

## INFORMATION ON FINANCIAL INSTRUMENTS

November 2021.

**Finveo**

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Investment company Finveo JSC provides detailed information to existing and potential clients on the characteristics and risks of financial instruments, appropriate to categorization of the client as a small or professional investor, which will enable the client to bring appropriate investment decision.

**Risk information in particular includes:**

- 1) risks connected to types of financial instrument, including clarification of financial leverage and its effect, as well as risk of investment loss,
- 2) the volatility of the price of a financial instrument and possible restrictions on the existing market for those instruments,
- 3) financial and other additional obligations of the investor in case of transaction with these financial instruments,
- 4) margin data and other liabilities related to the financial instrument.

## 1. Types of financial instruments

In accordance with the Law on Capital Market, financial instruments are:

- 1) transferable securities,
- 2) money market instruments,
- 3) investment units, in terms of the law governing the establishment and operation of investment funds and investment fund management companies,
- 4) derivatives, i.e. commodity derivatives, which include:
  - a) options, futures, swaps, interest rate forwards and other derivative financial instruments which are related to securities, currencies, interest rates or interest yields, greenhouse gas emission units, as well as other derivative financial instruments, financial indices or financial units that can be settled in cash or in exchange,
  - b) options, futures, swaps, interest rate forwards and other derivative financial instruments relating to commodities that are obligatorily settled in cash or may be settled in cash at the request of one of the counterparties, for reasons not related to default or contract termination,
  - c) options, futures, swaps and other derivative financial contracts relating to commodities that can be physically settled, provided that those commodities are traded on a regulated market and / or MTP and / or OTP, other than wholesale energy products traded on OTP which must be settled by exchange,
  - d) options, futures, swaps, forwards and other derivative financial instruments that relate to commodities and can be physically settled, in a manner not provided for in subparagraph (c) of this item, which are not held for trading and have the characteristics of derivative financial instruments,

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- e) derivative financial instruments for credit risk transfer,
- f) financial contracts on differences,
- g) options, futures, swaps, interest rate forwards and other derivative financial instruments related to climate change, transportation costs, greenhouse gas emission units or inflation rates or other official economic statistics that must be settled in cash at the request of a from counterparties for reasons not related to non-performance or termination of contracts, as well as other derivative financial contracts related to assets, rights, liabilities, indices and other units of measure that have the characteristics of other derivative financial instruments traded on a regulated market , MTP or OTP and
- h) greenhouse gas emission units.

## 2. Handling financial instruments and entrusting businesses

An investment firm is obliged to regularly review financial instruments it offers or sells, taking in consideration risks of targeted market, and in particular the adaptation of the financial instrument of the target market as well as suitability of the strategy for its distribution.

## 3. Book of trading and book of non-trading positions

The book of trading contains positions in financial instruments held by an investment company for the purpose of trading or to hedge positions in other financial instruments that held in that book and for which there are no restrictions on trading them, nor there are restrictions to hedge those positions.

The book of non-trading positions contains all positions of financial instruments and commodities which are not covered by the book of trading.

## 4. Dealing with the client's financial instruments

In order to advantageously execute the order when there are several places of order execution with a financial instrument, it estimates and compares expenses of its provision and expenses of order execution at each of those places of execution.

## 5. Recording and reporting on data which are related to transactions performed by electronic access to the trading venue

An investment company is obliged to record data referring to transactions with financial instruments carried out by that company, for its account or clients account, with electronic asset to the trading venue.

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## 6. Financial instruments risks

Financial instruments transactions, including the purchase and sale of financial instruments carry its own certain risks. By concluding the Order / or the Broker agreement contract, the Client confirms that he is aware of risks associated with the capita market, that the company has made available to him the data and information he has requested and that he has satisfactorily answered in regard to the market circumstances and financial instruments to which the order refers to.

In its operations, the company is exposed to the following risks in particular:

- market risks,
- credit risks,
- liquidity risks,
- operational risks,
- risks of exposure to one person or group of related persons and
- other risks.

**1) Market risks are** risk of price change, risk of settlement of obligations and risk of the other counterparty, risk of exceeding allowed exposures, currency risk.

**2) Credit risk is** the risk of loss that arises due to non-fulfilment of a financial obligation of a person towards the company. Credit risk is reflected in the fact that the issuer of a financial instrument is unable to pay contractual interest or principal on its debt obligations. During the assessing of the credit risk of certain financial instruments, the Company will use the ratings of rating agencies if applicable to a specific credit risk assessment. If not applicable, the company will use its own techniques for assessing the creditworthiness of both financial instruments as well as clients, which are primarily internally developed fundamental analyse techniques.

**3) Liquidity risk is** the risk of possibility of negative effect on financial result and capital of the Company due to inability of the Company to meet due obligations.

The Company measures liquidity by comparing the balance of its liquid assets and current liabilities on a daily bases.

The investment company is obliged to calculate the amount of liquid capital in cash, risks, exposure and qualifying holdings on a daily bases.

**4) Operational risk is** risk of loss due to errors, interruptions or damages that can occur due to inadequate internal procedures, actions of persons, system or external events including the risk of changes of the legal framework.

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**5) The Company's exposure to one person is** the total amount of receivables related to that person or group of related parties (loans, investments in debt securities, participation and investments in equity, issued guaranties, etc.).

**6) Other risks are** risk of competition and financial crises and reduction of demand for services.

### *Risk warning*

Trading with financial instruments carries a high level to your capital because prices can move very quickly in the opposite direction. You should consider whether you have a good understanding of the nature of financial contracts for differences (CFDs) and whether you can take high risk of losing money. You can lose all funds, but not more than you have on your trading account. These products may not be suitable for all clients, so make sure you understand the risks and look for independent advice.

## 7. Contract for differences (CFD)

A CFD is a complex financial instrument that carries a high amount of risk and it is not suitable for investors who do not have appropriate level of financial knowledge and experience. A CFD is a derivative financial instrument and is a bilateral agreement between two parties that contains and depends on the underlying assets contained in the derivative. When the Client places an order for the purchase or sale of a CFD, it trades exclusively with the Company as another counterparty, unless we forward the order for sale to a third party.

When the Client trades in an OTC derivative instrument such as CFD, the value and payment of related liabilities are determined with respect to the movement of the price underlying assets contained in the derivative or the underlying financial instrument or reference point. As such, when entering into an order to buy or sell a CFD, the Client speculated with the movement of the price of the underlying financial instrument (underlying assets contained in derivative or CFD).

The Client declares that he understands when trading with derivative such as CFD, he does not become the owner of the underlying assets contained in the derivative or the underlying financial instrument, and that he will not receive a physical delivery of such a financial instrument. As the owner of the CFD, the Client is not entitled to attend and / or vote at any general meeting of shareholders of the financial instrument to which the CFD is linked.

### 7.1 OTC transactions

When trading CFDs with us, such transactions will not be executed on a recognized or designated exchange and are known as OTC transactions. All positions you have entered with us must be closed with us and cannot be closed with any other entity. OTC transactions may involve a higher investment risk because there is no stock exchange on which to close an open position. It may be impossible to liquidate an existing position, assess the value of a position arising from an OTC transaction, or assess risk exposure. Supply and demand prices may not be determined by us

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based on the best execution policies applied in the market. There is no central clearing and no guarantee from any other party regarding the payment obligations of Finveo JSC to the client.

## 7.2 Conflict of interest

Finveo JSC is the other contracting party to all transactions concluded under the Investment Services Agreement and, therefore, Finveo JSC interests may conflict with yours. Our Conflict-of-Interest Management Policy is available on the website [www.finveo.mn](http://www.finveo.mn).

## 7.3 Risks associated with long positions of CFD, i.e. for CFD buyers

CFD's long position means you are buying CFDs in the market by speculating that the market price of the underlying asset will rise between the time of purchase and sale. As the owner of a long position, you will make a profit if the market price of the underlying asset increases while the CFD long position is open. On the contrary, you will suffer a loss if the market price of the underlying asset falls while the CFD long position is open. Your potential loss may therefore be greater than the initial margin. In addition, you may incur a loss due to the closure of your position, in case you do not have enough cash to margin in your account to maintain an open position.

## 7.4 Risks associated with short CFD positions (Short), i.e. for CFD sellers

A short position in a CFD means that you are selling CFDs in the market speculating that the market price of the underlying asset will fall between the time of purchase and sale. As the owner of a short position, you will make a profit if the market price of the underlying asset decreases while the CFD short position is open. On the contrary, you will suffer a loss if the market price of the underlying asset increases while the CFD short position is open. Your potential loss may therefore be greater than the initial margin. In addition, you may incur a loss due to the closure of your position, in case you do not have enough cash to margin in your account to maintain an open position.

## 7.5 Currency risk

Investing in CFDs with underlying assets denominated in a currency other than your base currency involves currency risk due to the fact that, when the CFD is settled in a currency other than your base currency, the value of your return may be affected by conversion to the base currency.

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## 7.6 No guarantee of profit

There are no guarantees of profit or avoidance of losses when trading CFDs. The client did not receive such guarantees from any of the company's representatives. The client is aware of the risks associated with trading CFDs and is financially able to bear such risks and bear any losses incurred.

## 7.7 Leverage

Leverage trading applies only to derivative financial instruments, in this case contracts of difference (CFDs) and means that the Client can trade with the values of the underlying assets contained in the derivative that are significantly higher than the funds actually invested by the Client, which serve exclusively as a margin. High leverage can significantly increase potential earnings, but it can also significantly increase potential losses. Leverage is defined as the ratio of the burden on the Client's assets to the total value of the underlying assets contained in the derivative or CFD (for clients who are citizens of Montenegro 1:100, but a client who is not a citizen of Montenegro may be granted a higher leverage).

For example, with a leverage ratio of 1:20, a client can trade an imaginary amount 20 times his / her available capital (i.e. \$ 20 for every \$ 1).

## 7.8 Margin

"Margin" represents the necessary funds in the account to maintain its current position in all transactions collectively, at the relevant time. For example, in the default leverage ratio of 1:20, the required "margin" or the level of money in the account in relation to the underlying assets contained in the derivative is 5%. The "margin" level and leverage refer exclusively to trading in derivative instruments, i.e. instruments that enable greater exposure to the underlying assets contained in the derivative in relation to holding an open position in the underlying assets directly.

Where the Client does not provide a margin level for open positions it holds, up to a critical margin level that is critical (close out), the Company has the right to start closing all positions in the Client's account in connection with transactions for which the Client did not provide the required level of margin, starting from the position that is most unprofitable for the Client.

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