

# CAXTON

## BUSINESS

### Retail Client Product Disclosure Statement

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# 1. Key Information

## Introduction and Purpose

The purpose of this Product Disclosure Statement (PDS) is to provide you with sufficient information to enable you to make an informed decision about whether to purchase a financial product from Caxton FX (Caxton FX, us, we, our). You may also use this PDS to compare the financial products described with other issuers of similar products. When we use the term “you” we mean you as the client of our financial products.

Caxton FX is the provider of the products described in this PDS. Should you have any queries about this document, please do not hesitate to contact us. Our contact details are at the top of this PDS.

This PDS

This PDS is an important document which contains information that you need to know about the products we can offer you. The information in this PDS is general information only and does not take into account your personal objectives, financial situation and needs. You should consider these things and seek independent professional advice before making a decision to transact in our financial products.

## Important Risk Notice

Decisions to enter into transactions involving foreign exchange products are very important. They often have significant risks and consequences and could incur losses. You should read this entire document to ensure you understand the potential risks that these products could pose to you.

Refer to the Significant Risks section of this PDS for more information about:

- Risks in trading foreign exchange products.
- Whether the products we offer are appropriate for your needs.
- The terms and conditions, rights and obligations associated with our products.
- Market conditions

It is your responsibility to ensure that you fully understand the products, how they are traded, and the risks involved. This document may not contain all the information that you need in order to fully understand the products and their risks.

To the extent permitted by law, neither Caxton FX nor its affiliates accept any responsibility for errors or misstatements, negligent or otherwise, nor for any direct, indirect, consequential or other loss arising from any use of this document and or/further communication in relation to it.

## Changes to this PDS

Information in this PDS that is not materially adverse to users of our products is subject to change and may be updated via our company website. You can access that information by visiting the website or telephoning us and asking for an electronic or paper copy. You can also access the website which may contain, from time to time, other information about our products.

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## Your contract with Caxton FX

When you acquire a product from us you are entering into a contract with Caxton FX in relation to the product.

That contract is made up of:

- The relevant application form,
- The description of the products in this PDS, and
- The terms sheet specific to your contract.

We will send you confirmation for each foreign exchange transaction you place with us. Please ensure that you verify the information contained on the confirmation before signing and returning it to us.

If there is a discrepancy, please contact us immediately using the contact details at the beginning of this PDS. If we do not hear from you immediately you will be bound by the information, we have provided to you (which may include a document called a trade confirmation notice). To the extent of any inconsistency, the terms of this PDS prevail over any other terms and conditions.

### LEI Requirements

UK MiFID investment firms and firms subject to MiFID transaction reporting will require all firms on whose behalf they execute trades to have a Legal Entity Identifier (LEI) prior to entering into transactions in financial instruments.

If you do not already have an LEI, it is necessary for you to obtain one, or to provide a representation that your transactions are excluded from these regulations.

## 2. About Us

Caxton FX is authorised to provide Retail Clients general and informative details of the "non-cash payment products", "derivatives" and "foreign exchange contracts" It offers. Put simply, this involves informing you about different types of money transfer or currency exchange services.

Caxton FX is authorised to deal in relation to those same products. This means that we can help you to completely utilise our service, fill out the forms, undertake and complete the transactions for you.

Caxton FX is authorised to issue foreign exchange and derivatives contracts. This allows us to quote Market prices to you

### 3. How to Open an Account with Caxton FX

You are required to:

Complete an Account opening form and read and accept our terms and conditions. Where required, you may need to submit supporting documentation as indicated on the application form.

These forms and the supporting documentation must be completed, signed, and returned to us via facsimile, post, email, or in person. Upon receipt of these documents, we will conduct a compliance review to approve you as a customer.

If you require any derivative products or Forward contracts, you must also complete an application trading form.

### 4. Introduction to Foreign Exchange Contracts

Foreign exchange contracts help you transfer one currency into another currency. They can also be used as a risk management tool used to obtain protection against adverse exchange rate movements. They involve an agreement between you and us to exchange one currency for another on a pre-agreed date.

Caxton FX specialises in three types of foreign exchange contracts:

#### **Spot Contracts**

This is a foreign exchange contract for buying and selling currency where the settlement date is between 1 and 2 days after the date of entering the contract.

#### **Forward Contracts**

This contract is similar to a Spot foreign exchange contract, except that a Forward Contract allows you to buy or sell one currency against another for settlement at a later date (typically between 3 days to 18 months). Forward Contracts are generally used by businesses or individuals who would like to fix the exchange rate for settlement on a future date. This provides the ability to manage exposure to currency movements and manage cash flows.

#### **Option Contracts**

Option Contracts can be quite complex. In their simplest form, they are a financial instrument where the owner has the right but not the obligation to exchange one currency into another currency at a pre-agreed exchange rate on a specified date. However, structured products may carry an obligation to transact depending on the type of product.

## 5. Spot Contracts

Foreign exchange Spot contracts are a basic tool for exchanging currency and are the simplest method of managing foreign exchange risk.

### **The Benefits of Spot contracts:**

- An efficient and easy way to repatriate overseas earnings, make a foreign currency payment and manage foreign exchange risk.

### **The Risks of Spot Contracts:**

- The risk that your money may be delayed or lost due to an event or incident of a sovereign, strategic, political or governmental nature in any of the countries in which Caxton FX operates.
- The Spot exchange rate can be volatile even over a short period of time such as 1 trading day. Therefore, you may fix the rate with a Spot contract at 9am for example and lose money by not fixing the rate at a later time of the same day.

### **Quoting you a Spot Rate:**

If you accept the rate over the phone, then you are bound to the transaction. We will then send you a trade confirmation notice by email. You will send the agreed amount to our nominated bank account on the agreed date. On receipt of your funds, we will make the currency conversion at the agreed foreign exchange rate which was based on the prevailing Spot exchange rate at the time of the transaction.

We will then arrange for your bought currency to be sent to your nominated beneficiary.

### **How do Foreign Exchange Spot Contracts Work?**

To exchange currencies at the current foreign exchange rate, you advise us of the following information:

- The amount of money you wish to exchange,
- The two currencies involved,
- Which currency you would like to buy or sell, and
- The date by which your currency will arrive in the Caxton FX bank account.

### **Example of a Spot Contract**

For example, Mr. Jones is buying raw materials from China and needs to send USD 100,000 to the supplier's bank account as soon possible.

Assuming Mr. Jones has an account with Caxton FX, he telephones Caxton FX and asks for a quote to buy USD 100,000 and sell GBP for settlement in 2 working days' time. Caxton FX quotes him a rate 1.2500.

Mr. Jones accepts the rate of 1.2500 and Caxton FX sends him a trade confirmation notice. Mr. Jones makes a bank payment the next day to Caxton FX's bank account for GBP 80,000 and informs Caxton FX where to send the USD.

Caxton FX receives the GBP 80,000 the next day. The next day (2 days after agreeing to the rate), Caxton FX sends USD 100,000 to the beneficiary in China that Mr. Jones has specified.

## 6. Forward Contracts

Forward Contracts allow you to buy or sell one currency against another for a set settlement date typically between 3 working days and 18 months from the date of the deal. Forward Contracts are used by companies or individuals who would like to fix the exchange rate for a future date in order to manage their foreign exchange exposure and manage future cash flows.

### The Benefits of Forward Contracts

- A simple way of managing future currency exchange risk and negating any unfavourable movements in exchange rates.
- The ability to fix an exchange rate now for delivery of currency in the future. This means that you know what you will have to pay on a future date. This allows for improved money management of cash flows and costs.
- If you are not sure of the exact date that you will need the funds, you will still be able to specify a special delivery period. This means you will be able to draw down on the funds within an agreed period of time.

### The Risks of Forward Contracts

- A forward exchange contract fixes a rate and a delivery date. This means it does not allow you to take advantage of any current favourable movement in the exchange rate.
- If you use the forward exchange contract to cover an obligation that ceases to exist, or it changes prior to the delivery, then the contract may need to be closed out. This means you may incur a loss or be required to take out further currency protection to cover the changed exposure.
- A relatively small margin (typically 5% to 10%) of the total transaction is required to enter into a forward exchange contract. This margin only represents a small percentage of the transaction; the Market value will be determined by the full amount of the transaction. The contract is therefore susceptible to small movements in the Market leading to large losses or gains.

This means there could be a significant impact on the funds you have deposited and may require you, on short notice, to provide additional funds to cover margin payments and your position. Margin call amounts will vary depending on, but not limited to, notional value, currency pair and Market volatility. A failure to meet the margin call can result in the enforced liquidation of your exchange position as well as additional losses.

## How do Forward Contracts Work?

To conduct a forward foreign exchange contract, you would need to advise us of the following criteria:

- The amount of money you wish to exchange,
- The two currencies involved,
- Which currency you would like to buy or sell, and
- The future settlement dates.

We will then quote you a forward rate and tell you what deposit you will need to send us in order to enter into this forward contract.

If you accept the rate over the phone, you are bound to the transaction. We will then send you a trade confirmation notice by email. You will need to send the agreed margin amount, so it reaches our nominated bank account on the agreed margin settlement date. On the settlement date of the forward contract, you will send the balance of the forward contract to our nominated bank account. On receipt of your funds, we will make the currency conversion at the agreed foreign exchange rate which was based on the prevailing “forward exchange rate” at the time that the transaction was originally entered into.

We will then arrange for the purchased currency to be sent on the pre-agreed settlement date of the contract to your nominated beneficiary.

## 7. Option Contracts

A few common Options Contracts we offer are:

- Vanilla Option
- Collar Option
- The Participating Forward
- Forward Extra
- Leveraged Ratio Forward

### Option Contracts

They can provide protection against adverse market movement in the form of a “worst case rate”, whilst allowing for limited or unlimited upside participation depending on the structure. There may or may not be a premium paid for these strategies, this will depend on your requirements.

They may achieve outperformance in comparison to a Forward or Spot rate, whilst providing no guaranteed “worst case rate”.

### The Benefits of Option Contracts

- Foreign exchange Options give you flexibility when hedging foreign currency exposures.



- They can provide you with protection via a worst-case rate but may also allow you to benefit should the exchange rate move in your favour.
- Foreign exchange Options can provide you with a worst-case rate like a Forward contract. This means that you know the maximum amount you will have to pay in the future so you will be better equipped to manage your cash flows and costs.

Caxton FX offers a number of different Options Contracts. Mention of an “Option Contract” in this PDS can be a reference to a number of Option contracts, or Option strategies. This section of the PDS will use specific terms pertaining to Option contracts, please refer to the glossary for definitions.

### **The Risks of Option Contracts**

- When you enter into a protection Option, you will have to pay a premium unlike when you enter into a forward contract.
- We may also, from time to time, offer variations on these strategies, or create different combinations of Option contracts.
- The magnitude of favourable Market movement may not be enough to offset the premium paid.
- Some structures can be leveraged to achieve an enhanced protection rate. A leveraged contract is one where the client may have an obligation to transact in a larger amount than they have a requirement for.
- Some Options may be settled for their cash value rather than delivered currency if you are no longer exposed to a currency hedge but this may incur further costs.
- A combination of cash valued and delivered currency Options may be used in a structure to achieve an enhanced exchange rate. This additional improvement in the exchange rate may be dependent on market movement within certain parameters.
- Please be aware if you enter into a contract then you may be obligated, whether to cash settle/physically deliver currency, or both.

### **How Option Contracts Work**

#### ***The Vanilla Option***

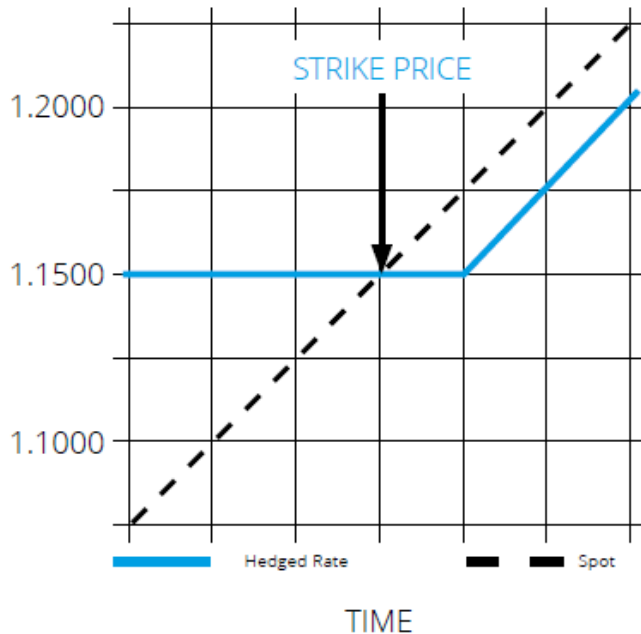
The Vanilla Option provides you with the right to buy a currency on a predetermined date at a pre-determined rate. However, on expiry you can elect not to exercise the Vanilla Option and buy in the Spot Market if the Spot rate is more favourable.

For example, a client imports fruit from Europe, and needs to sell GBP and buy 1 million EUR in six months’ time to pay a supplier. The forward rate for six months is 1.1700 and the client doesn’t want a rate worse than 1.1500.

The client would purchase a protection Option at 1.1500 maturing in six months’ time. A premium of GBP 25,000 would be payable to Caxton FX for the protection Option.

The Vanilla Option combines the certain protection provided by a forward contract and the flexibility of being able to leave an exposure unhedged.

Possible Scenarios:



*SCENARIO 1*

If, at expiry, the exchange rate is trading below 1.1500, the client would simply exercise the protection Option and buy the EUR at 1.1500

*SCENARIO 2*

If, at expiry, the exchange rate is trading at 1.2000, the client simply transacts in the Spot Market and achieves a rate of 1.2000 and the protection Option expires, worthless.

The advantages are that:

- The client has certainty of a worst-case exchange rate
- The client has 100% protection if the rate moves against them
- The client has 100% flexibility if the rate moves in their favour
  - Please note Caxton solvency is covered in point 11 further under 'Counterparty Risk' and in our T&Cs.

The disadvantages are that:

- There is a premium payable by the client (in this example 2.925% of the notional amount = GBP 25,000)
- The magnitude of favourable Market movement may not be enough to offset the premium paid.
- There may be a cost to cancel an Option

**Structured Options**

- When you enter into a Structured Option product with a fixed protection rate, the rate will generally be less favourable than the prevailing Forward Rate, in addition, your participation in favourable exchange rate movements may be limited, thus restricting you from achieving a more favourable exchange rate than you would buying on the Spot Market.

- Similar to a forward contract when using an Option structure to cover an obligation that ceases to exist, or changes, prior to the delivery then the contract may need to be closed out. This means you may incur a loss or be required to take out further currency protection to cover the exposure.
- A margin (typically between 5% to 10%) of the total transaction is required to enter into a Structured Option contract. A leveraged contract is susceptible to small movements in the Market leading to large losses or gains. This means there could be a significant impact on the funds you have deposited, and you may be required, on short notice, to provide additional funds to cover margin payments and your position. A failure to meet the margin call can result in the enforced liquidation of your exchange position as well as additional losses.

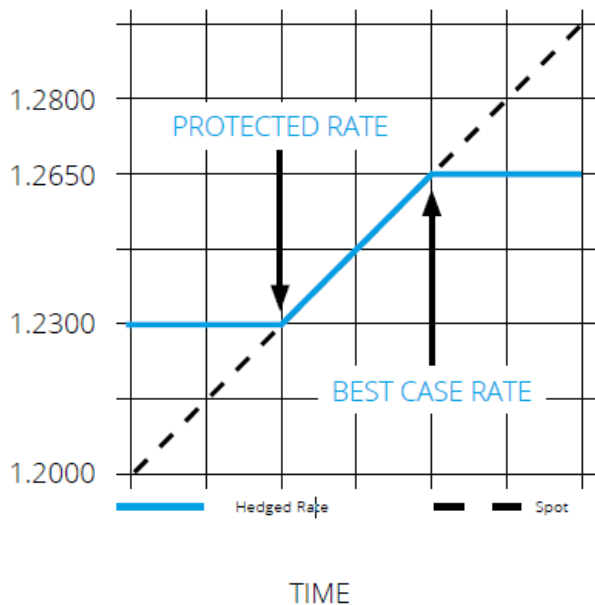
### **The Collar Option for Importers**

The Collar Option provides you with the right but not the obligation to buy a currency on a predetermined forward date at a worst-case rate. It also provides you with an obligation to buy the same amount of currency on a pre-determined forward date at a best-case rate. If the Spot rate at expiry is better than the best-case rate, your hedge rate is limited to the best-case rate. If the Spot rate at expiry is worse than the worst-case rate, your hedge rate is protected at the worst-case rate. If the Spot at expiry is between the worst-case rate and the best-case rate, you can buy your currency at the prevailing Spot Rate.

#### ***Example of a Collar Option for an importer***

For example, a client buys Furniture from the USA and forecasts that they will need to buy USD 1 million in six months' time to pay for a shipment. The forward rate for six months is 1.2500. The client would like to get a worst-case rate but are concerned that if they enter into a forward contract, the rate may move up and they will be unable to benefit from the move. However, they do not want to pay a premium for this. We inform them that they can have a worst-case rate of 1.2300 where they have the right to buy USD 1 million. They can therefore achieve a best-case rate to 1.2650, where they will be obligated to buy USD 1 million, if the Spot Rate is above 1.2650 on expiry.

#### **Possible Scenarios:**



#### SCENARIO 1

GBP/USD strengthens and at expiry the exchange rate is 1.2800. The client is obligated to buy USD 1,000,000.00 at 1.2650

#### SCENARIO 2

GBP/USD weakens and at expiry the exchange rate is 1.2000. The client is protected and buys USD 1,000,000.00 at 1.2300

#### SCENARIO 3

GBP/USD is trading between 1.2300 – 1.2650 at expiry. The client can buy their required amount of USD at the prevailing Spot rate at expiry.

The advantages are that:

- The client has certainty of a worst-case exchange rate.
- The client has protection if the rate moves against them.
- The client can benefit if the rate moves above the worst-case rate.
- The client pays no premium.

The disadvantages are that:

- If GBP/USD trades lower, it would have been better if the client had entered into a Forward Contract.
- If GBP/USD is trading above the best-case rate at expiry, it would have been better if they had remained unhedged.
- The client does not know which rate they will exchange at until expiry.

### The Participating Forward for Exporters

The Participating Forward protects you by providing you with a worst-case rate for your full exposure, like a forward contract.

However, it allows you to participate in any favourable exchange rate move by a pre agreed percentage of your currency exposure. There is no premium payable for a Participating Forward.

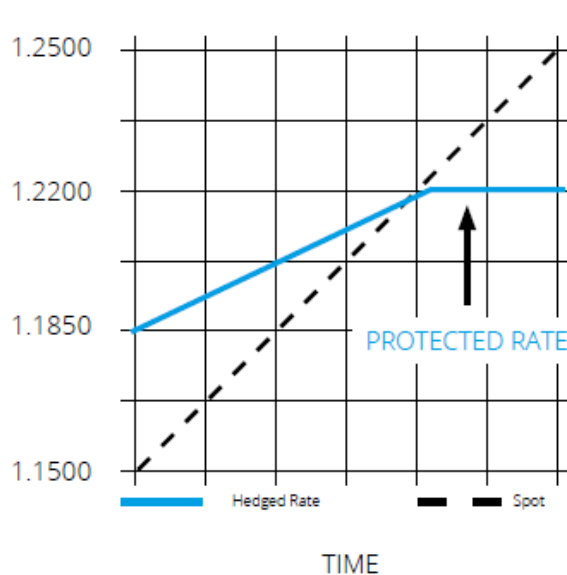
#### *Example of a Participating Forward for an exporter*

For example, XYZ Ltd sells computer games in Europe and is paid in euros. They forecast that they will need to convert 1 million euros into sterling in six months' time. The GBP/EUR Forward Rate for six months is 1.2000. The client would like to give themselves a worst-case rate but is worried that if

they enter into a Forward Contract, the rate may depreciate and they won't be able to benefit from this move. However, they do not want to pay a premium for this.

We inform them that they can have a worst-case rate of 1.2200 on the total amount – however they may benefit by selling half their pounds at 1.2200 at expiry and the remaining half at the prevailing Spot or Forward Rate at any time before settlement if the Spot rate is trading favourably.

#### Possible Scenarios:



#### SCENARIO 1

GBP/EUR weakens, and at expiry the exchange rate is 1.1500. The client is obligated to sell EUR 500,000 at 1.2200. However, the remaining EUR 500,000 can be sold at 1.1500. This will give the client an average rate of 1.1850.

#### SCENARIO 2

GBP/EUR strengthens and at expiry, the exchange rate is 1.2500. The client sells EUR 1,000,000 at 1.2200.

The advantages are that:

- The client has certainty of a worst-case rate
- The client has 100% protection if the rate moves against them.
- The client can partially benefit if the rate moves favourably
- The client pays no premium.

The disadvantages are that:

- If the rate moves unfavourably, a more favourable rate would have been achieved with a Forward Contract.
- The client can only partially benefit from favourable rate movements.
- The client does not know which rate they will exchange at until expiry.

#### Forward Extra

The Forward Extra enables you to fix a Protection Rate for the currency that you are looking to trade on a predetermined date in the future. You can also benefit from any favourable movement unless the predetermined Barrier Level has been breached.

If the Spot Market trades at or above the Barrier Level at any time during the active period, you are obligated to deal at the Protection Rate. If the Spot Market has not traded at or above the Barrier

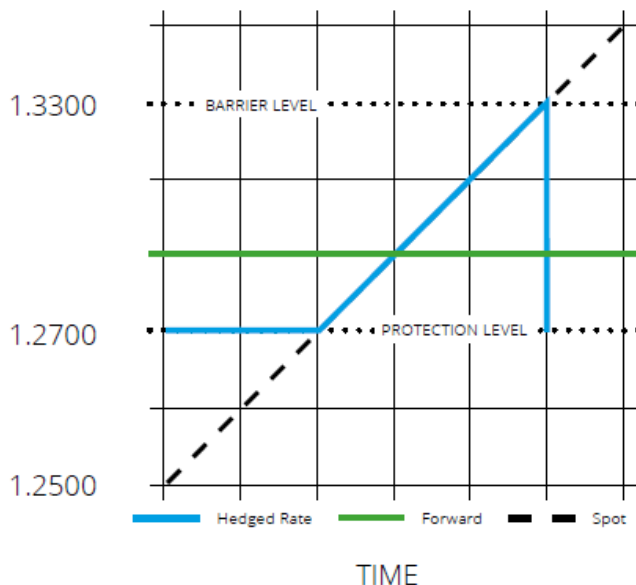
Level and the Spot rate at expiry is above the worst-case rate, you may settle the trade at the prevailing Spot rate. Therefore, this strategy may be suitable for you only if you believe that the Spot exchange rate will not reach or exceed the best-case rate during the active period.

For example, a client imports whiskey from America and forecasts having to purchase USD 1 million against GBP in six months' time. The Forward rate for six months is 1.2800 and the client wants to take advantage of possible further strength of the GBP.

They would like to take advantage of this Forward Rate but feels that GBP/USD may move higher over the next six months.

Therefore, they accept a Protection Rate of 1.2700. This enables the client to benefit from a favourable move in 100% of their exposure up to the Barrier Level of 1.3300. If the Spot rate trades at or above 1.3300 at any time during a specified active period, the rate for the contract converts to 1.2700, regardless of subsequent movements in the Spot exchange rate.

**Possible Scenarios:**



*SCENARIO 1*

GBP/USD weakens to 1.2500. On the settlement date, the client may buy USD 1,000,000.00 at the worst-case rate of 1.2700

*SCENARIO 2*

GBP/USD strengthens and trades at or above 1.3300 during the specified active period of the contract until expiry. The client is now obligated to buy USD 1,000,000.00 at 1.2700.

*SCENARIO 3*

GBP/USD strengthens and at expiry the exchange rate is 1.3200, however, it has not traded at or above 1.3300 during the specified active period. The

client may buy USD in the Spot Market at expiry.

The advantages are that:

- The client has 100% protection on the exposure at the Protection Rate.
- The client can benefit from favourable currency moves up to the Barrier Level.
- The client pays no premium.

The disadvantages are that:

- If the Spot rate trades at or above the Barrier Level at any time during a specified active period, the rate converts to the Protection Rate. In this case, the client would have achieved a more favourable rate using a Forward.
- The client can only partially benefit from favourable rate movements.
- If the exchange rate at expiry is below Protection Rate, the client would also have achieved a more favourable rate using a Forward.

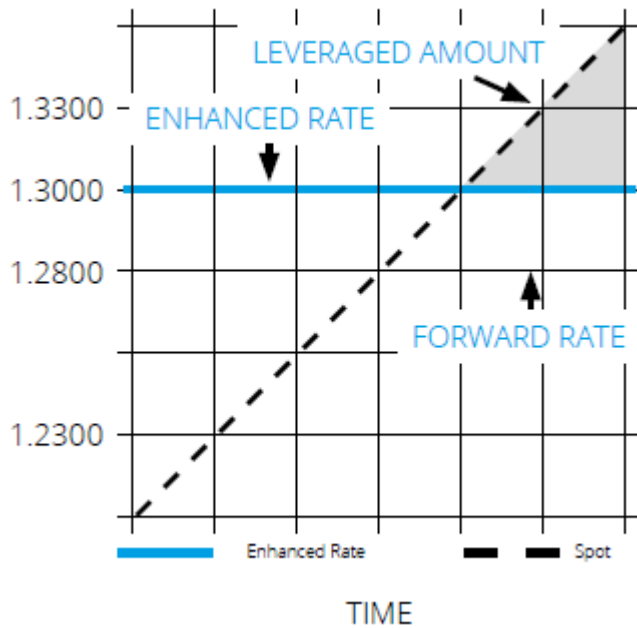
### **Leveraged Ratio Forwards**

The Leveraged Ratio Forward provides you with the right to buy a currency on a predetermined forward date at an Enhanced Rate. Alternatively, it can provide you with an obligation to buy a larger amount of currency (the Leveraged Amount) on a predetermined forward date at the Enhanced Rate. If the Spot Rate is below the Enhanced Rate your hedge will be protected at the Enhanced Rate. If the Spot Rate on Expiry is above the Enhanced Rate you will be obligated to hedge the Leveraged Amount at the Enhanced Rate.

#### **Example of a Leveraged Ratio Forward for an importer**

A client buys white goods from China and forecasts that they will need to buy between 1 to 2 million USD in six months to pay their supplier. The Forward Rate for six months is 1.2800. The client would like to protect their exposure but is concerned the rate may appreciate and they won't benefit from the move. However, they do not wish to pay a premium for the contract. With a Leveraged Ratio Forward contract the client can transact at an Enhanced Rate of 1.3000 to buy USD 1 million if the market expires below the Enhanced Rate. However, if the market closes above 1.3000 on expiry, they will be obligated to buy USD 2 million.

#### **Possible Scenarios:**



*SCENARIO 1*

The pound weakens and GBP/USD moves to 1.2300. You have the right but not the obligation to buy USD 1 million at 1.3000 and may buy the remainder (or any other amount, or none at all) at the market rate of 1.2300.

*SCENARIO 2*

The pound strengthens and GBP/USD moves to 1.3300. You are obliged to buy USD 2 million at the Enhanced Rate of 1.3000.

The advantages are that:

- The ability to achieve an Enhanced Rate relative to the comparative Forward Exchange Rate.
- Safeguards the ratio amount at the Enhanced Rate against unfavourable exchange rate movements.
- No premium payable.

The disadvantages are that:

- Does not provide 100% protection on the nominal amount. Therefore, only a partial hedge up to the agreed ratio.
- You are unable to participate in favourable currency movements beyond the Enhanced Rate.
- Breakage costs may be applied should you wish to terminate the Ratio Forward Contract early.

We may require you to pay a deposit (typically 5% to 10%) before entering into the transaction.

We may also, at our sole discretion, require payment of a margin amount from you at any time during the term of a Forward Contract or Option Contract prior to its maturity. Any margin amount required by us will need to be paid by you before the expiry of the second business day after our request. Failure to do so will constitute a default of the terms of the contract and you will be liable for any costs associated with the closure of your contract. This may include the forced liquidation of your position as well as additional losses which can include your initial deposit and previous margin payments.



We would typically require further margin amounts if there was an adverse movement in the relevant currency pair. Margin call amounts will vary depending on, but not limited to, notional value, currency pair and Market volatility.

### **Process for Trading Options**

Once your account has been approved, you will be able to trade currency Options and Caxton FX will be able to provide you with live Option pricing. After receiving your requirements and preferred hedging strategy, Caxton FX's Option desk will initiate the following process

- Forward you a Term sheet, this will contain details of the products you requested with live pricing.
- After reviewing the products on the Term sheet, you may wish to alter some of the parameters or look at other products to compare your hedging strategies.
- Once you are ready to proceed, we would require you to return the Term sheet with the correct pricing back to us and confirm that you have read and understood the document and mention which product you wish to proceed with.
- Once we have received your instructions, we will email you back confirming that your order has been received and we will proceed with the transaction. We will only be obligated to execute your order once we have confirmed back to you that we will proceed.
- Once the contract has been executed your transaction will be complete and Caxton FX will send you a confirmation of the transaction by email.
- You will be required to check and confirm the details of the transaction by signing at the bottom and returning a copy of the confirmation back to your contact at Caxton FX.
- On each expiry date you will be notified of the Option expiry and a confirmation will be forwarded to you by email detailing any obligations that are due by you as per the contract.

## **8. Benefits of our Products**

Our products provide important risk management tools for those who manage financial Market exposures. Caxton FX offers its clients the ability to buy and sell foreign currency using Spot Contracts, Forward Contracts or Option Contracts.

This enables clients to potentially protect themselves against adverse Market swings. The benefits of using products offered by Caxton FX as a risk management tool are to protect your existing portfolios or exchange rate and provide better cash flow management.

In addition to the benefits set out in the sections of this PDS dealing with specific products the following benefits may also be applicable:

### **Manage Volatility**

Caxton FX offers various products to manage Market volatility, enabling clients to protect themselves against adverse Market movements yet secure enhanced Market rates when offered. Clients, in normal Market conditions, can minimise downside risk with the use of "stop loss" orders.

In addition, clients may also use limit orders which allow them the opportunity to benefit from favourable upside Market movements.

Please be aware in volatile market conditions (such as Brexit, currency revaluations, or G10 elections), fast-paced rate moves can potentially bypass stop losses, this is known as 'gapping'. This can happen between the close and open for a market, or intra-day too.

#### **Provide Cash Flow Certainty**

By agreeing a rate of exchange now for a time in the future you will determine the exact cost of that currency, thereby giving certainty over the flow of funds.

#### **Tailored and Flexible**

A major benefit of entering into a foreign exchange contract is that you can tailor the transaction to meet your specific circumstances. Unlike exchange traded products, our contracts are not standardised and can be personally tailored to suit your requirements. For example, Caxton FX allows you to enter into transactions in small amounts and the settlement date is negotiable, whereas exchange traded products are a standard size and cannot be varied in duration.

#### **Real Time Quotes**

Caxton FX uses sophisticated technology and/or liquidity providers (counterparties) in order to offer you up-to-the-minute quotes.

## **9. Risks Explained**

You should be aware that trading in the foreign exchange products offered by Caxton FX involves significant risk. It is important that you carefully consider whether trading our products is appropriate for you in light of your investment objectives, financial situation and needs.

#### **Non-Delivery Risk**

The risk that either party in a transaction become unable to fulfil their side of the agreement by failing to deliver the currency they are obligated to as per the contract.

Financial margin-based products carry a high degree of risk. Any transaction is exposed to, among other things, changes in a country's political condition, economic climate, acts of nature and so on, all of which may substantially affect the price or availability of a given instrument.

Caxton FX recommends that you do not risk money that you are not in a position to lose and that you adopt a philosophy of capital preservation and implement risk mitigation techniques, this may include seeking advice from an Independent Financial Adviser (IFA).

#### **Leveraged Option Contracts**

Leveraged Option Contracts, refers to an Option structure where the potential obligation is of greater notional value than that of the right you hold. Therefore, you may be obligated to buy, or sell, a larger amount than you have a right to buy or sell. These contracts will move further and faster out of the money from the same adverse movement than their non-leveraged equivalent.

### **Margin Calls**

If the foreign exchange market moves unfavourably and the Initial Margin covers less than 2.5% of the outstanding amount of the deal, or if the market moves out of the money (OTM) by 2.5% from the market level of the traded currency pair when initiating the contract, Caxton FX may require the you to provide further Margin.

In this scenario you will be Margin Called a value of 2.5% of the value of the outstanding Order. Margin Calls may be returned in the same increments on a monthly basis if they are no longer required.

If there is only enough Margin left to cover 1% of the full amount of the Order, Caxton FX reserves the right to Close Out the position and refund you any part of the Margin that was not required to Close Out the Contract.

### **Market Volatility**

Markets are subject to many influences which may result in rapid fluctuations and reflect unforeseen events or changes in conditions with the inevitable consequence being Market volatility.

In certain Market conditions such as during extreme price volatility in Markets, quotes provided by Caxton FX may 'gap'.

A gap means that a price may unexpectedly jump from one price level to another without trading at rates in between those two price levels or quotes.

It is not possible for us to predict when a price 'gap' will occur or by how much.

Price gaps are generally a result of unexpected news or previously unknown data being released (e.g., news of terrorist attacks, revaluation of a currency, geopolitical upheaval or natural disasters).

In such an event Caxton FX reserves the right to make cash adjustments where there have been losses incurred by us as a result of an active order you have on the trading platform.

### **Counterparty Risk**

Given you are dealing with us as a counterparty to every transaction, you will have an exposure to us in relation to each transaction. In all cases, you are reliant on our ability to meet our obligations to you under the terms of each transaction. This risk is sometimes described as counterparty risk. We may choose to limit our exposure to our clients by entering into opposite transactions as principal in the wholesale Market. You are also subject to our credit risk. If our business becomes insolvent, we may be unable to meet our obligations to you.

We will agree at times for you to place money in our designated client money account, say, if you anticipate making trades in the future but have not nominated the funds for a particular trade or trades. In this situation, the funds are segregated from our own funds.

The designated client money account is safeguarded with a UK authorised credit institution, typically a bank, or qualifying money market fund per the FCA's Client Assets sourcebook (CASS) rules.

As a client, you may be eligible to submit a claim to the Financial Services Compensation Scheme (FSCS) in the event of the financial failure of Caxton FX.

Claims for investment products are limited to £85,000 per eligible person, per firm. Further details about eligibility can be found at [www.fscs.org.uk](http://www.fscs.org.uk)

You should however be aware the Spot and Deliverable Forward contracts are not regulated by the FCA and are outside the scope of MiFID regulations and you would therefore not be covered by the FSCS for these products.

### **Obligation to Actively Managing Your Transactions**

You are responsible for actively managing your transactions at all times and meeting your obligations.

### **Opportunity Cost**

Once you have entered into a foreign exchange transaction you will have locked in the rate for your chosen currency pair, and you will not be able to take advantage of subsequent favourable exchange rate movements should that occur in relation to your existing position. On the other hand, you will be protected from any adverse movements in relation to that existing position. You may still enter into other transactions at a more favourable rate, provided you are able to continue to meet your obligations to us.

If you buy an Option Contract, the underlying movement in currency rates may not be enough to cover the cost of your Option i.e., the premium.

### **Basis Risk**

The terms of a particular transaction may not be a perfect hedge against a particular type of risk or exposure where you are using a margin-based product as a risk management tool. Even small differences between the terms of the transaction and the underlying asset, liability, or position to which the transaction relates may create a basis risk.

### **Transactions are not Transferable**

As each transaction you enter into with us is a transaction between you and Caxton FX and is not traded on an exchange or Market, you will not be able to sell, transfer or assign the transaction to any other person.

### **Abnormal Market Conditions or Force Majeure**

Caxton FX reserves the right to close out some or all of your open transactions between you and Caxton FX if an event occurs that is beyond your or our control, where such event either wholly or partially prevents, hinders, obstructs, delays or interferes with your ability to meet your obligations under the Client Agreement.

### **Discretionary Powers of Caxton FX**

Under our terms and conditions, we have a number of discretionary powers which may affect your trading activities. We refer you to the terms and conditions which sets out these powers and you should familiarise yourself with them and ensure that you fully understand them prior to entering into any trades with us.

### **Out of the Money Option Contracts**

This is a term used to describe an Option Contract that cannot, at current prices, be exercised at a profit. An out-of-the-money Option is a Call Option whose strike price is higher than the current Market level or a Put Option whose strike price is below the current Market level.

A client contemplating purchasing a deep out-of-the-money Option Contract should be aware that the chance of such an Option becoming profitable is generally remote.

## **10. How we are Paid**

For all transactions, we earn income on the margin between the wholesale cost of currency, and the cost at which we offer the currency to you. This is also referred to as the Spread.

The margin that is charged on Options is determined according to a complex calculation, taking into account the availability of the currency you are buying or selling, market volatility, the pre-agreed settlement date and the value of the transaction.

Option Contracts may also incur a premium.

## **11. Terms and Conditions**

1. Our terms sheet is provided to you before transacting in any Options contract and must be read and agreed upon before a contract is entered into.
2. In addition to the terms set out in this PDS, when you use our services, you will be bound to Caxton FX's terms and conditions as amended from time to time.
3. Caxton FX will provide an executionary/non-advisory service, however, this PDS may include some general advice. That means that, unless stated otherwise, we do take into consideration your financial objectives, financial situation or needs, but you will need to decide yourself whether the product is appropriate for you.

4. You should read this document in detail to help you form that decision. In the event that you do require personal advice, we encourage you to seek advice from an Independent Financial adviser (IFA) that does take into account your objectives, financial situation and needs.
5. There is no cooling off period for any product offered by Caxton FX. Should you change your mind after entering into a transaction with Caxton FX you should close out your position by taking an opposite transaction.
6. Caxton FX is not liable for any loss that arises from incorrect identification information being provided by you or from any quoting errors in a currency rate quotation.
7. You will be required to indemnify Caxton FX for any loss that occurs as a result of Caxton FX acting in good faith on your verbal or written instructions.
8. You must provide all information to us which we reasonably require of you to comply with any law in the United Kingdom or any other country. In particular, you must provide adequate identification before you can use our products or services.
9. Caxton FX may delay, block or refuse to enter, adjust or complete a transaction if we believe, on reasonable grounds, that making the payment may breach any law in the United Kingdom or any other country, and Caxton FX will incur no liability if it does so.
10. Caxton FX may disclose any information that you provide to the relevant authority where required by any law in the United Kingdom or any other country.
11. Unless you have disclosed to Caxton FX that you are acting in a trustee capacity or on behalf of another party, you warrant that you are acting on your own behalf when purchasing this product from Caxton FX.
12. When you use our services, you are promising that you will not breach any law in the United Kingdom or any other country.
13. We accept payment from you via electronic transfer. Money is considered to be “received” by us when it has cleared in one of our designated accounts.

## 12. Providing Instructions by Telephone

When providing instructions by telephone on our recorded lines, you will need to provide Caxton FX with adequate identification information.

## 13. How We Handle your Money

Depending on the currency involved we will notify you of the relevant bank details into which you should pay the funds required for your transaction. In accordance with our undertaking to clients we are required to place funds that belong into a client a segregated client money bank account. These funds are covered by the FCA’s Client Money rules (CASS). These rules are designed to offer Clients a degree of protection. Among other things, the CASS rules require Caxton to:

1. Use the client funds only to settle the client’s obligation and not for Caxton’s own corporate purposes,

2. Hold the funds in a bank account that is acknowledged by the bank as being held only for the benefit of clients and that cannot be set off against any of Caxton's liabilities,
3. maintain detailed records, including a daily reconciliation, rectify any differences immediately and report them to the FCA.

Client money is further divided into two categories

The following will be deemed to be client money:

1. Funds received from a client, who can be identified as a Caxton FX client, where the company has not entered into an agreement with the client to acquire currency on their behalf.
2. The amount paid by a client is in excess of the amount required for any currency purchase agreed with the client at the time.
3. The amount in a currency acquired on behalf of a client where the transaction has Settled and where an instruction to pay these funds to a beneficiary bank account has either not been given or has been set for a future date.
4. Any funds held by Caxton FX from the client's deposit and/or margin call to support a negative Mark To Market (MTM) valuation for their MiFID investment products that are in excess of the of their negative position at the time.

Where funds are deemed as NOT being client money are as follows:

1. Any funds held by Caxton FX from the client's deposit and/or margin call to support a negative Mark To Market (MTM) valuation for their MiFID investment products.

Funds NOT held as client money will not therefore benefit from the protections outlined above.

## 14. Stopping or Cancelling a Payment

We reserve the right to cancel any contract immediately in circumstances set out in our terms and conditions. Those circumstances include (but are not limited to) your insolvency, non-payment, or late payment, or for a breach by you of our terms and conditions.

## 15. What are our Different Roles?

Caxton FX is the product issuer. This means that we provide the facility you use to transfer money, and do not act on behalf of anyone else.

## 16. Would you like More Information?

You can find out more about these products by contacting us using the details at the beginning of this PDS. You can also visit our website for more information.

## 17. What Should you do if you have a Complaint?

In the event you have a complaint about any of these products or services, you can raise this by either contacting your Caxton FX representative or by emailing [Complaints@CaxtonFX.com](mailto:Complaints@CaxtonFX.com), clearly setting out the issues you have experienced.

We will acknowledge your complaint within 48 hours and set out expectations. Caxton FX is required to resolve your complaint within 8 weeks although we will make every effort to resolve your complaint as quickly as possible.

If the complaint cannot be resolved to your satisfaction, or if the 8-week period has passed, subject to certain qualifying criteria, you may have the right to refer the matter to the Financial Ombudsman Service (FOS), but you must contact them within 6 months from the date of your Final Response which we will issue once we have resolved your complaint.

You can check your eligibility and/or refer your complaint to the FOS on their website at [www.financial-ombudsman.org.uk](http://www.financial-ombudsman.org.uk).

The FOS can also be contacted as follows:

Email - [complaint.info@financial-ombudsman.org.uk](mailto:complaint.info@financial-ombudsman.org.uk)

Telephone - 0800 023 4567 or +44 20 7964 0500 if calling from abroad

The FOS can also be contacted on Facebook or Twitter.

## 18. Protection of Personal Information

Caxton FX collects personal information about you so that we can provide the products described in this PDS to you, and so that we can comply with our regulatory and legal obligations.

The law requires us to collect and process some personal information. These requirements include (but are not limited to) requirements set out in the Data Protection Act 2018 and the Anti Money Laundering Regulations 2017.

Caxton FX does not disclose any non-public personal or financial information about its customers to third parties, except as permitted by law and as necessary in processing and conducting the transaction you have requested and authorised. Third parties that we may need to disclose your information to in order to meet these purposes include banks, compliance consultants and government bodies.

You can access any personal information that we have about you, upon request. If you don't provide information to us that we request, we may be unable to provide or continue providing, services to



you. You can contact us using the details at the beginning of this PDS to request a free copy of our full Privacy Policy or alternatively view it [here](#).

## 19. Changes to the Terms of this Document

We may, from time to time, change the terms of this Product Disclosure Statement. If the change is to your disadvantage, we shall tell you (at your address provided to us or electronically) if possible before we make the change or within reasonable notice from the date of the change.

## 20. Glossary

<b>Active Period</b>	The time period within which a Barrier Event can occur for an Option contract. The active period is defined by the barrier start date and barrier end date. If no active period is defined, the active period is assumed to be from trade date to expiration date.
<b>Barrier level</b>	An exchange rate that determines the occurrence of a Barrier Event for an Option. A Barrier Event may occur if the Spot rate trades either at and above, or, at and below a barrier rate. An Option contract may have an upper barrier or lower barrier or both.
<b>Barrier Event</b>	A change in the Option structure that arises from a barrier rate condition being fulfilled.
<b>Best Case Rate</b>	The most favourable exchange rate that an Option contract can achieve.
<b>Call</b>	An Option contract giving the owner the right, but not the obligation, to buy a specified amount of currency at a specified exchange rate at a specified time. This is the opposite of a Put Option, which gives the holder the right to sell currency. See Put.
<b>Base Currency</b>	The currency being priced in terms of the other and the first currency quoted in a currency pair. For example, in this pair GBP/USD, the GBP is the base currency.
<b>Enhanced Rate</b>	The ability to transact at a rate better than the Spot or Forward rate. This is achieved by restructuring some of the Option obligatory parameters.
<b>Expiration Date</b>	The last day that an Option contract is valid. When an investor buys an Option, the contract gives them the right but not the obligation to buy or sell currency at a predetermined price on a predetermined date. If the investor chooses not

to exercise that right, the Option expires and becomes worthless. The expiration date is generally two business days before the settlement date.

<b>Expiration Time</b>	The specified time that an Option expires.
<b>Expiry</b>	The expiration date and expiration time of an Option contract.
<b>FCA</b>	Financial Conduct Authority
<b>Foreign Exchange Rate</b>	This is the price at which one currency can be bought or sold in exchange for another currency.
<b>Forward Rate</b>	It is the exchange rate agreed upon to exchange one currency for another at a future date taking into account interest rate differential
<b>Market Gapping</b>	Gapping occurs when the price of an FX pairing (or another asset), opens above or below the previous day's close with no trading activity in between. Gapping can occur in any instrument where the trading action closes and then reopens. Currencies trade continuously throughout the week but can still experience gaps between when the market closes before the weekend and reopens after. Gapping can also happen intra-day as well, however due to the liquid nature of currencies it occurs less often.
<b>In The Money (ITM)</b>	It means that the value of the Option has increased due to the movement in the Spot Market.
<b>Leverage</b>	Leverage means you will be obligated to trade at a multiple of the Notional Amount. A leveraged product may increase the total value of the contract, depending on the trade structure.
<b>Limit order</b>	This is an order to buy or sell a currency pair, but only when certain conditions included in the original trade instructions are fulfilled. E.g., you may have a requirement to buy GBP/USD to successfully hedge your currency exposure, you could enter a limit buy order at a price below the market rate. If the rate does move downwards as you predicted and reaches your limit price, a buy order is executed with no further input on your part.
<b>Margin Amount</b>	An amount of money, also known as a Margin Call, that we may require from you if you have an open foreign exchange transaction, and we consider that your position is exposing us to risk. For example, if your contract requires you to trade at a rate that is 2.5% less favourable than the prevailing Spot Rate, we may ask you to pay a margin amount.

<b>Out The Money (OTM)</b>	It reflects the drop in an Options valuation due to the adverse movement in the Spot Market.
<b>PDS</b>	Product Disclosure Statement
<b>Premium</b>	An up-front payment paid for an Option contract. A premium may be paid by the buyer of an Option and received by a seller of an Option.
<b>Protection Rate</b>	A contract rate obtained to protect your currency exposure from adverse currency movement.
<b>Put</b>	An Option contract giving the owner the right, but not the obligation, to sell a specified amount of currency at a specified exchange rate at a specified time. This is the opposite of a Call Option, which gives the holder the right to buy currency. See Call
<b>Representative</b>	Includes a director or employee of Caxton FX, and a director or employee of any company related to Caxton FX.
<b>Settlement Date</b>	This is the date that Caxton FX instructs a payment from a bank account to the client's nominated bank account, and the date that cleared funds should be received by Caxton FX from clients.
<b>Spot Market</b>	The global Spot foreign exchange Market, which for the purposes, shall, unless otherwise agreed, be treated as being open during Caxton FX's opening hours.
<b>Spot Rate</b>	The Spot currency exchange rate for the Currency Pair prevailing at any time in the Spot Market.
<b>Spread</b>	Difference between wholesale cost of currency and the price/cost we offer to clients
<b>Stop Loss order</b>	This order type is a defensive mechanism you can use to potentially protect against further losses. A stop loss order can be used to close an open position or initiate an open position when the exchange rate moves against you and reaches the level you specify. For example, if you have a requirement to buy GBP/USD to protect your profit margins at a certain level above the market a stop loss order can be placed, thereby reducing your losses. Stop losses are subject to Market Gapping and cannot be guaranteed.
<b>Strike Rate</b>	The exchange rate at which an Option contract can be exercised. For Call Options, the strike rate is where currency can be bought, while for Put Options the strike rate is the exchange rate at which currency can be sold.
<b>Terms Currency</b>	The pricing currency and second currency quoted in a currency pair. For example, in the quote AUD/USD, the USD is the terms currency.

<b>Term Sheet</b>	This is a document that outlines the details and confirms the terms of a financial transaction to hedge your currency exposure. Term sheets tend to consist of three sections: Requirements, Products requested with live pricing, and examples of some of the possible outcomes.
<b>Worst Case Rate</b>	The least favourable exchange rate that an Option contract is said to guarantee; also referred to as the Hedge Rate.

By signing this document, the Clients acknowledge and agree that they have read, and understood the Product Disclosure Statement

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