PHILLIP NOVA FOREX/PRECIOUS METAL PRODUCT INFORMATION SHEET

1. What are Spot Forex and Precious Metals?

Spot Forex

Spot Margin Foreign Exchange (Forex/FOREX) is an agreement entered into to buy one currency with another (by selling) at an agreed rate. Settlement is within 2 business days except for USDCAD which settles in 1 business day.

The main objective is to achieve profits, which is to have currency appreciation for the currency bought, and currency depreciation for the currency sold.

Spot Precious Metals

Spot Precious Metal contract is an agreement entered to buy either Gold, Silver, Platinum or Palladium through selling of a major currency (e.g. USD or EUR) at an agreed rate or vice versa. Settlement is within 2 business days and purely on cash basis.

2. Key Features of Spot Forex/ Precious Metals

Underlying Asset

For Spot Forex, the underlying asset is the actual currency bought or sold from the respective country. For Precious Metals, the Gold, Silver, Platinum or Palladium bought or sold is the underlying asset.

Leverage

Spot Forex/Precious Metal contracts are leveraged to enable trading on margin. The amount of initial margin required to place a new trade is only a small percentage of the total contract value. As leveraging provides customers with the ability to utilise a small amount of capital to control a large amount of assets, customers need to be aware of the risk of leverage trading.

Short Position

Holding a short position or "shorting" refers to selling the contract first and buying it back at a later date, which is permitted in Spot Forex/Precious Metal trading. Holding short positions offers flexibility in trading opportunities, even when markets face a decline.

Hedged Position[15]

Holding opposite (i.e. long and short) positions of the same currency pair simultaneously without closing out each other is referred to as a "Hedge". The ability to hold hedged positions offer opportunities to take advantage of differences in directional view across the short and long term.

Spot Forex and Precious Metal Swap/Interest

As every Spot Forex trade involves borrowing one currency to buy another, interest rollover charges will be incurred. Interest may be gained or lost when holding an overnight position. The difference in interest rates between the currency pair you are trading is defined as swap.

[15] This is only applicable to MT5.

As every Spot Precious Metal trade involves borrowing a funding currency to pay for Gold/Silver/Platinum/Palladium, or borrowing Gold/Silver/Platinum/Palladium to pay for the funding currency, the differential between Precious Metal lease rate and the funding currency interest rate that you trade in would be defined as swap/rollover interest. Interest may be gained or lost when holding an overnight position.

As long as you have an existing open position, daily interest adjustments will be calculated from the original Value date to the next calendar Value date till the contract position is closed. The calculation of interest adjustment is inclusive of Saturday and Sunday if the value date crosses over the weekend. The value date for Spot Gold/Silver/Platinum/Palladium is 2 business days from the date of trade execution (T+2).

All swaps and interest will be reflected in the daily statements you receive.

Example:

You have an existing open position on Monday overnight till Tuesday. The original value date is Wednesday (T+2) and the next value date is Thursday. The calculation of your daily interest adjustment will be based on 1 day of interest (Wednesday – Thursday).

You have an existing open position on Wednesday overnight till Thursday. The original value date is Friday (T+2) and the next value date is the following Monday. The calculation of your daily interest adjustment will be based on 3 days of interest (Friday – Monday).

<u>Value Date/ Expiry Date</u>
Value date, commonly known as the expiry date, is the date where the contracted agreement is due for settlement. The value date for Spot Forex/Precious Metals are usually 2 business days from the date of entering the trade, with the exception of USDCAD having only 1 business day from the date of trade entry. There is no difference in the value date for long or short positions.

<u>Rollover</u>
Rollover is the extension of value date, so that the contract can be held indefinitely for as long as the investor wishes, instead of settling the contract at 2 business days from the date of entering the trade. This rollover process is transparent and the Forex desk will perform the rollover on a free of charge basis.

However, swap will be involved in the rollover process and swap will either be credited to or debited from the customer's account during this rollover.

It is advantageous to enter into trades that are earning swap points. However, please note that the main profits will be derived from the currency movements itself.

<u>Closing Positions</u>
Spot Forex/Precious Metals contracts are closed out on a First In, First Out (FIFO) basis, as illustrated in the example below:

The investor bought 100K of EURUSD at 1.3320 on Monday. On Tuesday, he bought 100K EURUSD at 1.3310. Within the same day on Tuesday, he sold 100K of EURUSD at 1.3312. This trade of selling 100K EURUSD at 1.3312 will be squared off with Monday's long EURUSD at 1.3320 based on FIFO basis.

On Phillip MT5, Spot Forex/Precious Metal contracts can be closed individually or closed by a hedged position, as illustrated in the example below:

a. Close by Hedged Positions
The investor went long (buy) 100K of EURUSD at 1.3320. Subsequently, he went short (sold) 50K EURUSD at 1.3310. However, both positions remain open until the investor specifies to close the short 50K position against the long 100K position. The result is an outstanding 50K EURUSD (Long) position.

b. Individually closed out positions
In a similar fashion, another investor went long (buy) 100K of EURUSD at 1.3320 and subsequently went short (sold) 50K EURUSD. He/she selects specifically to close off the 50K EURUSD position. The result is still an outstanding 100K EURUSD (Long) position.

3. Key Risks of Spot Forex/Precious Metal Trading

Trading of Spot Forex/Precious Metal contracts and other investment products, which are leveraged, can carry a high level of risk, and may not be suitable for all investors. It is more suitable for customers with medium to high risk profile. It is important you understand the possible risks involved in trading Spot Forex/Precious Metals, which include but are not limited to the following:

Leverage Risk
As Spot Forex/Precious Metals are traded on margin, any gains or losses in leveraged Forex/Precious Metal trading can be amplified. A relatively small market movement will have a proportionately larger impact on your equity balance. If the market moves against your position or if margin levels are increased, you may be called upon to pay additional funds on short notice in order to maintain your position.

Liquidity Risk
Spot Forex/Precious Metals are traded on an over-the-counter (OTC) basis, which is subject to the availability of buy and sell prices and volume. It should be noted that some currency pairs, especially crosses, have lower liquidity than other currency pairs, which results in possibly wider spreads, and thinner volume. When liquidity is thin, working orders of the currency pair may not be filled at the exact specified price, and slippages can be expected. Liquidity may be less when it comes to holidays and during early Asian hours. Hence, it is important that customers seek clarification and gain understanding on the nature of contracts they want to trade.

Counterparty Risk
Spot Forex/Precious Metals are an over-the-counter (OTC) leveraged product traded on an off-exchange basis. However, spot Forex trading is regulated by the Monetary Authority of Singapore (MAS), and is maintained in high integrity in accordance to MAS regulations. The firm with which customers conduct their transactions (which may be Phillip Nova, or another firm, if Phillip Nova acts as your broker to effect a transaction with such firm) may be acting as counterparty to the transaction.

Limiting Losses
When trading Spot Forex/Precious Metal contracts, customers can place certain orders (e.g. “stop”, “stop-limit”, “trailing stop”). While these orders could limit losses to certain amounts in most instances, it may not be effective when market conditions make it difficult or impossible to execute

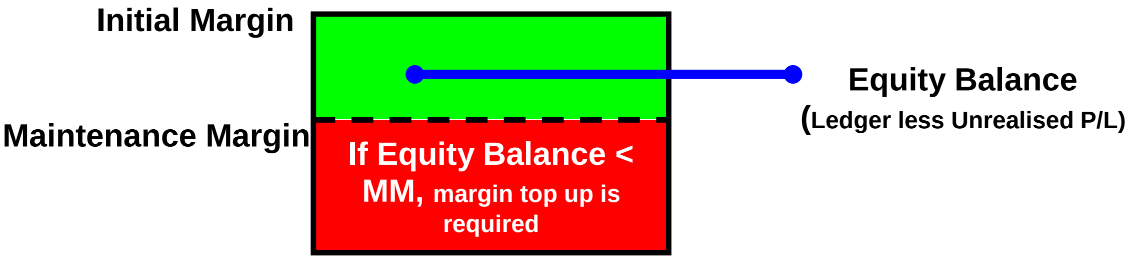
such orders. Nonetheless, you are advised to place a stop-limit or trailing stop order to protect yourself from further losses.

4. Margin Requirements [16]

The margins for different Spot Forex/Precious Metal contracts are set according to regulatory requirements and will vary for different classes of customers. By trading on margin, you are able to leverage on the full contract value. Margin required for Spot Forex/Precious Metals contracts are in USD.

Minimum Margin
There are two levels of minimum margin:

a) Initial Margin (IM)[17]: A good faith deposit required in the customer's account to initiate a new position
b) Maintenance Margin (MM)[18]: The minimum amount of Equity Balance that must be maintained in the customer's account in order to hold the positions



Force-liquidation Margin (FM)[19]
Phillip Nova reserves the right to liquidate your positions without prior notice when the Equity Balance falls below the stipulated *force-selling* margin level (also known as the Close-Out Level). For Phillip MT5 system, you will be receiving a notification should your account be in margin deficit. You are required to reduce your position(s) or top up your funds immediately to bring your margin level back above initial margin level requirements. It is your responsibility to monitor the equity balance in your account to avoid the risk of your account meeting the Close-Out Level which will result in the automatic liquidation of your position(s) at market prices.

[16] For margin requirements of respective products, log in to https://myaccount.phillipnova.com.sg or contact our Client Service Desk at (65) 6538 0500 for enquiry.
[17] Phillip Nova reserves the right to amend initial margin requirements from time to time. Log in to https://myaccount.phillipnova.com.sg for updates or contact our Client Service Desk at (65) 6538 0500 for enquiry.
[18] Phillip Nova reserves the right to amend maintenance margin requirements from time to time. Log in to https://myaccount.phillipnova.com.sg for updates or contact our Client Service Desk at (65) 6538 0500 for enquiry.
[19] This is applicable to MT5 only.

Margin Call[20]
A Margin Call occurs when your Equity Balance (ledger Balance +/- unrealised Profit/Losses) falls below the Maintenance Margin (MM) level.

When your account is on Margin Call:

- You will be notified to top up sufficient funds to return the equity balance to the Initial Margin level.
- The margin call notification will be made by an SMS notification and/or email registered with Phillip Nova.
- Please ensure that your contact details are updated to avoid any miscommunication.

While we do our best to notify you of margin calls, in the event you are not notified, Phillip Nova reserves the right to liquidate any position(s) without prior notice.

Low Equity Policy[21]
Your account will be considered to have low equity when the account's equity balance is less than 50%* of the initial margin of all open positions held in the account.

While not legally obligated, we will do our best to notify you of the low equity status. To address the low equity, you will have to top up your account with funds or liquidate your positions before the account's equity balance reaches 20%* of the initial margin.

After you have topped up your account, you must notify us via email and send us the proof of transaction. If we are not notified or have not received any proof of transaction by email, we reserve the right to liquidate your positions partially or in full without prior notice when your equity balance falls below **20%* of initial margin**.

In the event that your positions are liquidated and/or when a stop loss is placed on your behalf, your trading system will be temporarily disabled to prevent duplication of trades.

While liquidation is carried out on a best-efforts basis, it is dependent on prevailing market conditions and market prices. Due to the risks associated with margin/leveraged trading; there may be a deficit in your account after the liquidation.

You are encouraged to practise good risk management by taking proactive steps to cope with volatile market conditions and uncertainties.

*Phillip Nova reserves the right to amend the low equity and stop loss threshold in accordance to the risk profile of the account. You will be informed of any changes to your account's low equity threshold.

[20] For margin requirements of respective products, log in to https://myaccount.phillipnova.com.sg or contact our Client Service Desk at (65) 6538 0500 for enquiry. Margin call process is not applicable to MT5.
[21] For margin requirements of respective products, log in https://myaccount.phillipnova.com.sg or contact our Client Service Desk at (65) 6538 0500 for enquiry. Low Equity Policy is not applicable to MT5.

5. Settlement Currency[22]

All Spot Forex/Precious Metal contracts will be initiated and settled in the respective traded currencies. Phillip Nova does not provide auto conversion[23] from traded currencies to SGD and vice versa.

Customers can submit currency conversion requests to Phillip Nova using the following methods:

a) Client Portal: Log in to https://myaccount.phillipnova.com.sg > Currency Conversion[24]
b) Call-in service: Phillip Nova Forex Dealing Desk at (65) 6536 7200 or customer's Account Executive.

6. Profit and Loss

To calculate the potential profit or loss of a trade, customers may refer to the minimum tick value[25] of one contract – cash value of the minimum price movement.

It is important to understand how to calculate the profit and loss, which is best illustrated using an example.

Example: A customer Longs (buys) 100,000 USDJPY at 77.03 and subsequently squares off the position at 77.48.

Profit/Loss = Selling price – Buying price X Contract size = 77.48 – 77.03 X 100,000
= 0.45 X 100,000 = 45,000 (JPY)

Note that the profit and loss is always in the reference currency (the 2nd currency being quoted), except for MT5, the profit and loss will be automatically converted to USD.

7. Placing Orders

Trade orders can be placed using the following methods:

a) Self-execution via Trading Platforms
b) Call-in service (regular sized contracts only): Phillip Nova Dealing Desk at (65) 6536 7200 or through your Account Executive

[22] Phillip Nova proposes no additional fees or charges for currency conversion done on FX Invest. For customers who are using MT5, the realised profits and losses will be converted to USD when the position is closed.
[23] There will be situations when Phillip Nova will do an auto-conversion of the deficit amount to maintain a positive account balance. Please refer to Phillip Nova's Currency Conversion Policy for more information.
[24] Phillip Nova proposes no additional fees or charges for currency conversion done on Client Portal. This is not applicable to MT5 account.
[25] Different Spot Forex contracts have different minimum tick values. To find out the minimum tick value for respective contracts, log in to https://myaccount.phillipnova.com.sg or contact our Client Service Desk at (65) 6538 0500 for enquiry.

8. Order Filling

All orders are filled based on the Bid/Offer Price of the Spot Forex/Precious Metal contract. Investors who want to Buy (Long) a contract can submit a Buy order based on the current Offer Price, or queue at specific Offer Price. The order would be executed once the desired Offer Price is triggered.

Conversely, a customer can also submit a Sell (Short) Spot Forex/Precious Metal order based on the current Bid Price, or queue at specific Bid Price. The order would be executed once the desired Bid Price is triggered.

Technically there is no last done price for Forex as it is not exchange traded, and there is no central body to keep track of the last traded price.

9. Long-Only Over-The-Counter Options

9.1. Overview

Phillip Nova offers Long-Only Option contracts for both Foreign Exchange ("FX") and Bullion (i.e. Gold and Silver). An option is a contract that grants the buyer the right, but not the obligation, to buy or sell an underlying asset or instrument at a specified price (known as the "Strike Price") on a specified date (known as the "Expiration Date"). In the context of FX and Bullion options, the strike price may be set by reference to the exchange rate of a pair of currency and spot price of gold/silver, respectively. The buyer of an option will pay an option premium to the seller.

All long-only OTC options offered by Phillip Nova are European Style whereby the option may be exercised only at 2pm Singapore Time (GMT +8) on expiration date.

9.2. What is a Long-Only Option?

Phillip Nova offers customers liquidity to buy and sell option contracts. However, customers may only sell an option for liquidation purposes. That is, if the customer has already own a contract and wish to sell another with the same Strike Price for the same Expiration Date to close out his option position.

For buying options, an option premium would be debited through the customer's trading account. For selling options, the option premium received would be credited to customer's trading account. These transactions will take place immediately upon entering of contract.

9.3. Key Features of Long-Only OTC Option

(Please refer to attached Summary on Option Contract Specifications at page 17)

<u>Margin</u>
There are no margin requirements for all Long-Only OTC option contracts, as the option premium is deducted upfront from the customer's account balance and the maximum loss on long options will be the premiums paid.

Short Position
Holding a short position or “shorting” refers to selling the contract first and buying it back at a later date, which is NOT permitted for long-only OTC option trading.

Option Swap/Interest
As these option contracts are traded to an expiration date, there will be no daily rollover required and therefore, no interest may be gained or lost when holding an overnight position.

Expiration Date & Time
The expiration date is the day whereby the option contract would either be **exercised/assigned or expire worthless**. As Phillip Nova offer “Tokyo-Cut” option only, it means that this would be determined at 2pm Singapore Time on expiration date.

Out-of-The-Money (OTM) Option at Expiration Date

Out of the money (OTM) is a term used to describe a call option with a strike price that is higher than the market price of the underlying Spot contract, or a put option with a strike price that is lower than the market price of the underlying Spot contract. OTM option contracts will expire (or lapse) worthless at expiration.

In-The-Money (ITM) Option at Expiration Date

In the money (ITM) means that a call option's strike price is below the market price of the underlying Spot contract or that the strike price of a put option is above the market price of the underlying Spot contract. ITM option contracts at expiration are worthy to exercise since

- Exercising the Call option would mean buying the underlying Spot contract below market price at 2pm (GMT +8) expiration time
- Exercising the Put option would mean selling the underlying Spot contract above the market price at 2pm (GMT +8) expiration time

For Options that are "In-The-Money" but the customer does not have sufficient margin to hold the underlying contract at expiration, the option will be exercised with the resulting underlying contract **Cash Settled**. For all cash settlement, Phillip Nova reserves the rights to determine the settlement price within +/- 5 pips from prevailing market prices at 2pm (GMT +8) expiration time.

Closing Positions
You can close an existing Long option position before the expiration date by entering a trade of the exact contract on the opposite side. That is, selling the option contract.

For all open Long option positions held until expiry, the contracts will either be exercised or expire worthless. Both operations will entail the automatic close-out of the option contract.

9.4. Key Risks of Option Trading

Premium Risk
As option premium is paid upfront for the option contract, the maximum that a customer stands to lose on this product is the option premium paid.

Liquidity Risk
Long-only OTC Option is traded on an over-the-counter (OTC) basis, which is subject to the availability of buy and sell prices and volume. Option traders may experience insufficient depth of market liquidity and a wide bid-offer spread when underlying spot rates are volatile or closed due to holidays or closure of trading hours. Hence, it is important that customers seek clarification and gain understanding on the nature of contracts they intend to trade.

Pricing Error Risks
Due to frictional errors from market makers, Option pricing may also be subjected to having a stale price traded off the current fair values. Phillip Nova reserves the right to amend the executed price in option contracts to the price deemed to be fair by Liquidity Providers should there be a "price discrepancy" situation.

9.5. Margin Requirements

As there are no margin requirements for Long-Only OTC options, this section serves to clarify on liquidation policies when combined with other assets in customer's portfolio.

Force-liquidation Margin (FM)
Phillip Nova reserves the right to liquidate customer's portfolio of contracts without prior notice when the Equity Balance falls below force-selling margin of 20%. In relation to Phillip Nova's low equity policies, long-only OTC option contracts will be treated as Zero value, regardless of any positive market valuations that could be discerned from market prices at that point of determination.

Accordingly, all OTC option contracts would therefore not be subjected to force-selling.

9.6 Equity excess arising from Long-only OTC Option Profits

Any positive market valuations for Option contract will be ignored and will be disallowed for withdrawals. Any positive market valuations would also be disregarded as part of Customer's account equity balance.

9.7. Premium Settlement Currency

For **FX option premiums**, premiums would be charged on the Base currency of the FX pair. Therefore, option quotation could be provided in terms of full Base currency premium amount or percentage of Base currency.

Example #1: A GBP put USD call, strike at 1.2200, with 3-month expiration, for a notional amount of 1mio GBP/USD could be quoted as either **GBP12,025** or equivalently **1.2025%** of **GBP** currency. (Current underlying spot at 1.2480)

For **Bullion option premiums**, premiums would be charged on US Dollars. Therefore, option quotations could only be provided as full USD premium amount based on the notional troy ounces of the Bullion option.

Example #2: A XAU call USD put, strike at 1280, with 1-month expiration, for a notional amount of 1000 troy ounces of XAU/USD could be quoted as **USD5,000**. (Current underlying spot at 1225)

9.8. Profit and Loss

It is important to understand how to calculate the profit and loss, which is best illustrated using an example. For this purpose, we continue on from example #1 in the prior section.

Example: A customer long a GBP put USD call, strike at 1.22 with 3 months to expiration for a notional amount of 1mio GBP/USD. The current spot for GBPUSD is at 1.2480. The customer paid GBP12,025 for this option on the trade date the option contract is initiated.

When the position is squared off before expiration date
One month after the trade date, the customer would be left with a contract that has 2 months to expiration. The option price is affected by several parameters, including current underlying Spot price and the prevailing implied volatility in the market.

Upon checking with Phillip Nova that for the exact same option contract, the customer chooses to liquidate the option contract by selling the option for GBP20,000. On the trade day that the option contract is liquidated,

Profit/Loss = (Selling premium received – Buying premium paid upfront) = 20,000 – 12,025 (**GBP**)

When the position is held till expiration date
On expiration date at 2pm Singapore Time, the prevailing Spot price of GBP/USD will be observed to determine if this option contract is ITM (exercised) or OTM (expired).

If GBP/USD Spot price at 2pm is 1.2500, the option expires with zero value.

Profit/Loss = - Premium paid upfront = **- 12,025** (**GBP**)

If GBP/USD Spot price at 2pm is 1.1870, the option would be exercised. The option contract would be replaced with a Spot GBP/USD short physical position at 1.2200.

Unrealised Profit/Loss (for short Spot position) = (Selling price – Current market price) x Notional Amount = (1.2200 – 1.1870) x 1,000,000 = Term Currency **33,000 (USD)**

Realised Profit/Loss = - Premium paid upfront = - **12,025 (GBP**)