



Stock Margin Trading Risks

Stock Margin Trading is a complex service involving trading with borrowed money. It comes with an increased potential for both gains and losses. You should consider whether you understand how Stock Margin Trading works. This document presents the specific risks associated with Stock Margin Trading.

How trading on margin affects gains and losses

Stock Margin Trading increases your exposure to losses. If the value of your investments falls, your losses will be greater than if you had invested only your own money.

You may lose more than the amount you initially invested. You must repay the loan and any interest in full, even if the value of your investments falls or becomes worthless.

The borrowed funds under Stock Margin Trading are not a deposit and are not protected by any investor compensation or deposit protection scheme *against investment losses*.

How your shares are used in margin trading

The shares purchased through Stock Margin Trading are used as collateral to secure the credit provided to you, together with any applicable fees and charges.

In addition, as further explained below, **you give eToro the legal right to reuse the shares bought through the Stock Margin Trading service.**

This includes that, in order to facilitate the credit provided to you, we also grant equivalent reuse rights to a US third-party broker which we utilize to facilitate the Stock Margin Trading services. When exercising its own reuse rights, the third party broker is not subject to the rules and regulations of Europe or the UK but to the applicable local client assets protection rules and regulations of the U.S.

As an example of these rules, the right to reuse is limited to a maximum amount defined by such US legislation applicable to the third party broker.

Your contractual relationship in relation to the Stock Margin Trading Service remains with eToro at all times. eToro remains responsible for administering the service and for its obligations to you under the applicable terms and regulatory requirements.

What happens when your shares are reused

Once a right of reuse is exercised, the shares:

- may be **rehypothecated**. This means that your pledged shares may be lent to and/or used by a third-party (including the third party US broker) ; and
- **are subject to the client asset, custody and insolvency protection U.S. rules and regulations.**



Credit and counterparty risk

If a right of reuse has been exercised such that the shares have been rehypothecated, and eToro or the relevant third-party broker becomes insolvent, those shares may not be treated as your assets.

This means that the shares may form part of the insolvent firm's assets.

In such circumstances, US client asset protection rules and regulations will apply. These laws and regulations are designed to ensure that US broker-dealers maintain and segregate sufficient assets to meet their outstanding liabilities and participate in the US statutory investor protection scheme.

Risk relating to daily valuations

Shares subject to a right of reuse, including any shares over which a right of reuse has been exercised, are valued on a daily basis. These daily valuations are used to ensure that the total value of shares subject to a right of reuse does not exceed the applicable prescribed limits.

Due to the timing of daily valuations, there may be short periods during which the value of shares subject to a right of use exceeds the applicable limit, or temporary differences may arise where the value of shares reused exceeds the secured obligation

How market conditions, costs and liquidity can affect your investment:

Market movements and position closures

The value of shares and other investments can fall as well as rise, sometimes rapidly. Market movements outside your control may cause the value of your investments to fall below the required margin level.

Your margin loan must be maintained within agreed limits, known as the margin requirement. eToro may change the margin requirement from time to time in accordance with applicable terms.

If the value of your investments falls, you may be required to provide additional money or assets to restore the required margin level.

If you fail to do so, eToro may sell some or all of your investments without prior notice.

Automatic sale may occur when market conditions are unfavourable, including during periods of reduced market liquidity. You may not be able to choose which investments are sold or the price at which they are sold.

This may result in losses and may still leave you with a remaining amount to repay.



How borrowing costs and market liquidity may affect you

Margin trading involves borrowing money. You will pay interest on the amount you borrow, and interest rates and other charges may change over time. Interest continues to accrue for as long as the loan is outstanding, regardless of how your investments perform.

In some market conditions, it may be difficult or impossible to sell investments quickly or at a reasonable price. This may affect your ability to close positions or repay the loan and may increase your losses.

Important considerations

Margin lending is complex and high risk. It is not suitable for all investors.

You should only proceed if you:

- fully understand how margin lending works
- can provide additional funds to meet the required margin level if market conditions move against you to avoid your positions being closed automatically; and
- can afford losses that may exceed your initial investment due to leverage, costs and market movements.

If you are unsure whether margin lending is appropriate for you, you should seek independent financial advice before proceeding.