1. Execution Risks

1.1 HIGH RISK INVESTMENT

Trading Bullion on margin carries a high level of risk and may not be suitable for all investors. Before deciding to trade these products offered by Rakuten Securities Bullion Hong Kong Limited ("RSB"), you should carefully consider your investment objectives, financial situation, needs and level of experience. RSB may provide general commentary without regard to your objectives, financial situation or needs. General advice given, or the content of this website are not intended to be personal advice and should not be construed as such. Certain risks are listed below, and it is not an exhaustive list. The possibility exists that you could sustain a loss in excess of your deposited funds. You should be aware of all the risks associated with trading on margin and assess your ability to bear the potential losses of the trading in the bullion trading. RSB recommends you to seek advice from an independent financial advisor.

1.2 TRADING OVER THE COUNTER

Bullion contracts are traded Over the Counter (OTC) and not traded on the centralized exchanges. During certain circumstances, it may be difficult to trade or quote prices for bullion contracts compare to products traded on the centralized exchanges. The quoted prices displayed on the trading platform are determined by the counterparty, therefore, the clients are subjected to counterparty risk such as the counterparty will be unable or will refuse to perform with respect to such contracts. Before you start trading bullion, you need to understand various market practices, trading mechanisms, and associated risks.

1.3 COUNTERPARTY RISK

Since bullion contracts are traded OTC, the transactions are not guaranteed by any exchanges or clearing houses. There is a risk of the counterparties fail to meet their obligations of executing the bullion contracts. RSB and its affiliate are acting as a counterparty of client's bullion contracts, therefore, acts as the buyer when you sell and the seller when you buy. As a result, the interest of RSB and its affiliate may conflict with the clients' interest.

1.4 LEVERAGE RISK

Leverage bullion trading (OTC margin trading) involves high degree risk due to leverage. The clients could open large amount bullion positions with invested small amount of money according to the leverage rate. The small price changes in the underlying bullion product could result in substantial losses to the clients which may in some circumstances exceed the amount of client's initial deposit funds. If the market fluctuates more than a certain percentage against the client's open positions, the clients can reduce the leverage impact by closing some or all open positions, or by depositing additional money to the trading accounts. In addition, if the market fluctuates sharply and significantly against the client's open positions, there is the possibility of all open positions may be forcibly settled according to RSB's Margin Call Policy. The clients of RSB should not participate in leverage trading unless they understand, are willing to assume the risks associated with such transactions and are financially able to absorb such losses.

1.5 CREDIT RISK

Credit risk refers to a possibility that the outstanding bullion positions may not be repaid as agreed, due to a voluntary or involuntary action by a counterparty. RSB and its affiliate act as counterparty of the client's bullion contract. For this reason, there is the risk of RSB, and its affiliate fail to make payment or perform on a transaction prior to or upon settlement due to their defaults.

1.6 PRICE RISK

The price risk refers to the losses that bullion trading transactions may incur due to bullion product price fluctuations negatively against position of the client.

1.7 LIQUIDITY RISK

Depending on the market conditions, it may be difficult for the client to close and/or open positions. In Bullion market, there are no limitations on price movement unlike the investment products traded on the exchanges There are chances of unable or difficult to offer prices during national holidays or during illiquid market conditions for specific bullion contract. The liquidity may also be impacted by political and economic policies (both domestic and overseas), political instability, wars, natural disaster, exchange control policy and alliance. RSB and its affiliate are providing all liquidity for bullion contract to its clients while dealing as counterparty.

1.8 CANCEL ORDER BY CLIENTS

The clients can cancel the buy/sell orders until it is filled, but the clients cannot cancel the buy/sell orders once it has been filled. When the clients start trading the bullion contracts, the clients are requested to fully understand the trading mechanism and familiar with the trading platform.

1.9 WIDENED SPREADS

There may be instances when spreads widen beyond the typical spread. Spreads are a function of market liquidity and in periods of limited liquidity, at market open, or during rollover time, spreads may widen in response to uncertainty in the direction of prices or to an uptick in market volatility, or lack of market liquidity. It is common to see spreads widen particularly around rollover. Rollover is typically a very quiet period in the market, since the business day in New York has just ended, and there are still a few hours before the new business day begins in Tokyo. Being cognizant of these patterns and taking them into consideration while trading with open orders or placing new trades around these times are important to the client. This may occur during news events and spreads may widen substantially in order to compensate for the tremendous amount of volatility in the market. RSB strongly encourages traders to utilize caution when trading around news events and always be aware of their account equity, usable margin and market exposure. Widened spreads can adversely affect all positions in an account including hedged positions. When all positions are hedged in an account, although the overall net position may be flat, the account can still sustain losses due to the widened spread that occurs at the time of market open and new events etc.
Please be aware that during the first few hours after the market open, the market tends to be thinner than usual until the Tokyo and London market sessions begin. These thinner markets may result in wider spreads, as there are fewer buyers and sellers. In illiquid markets, traders may find it difficult to enter or exit positions at their requested price, experience delays in

execution, and receive a price at execution that is a significant number of pips away from your requested rate.

1.10 ROLLOVER COSTS

If the clients carry the open position(s) overnight, the rollover cost(s) occur. The Rollover is the simultaneous closing and opening of a position at a particular point of time during the day in order to avoid the settlement and delivery of the purchased bullion or currency. The interest either charged or applied to a trader's account for positions held "overnight" on trading platform. The time at which positions are closed and reopened, and the rollover fee is debited or credited, is commonly referred to as Trade Roll Over (TRO). It is important to note that rollover charges will be higher than rollover accruals. When all positions are hedged in an account, although the total profit/loss were locked at the moment of hedge (no widened spread situation), both positions (original position and hedge position) are subjected to rollover charges, therefore, may lead to the loss in overall.

1.11 MARKET OPINIONS

Any opinions, news, research, analyses, prices, or other information contained on this website are provided as general market commentary and does not constitute investment advice. RSB will not accept liability for any loss or damage, including without limitation to, any loss of profit, which may arise directly or indirectly from use of or reliance on such information.

1.12 INTERNET TRADING RISK

There are risks associated with utilizing an internet-based deal-execution trading system including, but not limited to, the failure of hardware, software, and internet connection. Since RSB does not control signal power, its reception or routing via the internet, configuration of your equipment or reliability of its connection, we cannot be responsible for communication failures, distortions or delays when trading via internet. RSB employs backup systems and contingency plans to minimize the possibility of system failure, which includes allowing clients to trade via phone dealing service after obtaining the special approval internally. In addition, when the trades are placed by using the electronic trading system, there are no human interventions required to accept orders. Therefore, if the clients make mistakes in entering an order, the order may not be fulfilled, on the other hand, the unintended order may be fulfilled. There is a possibility the prices displayed on the trading platform are not real time and may not always represent the actual market. The electronic transaction system may be temporarily unavailable for a certain period of time due to various reasons such as failure of the customer's own communication device, connection failure, distribution failure of information vendor, or failure of the electronic transaction system itself. If the market fluctuates suddenly or the price to be delayed by various reasons, there may be a discrepancy between the price on the electronic trading system and the actual market price. If the user ID and password used to log into electronic transaction system are leaked due to theft or eavesdropping etc., there is a possibility that a third party misuses the trading account and causes the losses to the client.

1.13 SLIPPAGE

RSB aims to provide clients with the best execution available and to get all orders filled at the requested rate. However, there are times when, due to an increase in volatility, orders may be subject to slippage. Slippage most commonly occurs during fundamental news events or periods of high volatility. Due to limited liquidity at market open, there are high possibility of slippage occurs. The order type and quantity demanded have an impact on overall execution with slippage.

The volatility in the market may create conditions where orders are difficult to execute. For instance, the price you receive in the execution of your order might be many pips away from the selected or quoted price due to market movement. In this scenario, the trader is looking to execute at a certain price but in a split.
Additionally, when triggered, stop orders become a market order available for execution at the next available market price. Stop orders guarantee execution but do not guarantee a particular price. Certain ordering methods offered on the trading platform intend to stop losses (e.g., stop orders, etc.). It may be effective for limiting client's losses in normal market conditions but may not work in some circumstances. For example, if the market prices fluctuate in one direction sharply, a stop order may be executed at a price that is significantly less favorable than the intended price and may incur unintended losses.

1.14 DELAYS IN EXECUTION

A delay in execution may occur for various reasons, such as technical issues with the trader's internet connection to RSB or by a lack of available liquidity for the bullion contract that trader is attempting to trade. Due to inherent volatility in the markets, it is imperative that traders have a working and reliable internet connection. There are circumstances when the trader's personal internet connection may not be maintaining a constant connection with the RSB servers due to a lack of signal strength from a wireless or dialup connection. A disturbance in the connection path can sometimes interrupt the signal and disable the MT4 trading platforms, causing delays in the transmission of data between the MT4 trading platforms and the RSB server. The orders may not be placed, executed, confirmed, or cancelled due to improper operation of trading system or the communication line (network) which connecting between client and company.

1.15 EXCHANGE RATE FLUCTUATIONS (PIP COSTS)

The price movement of any bullion contract the client held and the dominant currency for the client's account will impact the client profit and loss of the trade.
The profit and loss related to the transactions dominated by the foreign currency need to be converted to local currency and may be impacted exchange rate fluctuations. In addition, when deposit different currency other than the dominant currency for the account, there is also a risk due to fluctuation in the exchange rate.

1.16 ORDER EXECUTION

Limit orders are often filled at the requested price or better. If the price requested (or a better price) is not available in the market, the order will not be filled. If the requested price of a Stop order is reached at the open of the market, the order will become a Market order. Limit Entry orders (entry order set better price than current price) are filled the same way as Limit orders. Stop Entry orders (entry order set worse price than current price) are filled the same way as Stops.

1.17 MOBILE TRADING PLATFORMS

There are a series of inherent risks with the use of the mobile trading technology such as the duplication of order instructions, latency in the prices provided, and other issues that are a result

of mobile connectivity. Prices displayed on the mobile platform are solely an indication of the executable rates and may not reflect the actual executed price of the order.
MT4 (mobile platform) utilizes public communication network circuits for the transmission of messages. RSB shall not be liable for any and all circumstances in which you experience a delay in price quotation or an inability to trade caused by network circuit transmission problems or any other problems outside the direct control of RSB. Transmission problems include but are not limited to the strength of the mobile signal, cellular latency, or any other issues that may arise between you and any internet service provider, phone service provider, (or any other service provider) and so forth.
It is strongly recommended that clients familiarize themselves with the functionality of the MT4 prior to managing a live account via portable device.

1.18 PRICES UPDATING BEFORE THE OPEN

Shortly prior to the open, the rates of the trading platform are refreshed to reflect current market pricing in preparation for the open. At this time, trades and orders held over the weekend are subject to execution. Quotes during this time are not executable for new market orders. After the open, traders may place new trades, and cancel or modify existing orders.

1.19 INHENRENT TRADING PLATFORM RISK

RSB offer MT4 trading platform for the clients in Hong Kong to trade bullion contracts.
There are unique functions offered on MT4 Trading Platforms, clients should consider many factors to ensure best suits their needs (e.g., trading cost, trading style, or strategy etc.) when trading on MT4 platform after they are completely confident of having fully knowledge of the trading platform.

1.20 CANCEL ORDERS ON RAKUTEN MT4

Trading through MT4 trading platform, the execution rate is extremely high in normal market condition. Only small amount of order will be rejected or cancelled due to the actual slippage is out of Slippage Range set when placing the order or not enough equity for the initial margin.

1.21 HEDGING

The ability to hedge allows a trader to hold both buy and sell positions in the same bullion contract simultaneously. Traders have the ability to enter the market without choosing a particular direction for a currency pair. Although hedging may mitigate or limit future losses it does not prevent the account from being subjected to further losses altogether. In the bullion market a trader is able to fully hedge by quantity but not by price. This is because of the difference between the spread. Traders are required to put up margin for one side (the large position side) of a hedged position. Margin requirements can be monitored at all times in the Account Info window.

1.22 HOLIDAY/WEEKEND EXECUTION TRADING HOURS

Please refer to the website of the trading hours for MT4. Please trade with caution during market close and factor all necessary information of trading hours into any trading decision.

1.23 GAPPING

Monday's opening prices may or may not be the same as closing prices on Friday in New York. At times, the prices on the Monday open are near where the prices were on close. At other times, there may be a significant difference between close and open on Monday. The market may open with gap if there is a significant news announcement or an economic event (changing how the market views the value of a bullion contract). Traders holding positions or orders over the weekend should be fully comfortable with the potential risk for the market to gap.
Due to the difference between the closing price and the opening price on Monday, or the difference between the price before the start of our system maintenance and the price after the end of our system maintenance, the clients may get unfavorable execution prices, moreover the clients may incur losses and the loss may exceed the deposit margin as well.
Traders who fear that the markets may be extremely volatile over the weekend, that gapping may occur, or that the potential for weekend risk is not appropriate for their trading style, may simply close out orders and positions ahead of the weekend. It is imperative that traders who hold open positions over the weekend understand that the potential risks exist for major economic events and news announcements to affect the value of your underlying positions. Given the volatility expressed in the markets it is not uncommon for prices to be a number of pips away on market open from market close. We encourage all traders to take this into consideration before making a trading decision.

1.24 MARGIN CALLS AND CLOSE OUTS

The idea of margin trading is that your margin acts as a good faith deposit to secure the larger notional value of your position. Margin trading allows traders to hold a position much larger than the actual funds the client held in the account. If account equity falls below liquidation margin requirements (0.5% of gross principal value of the contract or 100% margin status on MT4 platform), the MT4 trading platform will trigger an order to close open positions one by one in the order of from the largest loss position to the smallest loss position. This occurs when positions have been over-leveraged or trading losses are incurred to the point that insufficient equity exists to maintain current open positions and the account equity falls below liquidation margin level, as a result, open positions will be closed out one by one (liquidated). The liquidation process is designed to be entirely electronic.
Although the forced liquidation is designed to close positions when the equity in an account falls below the liquidation margin requirements, there may be instances when liquidity does not exist at the exact rate when liquidation is triggered. As a result, equity in an account can fall below liquidation margin requirements at the time orders are filled, even to the point where account equity becomes negative. RSB recommends that traders use Stop orders to limit downside risk in lieu of using a liquidation as a final stop.
It is strongly advised that clients always maintain the appropriate amount of margin in their accounts. Please refer to Margin Call Policy for more details. If the margin level drops to 120%, please pay attention to the warning message displayed on the MT4 platform.

1.25 CHART PRICING VS. TRADABLE PRICES DISPLAYED ON THE PLATFORM

The price displayed on the chart of MT4 trading platform are tradable prices. It is important to make a distinction between prices displayed on charts and execution prices. Price quotes displayed on the charts are determined by the Liquidity Provider by following its price methodology. These prices are derived from a host of contributors such as banks and clearing firms. Any prices displayed by a third-party charting provider, which does not employ the market maker's price feed, will reflect "indicative" prices and not necessarily actual "dealing" prices where trades can be executed.

1.26 DIMINISHING MARGIN

A margin call may occur even when an account is fully hedged, since spreads may widen or rollover charge, causing the remaining margin in the account to diminish. Should the remaining margin be insufficient to maintain any open positions, the account may sustain a margin call, closing out any open positions in the account one by one. Although maintaining a long and short position may give the trader the impression that his exposure to the market's movement is limited, if insufficient available margin exists and spreads widen for any period of time, it may certainly result in a forced liquidation on positions automatically.