Tradestone Ltd

KEY INFORMATION DOCUMENT

Forward Rate Agreement

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

Forward Rate Agreements 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

Forward rate agreement (FRA) is a cash-settled OTC contract between two counterparties, where the buyer is borrowing (and the seller is lending) a notional sum at a fixed interest rate (the FRA rate) and for a specified period of time starting at an agreed date in the future. There is no actual exchange of principal; instead, interest payment is calculated based on that notional amount.

Objectives

An FRA is basically a forward-starting loan, but without the exchange of the principal. The notional amount is simply used to calculate interest payments. By enabling market participants to trade today at an interest rate that will be effective at some point in the future, FRAs allow them to hedge their interest rate exposure on future engagements. Concretely, the buyer of the FRA, who locks in a borrowing rate, will be protected against a rise in interest rates and the seller, who obtains a fixed lending rate, will be protected against a fall in interest rates. If the interest rates neither fall nor rise, nobody will benefit.

For example, two parties can enter into an agreement to borrow $1 million after 60 days for a period of 90 days, at say 5%. This means that the settlement date is after 60 days, on which date the money will be borrowed/lent for a period of 90 days.

The party that is borrowing money under the FRA has a long position, and the party that is lending money has a short position in the FRA.
If the then rate is greater that the FRA rate, then the long is effectively able to borrow at a below market rate. The long will therefore receive a payment based on the difference between the two rates. If, however,

the then rate was lower than the FRA rate, then long will make a payment to the short. The payment ends up compensating for any change in interest rates since the contract date.
FRAs can be based on different periods, and are quoted in terms of months to settlement date and the months to completion of interest period. In our example, the settlement date is after 60 days (2 months), and then there is an interest period of 90 days (3 months). The contract will complete after a total of 2+3 = 5 months. This FRA will be referred to as 2×5 FRA.
FRAs are generally used to lock in an interest rate for transactions that will take place in the future. For example, a bank that plans to issue or roll over certificates of deposit, but anticipates that interest rates are headed upward, can lock in today's rate by purchasing FRA. If rates do rise, then the payment received on the FRA should offset the increased interest cost on the CDs. If rates fall, the bank pays out.

The above example demonstrated how FRAs are used to lock in an interest rate or debt cost. FRA's can also be used to lock in the price of a short-term security to be bought or sold in the near future.

- If the investment is being purchased, you can hedge the risk that interest rates may fall (which would increase the price of the investment) by selling the FRA.
- If the investment is being sold, you can hedge against the risk of rates rising (which would depress the sales price of the security) by buying the FRA.

Intended Retail Investor

Forward rate agreement is typically intended for sophisticated investors with extensive knowledge and/or experience in derivatives products. Forward rate agreement is leveraged instruments, and because only a percentage of the contract's value is required to trade, it is possible to lose more than the amount of money deposited for a Forwards rate agreement position. Investors in this contract may have varying investment strategies and needs, including but not limited to speculation, arbitrage or hedging, and should adopt their investment horizons accordingly.

Risk Indicator

1	2	3	4	5	6	7

Low Risk High Risk

- Summary Risk Indicator: 7 The risk indicator assumes that a Forwards rate agreement is held until its expiration. The actual risk can vary significantly if you cash in at an early stage and you may get back less. Some Forwards rate agreement and Forwards rate agreement strategies have limited risk, but some can be high risk. Events, such as early closure of the position, may significantly impact the value of a Forwards rate agreement.

- The summary risk indicator is a guide to the level of risk of this product compared to other products. It shows how likely it is that the product will lose money because of movements in the markets or because we are unable to pay you.

- We have classified this product as 7 out of 7, which is the highest risk class. This rates potential losses from future performance at a very high level. This can result in large gains or losses.
- Be aware of currency risk. You may receive payments in a different currency depending on the product, so the final return you get may depend on the exchange rate between the two currencies. This risk is not considered in the indicator shown above.
- In some circumstances you may be required to make further payments to pay for losses. The total loss you may incur may significantly exceed the amount invested.
- This product does not include any protection from future market performance so you could lose some or all of your investment.

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

Let's take an example to understand how payments in an FRA are calculated.
Consider a 3×6 FRA on a notional principal amount of $1million. The FRA rate is 6%. The FRA settlement date is after 3 months (90 days from now) and the settlement is based on the then 90 day LIBOR.
Assume that on the settlement date, the actual 90-day LIBOR is 8%. This means that the long is able to borrow at a rate of 6% under the FRA, which is 2% less than the market rate. This is a saving of:
= 1,000,000 * 2% *90/360 = $5,000
This is the interest that the long would save by using the FRA. Since the settlement is happening today, the payment will be equal to the present value of these savings. The discount rate will be the current LIBOR rate.
FRA Payment = $5,000/(1+0.08)^(90/360) = $4,904.72

For more specific trading examples in this specific product can be found here.

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 FRA. A spread is the difference between the Sell ("Bid") and Buy ("Ask") price of the FRA 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	*Spread*	This is the difference between the buy and sell price
	Forward Points	This is the difference between the spot and forward rate. It can be a charge or gain.
	Currency conversion	The cost of converting Profit or Loss from trades to the currency of your Trading Account
Recurring costs	*Swap fees*	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.