

# Hedging Policy

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Midas Markets Co Limited

Company Number 700483, Authorized and Regulated by the VFSC

## INTRODUCTION

This policy explains the methodologies that Midas Markets Co Limited ('Midas Markets', 'we' 'us 'our') uses to manage market risk and to decide upon the size of our exposure limits to our counterparties.

"Credit risk" is the risk that a counterparty of ours fails to perform its obligations which results in us incurring financial loss. By managing our credit risk, we intend to protect both our business and our clients from any sudden changes in the liquidity, credit quality or solvency of our banks or brokers.

We primarily take on market risk to facilitate instant execution of client trades. For this reason, our market risk limits are generally very conservative.

This policy covers how we deal with:

- (i) market risk;
- (ii) credit risk; and
- (iii) selecting and assessing counterparties.

### 1. Market Risk Mitigation, Monitoring and Reporting

We do not take proprietary positions based on an expectation of market movements. However, since we do not hedge all client transactions, we may have a net position in any of the markets on which we offer financial products. As such, we have exposure to market risk to the extent that it has a residual un-hedged position.

We have internal market risk procedures for setting limits for every financial market in which our clients trade, as well as certain groups of markets which we consider to be correlated. These rules limit the net exposure arising from client activities and hedging consistent with our risk appetite.

Our risk management systems allow us to continually monitor our exposure against these limits in real time and on a group-wide basis. If our exposure exceeds the limits as a result of clients' activities, we will carry out sufficient hedging to bring the exposure back within the defined limit.

Changes to our internal market risk procedures require approval by the Board of Directors.

### 2. Credit Risk Mitigation and Reporting

We have internal counterparty credit risk procedures for assessing credit risk and setting credit risk limits. These procedures are reviewed once every six months and presented to the Board for approval should any changes be proposed.

We review the credit quality of our major counterparties on an on-going basis, with a formal risk review for each counterparty performed at a minimum on an annual basis and more frequently if there is a significant change in market conditions or relevant news.

Our exposures to each counterparty are monitored on a daily basis and reported to our Risk Manager.

It is our policy to reduce the risk of counterparty failure through diversification and by setting each counterparty a risk-assessed exposure limit.

### 3. Minimum Criteria for Accepting Hedging Counterparties

We assess a potential hedging counterparty against a list of qualifying criteria that address whether they are of sufficient financial standing.

We do not accept a potential hedging counterparty unless they meet the minimum qualification criteria, which require the hedging counterparty to:

- 3.1 have adequate financial and compliance resources;
- 3.2 have an adequate financial license in its jurisdiction;

3.3 hold client funds in a reputable bank; and

3.4 have a good reputation within the financial industry.

Addition of new hedging counterparties or changes to existing counterparty limits require approval by the Board of Directors.

#### **4. List of Midas Markets Current Hedging Counterparty**

At the time of writing the Policy, Midas Markets only has one hedging counterparty which is BCR Co Pty Ltd. If you need any additional information, please feel free to contact us at [info@midasmarkets.com.vu](mailto:info@midasmarkets.com.vu).

##### **Hedging Counterparty**

BCR Co Pty Ltd

BVI Company Number 1975046

License Number SIBA/L/19/1122

[www.cfds.thebcr.com](http://www.cfds.thebcr.com)

#### **5. Fully Hedged Stop Out**

Fully hedging happens when traders realise that their open positions might be at risk and may result in the loss of some assets and money at the time market become volatile, thereby, open a new equal-sized position on the same trading instrument, but in opposite direction, in order to decrease exposure and the probability of suffering loss.

Stop out could also occur even though the client has already fully hedged all positions. This is due to there being certain costs like cost of spread and swaps that the client has to pay even when all positions are fully hedged. When market experiences bouts of volatility, including but not limited to, economic uncertainty, monetary or fiscal policy changes, financial contagion and geopolitical tension, prices can move extremely fast, and spreads can become easily bigger even for major pairs. Widening spreads are a warning because it is associated with decrease in equity.

#### **6. Fully Hedged Stop Out Disclaimer**

We will not be liable for any losses incurred by clients that is in connection with, including but not limited to, economic uncertainty, monetary or fiscal policy changes, financial contagion, or geopolitical tension, when clients have a hedged position.

We will not be liable to compensate any losses arising from, including but not limited to, economic uncertainty, monetary or fiscal policy changes, financial contagion, or geopolitical tension, when clients have a hedged position.

We shall be entitled or has right of recourse against the negative equity incurred by wholesale clients due to, including but not limited to, economic uncertainty, monetary or fiscal policy changes, financial contagion, or geopolitical tension, when clients have a hedged position.

#### **7. Fully Hedged Stop Out Risk Warning**

It is impossible to predict the actual time a stop out occurs on a trading account, as it is impossible to estimate the price or spread at any time in the fast-moving currency market.

Thereby, the client should prepare enough funds in their trading accounts as client orders are not necessarily executed at the last-traded price, especially during the release of news during important events. During which equity markets could inevitably experience occasional bouts of heightened volatility and widened spreads could possibly adversely affect all positions in an account.