Risks regarding futures trading

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Trading in investment instruments is associated with risks that may affect the profit or loss of each investment. Investing in investment instruments is not suitable for everyone, and it applies for every investment in which there is a chance that the investor will not achieve the expected rate of return or lose part or even all of the invested amount (see Risk of losing part or all of the deposit), even if it concerns products known as secured products. Some investment instruments carry the risk of additional financial liabilities. As a general principle, the greater the risk, the greater the potential profit, but also the loss. As a rule, the risk decreases with the investment period, the so-called investment horizon. However, no investment horizon guarantees a risk reduction to zero. Rates of return from investment instruments achieved in the previous period do not guarantee future returns. The overall risk of investments can be reduced by investing in different types of investment instruments. Trading in investment instruments using a leveraged method is associated with significantly higher risk. Special risks may also be associated with the tax consequences of transactions in investment instruments. You are solely responsible for meeting your investment tax obligations. We recommend that you never buy investment instruments when you do not fully understand their conditions and risks, including the extent of potential loss.

Common risks associated with investing in investment instruments are:

a) Credit risk (issuer risk or counterparty risk) – risk that the counterparty will default on its debt (inability to pay); in the extreme case, there is a risk of losing the entire investment;

b) Settlement risk – risk that the negotiated transaction will not be properly settled (e.g., the purchase price will not be paid or securities will not be delivered);

c) Market risk – threat of loss in the event of an adverse change in market conditions, in particular interest rate (interest rate risk), share prices (equity risk), commodity prices (commodity risk), exchange rates (exchange rate or currency risk); market risks also include:

- Liquidity risk – there is a risk of loss if the investment instrument cannot be sold or purchased at the selected moment, or the transaction can only be realized at a disadvantageous price; and
- Volatility (Fluctuation) risk – risk of short-term or long-term price fluctuations (poor timing of investment can lead to significant losses);

d) Volatility (Fluctuation) risk – risk of short-term or long-term price fluctuations (poor timing of investment can lead to significant losses);

e) Legal risk – threat of loss in the event of unenforceability of contract terms;

f) Terminology risk – different terms are interpreted differently in different financial markets and in some cases you may get an inaccurate picture of the true nature of an investment instrument;

g) Inflation risk – it affects the real return of your investment instruments; a high inflation rate can cause you to realize lower returns or even losses;

h) Global risk – risk of a change in the value of investment instruments as a result of a global downturn in economies and financial markets;

i) Sectoral risk – risk of a change in the value of investment instruments in the event of the given sector decline;

j) Political risk – risk of a change in the value or convertibility of investment instruments in the event of political situation change;

k) Derivates risk – their value depends on the price of the underlying assets; some derivative investment instruments use leverage, i.e. their value depends on an increase or decrease in the price of the underlying assets according to the agreed ratio, therefore even a small change in the value of the underlying assets may cause a significant decrease in the value of the investment instrument or even a loss of the entire investment.

Risks regarding Citfin FT futures trading

The risk arising from futures trading is mainly related to the movement of the current exchange rate to the Client's disadvantage (a market exchange rate is more convenient for the Client than a futures exchange rate), which may result in a loss, even exceeding the advance deposit.

Risks regarding swaps

For swap transactions, this is an exchange of assets (in the case of foreign exchange swaps, currency swaps for a certain period of time; however, the price remains at 100%), rights or obligations (in the case of interest swaps, it is an exchange of fixed interest rate for variable and vice versa) for a certain period of time. There is a risk that you will be able to buy or sell the exchanged assets at a (much) more favourable or unfavourable price at the time of its maturity, or that the interest earned or paid will be lower/higher than you expected.

Risks regarding forwards

For forwards (such as forward rate contracts), you make a commitment to buy or sell certain quantities of the underlying commodity or financial instrument in a given period or during a specified period at a fixed price, or to fix an interest rate for a certain period of time. The risk is that you may be able to acquire or sell the underlying commodity or financial instrument (such as foreign exchange) at a much more favourable/unfavourable price than the one set out in the contract you have concluded. The potential loss is limitless.

Risk of losing part or all of the deposit

If the percentage of coverage of open futures transactions falls to or below the value specified in the Framework Agreement such as the Boundary Coverage, Citfin shall be entitled to require the Client to transfer additional funds (known as "Additional Deposit") to the CPA (Client's Payment Account) that will be blocked in favour of Citfin. The amount of coverage of Open Futures is then greater than or equal to the value stated in the Framework Agreement as Initial Advance.

If the Client fails to replenish the required amount of funds within the Initial or Additional Deposit within 2 business days of the call by Citfin to the Client's Payment Account (unless otherwise agreed between Citfin and the Client), Citfin shall be entitled to close the Open Futures Transactions using a counter-transaction and set a current loss from Open Futures transactions against the advance deposit. Citfin will send the remaining part of the funds from the released deposit to the agreed account according to the instructions of the Client. If the current loss from Open Futures exceeds the deposit in the CPA, the entire deposit is used to cover losses from Open Futures. The Client is obliged to deposit the uncovered part of the realized loss to the CPA within 2 business days.