

The order N107/04
Of the National Bank of Georgia
June 14, 2018

City Tbilisi

On the approval of the additional regulation rule of brokerage companies involved in trading with high-risk financial instruments

Pursuant to subparagraph “G” of the paragraph 1st of the Article 15th and the article 48th of the Organic Law of Georgia “on National Bank of Georgia” and the article 32 of the Law of Georgia “On Securities Market”, I hereby order:

Article 1

The additional regulation rule of brokerage companies involved in trading with high-risk financial instruments shall be approved.

Article 2

This order shall take effect immediately upon publication.

Article 3

Before the enactment of this order, the licensed brokerage companies shall ensure the fulfillment of the requirements stipulated in this rule within 1 month after the enactment of this order.

The President of the National Bank

Koba Gvenetadze

The additional regulation rule of brokerage companies involved in trading with high-risk financial instruments

Article 1. General Provisions

1. The additional regulation rule (hereinafter referred to as the “Rule”) of brokerage companies involved in trading with high-risk financial instruments determines the issues of regulation of brokerage companies (hereinafter referred to as the “company”) by the National Bank of Georgia (hereinafter - the National Bank), which are involved in trading with high-risk financial instruments – by contracts for difference between prices and binary options.
2. The rule applies only to trading in high-risk financial instruments and does not apply to other types of financial instruments of these companies.

Article 2. Definition of terms

For the purposes of this rule, the terms used therein shall have the following meanings:

- a) Counterparty – a person who takes an opposing position in a trade transaction;
- b) Credit side (leverage) – the purchasing power given to the client within the contract for the difference between the prices, with which he/she is authorized to open a position in the contract for the difference between the prices and which is expressed as a ratio between the initial margin and the position in the underlying asset;
- c) Bonus – an additional amount given by the company to the client, which will become available to the client after fulfilling certain conditions;
- d) Market price provider company – a foreign licensed brokerage company, which, based on the contract, provides financial instruments at market prices in real mode to a company operating in Georgia;
- e) Contract for difference in price (hereinafter referred to as “CFD”) - a derivative that gives the client the opportunity to receive financial benefits or losses based on the difference between the opening and closing prices of the position in the underlying asset without owning the underlying asset;
- f) Binary option – an option with a fixed income, with which the client, in accordance with the conditions defined by the contract, places a bet on the direction of the price of the underlying asset during a certain period of time and receives a fixed profit only if the forecast is justified;
- g) Financial instruments containing high risks – binary options and contracts for difference between the prices;
- h) Main currency – any of the following currencies: US Dollar, Euro, Japanese Yen, British Pound Sterling, Canadian Dollar, Swiss Franc;
- i) Major currency pairs – currency pairs, both sides of which represent the major currency.
- j) Non-major currency pairs – currency pairs, one of which does not have a non-major currency;
- k) Major index – for the purposes of this rule, the following indices are meant: FTSE 100, CAC 40, DAX 30; DJIA, S&P 500, NASDAQ, NASDAQ 100, NIKKEI 225, ASX 200, EUROSTOXX 50;
- l) Non-major index – other indices that are not defined as the major index;
- m) Client's total capital – total funds on the client's trading account as of a certain date, which includes realized and unrealized profits and losses;
- n) Free margin – the difference between the client's total capital and the initial margin used in open positions;
- o) Stop loss - A type of order that involves selling or buying a financial instrument when it reaches the price specified by the order.
- p) Reinsurance financial institution – a foreign financial institution that is licensed by the regulatory body of a developed country determined by the order N16/10 of the President of the National Bank of Georgia dated February 19, 2010 "On approval of the list of developed countries", to which the company applies in the event that it itself is the counterparty of the client's transaction and wishes to reinsure the client's risk positions.

- q) A platform provider - a foreign financial institution that is licensed by the regulatory body of a developed country determined by the order N16/10 of the President of the National Bank of Georgia dated February 19, 2010 "On approval of the list of developed countries", and which gives the company the right to use the trading platform according to the terms provided for in the agreement;
- r) Initial Margin – the minimum required deposit made when opening a position for CFD trading.
- s) Liquid assets – cash and cash equivalents;
- t) Underlying asset – financial instrument, commodity, precious metal, national and foreign currency, the right to claim money, etc., on the price of which the contract for difference is tied.

Article 3. Operational Requirements

1. The company is obliged to agree with the National Bank on the potential or existing candidacy of the platform provider, the market price provider (if it is different from the platform provider) and the reinsurance financial institution.
2. The company shall have a proper process of activity, which will allow to determine at what stage of the transaction by the client, the funds earned as a result of trading on the trading platform become the funds belonging to the client and vice versa.
3. The company shall have an accurate accounting system that will allow it to determine for each client at any date, the following:
 - a) The amount of cash on his/her account both on the platform and in the accounting program (if the program allows);
 - b) The client's total capital available on the trading platform at the end of the day;
 - c) Change in total capital of the client between any two dates;
 - d) Realized and unrealized profit and/or loss for any period;
 - e) Transaction counterparty for each transaction.
4. For the purposes of paragraph 3 of this article, the company shall record all transactions according to the following fields for each client and their separate accounts:
 - a) Unique number of the client;
 - b) Account number of the client;
 - c) Credit side given to the client;
 - d) The amount deposited by the client and the date of its deposit;
 - e) The amount withdrawn by the client and date of withdrawal;
 - f) Total trading result for closed transactions;
 - g) Current (unrealized) profit/loss for open positions;
 - h) Initial margin used in open positions;

- i) Free margin;
- j) Total capital of the client;
- k) Bank charges deducted according to the type.

Article 4. Advertising and disclosure of information to clients

1. The company shall place a warning on the website and any advertising materials about the riskiness of trading on the trading platform and trading with high-risk financial instruments.
2. The company does not have the right to promise the client a certain amount of income while advertising the trading with high-risk financial instruments, or to imply that the information provided by it implies high profits as a result of trading with such instruments.
3. The company shall provide the National Bank with information about all types of advertising events or advertising materials and their means of distribution before their distribution.
4. In addition to the warning specified in the first paragraph of this article, the company's website shall include:

- a) Description of the specifics of trading through the system in the online mode;
- b) A complete description of material risks specific to trading on the trading platform and all offered products.

5. The company shall ensure that the warning about the risks specified in the first paragraph of this article includes information on the percentage share of the trading accounts in the total trading accounts, which during the last reporting period of 12 months experienced a total loss as a result of trading in CFDs and binary options. It is considered, that the Client's trading account has recorded a total loss if the sum of all realized and unrealized gains and losses for the Client's trading account in the last 12-month reporting period is negative. This information shall be updated at the end of each year. In the event that the company does not have statistical data for a period of more than 12 months or the statistical information is insufficient for a conclusion, it should substantiate this and use the international statistical data published by the European Securities and Markets Regulatory Authority (ESMA), according to which 74-89% of retail client accounts loses the full amount.

6. The company is prohibited from disseminating, publishing, providing or selling (directly or indirectly) information regarding high-risk financial instruments to investors, unless it includes a risk warning in accordance with the requirements of the paragraph 5 of this Article.

Article 5. Contract

1. The standard contract form to be concluded with the company's client shall include the following information:

- a) Information about who is or who can be the client's counterparty in the transaction;
- b) The obligation that, upon request, the company will notify the client who will be its counterparty;
- c) The rights and obligations of the company and clients, including in cases of the company's insolvency, regarding the disposal of clients' funds;
- d) Conditions for opening and closing the account and obligations of the parties in these cases;
- e) Information about the conditions for depositing clients' funds, withdrawal conditions, procedures and deadlines, procedures and deadlines to be followed by the client when requesting a statement from his/her own account;
- f) The right of the parties to terminate the contract, terms of termination and description of the subsequent process; Including the client's right to terminate the contract if he/she has suffered damage due to the fault of the company;
- G) Information about the client's representative (a person who is not an employee of the company and is granted the authority to trade on his/her behalf), his/her rights and duties;
- H) The obligation of the company regarding the confidentiality of the information.
- I) Description of the terms and restrictions on trade on the platform;
- J) A complete description of the material risks characteristic of trade on the trading platform and all the products offered;
- K) The right to apply to the court or arbitration by the client in case of a possible dispute;
- L) If there is a conflict of interest, disclosure of a possible negative impact for a client on the source and client of this conflict.
- M) Information on all existing fees and taxes.

2. The standard contract to be concluded with the Company shall include a contract title called "The important terms of the contract", which shall include all the material conditions of the contract. It is inadmissible to refer to the relevant articles of the contract when reflecting the contract title. In the event that the contract envisages the investment of money in a foreign currency, the company is obliged to make a record in the headline according to the following formulation: "The investment made by foreign currency puts clients at a significant risk". This record shall be followed by the following record: "Currency change may significantly reduce the benefits of GEL."

3. Any changes made to the standard contract form shall be submitted to the National Bank no later than 5 working days.

Article 6. Management of risks

1. The company, which is itself, the counterparty of the trading transaction made on the platform by the client, shall be obliged to calculate the clients' own capital daily as of the previous day and ensure that the corresponding amount of this amount is at least at client's nominal account.
2. The company, which is itself the counterparty of the client, is obliged to, in addition to compliance with the requirement referred to in paragraph 1 of this Article, to additionally own the liquid capitals of clients equal to 25% of average monthly amount of the total capital of clients.
3. The company, which is itself the counterparty of the client, is obliged any of its clients do not own more than 25% of client capital.
4. The company, which is itself the counterparty of the client, is obliged to reinsure the transaction if the total amount deposited by the client during the month exceeds 5% of the company's capital.
5. The Company shall be obliged to comply with the requirements of this Article at all stages of the activity.

Article 7. Restrictions and prohibitions on high -risk financial instruments

1. The Company is obliged to impose the following restrictions on CFD trading:
 - A) When trading in CFDs, the Company shall ensure imposing for the client maximum the following credit side limits:
 - a.a) 1:50 - CFD for major currency pairs;
 - a.b) 1:20 - CFD for non-major foreign currency pairs, gold and basic indices;
 - a.c.) 1:10 - CFD for any goods except gold, as well as for non-major indices;
 - a.d.) 1:10 - CFD for shares;
 - a.e.) 1:2 – CFD on cryptocurrencies;
 - B) If the starting margin and the sum of the unrealized damage required for the open positions available on the client's account on the trading platform lowers to 50% or more of the starting margin required for open positions, the company shall ensure closing all such CFD positions related to a specific client account, at the very first opportunity based on the market situation. If the counterparty of the client is the company itself, then it is implied that it shall ensure closing of positions at 50% level;
 - C) The company is obliged to ensure that the trading platform does not allow that, the total capital of the client for each client's trading account shall become a negative number.
2. The Company shall be prohibited from offering direct or indirectly incentives (bonus and similar content products) to increase the volume of trade to investors who are not well-aware in investments.

3. The company is prohibited from marketing binary options, distributing and selling to investors who are not well-aware in investments.

Article 8. Market Manipulation

1. The company is prohibited:

- a) to open or close any position from the client's account or to interfere with any of the client's account, without its prior consent;
 - b) directly or indirectly to provide the client with the price of a financial instrument that is different from the real market price when providing information;
 - c) to interfere with a market price at prices provided by the provider company and/or manipulate prices.
2. When the counterparty of the transaction is the company itself, it is obliged to perform the stop-loss of the client at the price specified by the client.