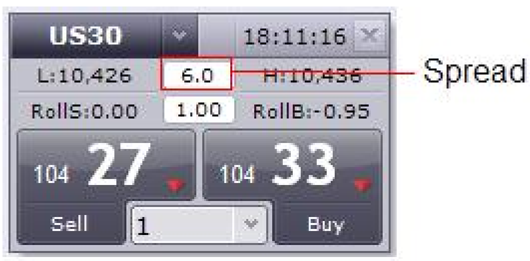
WHAT ARE CFD's?

1. **What are CFD's?**

   Clients of FXCM Ltd. (FXCM UK) can trade Stock Indices, Oil, and Precious Metals from their FXCM Trading Station using CFD's. CFD stands for Contract for Difference. CFD's are specialised and popular Over The Counter (OTC) financial products that allow traders to easily take broad market positions in a variety of different financial markets.

2. **What are the costs and fees involved with trading CFD's?**

   FXCM is compensated through the Spread, and the Spread is most traders' main cost of trading. The Spread is the difference between the Buy Price and the Sell Price for any instrument, and is displayed in pips. FXCM quotes tight spreads, which you can view at any time in the Dealing Rates window of your Trading Station.



   There are also nightly financing debits and credits that are applicable. These debits and credits apply to all positions held at 5 pm Eastern US Time (generally 10 pm UK time), just like on a Forex position. You can see how much you will pay or earn for every contract held at 5 pm in the RollS and RollB fields in your Trading Station's Dealing Rates window. You can read more about how Finance Charges are calculated in the CFD Product Guide.

3. **When I trade a CFD, how much am I trading?**

   FXCM uses a "lot-based" trading system. This allows our platform to aggregate all client positions into standardized trade sizes, simplifying the process of trading in several different markets on one account. It also allows the platform to track profits and losses, as well as account balances such as margin and equity, all in one currency. This greatly simplifies a trader's profit, loss, and risk calculations.

   For all equity indices except the SPX500, when trading 1 contract you will have 1 pip of profit or loss for every 1 point that the CFD price moves. For the SPX500, you will have 1 pip for every 0.1 point move in the CFD price.

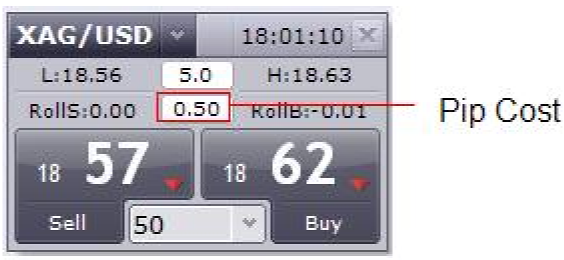
   For Oil, Gold, and Silver, you will have 1 pip of profit or loss for every cent the CFD price moves.

You will notice that for all CFD products, the last digit quoted in the price is the "pip".

4. **What is a "pip"?**

   A pip is the increment FXCM uses to account for profits and losses. It is the standard used in the Forex market, in place of "points" or "ticks". On Forex instruments, the "pip" is the second-to-last digit in a price quote. For CFD products, the "pip" is the last digit in a price quote.

   The value of a pip depends on both the CFD product that you are trading, the currency your account is denominated in, and the size of your trade. You can view the current pip value of any instrument in your account in the Dealing Rates window, in the Pip Cost.



   The Pip Cost shows how much profit or loss 1 pip is worth if holding 1 CFD of that instrument. It displays in the currency your account is denominated in. Because FXCM accounts for profits and losses in pips and automatically adjusts profits and losses into your account's currency, you can trade stock indices in many countries without needing to keep accounts in those countries' different currencies. The Trading Station makes all the conversions for you.

5. **Are multiple accounts required to trade different types of CFD's?**

   No. An FXCM Ltd. Trading Account provides access to trading in Forex, Equity Indices, and Commodities.

6. **Who primarily trades CFD's? Small investors or large institutions?**

   Retail traders, speculators and hedge funds are the typical market participants for CFD's.

7. **In what countries is CFD trading allowed?**

   CFD's currently trade in Australia; the United Kingdom; throughout the Euro Zone; Russia; Japan; Canada; South Africa; Switzerland; Canada; New Zealand; and other countries. FXCM Ltd. is regulated in the UK by the Financial Services Authority (FSA).

8. **Is there a government regulator for CFD's?**

   Yes. CFD's are regulated in most countries in which they are traded. To see the full specifications for each asset, see the CFD Product Guide.

MARGIN & LEVERAGE

9. **What is the margin/leverage?**

   Under most circumstances, initial margin will be roughly 1 percent of the full contract amount, (providing a leverage of about 100:1). You can see the margin requirements for all CFD's in the CFD Product Guide.

   Margin can be thought of as a good faith deposit that is required to maintain open positions. This is not a fee or a transaction cost, it is simply a portion of your account equity set aside and allocated as a margin deposit. Margin requirements are determined by taking a percentage of the notional trade size plus a small cushion. A cushion is added to help alleviate daily/weekly fluctuations. You can read more about margin and how it works at http://www.fxcm.co.uk/forex-margin-rollover-leverage.jsp.

   Please be advised that trading on margin carries a significant risk of loss and is not suitable for all investors.

10. **Are there initial and maintenance margin levels?**

    Under most circumstances, initial margin will be 1 percent of the full contract amount. There are no set maintenance margin levels.

    Please be advised that trading on margin carries a significant risk of loss and is not suitable for all investors.

11. **Do margin requirements change?**

    Yes, margin requirements can periodically change to account for changes in market volatility and currency exchange rates. Any margin changes will be shown in the MMR column in the Simple Dealing Rates window of the Trading Station. Margin requirement changes will also be reflected in the CFD Product Guide.

    Please be advised that trading on margin carries a significant risk of loss and is not suitable for all investors.

12. **Will my margin requirement be lowered should I attempt to hedge with similar products?**

    No. Due to the imperfect nature of hedging, hedging with different assets is still prone to considerable risk, and hence does not figure into margin calculations.

    Please be advised that trading on margin carries a significant risk of loss and is not suitable for all investors.

13. **Can I lose more money than I deposit?**

    Not with FXCM. We guarantee you can never pay a debit balance as a result of trading. One of the greatest concerns traders have about leverage* is that a sizable loss could result in owing money to their broker. At FXCM, your maximum risk of loss is limited by the amount in your account. All accounts are tracked by our "Margin Watcher" feature. With the Margin Watcher feature, if account equity falls below margin requirements, the FXCM Trading Station will trigger a margin call closing all open positions.

    * Leverage is a double-edged sword, and can dramatically amplify your profits. It can also just as dramatically amplify your losses. Trading foreign exchange with any level of leverage may not be suitable for all investors.

TRADING & EXECUTION

14. **Where do the prices for CFD's come from?**

    CFD prices are derived from the underlying index or spot product. For FXCM Ltd. Index CFD products, the quoted price is based on the relevant futures price minus a commonly used Fair Value. For Commodity CFD products, the price is based on the relevant futures price. Like FXCM Forex Products, CFD prices include FXCM's markup to the spread.

15. **What is Fair Value?**

    Fair Value is a calculation that factors various things that tend to affect the price of a stock index futures contract, such as interest and dividends. A Fair Value Rate adjustment is often applied by many media outlets when quoting market index prices based on futures contracts.

16. **Are there requotes?**

    No, FXCM offers CFD's with no requotes.

17. **Is there slippage?**

Like most markets, traders can experience slippage when trading CFD’s. The level of slippage experienced will depend on liquidity in the market and the position size.

18. How quick is the execution?

Execution in CFD’s is comparable to the underlying.

19. Are CFD profits unlimited?

FXCM will impose no limits to profit.

20. Are there limits to position size?

There are no limits to the size or number of positions that a trader may hold. Available margin in the account is the only constraint on the size of a position.

21. What is the smallest amount a CFD price can move?

Under most conditions, the minimum price movement for each CFD is similar to the underlying. To see the full specifications for each asset, see the CFD Product Guide.

22. What is the liquidity like in CFD’s?

Liquidity for CFD’s is comparable to the underlying. Different indices and commodities experience different levels of volatility and liquidity. To see the full specifications for each asset, see the CFD Product Guide.

HOURS & EXPIRATIONS

23. Is CFD trading limited to certain hours?

Each market has its own defined trading hours. To see the trading hours for each asset, see the CFD Product Guide.

24. Are there certain hours where CFD’s are more active?

Because a CFD’s price is based on the price of the underlying asset, peak trading hours are typically the hours when the exchange for the underlying asset is open. There are also off-peak trading hours for several CFD products when assets trade in the electronic markets.

25. Can I place trades when the market for a specific CFD is closed?

A CFD can only be traded during its designated trading time (see the full specifications for each asset, see the CFD Product Guide), but limit and stop orders can be adjusted even when trading is closed, except during weekends and bank holidays where you will be unable to place trades or to amend stops/limits.

26. Are there expirations for CFD's?

US Oil has a monthly expiration. All other CFD contracts will be treated like a cash product with no expiration, similar to trading Forex with FXCM. Like Forex, there is no need for a trader to manually roll over his positions. FXCM will do this as a convenience to the trader. It is important to note that CFD prices can be impacted when contracts roll over in the futures market, as the rollover time tends to be a more volatile time in the underlying asset markets.

US Oil is the exception to this rule. It expires once every month. Any trader with a position in US Oil at the end to expiry time will see all his open positions automatically closed, and his profits or losses realized in his account. He can open his US Oil in the next month once trading resumes. For further details of the US Oil expiration process and an expiration calendar, please consult the CFD Product Guide.

CFD'S & UNDERLYING ASSET

27. What is the underlying asset?

The "underlying asset" is the instrument that a CFD is based on. For example, the underlying asset for the SPX500 is the S&P 500 Index of US stocks.

28. Are there any benefits to trading a CFD over trading the underlying asset?

Yes, there are. CFD's give traders a lot of options that he wouldn't otherwise have, allowing him to be flexible.

1. CFD's are traded with leverage, allowing a trader to control a large market position while employing a smaller amount of capital than would be required to control an equivalent position in the underlying asset. Leverage can significantly increase both your gains and losses.
2. With a CFD account a trader has the ability to trade Forex, Stock Indices, Oil, Gold, and Silver all from the same account. To trade the underlying market itself, a trader usually needs to have different accounts, often denominated in several different currencies, and often at different brokers.

29. Is there more risk involved in trading a CFD over trading the underlying asset?

Trading with higher leverage means there is a greater risk of loss, as well as potential for profit. Depending on the amount of leverage used, small moves in a CFD's price could generate significant changes in an account balance.

30. Do I have control of the underlying asset when trading CFD's?

No. The CFD merely tracks the underlying price. However, it does give the trader rights or dividends associated with the underlying asset.

31. Will I receive credit for holding the underlying in calculation the margin?

No. Since the underlying is held through a different account, there is no way to confirm an accurate hedge.

32. What are the benefits of using CFD's to hedge exposure to an underlying asset rather than using options or futures?

CFD's provide a linear payoff: a rise or decline in the underlying asset will result in an equivalent rise or decline in a trader's account balance. Also, unlike options, there are no initial premiums that need to be paid. Another benefit to hedging with CFD's is that there are fewer trading restrictions and no need to obtain access to multiple exchanges.