revised.

6. How is leverage affected?

Leverage limits on the opening of a position by a Retail client are changing and vary according to the volatility of the underlying:

- 1:30 for major currency pairs
- 1:20 for non-major currency pairs, gold and major indices
- 1:10 for commodities other than gold and non-major equity indices
- 1:5 for individual equities and other reference values
- 1:2 for cryptocurrencies

Example

If your current leverage is 1:200 and you open a position 0.1 standard lots on EURUSD, assuming a current market price of 1.1594, your margin requirement is 57.97 USD. Once the new measures come in to force, your leverage will be 1:30 and the margin requirement for the very same position would be 386.46 USD.

7. How is the stop-out level affected?

A margin close out rule on a per account basis is also implemented aiming to standardize the percentage of minimum required margin at 50%. This means that when the sum of funds in the CFD trading account and the unrealized net profits of all open CFDs connected to that account falls to less than half of the total initial margin, the close out rule comes into effect.

Example

If your current stop out level is 20% and you have one open position with margin requirement 300 USD, then the position would be stopped out when the equity drops to the value of 60 USD.

If your stop out level is 50% and you have the very same position open with same margin requirement, the positions would be stopped out when the equity drops to the value of 150 USD.

8. How are these changes affecting me as a client?

The new ESMA measures concern Retail Clients. The majority of HotForex clients are classified as Retail and are informed of this classification in the welcome email they receive after the successful approval of their myHotForex account. The new regulation does not affect Professional Clients.

9. What is a Professional Client?

Professional Client is someone who possesses the experience, knowledge and expertise to make his own investment decisions and properly assess the risks involved. You can read our [Client Categorization Policy](#) or alternatively find out more information on how - and if - you can become a Professional Client on [this page](#).

In summary, anyone who fulfills **any two of the following criteria** may apply to become a Professional Client:

- a) The client has carried out transactions, in significant size, on the relevant market at an average frequency of 10 per quarter over the previous four quarters;

- b) The size of the client’s financial instrument portfolio, defined as including cash deposits and financial instruments, exceeds EUR 500,000;
- c) The client works or has worked in the financial sector for at least one year in a professional position, which requires knowledge of the transactions or services envisaged.

10. What are the main differences between Retail and Professional Clients?

	Retail Clients	Professional Clients
Maximum leverage	Between 2:1 and 30:1 depending on the instrument	Up to 500:1 depending on the instrument
Margin Close Out Rule	50% of required margin	20% of required margin
Negative Balance Protection	✓	✓
Continued eligibility to the Investor Compensation Fund	✓	✗
Continued access to the Financial Ombudsman Service (as a ‘consumer’)	✓	✓
Continued segregation of your client funds	✓	✓
We will assume you have relevant knowledge & experience to understand the risks in trading	✗	✓
We may use advanced language (financial terms) when talking to you	✗	✓

11. What does it actually entail being a Professional Client?

When deciding whether to apply to become a Professional Client, those are the main topics to consider:

- Risk Warnings: your account will not be restricted with standardized risk warnings and rules that shield Retail Clients.
- Communications: In our communication with you, it is acceptable to assume that your experience level is adequate to use more advanced language than we do with Retail Clients.
- Experience: It is acceptable to assume that your level of experience is higher than that of Retail clients when determining if our products and services are suitable for you.
- Best Execution: when processing your trades, we may consider factors such as speed and likelihood of execution, whereas for Retail Clients, we must prioritize overall cost of the transaction.
- ICF: You will not have access to the Investor Compensation Fund (ICF), like Retail Clients do.
- Leverage: Without leverage restrictions in place, you could be exposed to higher leverages that can increase either your profits or your losses.

12. My Account is Corporate, does this make me a Professional Client?

No it doesn't. Any account– individual, corporate or joint – is by default Retail, and can become classified as Professional only when it meets the preset conditions.

13. Are there any changes to HotForex Negative Balance policy?

HotForex is already providing its clients with negative balance protection, regardless of the classification, therefore there is no change here.

14. What actions is HotForex taking in regards to the ESMA measures?

The HotForex team is now assessing and evaluating all the actions necessary to comply and will be informing its clients accordingly during the implementation process.

15. What steps should I take to safeguard my positions and trading?

As a client, you should make yourself familiar with the changes that ESMA has enforced and take into serious consideration the notifications that HotForex will be sending out from time to time regarding this development. Moreover, we strongly suggest you evaluate and review your current trading strategy in relation to ESMA changes.