LEVERAGE POLICY

January 2023 – Version 1.3

1.INTRODUCTION

The purpose of this Policy is to ensure that the level of leverage made available by XS Markets Ltd (previously Rockfrost Limited) (the "Company") to each Retail Client for trading is in the Client's best interests.

The Company offers investment services to its Clients related to Contracts for Difference (the "CFDs"). CFDs are considered highly risky and complex financial instruments given, inter alia, the leverage element that they entail.

Trading with the use of leverage enables traders to hold positions that exceed the value of their initial investment. This maximizes the Client's potential profits when the market moves in the Client's favor, but in case it moves against them, leverage increases their potential losses.

European Securities and Markets Authority (ESMA) is of the opinion that leverage offers a Retail Client the possibility to magnify the potential profits of a trade, while also magnifying potential losses. Because it is possible for the losses incurred to be higher than the amount of funds originally invested, leveraged instruments such as CFDs are riskier than non-leveraged instruments. The leverage component also adds an additional level of complexity, which means that many Retail Clients would have difficulty understanding how leverage impacts the risks involved when trading CFDs or other leveraged products.

This Policy shall determine the (maximum) leverage ratios available to each Retail Client, taking into consideration the Client's background and experience in trading complex financial instruments, his/her understanding of the risks involved with leveraged financial instruments, as well as the individual characteristics of each underlying asset that the Client wishes to invest in (through CFDs).

This Policy aims to identify how leverage ratios are established, taking into consideration the following factors:

- The capital base and financial strength of the Company
- The risk appetite and risk management of the Company

The underlying asset class and financial instrument characteristics, including liquidity, trading volumes, volatility, market capitalization, country of issuer, hedging capabilities, general economic climate and geopolitical events, as applicable.

This Policy is handled and supervised by the Company's Senior Management. It shall at least be reviewed on an annual basis, and shall be updated to reflect changes in regulatory obligations as required (see also Section 6 of this Policy). The Compliance Officer shall assist in this respect with his/her feedback and guidance.

The Board of Directors shall remain responsible for ensuring that this Policy is applied correctly and consistently and that it is reviewed at least once per year.

2.SCOPE

This Policy applies to all financial instruments offered by the Company, and is made available to its Clients.

3.DEFINITIONS

"Account Equity" shall mean the Balance plus or minus any Floating Profit or Loss from Open Position(s) minus commissions plus or minus any swaps, and shall be calculated as: Equity = Balance + Floating Profit - Floating Loss – Commissions +/- Swaps.
"**Products**" shall mean the financial instruments offered by the Company: Contracts for Differences (CFDs) on currencies, commodities and indices, which are known as "complex" financial instruments according to the relevant laws and regulations.

"**Leverage**" is the ratio of the margin required to open a new position, to the total volume of the position opened. For example, if the Company requires a minimum 5% margin for a specific Product, this means that a Client must have at least 5% of the total notional value of an intended position available as margin in his/her account before proceeding with the placement of the order. Expressed as a ratio, a 5% margin is equivalent to a 1:20 leverage (1÷20 = 0.05 or 5%).

4.THE ALLOCATION OF SUITABLE LEVERAGE TO CLIENTS

Leverage levels offered to Retail Clients must always be in-line with the applicable regulations (Directives or Circulars of CySEC and ESMA as those may be amended from time to time).
As per Directive DI87-09 Restriction in relation to the Marketing, Distribution or Sale of Contracts for Differences ("CFDs"), CySEC's Consultation Paper (CP-02-2019) and the subsequent Policy Statement (PS-04-2019) to Retail Clients:

- The restriction of leverage limits from 1:30 to 1:2 on the opening of a position by a Retail Client;
- The adoption of the same leverage limits for all retail clients, with ranges from 1:2 to 1:30 dependent on the type and volatility of the underlying asset:
  - 1:30 for major currency pairs;
  - 1:20 for non-major currency pairs, gold and major equity indices;
  - 1:10 for commodities other than gold and non-major equity indices;
  - 1:5 for individual equities and other reference values;
  - 1:2 for cryptocurrencies.

- The introduction of a margin close-out when Clients' funds fall to 50% of the margin needed to maintain their open positions on their CFD account;
- The introduction of a negative balance protection per account basis, so that retail Clients cannot lose more than the total funds in their account;
- The prohibition of firms from offering cash or other inducements to encourage retail clients to trade;
- The requirement of firms to provide a standardised risk warning, informing potential customers of the percentage of losses on their retail client accounts;
- A territorial approach in relation to Cyprus National Product Intervention Measures for the provision of services on a cross-border basis to residents of other Member States and in third countries outside the EEA.

- In case the National Product Intervention Measures ('NPIMs') adopted by different National Competent Authorities ("NCAs") are not the same as the ESMA Measures, CySEC has adopted a territorial approach to cross-border marketing, sale and distribution of CFDs, either through a branch or a tied agent. This is done in order to provide protection to market participants operating in jurisdictions where there may not be uniform application of the ESMA Measures, and therefore the level of protection afforded to retail investors may not be the same.
- Where there is a divergence between CyNPIMs and the measures introduced by another NCA, the content and application of CyNPIMs varies based on the country of residence of the client. Where an entity falling under CySEC's supervision markets, distributes or sells CFDs to a resident of:
- Cyprus, CyNPIMs will have the content of the ESMA Measures except for the risk warning for new CFD providers;
- A Member State where the NCA has introduced NPIMs, CyNPIMs will have the content of the measures taken by the NCA of the respective Member State;
- A Member State where the NCA has not introduced NPIMs, CyNPIMs will have the content of the ESMA measures except for the risk warning for new CFD providers;
- A third country, CyNPIMs will have the content of the ESMA measures except for the risk warning for new CFD providers.

Further, a margin close out rule on a per account basis is applicable (Stop-out level). This will standardize the percentage of margin (at 50% of minimum initial required margin) at which the Company is required to close out one or more of a Retail Client's open CFD positions. Negative balance protection is applied on a per account basis for all Retail Clients accounts. Prior to a stop-out, a margin call notification will appear on the Client's trading platform in case the equity of the account falls to or below 70% of the required margin for the open positions of the account.

Below is a table outlining the leverage, per instrument, available to Retail clients:

Symbol	**Leverage**
Major FX	1:30
Non-major FX	1:20
Major Indices	1:20
Non-Major Indices	1:10
Major Commodities	1:20
Non-Major Commodities	1:10

Other categories of Clients such as Professional or Eligible Counterparties are entitled to higher leverage than Retail Clients. For Professional on Request the leverage can reach up to 1:100. For Professional Clients by Default and Eligible Counterparty clients a higher leverage than 1:100 can be provided upon assessment of the request and approval by the Company's Senior Management.

5.APPLICATION AND CONTROLS

The Company's Senior Management shall review and update this Policy from time to time as necessary to adhere to changes in the relevant legislation and level of risk.

Further, the Company's Brokerage Department shall periodically perform an analysis of the leverage, margin call and stop out levels offered by the market/competition. The results shall be provided to the Compliance Officer, the Risk Manager and Senior Management, and will be used to assess the Leverage, Margin Call and Stop Out Levels offered by the Company.

Moreover, the Risk Manager of the Company shall be responsible for monitoring on an ongoing basis the actual trading activity of Clients receiving the high Leverage in conjunction with the Company's Capital Basis and financial strength, and suggest rectifying actions to the Company's Senior Management where deemed necessary.

Rectifying actions might be any or a combination of the following:

a. Limit the size of the positions that a Client is allowed to have open at any point in time.
b. Increase the margin call/stop-out levels for the Client.
c. Request that the Company's Shareholder(s) increase the Company's Own funds, creating a Capital Buffer above the Company's minimum own funds regulatory requirement, which will protect the Company in case of abrupt adverse market movements.
d. Any other actions deemed necessary and appropriate by the Risk Manager in order to protect the Company's Capital Base and financial strength Position in case of abrupt adverse market movements (see also Section 6 of this Policy).

Finally, the Senior Management of the Company shall be responsible for ensuring that this Policy, which is a part of the Company's Client Acceptance Policy (CAP), is followed and maintained by the relevant personnel.

6.OTHER

6.1. Leverage, Margin Call Level and Stop Out levels during extreme conditions

During times where extreme volatility is expected (e.g. in periods of news announcements or geopolitical events such as elections or referendums), the offered Leverage shall be reduced in accordance with the levels decided by the Risk Manager in conjunction with the Company's Senior Management and the Compliance Officer.
Clients shall be duly notified of the details of the reductions/changes, including any temporary changes in the Leverage offered. In case the Liquidity providers of the Company amend the leverage levels offered, the Company's amendment of Leverage offered to clients must take effect either immediately or as soon as reasonably possible.

The above-mentioned changes will only be considered by the Company if the circumstances or expectations of the market movements justify them.

6.2.Negative Balance Protection

The Leverage Policy also aims to ensure that Retail Clients' maximum losses never exceed their available funds. To this effect, the Company's systems, liquidity provider agreements and terms of business/Client agreement shall be set up in such a way that in case a Retail Client's account equity ever goes into the negative, it shall be brought to zero, without any obligations/liabilities from/against the Client.