

FXPESA Product Sensitisation Framework

Introduction

FXPesa is the registered trading name for EGM Securities Limited, a company registered under the Companies Act, Kenya and regulated and authorised by the Capital Markets Authority

This framework is designed to help you get a general understanding of Forex Trading and Contracts for Difference (CFDs) and the risks associated with these products. Both Forex Trading and trading of CFDs are usually offered via an online trading platform on an execution-only basis by licensed/regulated brokers.

1.1 General Document Advisory

This document does not endorse or promote Forex trading and/or trading of CFDs or consider them suitable for all types of clients.

Read this document, together with the CLIENT AGREEMENT from your broker before deciding whether to trade in these instruments.

Forex trading and trading of CFDs are margined products which means that clients can trade by paying just a small fraction of the total value of the contract. As such, they are deemed complex and risky in nature. Make sure you understand and consider all the risks before you decide whether to trade them.

The information in this document is general in nature. For a detailed strategy that accounts for your needs and circumstances, consider seeking professional advice from a licensed financial adviser.

2. Introduction to Forex and the Basics of Forex Trading

Forex is traded on online trading platforms offered by licensed and/or regulated brokers. They are usually traded on an execution-only basis at the discretion of the traders. The definitions and technicality of Forex trading are explored in the subsequent sections.

2.1 The Forex Market

Forex, which is also known as foreign exchange or FX, is the market where currencies are traded. The trading of Forex usually involves the conversion of one currency for another at an agreed price. The agreed price represents the currency exchange rate and it is usually quoted in pairs, such as GBP/USD, i.e. the British Pound and the US Dollar. Theoretically, clients can exchange any currency in the world with any other currency.

The forex market is the world's most traded market with an average turnover in excess of 5.1\$ trillion (USD) per day. Compare this to the New York Stock Exchange, which has a daily turnover of around 50\$ billion (USD), it is easy to see how the forex market is the most liquid in the world.

Trading in margined forex does not take place on regulated exchanges. Instead, they are traded on the over-the counter (OTC) market. An OTC market is a spot market where some financial instruments, such as currencies, are exchanged directly between two pairs. As there is no central or physical location for the OTC market, forex trading is conducted on electronic platforms and can be traded 24 hours a day.

There are many reasons why traders might want to participate in the forex market. One of the many reasons is speculation. When trading forex, traders are trading on the belief that their chosen currencies will either go up or down. When currency value rises, it is known as "appreciation" and when currency value falls, it is known as "depreciation". Traders aim to profit by taking advantage of the movements in the market, i.e. changes in the value of

one currency against another by making calculated decisions on whether the prices of the currencies will appreciate or depreciate in the short-term.

2.2 The Forex Market- Buying and Selling

Traders can trade forex by either going “long” or “short” in the market. When a trader decides to go long on a trade, they are buying in the market. In this scenario, the trader believes that the price of the currency pair will rise in the short-term.

When a trader decides to go short on a trade, they are selling in the market. In this scenario, the trader believes that the price of the currency pair will fall in the short-term. By closing the position, the trader aims to make a profit between the opening price and closing price.

3. CFD's – Contracts for Difference

A CFD is an agreement to exchange the difference in the value of an asset from the time the contract is opened until the time at which it's closed. You still benefit from market moves though you never actually own the asset traded.

Foreign exchange (FX) contracts and contracts-for-difference (CFDs) are over-the-counter (OTC) derivatives that allow you to speculate on the price movement of Currencies, Metals, Energy, Agriculture, Treasuries and Equity index products. When you open a FX & CFD account, you agree to exchange the difference between the opening price and the closing price of the FX or

CFD position with the Broker. You do not acquire ownership of the underlying asset when you go long(buy), nor are you required to deliver the underlying asset when you go short (sell).

When you trade OTC FX or forex you are technically engaged in trading currency CFDs. This is because OTC FX neither provides the option nor imposes the obligation for settlement in the contract and counter currencies.

CFDs offer a simple method to speculate on different markets without ever actually owning the underlying asset on which the contract is based. Traders find CFDs to be a popular option to diversify their trading into different global markets.

Among the benefits of CFD trading are that you can trade on margin, and you can go short (sell) if you think prices will go down or go long (buy) if you think prices will rise. You can also use CFDs to hedge an existing physical portfolio.

4. Explanation of Commonly Used Terms in the Industry

It is important for traders who wish to trade forex and CFDs to understand the terms used within the trading industry. Below we have provided explanations on some of the most commonly used terms.

4.1 Margin and Leverage

Margin and leverage are the key terms used for Forex trading and trading of CFDs. Put simply, "Margin" is the amount of security deposit required to open a position with a broker. "Leverage" is the ratio by which investors can hold a position i.e. contract size open vs margin held for the open position. It multiplies the value of their trading account.

The concept of margin and leverage can be demonstrated further in the following examples:

Example 1

In Forex trading, to control a 100,000\$ position, clients may be required to place a deposit of at least 1,000\$ (USD) in their trading account. This 1,000\$ (USD) deposit is the "margin" required. Margin is usually expressed as a percentage of the full amount of the position, i.e. %1 margin for this scenario. The amount of margin required is determined by the broker.

Example 2

Following from Example 1, to gain exposure to a 100,000\$ (USD) position, clients may be required to place a deposit of at least 1,000\$ (USD) in their trading account. The leverage, which is expressed in ratio, is 100:1 for this scenario. The ratio of leverage is usually determined by the broker.

4.2 Percentage in Points

Percentage in Points, which is also known as pips, measures the amount of movement in forex and CFDs trading. It represents the number of points a currency has gained or lost against the other currency, i.e. the smallest fraction that a currency pair can move.

Usually, a pip is the fourth decimal point in price. For example, if the price of the EUR/USD pair moves from 1.33800 to 1.33920, the currency pair has increased by 12 pips; subtracting from the fourth decimal of the old price (80) from the new price (92).

4.3 Spread

Spread is the difference between the buy and sell prices for the underlying asset in forex and CFDs trading. The price at which an asset is bought is known as the "Ask" price and the price at which an asset is sold is known as the "Bid" price.

It is important to remember that the Ask price is always higher than the Bid price and the spread is represented in pips. For example, a EUR/USD currency pair dealing at 1.33800 (Bid) 1.33808 (Ask). In this scenario, the spread is 0.8 pips or 0.00008.

4.4 Commission

Commission is the cost of trading and is usually a fee charged by the broker for trade execution.

The amount of commission charged by the broker varies depending on the financial instrument traded, the size of trade and brokers discretion.

4.5 Stop Loss

Stop loss is one of the ways for traders to manage trading risks and exposure. It is essentially a pre-determined price level set by the traders to protect their profits or limit their losses.

When the pre-determined price is reached and the stop loss is triggered, it will automatically liquidate the open position by closing the position at the prevailing market price.

4.6 Limit Order

Limit order is an instruction provided by the trader to the broker to only execute a trade if the price reaches a certain level. Traders can either use limit orders on both opening a new position or closing an existing position.

5. Risk Management in Forex Trading and Trading with CFDs

Given the current political and economic environment around the world, it is important for traders to understand that there is high volatility involved in forex trading and trading with CFDs. Traders should remember that losses which occur because of forex trading and trading with CFDs are inevitable, even for the most experienced traders.

The key to effective trading is for the traders to understand and manage their risks. We have set out below ten quick tips to risk management in trading.

1. Put in place a trading strategy. A trading strategy is a constant system that determines the size of the expected gains and losses in each trade.
2. Understand the financial instrument traded. Clients should understand the characteristics of the products being traded and the associated risks.
3. Commit to stop loss. Clients have full control at which price to maximise profits or cut the losses.
4. Quality trading. It is the amount of expected return compared to a specific amount of risk in any given trade.
5. Good practice. Consider opening a demo account for practicing which enables beginners to familiarise themselves with different aspects of trading, understand the order, manage trades and test trading strategies.
6. Do not challenge the market. Refrain from trading in inappropriate market conditions and times. It is sensible to stay away from trading when clients feel that they are challenging the market to make up for a loss.
7. Diversify the trades. It is important to avoid opening a trade with more than %15 of the total capital.
8. Only trade with money you can afford to lose. It is sensible to calculate what clients can afford to lose and be vigilant not to chase losses.
9. Select the right broker. Clients should research the market and only trade with brokers which meet the criteria, such as regulated status, easy-to-use trading platform, good customer services and transparency of fees and charges.
10. Client's psychology after losses. It is important to understand and accept that losses do happen. It is even more important to learn from your trading mistakes and not to repeat the same mistakes again.

6. Process for Opening an Account to Start Trading Forex and CFDs

Note: Before proceeding to opening an account to trade forex and CFDs, investors must remember that forex and CFDs are leveraged products. As such, losses can exceed the amounts deposited.

6.1 Things to Consider before Opening an Account

It is important that traders have completed the following checklist prior to opening a trading account with a broker.

1. Consider your financial experience, goals and financial resources. If you are unsure about any of these, it is prudent to get independent and unbiased financial advice from a qualified financial planner or financial adviser.
2. Know how much you can afford to lose above and beyond your initial deposit. You should not trade with borrowed money, money that does not belong to you, retirement fund or money that will change your lifestyle if you lose it.
3. Understand all the obligations, including fees and charges, for any contract that you open. Some contracts may have expiry dates and/or other agreements which may affect your trading. Most brokers publish their terms and conditions on their websites.
4. Thoroughly review the risk disclosure documents and make sure you understand the risks of each financial instrument offered by the brokers.
5. Know your contact point when you have a problem or a question. Most brokers offer their clients a dedicated account manager. Make sure you know your account manager's details, such as name, telephone number, e-mail address or any other communication channels. You should also be aware and understand the broker's complaint handling procedure.

6. Ask questions and gather information before opening a trading account. Make sure that you only trade with licensed and/or regulated brokers in any jurisdictions.

6.2 Account Opening Process

Once you have read and understood this article and considered the points above, you may now be ready to open a trading account with FXPesa by following the processes below.

1. Open a trading account with FXPesa via www.fxpesa.com.

2. Complete the application form, paying attention to the questions regarding the appropriateness of our products to your personal circumstances. We have explained the appropriateness test further in Section 6.3.

3. Read, understand and acknowledge the Terms and Conditions and our regulatory policies, including Best Execution Policy, Privacy Policy and Conflicts of Interest Policy.

4. Provide us with documentation to support your identity and residential address. Proof of identities and addresses vary depending on your country of residence. We will advise you of what documentation is acceptable.

5. We will notify you once your trading account is open and ready for funding.

6. Once your trading account is approved, we will grant you access to the MT4 trading platform.

7. Fund your account and place your trades.

6.3 Appropriateness Test

As a regulated firm which provides execution-only service, EGM Securities is required to ensure that our products and services are appropriate to the clients' personal circumstances via a simple appropriateness test.

Appropriateness test applies to each client on an absolute basis. It is an obligation for EGM Securities to request clients to provide the following information regarding their knowledge and experience in the investment field relevant to the products offered.

- 1.The types of service, transaction and designated investment with which the client is familiar; and
- 2.The nature, volume and frequency of the client's transactions in designated investment and the period over which they have been carried out; and
- 3.The level of education, profession or relevant former profession of the client.

Clients who do not pass the appropriateness test will be referred to the Compliance team for further review.

7. Regulator of Brokers in Kenya

Brokers who wish to provide execution-only service to trade forex and CFDs are required to register with the Capital Markets Authority (CMA).

The CMA is an independent government who is responsible for the supervision, licensing and monitoring of the activities undertaken by the market intermediaries, including brokers, in accordance with the Capital Markets Act of Kenya.

One of the main objectives of the CMA is to protect the interest of the retail clients trading in the financial markets. It seeks to provide clients' protection by requiring firms to:

1. Disclose market risks to both prospective and existing clients; and
2. Protect client's funds and requires them to be segregated from firm's own funds; and
3. Adjust clients' accounts to reflect the current market value at the close of each trading day.

8. Complaint Handling Process

Where clients are dissatisfied with the products and services provided by the brokers, they have a right to complain. EGM Securities has a complaint handling procedure which can be found on www.fxpesa.com

In the unfortunate circumstance that clients are dissatisfied, they are encouraged to contact the brokers at their earliest convenience. The complaint handling procedure applies to both prospective and existing clients and clients can make a complaint both verbally and in writing. When you make a complaint, we will require the following information from you:

1. Description of the complaint; and
2. Circumstances which led to the complaint; and
3. Information and supporting documentation to support your complaint.

EGM Securities takes each client's complaint very seriously and we dedicate to investigate each complaint. Our regulatory timeframe to provide the clients with our final response, together with the result of our investigation and possible resolution, is eight weeks from the date of the complaint.



Should we have extended this timeframe or the client is unhappy with the final response, they can refer their complaint to the CMA using the following information. Complaints can only be referred to the CMA within six months of the final response received from the broker.

The Chief Executive
Capital Markets Authority
Embankment Plaza, 3rd Floor
Longonot Road, off Kilimanjaro Avenue
Upperhill
Nairobi Kenya
Tel: +254 20 2264400/ 2264900/ 2221910/ 2221869/ 2226225
Backup Wireless Lines: 0722207767/ 0202611464
Cell: +254 722 207767
Fax: +254 20 2228254
Email: corporate@cma.or.ke
Website: www.cma.or.ke

9. Financial Promotions

Forex and CFDs are usually advertised by brokers to retail clients residing in Kenya via websites, financial magazines, television, free information publication, education seminars and/or telephone calls from the broker's sales representatives.

At FXPesa, we endeavour to provide financial promotions that are be clear, fair and not misleading, through every distribution channel. We will only target the right audience, use language that you understand and accompany every financial promotion with a risk warning. It is important to remember that FXPesa does not manage funds, provide investment advice and/or personal recommendations.