# Leveraged Foreign Exchange

## Investor Education Basics

**Leveraged foreign exchange ("forex")** offered in HSBC Broking Forex (Asia) Limited ("our", "we" or "HSBC Broking Forex") is a "geared" investment on a contract basis. The contracts are traded in the dealers market rather than on an organized exchange. By opening a leveraged forex contract, you are investing in one currency on a margin basis in the expectation that its exchange rate against another currency will rise or fall.

| How does it Work? | |
|---|---|
| **Trading currencies** | Two currencies are involved. The amount of currency covered by a contract is agreed upon between you and your counterparty. Currently, Euro, Pound Sterling, Japanese Yen, Swiss Franc and Australian Dollar are among the most commonly traded counter currencies with United States Dollar as the base currency. |
| **Two way quotation** | In response to a request for quotation, we as principal will quote the bid and ask prices simultaneously and this is called a two-way dealing quotation. There is no centralized pricing source for quotation. We determine the quotation by taking into account the prevailing FX rates from our counterparties and the real-time market data from International financial information providers. You can then decide whether to choose to buy (long) or sell (short) a contract at the quoted price. |
| **Slippage** | It is the difference between your order price and the final execution price. |
| **Initial margin requirement** | When you enter into a contract, you are required to deposit an initial margin - a small percentage of the contract's nominal amount. |
| **Maintenance margin** | It is the minimum level of net equity that is required to keep a contract open. |
| **Margin call** | If the subsequent price movement of a forex contract is unfavourable to an open contract, the floating loss may cause the net equity to fall below the maintenance margin thus giving rise to a margin shortfall. This will trigger a margin call and you will have to make up the margin shortfall. Any unsatisfied margin calls may result in forced liquidation without further notice. |
| **Interest calculation on deferred position** | Interest on deferred position will be incurred when there are open positions. Depending on the currency pair and the long or short position involved, net interest will be paid or charged to your account. |

### Scenario Analysis

Assuming a customer has a leveraged forex trading account and he bought 1 contract (contract amount: AUD100,000) of AUD/USD at the ask price of 0.7210, while the bid price at that moment is 0.7205. Below are examples to illustrate the investment returns based on different scenarios of exchange rate movement. For simplicity, the below examples:

- assume the customer only maintains a single contract with initial margin of USD 3,605 in his/her account.

| Scenario | 1 | 2 | 3 |
|---|---|---|---|
| **Initial open position (USD)** | +72,100 (100,000 x 0.7210) | | |
| **Initial margin (USD)** | 3,605 (ie Leverage ratio = 20) | | |
| **Maintenance margin (USD)** | 2,750 | 2,750 | 2,750 |
| **Exchange rate movement direction** | No change | Favourable | Unfavourable |
| **Final exchange rate at close (bid rate)** | 0.7205 | 0.7310 | 0.7110 |
| **Exchange rate spread** | -0.0005 | +0.0100 | -0.0100 |
| **Theoretical profit/(loss) (USD)** | -50<br>(+100,000 x -0.0005) | +1,000<br>(+100,000 x +0.0100) | -1,000<br>(+100,000 x -0.0100) |
| **Return on investment in % (USD)** | -1.8%<br>(-50 out of 2,750) | +36%<br>(+1,000 out of 2,750) | -36%<br>(-1,000 out of 2,750) |

## Why consider leveraged forex trading?

You might consider leveraged forex trading if

- You are of speculative risk attitude.
- You are looking for leveraged investment in currencies.
- You have a directional view in currency movement.
- You are prepared to take the risk of this product due to the gearing effect on the trading profit and loss. It follows that the lower the margin amount is used to open a position, the higher will be the gearing. A relative small movement in exchange rates may result in profit or loss that is high in proportion to the minimum margin requirement.
- You are ready to pay any interest on deferred position which may be charged to your account for maintaining an open position.

If you are in doubt, you should obtain independent professional advice.

## HSBC Broking Forex

**HSBC Broking Forex** helps you to capture investment opportunities in the currency market whenever they arise. Our dedicated team of forex dealers is ready almost round the clock 5 days a week to provide you with an instant forex quotation, and monitor closely on the currency market movement.

**Flexible Fund Utilisation**
Leverage ratio of up to 20 times of initial margin to allow you to enjoy more investment opportunities.

**Various Instruction Alternatives**
You can choose at your own discretion to place a market order, limit order or stop order to best fit your needs in the currency market. You can pre-set an expiry time (maximum of 14 calendar days for limit order and stop order).

| | |
|---|---|
| Market order | An order to buy/sell at prevailing two-way dealing quotation.<br><br>In normal market situation, we will try our best to honor the quotation as the final execution price.<br><br>Under extreme market fluctuation,<br><br>• if there is positive slippage, the final execution price will be more favourable than the quotation.<br>• if there is negative slippage, the final execution price will be less favourable than the quotation. |
| Limit order | An order to buy/sell at your pre-set exchange rate.<br><br>In normal market situation, we will try our best to honor the pre-set exchange rate as the final execution price.<br><br>Under extreme market fluctuation where positive slippage occurs, the final execution price will be more favourable than the pre-set exchange rate. Negative slippage does not apply to limit order. |
| Stop order | An order to close an open position when the quotation has reached or exceeded your pre-set stop price.<br><br>In normal market situation, we will try our best to honor the pre-set price as the final execution price.<br><br>Under extreme market fluctuation where negative slippage occurs, the final execution price will be less favourable than the pre-set price. Positive slippage does not apply to stop order. |

**Simple Fee Structure**
The bid-ask price we quote is an all-in price and no commission will be charged for leveraged forex trading services. The quotation provided to you is the exact amount your contract will involve in normal market situation without slippage happening.

**Comprehensive choices of currency pairs**

We offer competitive quotes in various currencies parings, including AUD, CAD, CHF, EUR, GBP, JPY, NZD and USD.

| | | | | | |
|---|---|---|---|---|---|
| AUD/CAD | CAD/CHF | EUR/AUD | GBP/AUD | NZD/CAD | USD/CAD |
| AUD/CHF | CAD/JPY | EUR/CAD | GBP/CAD | NZD/CHF | USD/CHF |
| AUD/JPY | | EUR/CHF | GBP/CHF | NZD/JPY | USD/JPY |
| AUD/NZD | CHF/JPY | EUR/GBP | GBP/JPY | NZD/USD | |
| AUD/USD | | EUR/JPY | GBP/NZD | | |
| | | EUR/NZD | GBP/USD | | |
| | | EUR/USD | | | |

**Please feel free to contact our Relationship Managers for more details.**

## Risk Disclosure Highlight

You should carefully consider whether leveraged forex trading is suitable for you in light of your financial condition, experience and investment objectives. The following is a summary of some of the risks involving leveraged forex trading and it is NOT an exhaustive list and you are recommended to obtain independent professional advice before entering into any trade.

1. HSBC Broking Forex acts as the counterparty to the client's transactions/positions, and clients are subject to HSBC Broking Forex's credit risk.

2. The risk of loss in leveraged forex trading can be substantial. The risk of loss in financing a transaction by a deposit of collateral can be significant. You may sustain losses in excess of your initial margin funds, cash and other assets deposited as collateral with HSBC Broking Forex.

3. You may be called upon at short notice to deposit additional margin deposits or interest payments. If the required margin deposits or interest payments are not provided within the prescribed time, your position or collateral may be liquidated without your prior consent. You will remain liable for any resulting deficit in your account and interest charged on your account. You should therefore carefully consider whether such trading is suitable in light of your own financial position and investment objectives.

4. Margin trading can involve a high degree of risk. Price changes in the underlying currency can result in substantial losses to you that may in some instances exceed the amount of your initial margin funds, cash and other assets deposited as collateral with HSBC Broking Forex. You should not participate in margin trading unless you understand and are willing to assume the risks associated with such transaction and are financially able to absorb such losses.

5. Market conditions may make it difficult or impossible for HSBC Broking Forex to quote the bid and ask prices for a leveraged forex contract. Placing contingent orders, such as "stop-loss" or "stop-limit" orders, will not necessarily limit losses to the intended amounts. Market conditions may make it impossible to execute such orders.

6. The amount of initial margin is small relative to the value of the forex contract, such that transactions are "leveraged" or "geared". The lower the initial margin amount is used to open a position, the higher will be the gearing. The high degree of leverage which is often obtained in connection with margin trades can work against you as well as for you. The use of leverage can lead to large losses as well as gains.

7. Your assets received or held by HSBC Broking Forex outside Hong Kong are subject to the applicable laws and regulations of the relevant overseas jurisdiction which may be different from the standard of the Securities and Futures Ordinance of Hong Kong and the rules made thereunder. Consequently, such client assets may not enjoy the same protection as that conferred on client assets received or held in Hong Kong.

8. You may be affected by any curtailment of or restriction on HSBC Broking Forex's capacity to trade in respect of open positions as a result of action taken by the Securities and Futures Commission, the Hong Kong Monetary Authority or other governmental or regulatory bodies under applicable rules or for any other reason. In such circumstances, you may be required to reduce or close your open positions with HSBC Broking Forex.

9. Any transaction involving foreign currencies, including leveraged forex trades, involves additional risks not common to transactions denominated entirely in your domestic currency. Forex rates can be highly volatile and can be affected by factors such as changes in political and economic policies (both domestic and overseas), political instability, wars, natural disasters and global market movements.

10. You should consider the possible risk inherent in giving instructions by facsimile. Non-original signatures on facsimiles may be forged and instructions given by facsimile may be transmitted to wrong numbers, may never reach HSBC Broking Forex and may thereby become known to third parties thus losing the confidential nature. HSBC Broking Forex accepts no responsibility for the occurrence of any such circumstances or for any action, claim, loss, damage, or cost incurred by you in connection with instructions given via facsimile. HSBC Broking Forex shall not be held liable for acting in good faith on faxed instructions which emanate from unauthorized individuals or in any circumstances whatsoever.

## Important Notes

Leveraged foreign exchange trading is not available to persons resident in mainland China. In addition, before you trade, please read the Terms of Business which had been provided to you by HSBC Broking Forex. In case of discrepancy between the Terms of Business and this document, the Terms of Business shall prevail.

In the event of conflict or inconsistency between the English and Chinese versions of this document, the English language version of this document shall prevail for all purposes.

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