Financial Instruments and Risks

GLOBAL FUNDS EXCHANGE EAD may render investment services regarding all types of financial instruments under the meaning of MFIA as follows:

- contract for differences, options, futures, swaps, forward agreements and other derivatives, in compliance with Art.3 of MFIA;
- securities (shares, bonds and other securities under the meaning of POSA);
- money market instruments;
- unit undertakings for collective investment.

2. The Investment firm shall render the investment services regarding the following financial instruments, traded over-the-counter:

2.1. Contracts for differences on currency –

Trade Mechanics for CFD on currency

The methodology for CFD trading on currency described below is part from the General conditions, applicable to the client's agreements with GLOBAL FUNDS EXCHANGE EAD. You should take into consideration that the explanation method for trading below is applicable for every CFD in the Platforms and is not restricted only to CFD trading on currencies.

The process of trading CFDs on currencies using the Platform starts with the downloading of the trading platform. The Platform has to be downloaded from the company's website. The client uses his/her username and password to login inside the platform. Once logged in, the client will see the following windows: 1. Products window that shows all available trading instruments, 2. Buy or Sell window, 3. Open Positions, Pending Orders, Closed Positions 4. Margin display window that will indicate a real time available and utilized margin and how close the account is to the margin call, 5. Indicative charts.

After the client gets accustomed with the platform he/she can proceed with placing trades by clicking on a "Buy/Sell Window". There the client chooses what type of an order he/she wants to place.

The client places an order through an electronic platform, presented by GLOBAL FUNDS EXCHANGE and for this purpose has to fill in all necessary fields in the order window – name of the instrument for which an order is made, volume (lots), price, direction (buy or sell), order type (market, limit order or stop order), validity (daily, to date, good till canceled).

To submit a new order, the client must have sufficient funds available to cover the margin requirement, which depends on the leverage chosen by the Client.

Upon submission of the order the Client shall consider the amount of his/her available free resources and size of the margin. The client may not open a new position if the free funds in the account are less than the amount of required margin which will be blocked when opening of a position.

Once the order is made it is transmitted to the Provider of quotes who executes it and sends GLOBAL FUNDS EXCHANGE a confirmation that the order is executed. At this point the Client can see his/her order in the window "Open orders" or "Non-executed orders" if the order has not yet been executed.

When a Client wants to close an open position, he/she clicks on the "Sale" window and closes the position or clicks directly the "Close" option on the opened position. Once the position is closed the Client can see it in the statement for closed positions or to require from the Platform to provide statement from which all opened and closed positions for the day or for a period of time may be seen.

In real time the Client can see the size of his margin.

It is a must for the Client to maintain at all-time funds which are sufficient to cover the margin amount blocked.

When the insufficiency of free funds in the Client's account reaches 70% of the amount of the margin blocked GLOBAL FUNDS EXCHANGE sends a notification to the Client's Email for immediate depositing of additional funds.

When the insufficiency of free funds in the Client's account reaches 100% of the amount of margin blocked GLOBAL FUNDS EXCHANGE has the right to close automatically all open Client's positions at current market prices.

It shall be noted and the Client must be aware that due to the high volatility in the trade with CFD on currency in a very short term after the receiving of the notification that insufficiency of free funds in the Client's account has reached 70% of the amount of the margin blocked, the market can change in such a way that the insufficiency of free funds in the Client's account reaches 100% of the sum of the margin blocked even before the Client has managed to deposit additional funds.

The Client receives a message that his/her positions are closed. The Client sees a statement showing what items have been closed due to insufficient margin. The Client can trade any time, depending on the trading hours of each product.

Risk disclosure statement concerning CFDs

This brief statement does not disclose all of the risks and other significant aspects of trading Contracts for Difference ("CFD"). In light of the risks, the Client should undertake such transactions only if he/she understands the nature of CFDs and the contractual relationships into which he/she is entering and the extent of his/her exposure to risk. Trading in CFDs may not be suitable for many members of the public. The Client should carefully consider whether trading CFDs is appropriate for him/her in light of his/her experience, objectives, financial resources and other relevant circumstances. In considering whether to trade CFDs, the Client should be aware of the following risks:

a. Effect of “leverage" or “gearing”:

Transactions in CFDs carry a high degree of risk. The amount of initial margin is small relative to the value of the agreement with the Client so that transactions are “leveraged” or “geared”. A relatively small market movement will have a proportionately larger impact on the funds the Client has deposited or will have to deposit; this may work against the Client as well as for the Client. The Client may sustain a total loss of initial margin funds and any additional funds he/she deposits with the Firm to maintain his/her position. If the market moves against Client's position or margin levels are increased, the Client may be called upon to deposit substantial additional funds on short notice in order to maintain his/her position. If the Client fails to comply with a request for additional funds within the time prescribed, Client's position may be liquidated at a loss and the Client will be liable for any resulting deficit in Client's account.

b. Risk – reducing orders or strategies:

The placing of certain orders (e.g. stop orders, or limit orders) that are intended to limit losses to certain amounts may not be effective because market conditions may make the execution of such orders possible at first available price. At times, it may also be difficult or impossible to close a position without incurring substantial losses. Strategies using combinations of positions, such as “spread” and “straddle” positions, may be as risky as taking simple “long” or “short” positions.

c. Risk from suspension or restriction of trading and pricing connections:

Market conditions (e.g. illiquidity) and/or the operation of the rules of certain markets (e.g. the suspension of trading in any contract because of price limits, government intervention or reasons beyond the counterparty’s control) may increase the risk of loss by making it difficult or impossible to effect transactions or liquidate/offset positions.

d. Deposited cash and property:

The Client has to familiarize him/herself with the protections accorded to money or other property he/she deposits for the trading of CFDs, particularly in the event of Client's counterparty’s insolvency or bankruptcy. The extent to which the Client recovers his/her money or property may be governed by specific legislation including by the provisions concerning the Investors Compensation Fund.

e. Commission and other charges:

Before the Client begins to trade, he/she should obtain a clear explanation of all commission, fees, markups, markdowns and other charges for which the Client will be responsible. These charges will affect Client's net profit (if any) or increase Client's loss.

f. Price risks:

The profit or loss in transactions in CFDs will be affected by fluctuations in price.

g. Quotation Provider’s market:

CFDs are not traded on a regulated market and therefore do not require open outcry. Instead, CFDs are traded in the OTC dealer market. The Client will transact at prices provided by the quotation provider with whom GLOBAL FUNDS EXCHANGE works. Even though quotation providers' quotations and prices are assisted by many computer-based component systems, its quotations and prices may vary due to market liquidity and may not be as favorable as those of other dealers. GLOBAL FUNDS EXCHANGE ’s trading facilities are supported by computer-based component systems for the order-routing, execution or matching of trades. As with all facilities and systems, GLOBAL FUNDS EXCHANGE 's Trade platform are vulnerable to temporary disruption or failure. Client's ability to recover certain losses may be subject to limits on liability set forth in the GLOBAL FUNDS EXCHANGE agreement with the Client and the agreements of other dealers, banks or financial institutions which may at times act as Client's counterparty.

h. Electronic trading:

Trading on an electronic trading system may differ not only from trading in the open outcry market, but also from trading on other electronic trading systems. If the Client undertakes transactions on an electronic trading system, the Client will be exposed to risks associated with the system including the failure of hardware and software. The result of any system failure may be that Client's order is either not executed according to Client's instructions or is not executed at all.

i. Off – exchange transactions:

In CFD transactions, firms are not restricted in effecting off-exchange transactions. It may be difficult for the quotation provider or impossible for it to liquidate an existing position, to assess the value, to determine a fair price or to assess the exposure to risk of a CFD position. For these reasons, these transactions may involve increased risks. Before the Client undertakes CFD transactions, the Client should familiarize him/herself with applicable risk rules and procedures of the Investment firm and its quotation providers.

j. Interest rate risk:

This is the risk that the change in the market interests percents may influence negatively the income or the value of the instrument. The changes in the interest rates levels may cause loss of capital to the financial instruments holders. The importance of this risk for the different types of financial instruments may differ.

k. Currency risk:

The investment in instruments which are denominated in foreign currency may be influenced negatively by the decrease of the rate of this currency in connection to other currency. Increase or decrease of the currency rates could cause loss or profit for the financial instruments which are denominated in the respective currency.

l. Operational risk:

This is the risk from direct or indirect losses due to problematic inside control, act by a person, organization or outer event. This risk covers human errors, employees acts, breakdown of information systems, problems with the human resources management, company activities as well as outer events such as fires, floods, and etc.

m. Delays in in the Platform:

A delay in in the Platform may occur for various reasons, such as technical issues with the Client's internet connection to the servers, which may result in hanging orders. The Trade platform on a Client's computer may not be maintaining a constant connection with the servers due to a lack of signal strength from a wireless or dialup connection. A disturbance in the connection path can sometimes interrupt the signal, and disable the Trade platform, causing delays in transmission of data between the Platform and the server.

n. Widened Spreads:

GLOBAL FUNDS EXCHANGE EAD strives to provide Clients with tight, competitive spreads; however, there may be instances when spreads widen beyond the typical spread. During news events spreads may widen substantially in order to compensate for the tremendous amount of volatility in the market. The widened spreads may only last a few seconds or as long as a few minutes. GLOBAL FUNDS EXCHANGE EAD strongly encourages Clients to utilize caution when trading around news events and always be aware of their account equity, margin requirements and market exposure. Widened spreads can adversely affect all positions in an account including hedged positions.

o. Hanging Orders:

During periods of high volume, hanging orders may occur. This is a condition where an order sits in the "Orders" window marked in certain color showing that the firm has not yet executed it. Hanging orders do not result from Platform's errors but from high market trade when the Platform is not able to process immediately all orders.

During periods of heavy trading volume, it is possible that hanging orders will form. That increase in incoming orders may sometimes create conditions where there is a delay from the Quotation providers in confirming certain orders. If hanging orders occur and the respective order cannot be filled at the Client's specified price the order will be filled at the next best market price if the Client accepts this price. If the Client does not confirm the order's execution at the next best market price the Platform automatically cancels the order.

Clients shall enter any order once. Multiple entries for the same order may slow or lock the Platform or inadvertently open unwanted new positions.

p. Diminishing margin

Any time the Platform informs the Client for his/her margin level. When the insufficiency of free funds in the Client's account reaches 70% of the amount of the margin blocked GLOBAL FUNDS EXCHANGE sends a notification to the Client's Email for immediate depositing of additional funds.

When the insufficiency of free funds in the Client's account reaches 100% of the amount of margin blocked GLOBAL FUNDS EXCHANGE has the right to close automatically all open Client's positions at current market prices. In such cases the Client accepts the price levels at which GLOBAL FUNDS EXCHANGE has closed the positions. Although maintaining a long and short position may give the Client the impression that his exposure to the market's movement is limited, if spreads widen for any period of time that leads to insufficient available margin, it may result in a Liquidation Margin Call on all positions for which the Client receives the relevant information.

q. Greyed Out Pricing:

The Investment firm does not intentionally "grey out" prices; however, this is a condition that occurs when liquidity decreases, and market makers that provide pricing to platform are not actively making a market for particular currency pairs. At times, a severe increase in the difference of the spread may occur due to a loss of connectivity with a bank or due to an announcement that has a dramatic effect on the market that dries out liquidity. Such greying out of prices or increased spreads may result in a Liquidation Margin Call on a Client's account. When an order is placed on a currency pair affected by greyed out prices, the profit/loss will temporarily flash to zero until the pair has a tradable price and the system can calculate the profit/loss.

r. Hedging:

The ability to hedge allows a Client to hold both buy and sell positions in the same currency pair simultaneously. Clients have the ability to enter the market without choosing a particular direction for a currency pair. While the ability to hedge may be an appealing feature to some, Clients should be aware of the factors that may affect hedged positions.

s. Rollover Costs:

Rollover is the simultaneous closing and opening of a position at a particular point during the day in order to avoid the settlement and delivery of the purchased currency. This term also refers to the interest either charged or applied to a Client's account for positions held "overnight," or after the exact time specidied on the Platform and/or on the website. The time at which positions are closed and reopened, and the rollover fee is debited or credited, is commonly referred to as Trade Roll over (TRO). It is important to note that rollover charges will be higher than rollover accruals. When all positions are hedged in an account, although the overall net position may be flat, the account can still sustain losses due to the spread that occurs at the time of the Trade Roll Over.

t. Exchange Rate Fluctuation (PIP COSTS):

Exchange rate fluctuations, or Pip Costs, are defined as the value given to a pip movement for a particular currency pair. This cost is the currency amount that will be gained or lost with each pip movement of the currency pair's rate and will be denominated in the currency denomination of the account in which the pair is being traded.

When a Client's position is hedged against exchange-rate risk, it is still exposed to exchange-rate volatility if the counter currency of the pair being hedged differs from the denomination of the account.

u. Holiday/Weekend Execution/Trading Desk Hours:

The quoting hours for the Investment firm are on the Firm's website. The open or close times may be altered by the Investment firm because it relies on prices being offered by banks and financial institutions that provide liquidity for market.

Outside of these hours, most of the major world banks and financial centers are closed. The lack of liquidity and volume during the weekend impedes execution and price delivery.

v. Prices updating before the open:

Shortly prior to the open, the Trading Desk refreshes rates to reflect current market pricing in preparation for the open. At this time, transactions and orders held over the weekend are subject to execution. Quotes during this time are not executable for new market orders. After the open, Clients may place new orders, and cancel or modify existing orders.

w. Liquidity:

The Client shall be aware that during the first few hours after the open, the market tends to be thinner than usual until the Tokyo and London market sessions begin. These thinner markets may result in wider spreads, as there are fewer buyers and sellers. This is largely due to the fact that for the first few hours after the open, it is still the weekend in most of the world.

x. Inverted Spreads:

When the Client trades with the Investment firm, the Client is trading on quotations that are being provided by Quotation providers. Generally the price to go "long" (buy) a currency pair will be always higher than the price you can go "short" sell the same currency pair. The difference between the two prices is called "spread". Currency market is the highest volume market in the world and thus for some currency pairs the spread could be inverted – when there are market participants willing to pay more for a currency pair than its current price "buy". Thus the counterparty in such transaction will be able to buy the currency pair at a lower price than the participant with inverted spread is ready to pay. This could last only a second and the Client may incur profit or lose depending on whether he/she sells or buys the currency pair.

In case the Client has made an order in a situation of so called “Inverted spreads” (notwithstanding the fact the Client loses or wins from it) which are not in line with the quotations of the Quotation providers, the Platform always automatically reverses the spread so that the transaction will be executed at the real price levels.

It is difficult to point out certain factors that always cause inverted spreads. However certain levels of demand and supply of a particular instrument including general economic fluctuations may cause inverted spreads.

y. Gapping:

Sunday's opening prices may or may not be the same as Friday's closing prices. At times, the prices on the Sunday open are near where the prices were on the Friday close. At other times, there may be a significant difference between Friday's close and Sunday's open. The market may gap if there is a significant news announcement or an economic event changing how the market views the value of a currency. Traders holding positions or orders over the weekend should be fully comfortable with the potential of the market to gap. One of the great things about trading at the Investment firm is that outside of announced major holidays, the trading hours routinely close only once a week on the weekends, which corresponds with the hours of major banks and financial institutions. In contrast, most stock exchanges close five times each week, and can gap significantly on each day's open.

z. Weekend risk

Clients who fear that the markets may be extremely volatile over the weekend, that gapping may occur, or that the potential for weekend risk is not appropriate for their trading style, may simply close out orders and positions ahead of the weekend.

aa. Margin requirement;

The idea of margin trading is that Client's margin deposit acts as a good faith deposit or a performance bond to secure the larger notional value of Client's position. Margin trading allows investors to hold a position much larger than the actual account value.

Trading on margin carries a high degree of risk, since high leverage may work against the Client as well as for the Client.

Margin requirements may change at any time without notice. The Trading platform may set higher margin requirements based on account size, simultaneous open positions, trading style, market conditions, etc. It is the Client's responsibility to ensure there is sufficient margin in the account at all times. All quotes and trades are subject to the terms and conditions of the agreement between the Client and the Investment firm. The Client is able to monitor his/her margin constantly.

ab. Chart Pricing vs. Prices Displayed on the Platform:

It is important to make a distinction between indicative prices (displayed on charts) and executable prices (displayed on the Platform). Indicative quotes are those that offer an indication of the prices in the market, and the rate at which they are changing. Market watchers, such as S&P and eSignal, compile indicative quotes as a proxy for the market's actual movement. These prices are derived from a host of contributors such as banks and clearing firms, which may or may not reflect where the platform liquidity providers are making prices.

Indicative prices are usually very close to executable prices. Indicative quotes only give an indication of where the market is. Equity and futures traders trading through a broker will see indicative quotes. Executable quotes ensure finer execution and thus a reduced transaction cost. Equity and futures traders are used to prices being the same at any given time, regardless of which firm they are trading through or which charting provider they are using, and they often assume the same holds true for CFD on currency.

Because the CFD on currency is decentralized, meaning it lacks a single central exchange where all transactions are conducted, each CFD broker may quote slightly different prices. Therefore, any prices displayed by a third-party charting provider, which does not employ the CFD broker’s price feed, will reflect "indicative" prices and not necessarily actual "executable" prices where trades can be executed.

2.2. CFD on equity

CFD on equity risks

The common CFD risks specified above shall be applicable together with the risks related to shares/equity enlisted below herein.

3. The Investment firm shall render investment services regarding the following types of securities

3.1. Shares. Shares are securities providing their holders with title to a given share of a company. Ordinary shares are also giving their holders voting right at the General Shareholders' Meeting and a right to a dividend and a liquidation share. Privileged shares, issued by public companies may give right to additional or guaranteed dividend, or guaranteed liquidation share, or redemption privilege; the private companies may issue shares with other privileges. The privileged shares may be without voting right. In case of capital increase the shareholders are also entitled with right to subscribe new shares proportionally to the share they own before the increase. The shareholders of a company may benefit from income from dividend, if the company distributes such dividend, also from the increase of the market price of the shares.

Risks related to shares:

a) Price risk:

The price risk is the risk of changes in the prices of given shares, as a result of which the shareholders might incur loss from resale of the shares they own. The change in the price of shares depends on the influence of various in degree of influence factors - net asset value of the company, achieved financial results, reputation, supply and demand on the public markets, economic condition and perspectives for development of the country, etc. The issuer may not guarantee that the price of the securities, offered by him will remain the same and will increase its value. He will not redeem its securities with a purpose to preserve the current market prices.

b) Liquidity risk;

The liquidity risk is the risk from uncertainty for the presence of active seeking of the shares for a certain time period. The low liquidity would impede the prevention of possible losses or realization of capital gains by reason that the shares will be impossible to be sold.

c) Inflation risk;

The inflation risk is the possibility of increase of the general level of the prices in the economy as a result of which the purchasing capacity of the local currency -BGN - falls. The inflation processes lead to decrease in the real profitability, which the investors receive.

d) Currency risk

The currency risk, related with shares results from the fact that shares are denominated in a given currency. The change in the exchange rate of the said currency to another currency would change the profitability, which the investors expect to receive, comparing it with the profitability, which they might receive of an investment, made in another currency. The eventual depreciation of the currency, in which the shares are denominated would cause decrease in the profitability of investing in these shares. On the other side, the decrease of the profitability would cause a drop in the investors' interest and respectively decrease in the shares' prices.

e) Lack of guarantee for payment of annual dividends The financial result depends on many factors. The skills and professionalism of the managers' team of the issuer, the development of the market, on which the issuer operates, as well as the economic development of the country and the region as a whole. In addition, a resolution for distribution of the profit in a way of dividend shall be adopted by the General meeting of shareholders of the issuer. The investors shall take into consideration that it is possible that in a given year the issuer may not achieve profit, and even it achieves such the General meeting of shareholders may not adopt resolution to distribute it in a way of dividends.

3.2. Corporate bonds.

Corporate bonds are instruments for colectment of financial resource by the joint-stock companies in the form of a loan. The risk of each issue bonds depends on the activity, financial statement and the credit rating of the company-issuer, as well as of existence or of the type of the collateral on the issue. The incomes from them are usually higher than the incomes from commensurable in maturity state securities, mortgage or municipal bonds.

Risks related to bonds:

a) Credit risk

The credit risk is risk of delay in the payments (interests and/or principal) or non-payment by the issuer of the interest payments and/or the principal on the bond loan after the day of payment. This risk is minimized in the cases of bonds with collateral, if the issuer has "clear" credit history, i.e. have paid promptly and without delay his credits.

b) Inflation risk

The bonds with fixed income presume risk, related to decrease in the profitability of the investment in case of enhancement of the inflation. The enhancement of the inflation reduces the purchasing ability of incomes, generated by the bonds (interest payments). As a result of this dependence the bond holders shall determine their expectations for the normal and real expected level of the inflation for the term of the bonds, as well as their expectations for the real return of the made investment on the basis of the nominal incomes. In case that the level of the inflation turns out to be higher than the one expected for the period, the investors will realize lower real income. In such situation it is the normal for prices of the obligations on the secondary market to decrease, by reason that the investors in the new higher levels of inflation will insist on higher nominal profitability from their investments, with a purpose to achieve the same or similar profitability.

With the introduction in Bulgaria of the currency board the inflation drop significantly to relative low levels, which depend generally on external factors (imported inflation) and on concrete fiscal measures undertaken by the government. The control over the inflation to be on levels similar to these in the Eurozone lead to the stabilization of the whole macroeconomic environment. Though, the relative low level of inflation risk in the country after 1998 enables the economic subjects to generate non-inflation incomes from their activities and significantly facilitate the prognosis of the short-term and middle-term future results. Despite the positive trends concerning the index of inflation it shall be taken into consideration that the sociability of the Bulgarian economic, the dependence of the economic on energetic sources and the fixed rate BGN/EUR generate risk from import of inflation.

c) Interest rate risk

The interest rate risk is related to the possibility for change in the market interest levels in the country. The change in the interest levels may have direct influence upon the supply and demand of debt instruments with fixed income by reason of the reverse subordination between the prices and the profitability of the bonds. In case of increase of the interest levels the price of the bonds with fixed income shall reduce. The bonds acuired on a given price at lower market interest rates already bring lower profitability compared to the alternative investments and this may make the investor to look for a posibility to sell the securities, which in the new conditions would be expected to be done on a lower price that the cost price and to look for an alternative way for investment in another type of instruments. The opposite situation will arise in case the market interest levels fall - the price of the bonds with fixed income will raise. In such situation the investors would win from the increased profitability of the bonds compared to the alternative ways of investment and from the higher price of the bonds on the secondary market.

The valuation of the interest risk for the investors is reduced to measurement of the dependence between the prices of the bonds and their profitability, an indicator to which is the duration of the relevant bonds, which reflects how much will change the price of the relevant bond at one point change in the interest rate.

d) Liquidity risk

The liquid risk of the bonds is analogous to the same risk of the shares. This risk is directly related with the liquidity of the securities market, on which the bonds are traded (if they are admitted to trading on such market) and represents the potential possibility for purchase and sell in short terms and usual volumes of the bonds in question. The lack of liquidity on the secondary market is a serious problem for each investor, whose investment horizon is shorter than the term to the maturity of the bonds.

e) Foreign exchange risk

Bonds, issued by Bulgarian companies are usually denominated in BGN or in EUR and to this reason the local and European investors are to a great extent protected from the foreign exchange risk. Based on the assumption that the Currency board will last as a monetary system in Bulgaria till the country joins the European monetary union (i.e. passing to "testing" period of a floating course of exchange or so called ERM II), foreign exchange risk for the investment in such type of bonds does not exist for investors, whose assets are in BGN or EUR. For the investors, whose initial means are denominated in US dollars or other currency risk exists by reason of the permanent volatility of the exchange rates.

3.3. Mortgage bonds. According to the Bulgarian legislation mortgage bonds shall be issued only by banks. The banks issue such securities to refinance their operations and to increase their credit portfolios. It is typical for the mortgage bonds that they have as a collateral reimbursements on mortgage credits, allotted by the bank-issuer (general discharge). For replacement of partly or fully paid-off mortgage credits the bank-issuer shall include a substitute collateral in the form of money in cash or via bank accounts; receivables against /or fully guaranteed by/ the government of the Bulgaria or BNB, etc. The substitute collateral of the mortgage bonds of a given issue may not exceed 30 per cent of the total amount of the obligations of the bank-issuer on the said issue. The collateral of the mortgage bonds of a given issue (the sum of the general and substitute collateral) may not be less than the total amount of the obligations on principals of the outstanding outside the bank-issuer mortgage bonds from this issue.

3.4. State securities ("SS"). State securities are debt securities, issued and guaranteed by the state. The owner of such securities is a creditor of the state. The Bulgarian state issues SS to cover its short-term, middle-term or long-term needs of financial resource.

State securities can be denominated in BGN, as well as in EUR, US dollars or in other currency. All Bulgarian SS are guaranteed by the Republic of Bulgaria; notwithstanding that they are in principle related with the risks on debt securities, they are considered as low risked or non-risked instrument.

3.5. Securities (bonds) issued by regional or local bodies of a country. The Bulgarian municipalities issue municipal bonds. Usually their issue is with a purpose to be collected funds for fulfillment of an investment program, improvements in the municipal infrastructure and similar activities. They can be with collateral (municipal property or other assets) and without collateral (guaranteed only with the reputation of the municipality - issuer). In case of good financial statement of the municipality - issuer or qualitative collateral this type of debt securities are also considered as low risk financial instruments. In principle the risks, typical for debt securities shall apply also to the municipal bonds.

3.6. Securities traded on a regulated market in a Member State and third countries (outside of EU) with developed capital markets. When the Investment firm offers services related with investment in one of the above mentioned types of securities, traded on a regulated market in another Member States it shall be taken into consideration that in principle the rights on the said securities and the risks related with them are analogous to the above mentioned.

3.7. Exchange-traded funds (ETF). ETF is an investment vehicle traded on primary exchanges, much like major stocks or bonds. An ETF represents a collection or 'basket' of assets such as stocks, bonds, or futures. Institutional investors are allowed to redeem shares of the ETF for shares of the underlying asset or, alternately, exchange shares of the underlying asset for shares of the ETF. This creation and redemption of shares enables institutions to engage in arbitrage and causes the value of the ETF to track the aggregate value of the underlying assets. Most ETFs track an index, such as the Dow Jones Industrial Average or the S&P 500.

An ETF takes the form of a collective investment scheme and trades on a securities exchange at prices closely related to its net asset value. An ETF thus combines the valuation feature of a mutual fund or unit investment trust with the tradability feature of a closed-end fund. ETFs have been available in the US since 1993 and in Europe since 1999. ETFs were traditionally index funds but by 2008 the U.S. Securities and Exchange Commission had authorized the creation of actively-managed ETFs.

ETFs allow for easy diversification and reduced exposure to the risks associated with trading single shares. Also, ETFs allow individual investors to participate in the economic growth of an industry or sector not available to the market in which the ETF is traded, such as foreign markets, commodities, and real estate.

All investments involve certain types of risk, and ETFs are no exception. Some risk considerations associated with investing in ETFs are discussed below.

ETF related risks

a) Market risk

Market prices for securities and prices of ETF shares fluctuate continuously based on a variety of factors, such as economic conditions, global events, investor sentiment, and security-specific factors. The prospect of a market decline and its impact on security prices—as well as,

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by extension, on ETF share prices— should be considered general market risk associated with investments in ETFs.

b) Credit risk

Credit risk refers to an issuer's ability to make payments of principal and interest when due. An interruption in the timely payment of such amounts, by a company in which the ETF invests, may adversely affect an ETF's share value or the ability of the ETF to pay dividends. It is important to remember that equity investments (including investments in equity-based ETFs) possess credit risk. To the extent that a company in which the ETF invests is in default or bankruptcy, the equity securities (e.g., common stocks) of that company would lose value. Thus, the credit risk associated with these securities is effectively borne by the ETF.

If you should have questions or require clarification as to any of the risk disclosed herein, please do not hesitate to contact GLOBAL FUNDS EXCHANGE EAD.