

## **Leverage Policy**

### **1. PURPOSE**

The purpose of this Leverage Policy is to ensure that Novox Capital Ltd. (“NVX”) is offering a level of leverage to retail clients which is in their best interest and in line with directive C168.

### **2. SCOPE OF THIS POLICY**

- a. Sets out the default and maximum leverage levels
- b. Limits the level of leverage available to retail clients that do not pass the appropriateness test or limits the sum that the client can invest, in any one transaction for a period of time
- c. Ensures that the maximum loss for the clients at any point in time never exceed the clients’ available funds (negative balance protection).
- d. Leverage ratios based on NVX capital base and financial strength
- e. The risk appetite and risk management of NVX
- f. The asset class and instrument characteristics offered by NVX, including liquidity, trading volumes, volatility, standard deviation, market cap, country of issuer, hedging capabilities, general economic and geopolitical events

### **3. REFERENCES**

- a. CySEC Circular NO.: C168
- b. ESMA questions and answers document ESMA/2016/1165
- c. Client questionnaire (appropriateness test)
- d. Dealing on own account manual
- e. Operations Manual Brokerage Department
- f. Risk Manager Manual
- g. Disclosure and Market Discipline Report for 2015

### **4. RESPONSIBILITIES**

- a. Board of Directors
  - 1) Approval of the Leverage Policy
  - 2) Review the Leverage Policy Periodically (at least annually)
- b. Head of Risk Management
  - 1) Develops leverage policies and procedures
  - 2) Coordinates and implements leverage policy through organization’s departments
  - 3) Oversees implementation of the leverage policy
  - 4) Configures trading systems to be in line with the leverage policy
  - 5) Monitors that leverage risk is within the bounds of NVX risk appetite
  - 6) Monitors that the leverage policy is in line with the capital base and financial strength of NVX
  - 7) Monitors that the Head of Dealing on Own Account is acting in line with the leverage policy
  - 8) Ensures that the maximum loss for the clients at any point in time never exceed the clients’ available funds (negative balance protection):
    - a) Right to access all trading systems
    - b) Right to make adjustments within trading systems
    - c) Right to know the capital base and financial strength of NVX at all times
    - d) Right to request Head of Dealing on own account to implement hedging strategies
  - 9) Files written reports and notifications to the board of directors when there has been a breach of the leverage policy.
- c. Head of Brokerage
  - a) Ensures that client default leverage is set for clients who fail the appropriateness test

- b) Monitors the Head of Reception and Transmission of Orders Department to ensure RTO's are within client limits
- c) Ensures that the level of leverage assigned to each client is the appropriate one, based on the parameters were set by the company.
- d. Head of Reception and Transmission of Orders Department
  - 1) Monitors and ensures that RTO's are executed within default and client appropriate limits
  - 2) Monitors all client accounts and makes a report of clients who change the default leverage
- e. Risk Management Committee
  - 1) Monitors NVX total leverage espouses and reports to the BoD, Head of Risk and Head of Dealing on own account
  - 2) Sets NVX risk appetite parameters based on the financial strength of NVX
  - 3) Monitors and sets NVX risk appetite based on asset classes, financial instrument characteristics, including among others liquidity, and trading volumes, volatility and standard deviation, market cap, country of issuer, hedging capabilities, general economic climate and geopolitical events.

## **5. DESIGNATED RECORD SET**

- a. This policy will be stored under the NVX NAS Dealing > Manuals

## **6. NOTICE OF LEVERAGE PRACTICES**

- a. The default leverage set/defined set at 1:50 for all client accounts that do not pass the appropriateness test; or limit the sum that the client can invest, in any one transaction for a period of time.
- b. The Company will keep statistical records with the outcome of the appropriateness assessment performed to clients (passing/failing rates).
- c. As a default, the lower leverage limit determined in this leverage policy i.e. capped at 1:50. NVX will, however, allow certain clients to change the default leverage to a higher leverage i.e. capped at 1:100 and 1:200.
- d. NVX will put in place systems and controls to ensure that the maximum loss for clients at any point in time can never exceed the client's available funds (negative balance protection)
- e. Any losses that exceed the client's available funds will be absorb by NVX.
- f. The NVX leverage ratio factors in the capital base and financial strength including the Risk Capacity/Tolerance and the maximum amount of risk which the Company is technically able to assume before breaching one or more of its capital base, liquidity constraints.
- g. The NVX leverage ratio is designed to be in line with the Risk Appetite Statement.
- h. The NVX leverage ratio factors is asset classes and financial instrument characteristics, including among others liquidity and trading volumes, volatility and standard deviation, market cap, country of issuer, hedging capabilities, general economic climate and geopolitical events.

## **7. HOW LEVERAGE RATIOS ARE ESTABLISHED**

- a. We define our leverage ratios as the financial risk relative to the total net notional client open position exposure.
- b. Leverage is the aggregate level of risk NVX would anticipate relative to our capital base and financial strength.
- c. Client account leverage ratios are created through the use of notional leverage which NVX allows clients to gain a possible cash equivalent risk exposures greater than that could be funded only by trading the actual cash balance.
- d. Instrument leverage reflects the intrinsic risk of the specific underlying instrument, as different asset classes and financial instruments have different levels of internal leverage.