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# General explanations

## to CONTRACT FOR DIFFERENCE ("CFD")

These explanations provide you with a general overview of CFD trading. The contracts concluded between the investors and the account-holding institutions always take precedence and govern CFD trading in each individual case.

Please familiarise yourself with the circumstances and risks involved in CFD trading. It is essential that you also read the information in the risk information sheet "Overview of the risks of a Contract For Difference".

1. Term

The term "Contract for Difference" ("CFD") refers to a "contract for difference". This describes a transaction in which a purchase or sale agreement is concluded between two parties for a commodity ("underlying asset"), but in which the "commodity" is not actually delivered. Only the difference between the purchase and sale price or the price of the commodity at the time the transaction is entered into and the price of the commodity at the time the transaction is closed is to be paid. The goods themselves are not delivered. You can participate in such a transaction on the buy side or on the sell side.

2. CFD on shares, financial instruments and commodities

For example, if the commodity to which a CFD relates is a class of shares, it is a CFD on shares. The object of our activity is the implementation of system trading strategies that take CFDs on shares, commodities, commodities and financial instruments into account when selecting investment opportunities. These opportunities are offered by an account-holding institution.

CFDs on other financial instruments and commodities (e.g. commodities, gold) are essentially subject to the same conditions as CFDs on shares. However, commodity markets in particular are subject to especially high fluctuations and are the subject of speculation.

Particularly in the area of precious metals and gold, for example, there have been considerable price changes in recent years that could hardly be predicted in any way. CFDs on commodities and precious metals are therefore particularly speculative investments.

3. CFD as an individual agreement ("over the counter")

The account-holding institution we broker offers such CFDs on an "over the counter" basis. This means that the CFD itself is not a product listed on an exchange, but is an individual agreement between the investor and the account-holding institution as the issuer. The client's contracting party is the issuer, in this case the account-holding institution. If the investor enters into a CFD on shares, this is not an investment traded on the stock exchange, despite the reference to shares traded on the stock exchange. The investor is therefore dependent on the creditworthiness of his contractual partner, i.e. the account-holding institution, and also on the latter properly fulfilling its obligations.

4. With a CFD on an underlying asset, the investor is placed in the same position as when buying or selling the underlying asset

In the case of a CFD on shares, the commodity is a specific class of share. In the case of a CFD on shares, the transaction is carried out as if this share were being bought or sold by an investor. However, in the case of a CFD, the investor must always have a contractual partner who takes the opposite position in this transaction. This position is taken by the account-holding institution. This institution usually covers this open position on the respective stock market by means of a corresponding offsetting transaction, but is not obliged to do so.

With a CFD, the investor is treated by the account-holding institution as if he had bought or sold the shares. For example, dividends or other benefits are credited to the investor in accordance with the terms of the contract. Please note, however, that the investor neither buys nor sells the underlying asset, in this case the shares, but is only placed in this position and receives a corresponding cash settlement. It is therefore not possible to physically deliver the underlying asset, for example shares in the case of a CFD on the purchase of shares or the physical sale of shares from the investor's securities account in the case of a CFD on the sale of shares. There is always a cash settlement.

With a CFD, you can speculate on falling and rising prices of the respective underlying asset on the relevant markets.

A CFD is settled at the time of closing. In the case of a CFD that replicates the purchase of a share, for example, it is treated as if the investor bought the share at the entry price and sold it at the closing price. A CFD that replicates the sale of a share is treated as if the investor had sold the share at the entry price and bought it at the closing price. However, the institution managing the account sets the price according to certain rules. It can therefore also differ from the current stock exchange price.

CFDs on other underlyings (e.g. currencies, commodities, gold, commodities, share indices and other financial instruments) are essentially subject to the same conditions. These underlyings are based on a specific contract value per index point, as no units can be traded.

Runtime

Such a CFD can be concluded for a certain period of time (so-called "term") or without a term, i.e. for an indefinite period.

Option to close out at any time

During the term of a CFD, the CFD can be cancelled at any time. The CFD is then settled on the basis of the price of the underlying asset at that time in accordance with the contractual conditions of the account-holding institution.

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5. Speculation on rising prices and speculation on falling prices

CFDs offer the opportunity to speculate on rising and falling prices.

5.1. Speculation on rising share prices

A CFD can be used to replicate the purchase of a share, for example. This speculates on a rising price, as the investor is placed in a position with the CFD as if he is buying the shares and can close out the CFD at a profit if the underlying share rises.

Example: The investor enters into a CFD on shares of Muster AG. A purchase of 100 shares in Muster AG at a price of EUR 50 is modelled here. If the share price rises to EUR 55 and the CFD is closed out at this price, the difference between the entry contract value of EUR 5,000 (50x100) and the exit contract value of EUR 5,500 (55x100) would be EUR 500 and the investor would be entitled to this amount. If the share price falls to EUR 45, the difference between the entry contract value (EUR 5,000) and the exit contract value of EUR 4,500 (45x100) would be an amount of minus EUR 500, as the investor could only "sell" the shares "acquired" at the price of 50 at EUR 45. This loss would have to be paid by the investor.

5.2. Speculation on falling share price

A CFD can also be used to replicate the sale of an underlying asset. If, for example, speculation is made on a falling price of the underlying share, the investor is placed in the same position as if he had sold the shares. They can then close out the CFD at a profit if the underlying share falls. A sale is also possible if the investor does not actually own the shares (so-called "short sale"), as with CFDs there is only ever a settlement of the difference in cash and settlement only takes place when the CFD is closed out.

Example: The investor enters into a CFD on shares of Muster AG. A sale of 100 shares in Muster AG at a price of EUR 50 is simulated. The customer "sells" the shares at EUR 50. If the share price rises to EUR 55 and the CFD is closed out at this price, the difference between the entry contract value of EUR 5,000 (50x100) and the exit contract value of EUR 5,500 (55x100) would amount to EUR 500 and would be borne by the investor as a loss, as he sold the shares at EUR 5,000 but would have had to buy them at EUR 5,500. If the share price falls to EUR 45, the difference between the entry contract value (EUR 5,000) and the exit contract value of EUR 4,500 (45x100) would be a profit of EUR 500, as the investor could have "acquired" the shares "sold" at EUR 50 at EUR 45.

This applies accordingly to all other underlyings.

6. Contract value / collateral / leverage

6.1. Contract value

The contract value is the value of the entire underlying asset to which the CFD relates.

If, for example, 100 shares in Muster AG are to be bought or sold with the CFD and the share is quoted at EUR 50, the contract value of the CFD is EUR 5,000 (100x50).

The contract value is calculated separately at the time of entry and closing and is different at these times if the price of the underlying asset has changed.

6.2. Security deposit

The investor does not have to pay the contract value immediately, but the final payment obligations are not determined until the CFD is terminated. However, the investor must deposit a security deposit to cover the possible obligations on termination. This is determined by the account-holding institution depending on the underlying instrument and amounts to up to 20% of the contract value. However, it can also be considerably lower.

When purchasing the sample share mentioned in the example, an amount of EUR 1,000 would therefore have to be deposited as collateral with a security deposit of 20%. With a security deposit of 5%, it would only be € 250.

This security deposit must be adjusted and, if necessary, increased depending on the performance of the price of the underlying asset. For example, if the CFD is intended to put the investor in the same position as a buyer of shares, he will lose if the share price falls. The collateral must therefore be adjusted in line with the potential loss unless the position is to be closed out, i.e. terminated.

If, for example, the share price falls by €5 to €45, an accounting loss of €500 (5x100) would be incurred and half of the collateral of 20% would already have been utilised. In this case, the account-holding bank would demand the provision of further collateral to restore the original security. A loss of EUR 10 would result in a book loss of EUR 1,000 (10x100) and the security deposit would even be utilised in total. The customer then either provides further collateral or closes the position. The account-holding institution then also has the right to close out the position by force.

With a security deposit of 5%, the security deposit would have been used up if the share price had fallen by € 2.5. Low security deposits therefore mean that even very small changes in the share price result in either additional contributions having to be made immediately or the position being closed out.

The actual settlement price is decisive for settlement. This may even result in losses that exceed the security deposit.

If, for example, the price of the sample share falls by more than EUR 15 to EUR 35 in a stock market crash, a loss of EUR 1,500 (15x100) would be incurred. Of this loss, only EUR 1,000 would already be covered by the security deposit (20%); the remaining EUR 500 would be a further loss that would have to be borne by the investor.

Due to legal requirements, the investor's loss is limited to the funds made available to him and he is not liable for additional contributions. However, this does not apply if the investor pays further funds into his account to prevent a forced close-out.

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### 6.3. Leverage effect

Investors must be aware that they are speculating with a CFD with a so-called leverage effect. This leverage effect lies in the fact that the investor only has to provide a fraction of the actual contract value by way of collateral. As a result, he can move a multiple of the actual stake with a small capital investment.

> For example, with a security deposit of 20% and a stake of EUR 1,000, he can move five times this value, i.e. shares worth EUR 5,000.

This leverage effect means that price movements have a strong and immediate impact on the investor's position. Although this can be an advantage for the investor, the leverage effect also harbours considerable risks.

> For example, a price loss of just EUR 10 is enough to wipe out the entire security benefit. Any further price loss would lead to further losses.

Every investor must realise this.

The less collateral is required in relation to the contract value, the greater and more dangerous the leverage becomes. In this case, even very small changes in the underlying asset can lead to a total loss.

### 7. Pricing, spread

The account-holding institution's system provides the current prices as they are currently offered on the stock exchange according to the principle of supply and demand. In accordance with the terms of the contract, the account-holding institution will provide the investor with a price quotation for the CFD that corresponds to the current market conditions. However, the investor must bear in mind that the prices quoted on the trading platform are subject to continuous change and that the actual price quoted for the CFD may differ from this due to a possible change in market conditions.

The account-holding institution may also deviate from the current market price and collect this as remuneration ("spread").

The investor must also note that the pricing differs between the "ask price" and the "bid price".

The ask price is the price that the seller demands ("asked") for the underlying instrument. It thus denotes the price at which a cheapest buy order could be executed. The bid price is the price that a buyer is prepared to pay, i.e. to offer ("bid"). It is the price at which a sell order could be executed at any time. These two prices are not usually the same. The ask price will be higher than the bid price, as the seller wants to obtain as much as possible and the buyer wants to pay as little as possible. The difference between the ask and bid price is known as the spread. Investors can view the current ask and bid prices via their online access to the account-holding institution.

However, the investor must bear in mind that the spread always represents an initial loss for him when entering into a CFD transaction, which must first be earned through a corresponding price development.

### 8. Costs

> Costs are incurred when executing CFD transactions within the scope of the CFD VV.

Firstly, the costs of the account-holding institution are incurred in accordance with its fee tables. In the context of CFD trading, the spread between buy and sell prices is also incurred in favour of the account-holding institution. These cost factors may change over time and must be taken into account separately by the customer.

TRADING SYSTEMS receives a fixed asset management fee in relation to the assets under management and a profit share for the performance of the portfolio management. TRADING SYSTEMS does not receive any other benefits.

### 9. Details in the contractual conditions of the account-holding institution and precedence of these conditions

Please note that the details of the CFD are regulated in the contractual terms and conditions with the account-holding institution. These take precedence. The explanations provided here are for general understanding only and are intended to clarify the structure and execution of a CFD.

If you have any questions or have not understood certain points, please contact us so that we can clarify these points with you.

Please also note the information in the risk information sheet "Overview of the risks of a Contract for Difference ("CFD")". Please also observe the risk information provided by the account-holding institution.

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