

## ANNEXURE – 5

### RISK DISCLOSURE DOCUMENT

**[THIS DOCUMENT SHOULD BE READ BY EACH AND EVERY PROSPECTIVE NON MEMBER CLIENT BEFORE ENTERING INTO DERIVATIVES TRADING AND SHOULD BE READ IN CONJUNCTION WITH THE REGULATIONS OF NEPAL DERIVATIVE EXCHANGE LIMITED (NDEX)]**

NDEX has not passed the merits of participating on the Exchange nor has NDEX passed the adequacy or accuracy of this disclosure document. This brief statement does not disclose all of the risks and other significant aspects of trading. In light of the risks, you should undertake such transactions only if you understand the nature of the contracts (and contractual relationships) into which you are entering and the extent of your exposure to risk. Risk of loss in trading in derivatives can be substantial. You should carefully consider whether trading is appropriate for you in light of your experience, objectives, financial resources and other relevant circumstances. Derivatives' trading thus requires not only the necessary financial resources but also the financial and emotional temperament. In case of any consequences or loss in trading on the Exchange, the Non Member Client shall be solely responsible for such loss and the Exchange shall not be responsible for the same and it will not be open for any Non Member Client to take the plea that no adequate disclosure was made or he was not explained the full risk involved by the member. The Non member Client will be solely responsible for the consequences and no contract can be rescinded on that account.

#### **RISKS INVOLVED IN TRADING IN DERIVATIVES CONTRACTS**

##### **Effect of "Leverage" or "Gearing"**

The amount of margin is small relative to the value of the derivatives contract so the transactions are 'leveraged' or 'geared'. Derivatives trading, which is conducted with a relatively small amount of margin, provides the possibility of great profit or loss in comparison with the principal investment amount. But transactions in derivatives carry a high degree of risk. You should therefore completely understand the following statements before actually trading in derivatives trading and also trade with caution while taking into account one's circumstances, financial resources, etc. If the prices move against you, you may lose a part of or whole margin equivalent to the principal investment amount in a relatively short period of time. Moreover, the loss may exceed the original margin amount.

**A.** Futures trading involves daily settlement of all positions. Every day the open positions are marked to market based on the closing level of the index. If the index has moved against you, you will be required to deposit the amount of loss (notional) resulting from such movement. This margin will have to be paid within a stipulated time frame, generally before commencement of trading next day.

**B.** If you fail to deposit the additional margin by the deadline or if an outstanding debt occurs in your account, the Exchange member may liquidate a part of or the whole position or substitute commodities. In this case, you will be liable for any losses incurred due to such Close Outs.

**C.** Under certain market conditions, a Non Member Client may find it difficult or impossible to execute transactions. For example, this situation can occur due to factors such as illiquidity i.e. when there are insufficient bids or offers or suspension of trading due to price limit or circuit breakers etc.

**D.** In order to maintain market stability, the following steps may be adopted: changes in the margin rate, increases in the cash margin rate or others. These new measures may be applied to the existing open interests. In such conditions, you will be required to put up additional margins or reduce your positions.

**E.** You must ask your Exchange Member to provide the full details of the derivatives contracts you plan to trade i.e. the contract specifications and the associated obligations.

### **Risk-reducing orders or strategies**

The placing of certain orders (e.g., "stop-loss" orders, or "stop-limit" orders), which are intended to limit losses to certain amounts, may not be effective because market conditions may make it impossible to execute such orders. Strategies using combinations of positions, such as "spread" positions, may be as risky as taking simple "long" or "short" positions.

### **Suspension or restriction of trading and pricing relationships**

Market conditions (e.g., illiquidity) and/or the operation of the rules of certain markets (e.g., the suspension of trading in any contract or contact month because of price limits or "circuit breakers") may increase the risk of loss due to inability to liquidate/offset positions.

### **Deposited cash and property**

You should familiarize yourself with the protections accorded to the money or other property you deposit particularly in the event of a firm insolvency or bankruptcy. The extent to which you may recover your money or property may be governed by specific legislation or local rules. In some jurisdictions, property, which has been specifically identifiable as your own, will be pro-rated in the same manner as cash for purposes of distribution in the event of a shortfall. In case of any dispute with the Exchange member, the same shall be subject to arbitration as per the Bye Laws and Regulations of the Exchange.

### **Commission and other charges**

Before you begin to trade, you should obtain a clear explanation of all commission, fees and other charges for which you will be liable. These charges will affect your net profit (if any) or increase your loss.

**Trading facilities**

The Exchange offers electronic trading facilities, which are computer-based systems for order-routing, execution, matching, registration or clearing of trades. As with all facilities and systems, they are vulnerable to temporary disruption or failure. Your ability to recover certain losses may be subject to limits on liability imposed by the system provider, the market, the Clearing House and/or Exchange Member firms. Such limits may vary; you should ask the firm with which you deal for details in this respect.

This document does not disclose all of the risks and other significant aspects involved in trading on a derivatives market. The Non Member Client should therefore study derivatives trading carefully before becoming involved in it.

**I hereby acknowledge that I have received and understood this risk disclosure statement.**

**Customer Signature (If Partner, Corporate, or other Signatory, then attest with company seal.)**

**Date: \_\_\_\_\_ (DDMMYYYY)**