LEVERAGE POLICY

MAGIC COMPASS™

License No. CIF 299/16 NAVIGATE YOUR TRADING

Version: 5

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1. Introduction

Magic Compass Ltd ("Magic Compass", the "Company", "we" or "us") is a Cyprus Investment Firm licensed and regulated by the Cyprus Securities and Exchange Commission ("CySEC") under license number 299/16.

2. Legal and Regulatory Framework

The Policy is in accordance with the requirements of:

- The Directive 2014/65/EU of the European Parliament and of the Council of 15 May 2014 on markets in financial instruments and amending Directive 2002/92/EC and Directive 2011/61/EU ("MiFID II");
- the Law of the Republic of Cyprus No 87(I)/2017 regarding the provision of investment services, the exercise of investment activities and the operation of regulated markets;
- Circular 168 of CySEC issued pursuant to the Questions and Answers Document of the European Securities and Markets Authority ("ESMA") issued on 11 October 2016 with reference ESMA/2016/1454 with respect to the provision of CFDs and other speculative products to retail investors.
- Circular 271 of CySEC issued pursuant to European Securities and Markets Authority's ("ESMA") product intervention Decision on Contracts for Difference ("CFDs") and Binary Options, which was communicated by the Cyprus Securities and Exchange Commission ("CySEC") via an announcement dated 28 March 2018, and which will apply in relation to Binary Options from 2 July 2018 and in relation to CFDs from 1 August 2018.

The Company offers investment services to its Clients related to Contracts for Difference (the "CFDs"). CFDs are considered highly risky and complex financial instruments given, inter alia, the leverage element that they entail.

Utilizing leverage in trading allows traders to manage positions that surpass the amount of their original investment. This maximizes the Client's potential profits, where the market moves in the Client's favor, but in case of adverse market movement direction, leverage would increase the potential Client losses.

European Securities and Markets Authority (ESMA) is of the opinion that leverage offers Retail Client the possibility to magnify the potential profits of a trade, however it also magnifies the possible losses. Because it is possible for the losses incurred to be higher than the amount of funds originally invested, leveraged instruments such as CFDs and rolling spot forex are riskier than non-leveraged instruments. The leverage component also adds an additional level of complexity, which means that many Retail Clients would have difficulty understanding how leverage impacts the risks involved when trading CFDs or other similar leveraged product.

To this end, the Policy shall determine the (maximum) levels of leverage ratios which will be made available to each Retail Client based on the Company's offer to its Retail Clients for trading, taking into consideration the Client's background and experience in trading complex financial instruments, his/her understanding of the risks entailed by leveraged financial instruments, as well as the idiosyncratic characteristics of the underlying asset to each underlying asset that the Client wishes to invest in (through CFDs).

3. The purpose and scope of the Policy

This Policy aims:

(a) to identify how leverage ratios are established having regarded the following factors:

- The capital base and financial strength of the Company.
- The risk appetite and risk management of the Company.
- The underlying asset class and financial instrument characteristics, including among others liquidity and trading volumes, volatility and standard deviation, market capitalization, country of issuer, hedging capabilities, general economic climate and geopolitical events, as applicable, to limit the Maximum Leverage offered to Retail Clients who did not pass the Assessment of Appropriateness test as per the Company's policy and procedures for a period of time sufficient enough to get familiar with the effects of leverage on particular Products/financial instruments;

(b) to ensure that all Retail Clients wishing to utilize higher leverage ratios are properly warned and approved by the Compliance Officer function of the Company as Clients that have successfully passed the Assessment of Appropriateness Test; and

(c) to setup predetermined Maximum Leverage ratios for any financial instruments that the Company offers to its Clients, and to ensure that any future offering of financial instruments, are subject to approval.

This Policy applies to all financial instruments offered by the Company and made available to its Retail Clients. This Policy does not apply to Professional or Eligible Counterparties.

4. Applicability/Company's Commitment

This Policy applies to all categories of clients with specific references on leverage levels for retail clients. The Company's objective is to treat all Customers Fairly, honestly, professionally and in their best interests. In relation to Leverage and Margin, therefore the Company:

a) Sets leverage levels that reflect the client's knowledge and experience in trading in complex financial instruments like CFDs given that trading with leverage and margin is a key characteristic of trading in CFDs;

b) Avoids aggressive leverage practices;

c) Has regard to the underlying performance fundamentals of the financial instrument on which the CFD is based, including historic volatility, depth of market [liquidity and trading volumes], market capitalization of the issuer and country of issuer of the underlying financial instrument, the ability to hedge market risk and the general political and economic environment. The Company monitors the above variables in determining the leverage levels offered for all asset classes or financial instruments;
d) Given that the Company effectively provides the leverage for which clients trade, to have regard to our own risk management appetite and risk bearing capacity and to have in place policies, procedures and practices to manage our (primarily) market risk emanating from such leverage and margin trading by our clients;
e) To apply regulatory requirements and caps as set by CySEC or ESMA or any other regulator in any jurisdiction we offer our services to.

5. The Objective of the Policy

The objective of this Policy is to determine:
5.1. The default leverage to be provided to retail clients;
5.2. The leverage to be provided to retail clients who fail the Company's Appropriateness test;
5.3. Balance the need to protect the retail client with the ability to use leverage where appropriate;
5.4. Protective measures to protect retail clients from negative balances.
5.5. Maximum leverage provided according to the Equity of Clients' accounts.

6.Factors to be taken into Consideration

- The Client categorization;
- The outcome of the Appropriateness Test;
- The retail clients' level of trading knowledge, experience, educational qualifications and financial ability and resilience;
- The financial instruments that form the subject matter of the investments;
- The Company's commercial arrangements with its liquidity providers
- The Company's technical arrangements with its liquidity providers
- The Company's financial ability and resilience
- The Company's risk management policy and criteria
- Client's account equity.
- Leverage levels provided to the Company by its counterparties.

7. Default and Maximum Leverage

In accordance with the Company's Risk Management, the Company's activities, processes and systems as well as the risk appetite, the Company determined that the default leverage for all retail clients will be from 30:1 to 2:1, which vary according to the volatility of the underlying:

•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;
•2:1 for cryptocurrencies.

Maximum Leverage Levels:

Instrument/Currency pair	Maximum Leverage
Professionals and ECP	1:100
Retail Clients	
FX Majors	1:30
FX Minors	1:20
Index CFDs	1:20
Commodity CFDs	1:10

8. The Policy

Considering all the aforementioned points, the Company's leverage policy regarding its retail clients will be outlined as follows:

8.1 Appropriateness test

a- Each application is processed on a case-by-case basis analysing the Knowledge & Trading Experience of the applicant. The questionnaire has been prepared in accordance to the relevant legislation and aims to assess the knowledge and experience the Client possess in trading leveraged products and thus establishing the appropriate ratio of leverage for each Client.

b- The Company shall ensure that the Company's questionnaire which is utilized during the registration process when on-boarding a client is complete and comprehensive as per regulatory requirements for the appropriateness test in order to be able to assess, inter alia, the following for all clients:

1.determine client's trading experience with regards to financial instruments;
2.establish client's knowledge and understanding of the financial instrument's client wishes to trade or invest in;
3.determine client's understanding of the impact and effect of leverage on trade's undertaken;
4.establish client's occupation or employment position;

5. record client’s education level and qualifications;
6. determine client’s source of income and funds;
7. confirm client’s financial strength (net worth) and ability;
8. determine of client’s risk appetite and ability to withstand financial loss.

c- Maintain a record of the outcome of all appropriateness test undertaken by all clients during the registration process.

d- Each online application is reviewed by the Back-Office Department and monitored by the Compliance Officer. Where applications fail on the grounds of Appropriateness, these prospective clients are rejected, and the Company does not proceed with the account opening.

If the Client marginally pass the Appropriateness Test, then:

1. The Client shall receive a warning that the financial instrument may not be suitable for him and that, if client elects to proceed:
2. the Client will then proceed at his own risk;
3. he default leverage will be either 1:30 (or lower);

e- The Company shall determine, set and monitor the leverage it shall make available to its retail Clients:

a) for each financial instrument it provides to its clients;

b) the trade specifications, the trading conditions (e.g. volatile market) or periods (e.g. non-farm results or reporting news) under which the max offered leverage may change for each financial instrument;

c) Any particular commercial or technical arrangements it may have with each liquidity provider; and review the above periodically from time to time as the Company may deem appropriate for each financial instrument or particular market circumstances;

d) According to and in line with the Product Governance Policy of the Company.

All existing instruments that the Company makes available for trading to its retail clients are very liquid and the maximum leverages provided on these instruments are based among others on the recommendations and availability of our EU regulated Liquidity providers, which whom we cooperate.

8.2 Ongoing monitoring and reclassification of non-appropriate clients:

The Company considers that the Knowledge and Experience, as well as the Financial and Risk Investment Profile of retail clients may change over time. The Company will review client’s current experience and financial profile and if appropriate will continue with change in leverage.

Furthermore, clients can request to have leverage reset at 1:30 at any time by contacting our client service department accordingly. Finally, all leverage adjustments will be affected once all open positions are closed, given that altering the leverage when positions are open may result in a client losing his funds.

8.3 Negative Balance Protection:

The aim of this Policy shall also be to ensure that the maximum loss of Clients at any point in time never exceed the Client available funds. To this effect, the Company's systems and terms of business/Client agreement shall be setup in such a way that the Clients' balance in case it ever becomes negative shall be zeroed without any obligations/liabilities from/against the Clients.

The Company shall ensure that its systems are set up in such a manner that a reasonable and effective stop-out level is set so that the maximum loss a retail client can incur in the event of loss shall never exceed the actual money that the client invested or traded (negative balance protection).

a. In the event of any negative balance, the Company shall implement a procedure to remove such negative balance at the Company's expenses.

b. In implementing this Policy, the Company shall ensure the ongoing monitoring of the following:

c. the pass ratio of the appropriateness test;

d. the financial strength of the Company and its short to medium term capital requirements;

e. the risk appetite approved by the Company's Risk Management Committee and suggestions of the risk manager;

f. the robust nature of the Company's risk management systems, procedures and policies;

g. the characteristics of each financial instruments;

h. the market conditions which impact on the various financial instruments including, but not limited to:

- liquidity and trading volumes;
- volatility;
- market capitalization;
- hedging capabilities;
- country of issuer;
- geopolitical events; and
- general economic climate.

9. Review of this Policy

This Policy is handled and supervised by the Compliance Officer. It shall be reviewed by the Compliance Officer on at least an annual basis and shall be, as may be required, updated to reflect changes in regulatory obligations (See also Section 2 of this Policy). The Board of Directors shall maintain accountability for the proper and consistent application of this Policy, which will be reviewed at least once a year. The Company retains the authority to modify its policies at any time. Policies will undergo annual reviews and may be amended in response to significant changes, as well as when deemed necessary by Regulatory Authorities and the Compliance Officer, with final approval from the Board of Directors.