CTS Cloud Trading Solutions Ltd

Leverage Policy

September 2023

1. Overview

CTS Cloud Trading Solutions Ltd, previously registered as Novox Capital Ltd, (the "**Company**", "**CTS**") is a Cyprus Investment Firm authorised and regulated by the Cyprus Securities & Exchange Commission (the "**CySEC**"), under License No.: 224/14.

The Company has established this Leverage Policy ("**Policy**") in accordance with applicable legal and regulatory provisions, including, but not limited to, the following:

- EU Directive 2014/65/EC on Markets in Financial Instruments ("**MiFID II**");
- Law 9(I)/2022 for the Provision of Investment Services, the Exercise of Investment Activities and the Operation of Regulated Markets (with all amendments as applicable);
- Law 165(I)/2021 for the Provision of Prudential Supervision of Investment Firms;
- ESMA Decision (EU) 2018/796 of 22 May 2018 to temporarily restrict contracts for differences in the Union in accordance with Article 40 of Regulation (EU) 600/2014 of the European Parliament and of the Council (with all extensions as applicable); and
- CySEC Circular C271 on ESMA Product Intervention Decision on CFDs and Binary Options.

Applicable product intervention measures by respective National Competent Authorities of member states of the European Union are also duly enforced.

The purpose of the Policy is to set provisions concerning application of leverage in relation to its services as used by the clients, with respect to the aforementioned legislative norms and restrictions.

2. Definitions

"Balance" is the sum of funds in the client's account inclusive of closed financial results of all past positions, the net of deposits and withdrawals, and other transactions.

"Equity" is the net value of a client's account inclusive of balance plus/minus floating financial results of all open positions.

"Leverage" is the magnification of a client's funds' purchasing power used to trade in greater volumes than would have been otherwise possible. It is expressed as a ratio. The greater the ratio, the greater the leverage. Due to the magnifying effect of leverage on trading ability, it is responsible for greater returns or losses than the same would have been without leverage.

"Margin" is the amount of funds required to open a position relative to its notional volume. It represents a proportion of notional volume of a position determined by leverage applied (depending on the client's account and/or applicable regulatory level).

“Free Margin” is the amount of funds on a client’s account available for opening positions.

“Used Margin” is the amount of funds on a client’s account blocked by the Company the moment a position is opened.

“Margin Call” is the level of equity relative to used margin at which it becomes impossible to open new positions. It is set by the Company, and its maximum is normally 100%.

“Margin Requirement” is the margin representation of leverage. It is expressed as a percentage.

“Notional Volume” is the product of trading volume of a position and its instrument’s market value determined by price at the time of opening the position.

“Stop Out Rule” is the level of equity relative to used margin at which open positions are automatically closed by the Company. This is also known as “Close Out Rule”.

3. Trading with Leverage / Margin

Trading on margin allows a client to use the magnifying effect of leverage to trade in volumes significantly larger than would have otherwise been possible, i.e., a relatively small amount of funds may be used for transacting in relatively large positions. In effect, the leverage effect is provided to clients by the Company.

For example, let us assume a 1 lot (100,000 units) “buy” transaction of EUR/USD by a client with 1:30 leverage. Margin requirement of the transaction is then 3.33%, or EUR 3,330. In other words, having EUR 3,330 on the account allows a client to trade up to 100,000 units in EUR/USD contracts. Moreover, since the calculation of financial result considers trading volume of a position, if we assume an example of price movement from 1.25000 to 1.27000, position’s profit then becomes USD 2,000. In case of price movement in the opposite direction, the same amount is then loss. Details concerning margin and P/L calculations and formulae can be found on www.could-trading.eu

It is important to remember the inherent risk associated with trading on margin – since trading volumes may be much greater, corresponding financial results may also be magnified regardless of whether they are positive or negative.

Furthermore, since the Company provides Negative Balance Protection (“**NBP**”), whereas losses of a client are limited to their deposits, earnings are not subject to any regulatory limits. Therefore, the Company reserves the right to manage risk accordingly in order to remain compliant with capital adequacy requirements as well as protect investors and applicable counterparties against potential challenges which may arise from the same.

4. Leverage by Client Categorisation

Leverage levels for different clients are set in accordance with the regulatory requirements, as well as the risk management needs of the Company.

Pursuant to the legislation, clients are classified as follows:

- Retail Clients;
- Professional Clients;
- Eligible Counterparties;

Moreover, other client categories may be applicable depending on jurisdiction, including, but not limited to, "Experienced" Retail clients, subject to individual restrictions.

i. Retail Clients

According to provisions concerning leverage as set by ESMA and mentioned in "Legal Framework and Objectives", limits apply to retail clients depending on the type of financial instrument ("**Asset Class**"). Product intervention measures apply irrespective of the location of clients, instead enforced on the Company in respect to its provision of services as authorised in the European Economic Area.

Maximum Leverage Levels / Minimum Margin Requirements for Retail Clients

Asset Class	Leverage	Corresponding Margin (%)
Major currencies *	1:30	3.33
Other currencies, gold, major indices **	1:20	5
Other commodities / indices	1:10	10
Shares, ETFs, other equities	1:5	20
Cryptocurrencies	1:2	50

* a pair consisting of some combination of CAD, CHF, EUR, GBP or JPY or USD

** ASX (S&P / Australian Securities Exchange), CAC (Cotation Assistee en Continu), DAX (Deutsche Bourse AG), DJIA (Dow Jones Industrial Average), EUROSTOXX, FTSE (Financial Times Stock Exchange), NASDAQ (NASDAQ Composite), NASDAQ 100, Nikkei, S&P

ii. “Experienced” Retail Clients

Following a decision by KNF, the National Competent Authority of Poland (also listed in “Legal Framework and Objectives”), residents of Poland who manage to obtain an Experienced Retail Client (“**ERC**”) status are entitled to lower margin requirements for some asset classes and/or selective instruments.

Maximum Leverage Levels / Minimum Margin Requirements for Experienced Retail Clients

Asset class	Leverage	Corresponding Margin (%)
Currencies, gold, major indices	1:100	1

Concerning all other asset classes and instruments, maximum leverage levels remain the same as for Retail clients.

Information regarding criteria for becoming an ERC can be found on www.cloud-trading.eu

iii. Professional Clients & ECPs

For all types of professional clients, whether physical individuals or legal / institutional entities, the Company offers leverage levels according to individual terms and conditions agreed upon.

Notwithstanding the above, the Company reserves the right to set maximum levels (different levels depending on different asset classes) for risk management purposes. Specific and up-to-date information concerning trading conditions, including maximum leverage levels for Professional Clients, can be found on www.cloud-trading.eu

5. Floating Leverage

In view of risk implications associated with the use of leverage by clients, and whereas Professional clients are not subject to regulatory restrictions set by ESMA, one of the tools of risk management used by the Company in respect to the same is floating leverage, e.g. gradual increase of margin requirements with an increase in the volume of positions, on a per asset class basis.

Floating leverage operates on the basis of volume bands; that is, each time a certain maximum volume per band is accumulated and the threshold is passed, margin requirement is automatically increased as per settings of the new band.

For example, assuming that the first band for currencies allows volume of up to 2,000,000 units with leverage of 1:100. If a client opens a EUR 1,000,000 “buy” position on EUR/USD, margin requirement is EUR 10,000. The next volume band ranges between 2,000,001 and 7,000,000 units with a leverage of 1:50. If the client increases their position by another 2,000,000 – thus passing the threshold for the next band – then whereas margin requirement for the first 1,000,000 units will be calculated based on settings of the first band, the same for the remaining 1,000,000 units will be calculated based on settings of the second band.

In other words, the first 1,000,000 units will require EUR 10,000 for margin, and the other 1,000,000 units will require EUR 20,000. In total, the client would need EUR 40,000 instead of EUR 30,000 had leverage remained constant.

Information concerning volume bands and corresponding leverage limits can be found on www.cloud-trading.eu

6. Trading without Leverage

In addition to offering trading on leverage, the Company may also offer trading on its products without leverage. This approach may cover Contracts for Differences (“**CFD**”) as well as traditional, or physical, financial instruments.

Under this approach, there is no leverage provided to the client for trading purposes. In other words, if it were to be expressed as a leverage ratio, it would be the same as 1:1.

The above stands for 100% margin requirement, meaning the client must have sufficient funds to cover the entire notional volume of a position.

In relation to offering trading without leverage on CFDs, pursuant to all applicable regulatory provisions concerning the offering of CFDs to its clients, the Company extends relevant measures of investor protection, including Stop Out Rule and NBP, to all Retail and ERC clients engaged in trading on CFDs without leverage.

The Company may offer trading without leverage on any of its products, as well as remove any of the products offered for trading without leverage from the offer. More details on Trading without Leverage (“**TWL**”) can be found on www.cloud-trading.eu

7. Margin Call & Stop-Out Rule

Both legislative and industry standards stipulate the Company's responsibility to inform clients of the importance of prudent position management in case of adverse market volatility affecting the same beyond acceptable levels and take unilateral action for investor protection purposes in case of said volatility resulting in extreme potential losses. Two of the measures provided for are Margin Call and Stop Out Rule, as explained herein below.

i. Margin Call

The first measure of investor protection is the Margin Call which is presented in the form of a notification to the client in case the ratio of equity to used margin falls below a certain level, indicating an increased risk associated with holding positions open at the time of said notification. Usually, the ratio would dramatically decrease within a relatively short time span due to extreme market volatility.

For this reason, the notification serves as a warning to the client, intended to bring the matter to client's attention as to increase the likelihood of the client placing greater focus on management of affected positions under the circumstances.

While the industry standard stands at 100% – which is a logical value associated with the threshold below which no additional positions can be opened – the Company reserves the right to set its own level as appropriate.

Up-to-date information on margin call level (which may be different for different clients depending on account type, amongst other factors) can be found on www.cloud-trading.eu

ii. Stop-Out Rule

The second and final measure of investor protection here is Stop Out Rule, also known as Close Out Rule. This rule refers to the automatic, forced closure of positions of the client most affected by extreme market volatility resulting in the client's account suffering comparatively drastic floating losses. While the rule operates in respect to floating losses, as mentioned above, the reasoning behind this is the notion that, in case the client chooses to close positions at the time of said volatility resulting in the aforementioned consequences, closed losses on the account would be significant.

Moreover, should volatility increase further, subsequent losses may even exceed the total amount of funds on the account. As mentioned earlier in the Policy, the Company provides NBP (see below for details) which operates in conjunction with the Stop Out Rule to protect investors from ending up indebted to the Company.

Under provisions of ESMA, the Stop Our rule is triggered at equity-to-used-margin level of 50% for Retail and ERC clients. The Company reserves the right to determine levels for Professional clients, Eligible Counterparties, and so on based on individual agreements with the same and the Company's risk needs (where applicable).

As a general principle, positions are closed in order or relative impact on the aforementioned ratio and up to the point where the level is increased above 50%. Nonetheless, the Company reserves the right to calibrate related settings – at its discretion – in such a way as to provide for all positions to be closed at once.

8. Negative Balance Protection (NBP)

As discussed above, pursuant to relevant ESMA provisions, the Company applies an additional measure of investor security against undue risk in the form of Negative Balance Protection. Under this rule, a client cannot owe more to the Company than the deposited amount, even in case of extreme market volatility resulting in significant losses. For example, should said volatility result in negative balance on the client's account, the measure automatically adjusts balance to zero.

Furthermore, and as provided for earlier, this measure works in conjunction with the Stop Out Rule under which open positions of the client with the most significant losses are automatically closed in case of adverse market conditions resulting in equity level decreasing below 50% of used margin level.

While explicitly applicable only to Retail and ERC clients under the corresponding regulatory provisions, the Company reserves the right to extend NBP measure to all other classifications of clients at its discretion.

9. Risk Management

The magnifying effects of leverage on trading and financial results, especially in respect to potential/actual losses related to orders executed by the Company, may pose significant risks to the Company's capital adequacy. Therefore, the Company shall closely monitor trading activities of all clients with high leverage levels (by default, all Professional clients as well as risky ERC clients subject to discretion of the Company). This shall be done in conjunction with other monitoring activities related to leverage levels in order to ensure compliance of the Company with its capital requirements.

In order to achieve the above, the following (non-exhaustive) measures may be implemented:

- Reduction of leverage on specific instruments;
- Targeted reduction of leverage during period of extreme market volatility;
- Increase of the Company's capital; and
- Any other measures the Company may deem reasonably necessary.

10. Conflicts of Interest

You are reminded that the Company may act as a counterparty to your trading transactions. In accordance with its Conflict of Interest Policy (available on www.cloud-trading.eu) the Company shall take every reasonable step to ensure avoidance of any conflicts of interest or resolve any existing conflicts between itself, or its authorised representatives, and the clients, or amongst its clients.

11. Implementation & Review

This Policy is subject to approval by the Board of Directors, including all indicative values presented herein, and forms a part of the Company's operating documentation in respect to its clients.

This Policy is subject to at least annual review intended to reflect changes, if any, in regulatory requirements and guidelines, as well as relevant industry standards so as to maintain the Policy up to date with the Company's documentation revisions.