

# GO MARKETS

first choice for forex

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## CFD & FOREX SMART GUIDE

### TRADE WITH CARE

ISSUED APRIL 2018

The purpose of this guide is to provide our clients and perspective clients with a greater level of transparency relating to the trading of CFDs and Forex. This information should be considered along with our Product Disclosure Statement and Financial Services Guide.

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# CFD & FOREX SMART GUIDE

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## CFD & Forex Smart Guide

Over the last decade, trading in Foreign Exchange (FX or Forex) and Contracts for Difference (CFD) have become extremely popular for traders all over the world. The appeal of such products is driven by a trader's ability to access a range of global financial assets in one trading platform, with only a very small amount of starting capital, known as Leverage.

Unlike buying a share with a stock broker or currency at your local money exchange, trading CFDs and FX do not allow a trader to take ownership of the actual underlying asset.

## Trading with Leverage

From the outset, a trader must understand that leverage can be both your friend and foe. It can cause swift and unexpected changes to both your winning trades and losing trades. Let's use a simple example:

*A trader wishes to speculate that the price of the Australian dollar will increase against the US dollar. He or she has a trading account with a provider that is offering 100:1 leverage. Using one standard contract as an example, (total value of A\$100,000), only A\$1,000 would be required to open the position. Put simply, a trader can lose their starting capital very quickly.*

A larger move in the underlying asset may impact on other money held in your trading account, or even place your account in debit (negative cash balance). It is therefore essential that you understand the risks, and closely monitor your account.

It is, however, leverage that appeals to the appetites of many traders. While many traders rightfully concentrate on their general trading approach (strategy), it is also essential that all traders understand and prepare for negative outcomes.

A simple test is to ask yourself; am I trading with funds that I can afford to lose, and do I understand the risks of having to place further funds in my account if required?

## Making Smarter Choices

Using complex products such as FX and CFDs requires prudence and foresight. It is therefore important that traders are well-informed and have a strong understanding of key concepts, including but not limited to:

- how leverage works;
- how market volatility and extreme market moves may affect the outcome of your trade;
- the actual monetary value of your exposure (Contract sizes); and
- platform and product information (including their margin call policy) that are specific to your provider.

In short, education is vital and the right type of education may assist a trader to make smarter choices.

Education does not necessarily refer to paying large amounts of money to attend a trading course that makes grand promises. Instead, you may choose a wide variety of free resources available or attend a training course that is well-reputed or one that provides you with an official accreditation.

Whatever method of education you choose, it must be backed up with practice and time to ascertain if trading Forex or CFDs is for you.

# CFD & FOREX SMART GUIDE

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## Regulation - What it means for you

How regulation will protect consumers ultimately depends on which jurisdiction your provider is regulated in. In Australia, ASIC oversees financial services providers and issues Australian Financial Services (AFS) Licenses. This, however, does not mean a provider in a well-regulated jurisdiction such as Australia is immune to risks that may lead to negative outcomes for its clients.

For clients who are based overseas and use an AFS licenced provider, there is no recourse to ASIC as there is for those who are domiciled in Australia. Protection for consumers can be vastly different in each jurisdiction, and some regulated environments may be less onerous, therefore, prone to see more negative outcomes for consumers.

## Choosing a Provider

In Australia, a provider must be appropriately licensed before it can become an issuer of Margin Foreign Exchange and/or Derivatives.

Depending on the provider, the license may allow the provider to 'Make a Market' in Foreign Exchange and/or Derivatives (CFDs) among other financial instruments. You can check the License status of a company by referring to the professional registers on the [ASIC website](#).

Some providers are more capitalised than others – meaning that there are more funds to protect the business (and its clients) in the case of an unforeseen event. Even larger providers can fall into financial difficulty, as witnessed during the Global Financial Crisis. Further, in January 2015, an announcement by the Swiss National Bank to un-peg their currency from the Euro resulted in global mayhem, causing some Forex and CFD providers to default; some of whom were previously considered to be financially strong.

Your provider may be exposed to the financial health of their liquidity provider and/or exposed to the outcome of their clients' trades. A licensed provider is required to disclose these risks in their Product Disclosure Statement and provide a funds handling policy.

## When Alarm Bells Ring

Amy is located in Western Australia, and trades Forex from time to time. She finds an advertisement for a Forex provider as she is searching the internet and decides to click in and establish a 'demo' account. Their website appears professional and purports to have relationships with well-known global banks and investment firms. She receives a phone call from Alex, a senior trader who provides free analysis and currency outlook. She is taken by their client-focused service and she agrees to send funds to their client trust account and begin trading.

### What should Amy ask before she proceeds?

The exterior of a company through a professional website does not mean they are indeed a reputable provider, or even a provider of financial services. Amy needs to find out the following:

- If the provider is appropriately licensed, and where;
- Is the provider of good fame and a reputable market participant; and
- The actual location of the business and funds handling policy.

Even if these answers are made clear by the provider in question, further due diligence is required. In Australia you can check the

# CFD & FOREX SMART GUIDE

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License status of a company by referring to the [ASIC Connect website](#). Information on avoiding scams is also located on [ASIC'S Smart Money website](#).

## Dispute Resolution - Your Rights

CFD or Forex brokers who are Licensed in Australia, must maintain a [Dispute Resolution Procedure/Policy](#) in the event of dispute.

If you are aggrieved in any way and have not received an acceptable outcome from your provider, you have the right to have your case heard by an ASIC-approved Australian external dispute resolution scheme.

One such organisation charged with overseeing financial related disputes in Australia is the 'Financial Ombudsman Service' (FOS). This service is available free of charge to both domestic and international clients and is a cost-free alternative to court proceedings for the consumer. Click [here](#) for more information on GO Markets' dispute resolution procedure.

## Automated Trading Systems

The use of Automated Trading Systems (ATS), Robots, and Expert Advisors has become common place in the world of trading. For the retail community, the use of automated trading became popular with the arrival of platforms such as MetaTrader, which proved pivotal in the evolution of automated trading systems, based on mathematical algorithms and/or technical indicators.

While there are benefits pertaining to risk management of your trading, there are also many reasons why a trader should take a cautious approach if you are considering purchasing an 'off the shelf' program. The allure of the 'get rich' advertising approach can be all too much for some traders. For this, the old 'too good to be true' adage couldn't be more relevant.

Although the Robot or Expert Advisor may have some genuinely positive qualities, it is imperative to understand its key functions. You should also thoroughly test such a program in a demo environment before allowing it to trade with your real money.

## Best Execution Practices

While there are no universally enforced 'best practice' execution standards enforced upon Forex and CFD providers, there is an overriding duty for AFS Licensees to provide their services efficiently, honestly and fairly.

There are, however, some unique parts of CFD and Forex trading which may impact on your execution, and therefore, the outcome of your trade.

To demonstrate: A forex trader who trades at exactly the same time with three different providers will invariably receive three different purchase prices. These purchase prices may drastically change in times of increased volatility. This is because each provider may be subject to mitigating factors which affect a trade price.

These include but are not limited to:

- Liquidity source (The price feed of your providers' counterparty/Liquidity Provider);
- Trading technology (Server location and hardware capacity);
- Platform type (Phone, web based, software); and

## CFD & FOREX SMART GUIDE

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- Your internet connection (Your internet speed).

Conversely, a trader who purchases exchange traded share/contract at exactly the same time across three different brokers has a greater chance of receiving the same purchase price, provided there is sufficient liquidity. In short, unlike an exchange traded product, the onus remains on Forex and CFD providers to offer their services efficiently, honestly and fairly.

### How We Execute your Trades/Orders

GO Markets is a **Market Execution** provider. This means we display an indicative two-way price on our trading platform in which the user can place a BUY or SELL instruction. The user will then receive the first available price. This may be better or worse than the price seen on the screen originally, especially in periods of high market volatility.

### Buying or Selling 'At Market'

When you place a trade (BUY or SELL at market), your instruction is passed across a 'bridge'. A bridge acts as an intermediary between your provider and their liquidity source. Upon your request to BUY or SELL at the market price in the MT4 platform, your instruction is packaged as an 'Immediate or Cancel' ("IOC") order. You will then receive the first available price.

### Pending Orders

When you place a pending 'stop' or 'limit' order (including a 'Take profit' or 'Stop Loss' order attached to your open position) the order will rest on the MT4 platform until your requested price is breached. Once this occurs, your order is passed to the bridge and becomes an IOC order in the same fashion as a 'At Market' order. You will then receive the first available price.

### What is Slippage?

Slippage is the difference between the requested price of a trade and the price at which the trade is executed.

### Can I Receive Slippage if I Buy or Sell at the Market Price?

It is possible to receive a different price to the (indicative) price displayed on the screen at the time of your trade. While this may not be strictly referred to as slippage (given we display an indicative two-way price on your platform), the ability to receive a better or worse price could be broadly defined as a form of positive or negative slippage.

For example:

*MT4 only shows the best available 'Bid' and 'Offer' price. These prices are subject to underlying liquidity sourced by GO Markets through its liquidity provider(s). If sufficient liquidity is not available, you will receive a Volume Weighted Average Price (VWAP). The VWAP considers liquidity that is available at different price points.*

# CFD & FOREX SMART GUIDE

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## Can I receive Slippage on my Pending Order?

Yes, both positive and negative slippage can be received on all pending and attached orders.

» Example of negative slippage

*You have a long (BUY) position on EUR/USD with an opening level of 1.3700. You place a contingency stop loss order to close your position at 1.3650. A major news event sends the price of EUR/USD swiftly lower and your stop loss is breached. An instruction to close your position is issued and the first available price is 1.3645. You have received 5 pips negative slippage.*

» Example of positive slippage

*You have a long (BUY) position on AUD/USD with an opening level of 0.8800. You place a contingency take profit (attached limit) order to close your position at 0.8865. A major news event sends the price of AUD/ USD swiftly higher and your take profit is breached. An instruction to close your position is issued and the first available price is 0.8870. You have received 5 pips positive slippage.*

## Order Rejections

GO Markets has the ability to reject an order even when an order matches its original quoted price, however we make a commitment to use reasonable endeavors to accept an order.

## Our Obligations

We have an overriding obligation as an AFS licensee to provide financial services efficiently, honestly and fairly. In adhering to these obligations, we maintain internal policies and procedures.

We take all reasonable steps to obtain the best possible result when executing client orders or placing orders with (or transmitting orders to) other entities to execute. We consider a range of execution factors in order to deliver best execution including price, costs and speed.

Our **Code of Conduct** sets out minimum standards for our employees when discharging their duties. Contraventions of the code, suspected contraventions or where we have reasonable grounds to believe that the code may be contravened in some way in the future, must be escalated to the head of compliance and licensee responsible manager.

## Code of Conduct - Trading and Liquidity

1. Act in an efficient, honest and fair manner when discharging duties which impact on a client's trading experience;
2. Provide the client with 'best execution'. Best execution means that we must take reasonable steps to obtain the best possible result for the client when executing an order with our clients;
3. Slippage must be according to, and dictated by, market price and liquidity, without discretionary intervention;

## CFD & FOREX SMART GUIDE

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4. Slippage must be symmetrical (both positive and negative) and according to, and dictated by, market price and liquidity, without discretionary intervention;
5. Clients must be notified if post trading corrections are made;
6. Changes in general technology and/or technology 'settings', that may impact the clients trading experience, either directly, or indirectly, must be carefully reasoned and justifiable;
7. The GO Markets dispute resolution processes and policy must be followed; which involves speedy effective remedies at the first point of contact wherever possible;
8. The reasoning behind trading disputes that are resolved in favour of GO Markets must be clearly communicated to the client with available evidence provided; and
9. Clients are given a right of appeal to an ASIC approved independent dispute resolution scheme at no charge (FOS).