

FBS

Always
by your side

KEY INFORMATION DOCUMENT.

Derivatives Instrument for Credit Risk

2021, Tradestone Ltd

89, Vasileos Georgiou A' street, Office 101,
Potamos Germasogeias 4048, Limassol, Cyprus

Purpose

This document provides you (hereinafter the “Client”) with key information about this investment product. It is not marketing material. The information is required by law to help you understand the nature, risks, costs, potential gains and losses of this product and to help you compare it with other products.

Product

Derivative instruments are offered by Tradestone Limited (hereinafter the “Company”, “We” or “Us”), registered in the Republic of Cyprus. The Company is authorized and regulated by the Cyprus Securities and Exchange Commission in the Republic of Cyprus, with license number 331/17. For further information please call +357 25 313540 or go to <https://fbs.eu/en>.



Alert

You are about to purchase a product that is not simple and may be difficult to understand.

What is this product?

Type

A credit derivative is a financial contract that allows parties to minimize their exposure to credit risk. Credit derivatives consist of a privately held, negotiable bilateral contract between two parties in a creditor/debtor relationship. It allows the creditor to transfer to a third party the potential risk of a debtor defaulting.

Objectives

Credit derivatives include credit default swaps, collateralized debt obligations, total return swaps, credit default swap options, and credit spread forwards. In essence, all derivative products are insurance products, especially credit derivatives. Derivatives are also used by speculators to bet on the direction of the underlying assets.

The credit derivative, while being a security, is not a physical asset. Instead, it is a contract. The contract allows for the transfer of credit risk related to an underlying entity from one party to another without transferring the actual underlying entity. For example, a bank concerned a borrower may not be able to repay a loan can protect itself by transferring the credit risk to another party while keeping the loan on its books. That said, the usual objective from trading a derivatives related to credit risk is to hedge a long exposure that an investor has whether it was against a government bond, an interest, a stock or a specific borrower.

Intended Retail Investor

Derivatives for the transfer of credit risk are typically intended for sophisticated investors with extensive knowledge and/or experience in credit risk related products. Investors in this product may have varying investment strategies and needs, starting from hedging against possible expected defaults on some loans or bond, and not ending at speculation or arbitrage, and should adopt their investment horizons accordingly.

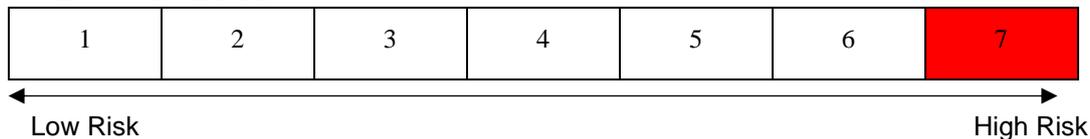


**Always
by your side**

Tradestone Ltd
CySEC License 331/17

Address: 89, Vasileos Georgiou A' street, Office 101,
Potamos Germasogeias 4048, Limassol, Cyprus
www.fbs.eu

Risk Indicator



Performance Scenarios

There are a number of types of trading risk, including leverage risk, which you should be aware of before beginning to trade. Information on factors that affect the performance of this product are detailed below including but not limited to:

- Leverage Risk
- Risk of unlimited loss
- Margin risk
- Conflicts of Interest
- Market Risk
- Unregulated Market Risk
- Market disruption risk
- Foreign exchange risk
- Online trading platform and IT risk
- Counterparty risk

Credit risk is essentially the market's perception of an issuer's probability of default. Investors are exposed to credit risk if they own an issuer's debt. It can be a company, a government or even a municipality bond.

"Credit default swaps" (CDS) offer protection against a default by allowing investors to take a position on the default risk of a bond issuer.

An investor can own a CDS that references a single bond or an index of multiple bonds. Consider an investment fund that owns a large portfolio of investment grade corporate bonds. The fund manager thinks that financial conditions are going to deteriorate and corporate-default risk will rise in the short-term.

The fund can buy protection from rising default risk by purchasing a credit default swap index that references 100 investment grade bond issuers. An index CDS is a lot like the S&P 500 of CDS—it combines exposure to a wide-range of bond issuers into a single index. The cost of the index rises when default risk rises.

In the event of a bond default, the seller of default protection is contractually obligated to pay the owner of default protection the difference between the bond's face value, 100 cents on the dollar, and the market price of the bond post-default.

After a default, if a bond is trading for 60 cents on the dollar, the seller of default protection is obligated to pay the protection owner \$40 (\$100 par value minus the market price of \$60). If the default protection owner is also a bond holder, the \$40 payment will equal the mark-to-market losses on their defaulted bonds.

For more specific trading examples in this specific product can be found [here](#).



Always
by your side

Tradestone Ltd
CySEC License 331/17

Address: 89, Vasileos Georgiou A' street, Office 101,
Potamos Germasogeias 4048, Limassol, Cyprus
www.fbs.eu

What happens if the Company is unable to pay out?

In the event that the Company becomes insolvent and is unable to pay out to its investors, Retail Clients may be eligible to compensation of up to €20,000 by the Investor Compensation Fund set up by the Cyprus Securities and Exchange Commission.

For more information please review our Investor Compensation Fund Policy

https://cdn.fbs.eu/docs/en/investor_compensation_fund_policy_en.pdf

What are the costs?

The Company charges a spread and a commission when an investor trades on a credit derivative instrument. A spread is the difference between the Sell ("Bid") and Buy ("Ask") price of the derivative which is multiplied by the deal size. The spread per each underlying asset is detailed on the Company's website by clicking [here](#). The below table portrays an illustration of types of costs along with their meaning:

What are the costs?		
The table below shows the different types of cost categories		
One-off costs	<i>Spread</i>	This is the difference between the buy and sell price
	<i>Forward Points</i>	This is the difference between the spot and forward rate. It can be a charge or gain.
	<i>Currency conversion</i>	The cost of converting Profit or Loss from trades to the currency of your Trading Account
	<i>Commission</i>	The fee is charged on each transaction
Recurring costs	<i>Swap fees</i>	This is the financing cost in case the client decides to roll back the position to an earlier date or roll over the position to a later date than the maturity date. Depending on whether the position is long or short and the prevailing interest rates of the two currencies of the currency-pair, your account may be credited or debited with the Swap fee.

How long should I hold it and can I take money out early?

Swaps do not have a recommended holding period and it is to the investors' discretion to decide the appropriate holding period according to their individual trading strategy and objectives.

How can I complain?

Clients who wish to file a complaint can do so by submitting the complaint form to the below email address: complaints@fbs.eu

The complete complains procedure and the complaint form can be found on the Company's website.



**Always
by your side**

Tradestone Ltd
CySEC License 331/17

Address: 89, Vasileos Georgiou A' street, Office 101,
Potamos Germasogeias 4048, Limassol, Cyprus
www.fbs.eu