CITYINDEX

Risk Warning Notice for Contracts for Difference ("CFDs")

Significant risks of trading in CFDs

Trading in CFDs carries with it a very high risk. These products should be regarded as highly speculative investments. You should not engage in CFD trading unless you understand the nature of such trading, the nature of the particular transaction you are entering into and the true extent of your exposure to the risk of loss. The amount that you may gain or lose will vary according to the extent of the fluctuations in the price of the Underlying Instrument to which your trade relates. You may lose the Initial Margin Requirement invested in respect of a particular trade. In order to trade successfully in CFDs you should be experienced in dealing in equity derivatives (CFDs only) and understand the geared or leveraged nature of these products. This section outlines the significant risks that you must be aware of and understand before making any decision to invest in CFDs. It does not purport to indicate all the risks associated with CFDs as this will depend on your personal financial circumstances, but highlights significant risks which we believe are important.

1.1 Leverage Risk

Gearing or leverage is a particular feature of CFDs. The risk arises from the margining system applicable to CFD trades which generally involves a comparatively modest deposit of a margin as a proportion of the total consideration. A relatively small movement in the Underlying Instrument or currency pair can have a substantial effect on your trade. An adverse movement can quickly result in the loss of your entire Initial Margin Requirement.

You should also be aware that leverage risk can be amplified through the use of a credit facility or any form of borrowing to fund your CFD trading, particularly credit cards.

1.2 Additional Deposits

The Initial Margin Requirement is the amount that is required to be deposited with us in order to open a CFD position and represents a percentage of the contract value. If the market moves against you and your account moves into deficit, you may be required to pay additional funds into your account if you do not wish to have your positions closed out. The amount of additional funds will be the Initial Margin Requirement plus any net equity less cash and collateral held.

If your account moves into deficit you have two options. You can either reduce your position in order to reduce your Initial Margin Requirement or deposit additional funds into your account in order to increase the equity amount.

If you do not adopt one of these options, your trade may be compulsorily closed at a loss and you may lose your entire Initial Margin Requirement. We may close out your position if you are in default of your account.

You should not open CFDs positions in sizes that are so large that you are not sure that you will be able to pay any additional funds into your account.

1.3 Gapping Through and Restrictions on Stop Loss or Limit Orders

Stop-loss Orders and Limit Orders are only available on selected instruments and we are absolutely entitled to refuse to accept any Stop-loss Orders or Limit Orders on any instrument. Stop-loss Orders and Limit Orders are non-guaranteed unless at the time of placing the order it is expressly guaranteed by us. Non-guaranteed orders are vulnerable to Gapping Through.

Gapping Through occurs when the market moves rapidly to a price which is worse for you than at the level a Stop Loss order has been placed. This will usually result in your order being filled at a price worse than the price specified in the order. Optional GSL orders, which may be placed at a small premium in price or Commission, prevent the occurrence of a Stop-loss Order not being filled at the level required.

We may impose a Stop-loss Order on any of your open CFDs in the event that we reasonably believe such action is necessary or desirable to limit the losses on any of your open positions.

1.4 External Market Prices

Financial markets can be very unpredictable and share prices may fluctuate. The value of the other instruments such as indices or foreign exchange may also fluctuate. This will affect the value of CFD trades.

1.5 Market Approval

CFDs are 'over the counter' transactions. This means when you trade a CFD with us such a transaction is not undertaken on an approved financial market such as a stock exchange or futures exchange. However, you are only allowed to open or close a trade during City Index Trading Hours unless we quote out-of-hours prices for a particular transaction. These out-of-hours prices will be quoted on our website www.cityindex.com.au.

1.6 Buy/ Sell Spread Risk

Your position may be subject to market volatility risk and prices may change while your position is open. The opening and closing price of a CFD contract quoted to you will be derived from the price in the Underlying market for that instrument, subject to your proposed trade being at or below the normal market size for that instrument. The size of the difference between our 'buy' and 'sell' prices may change while your CFD contract position is open to reflect changing market conditions. It may, therefore, be the case that there is a wider difference between the 'buy' and 'sell' prices you are quoted when closing a CFD contract than when it was opened. Under certain trading conditions it may be difficult or impossible to execute a trade (for example, trading in the Underlying Instrument is restricted or suspended for whatever reason or the trade is above the normal market size).

1.7 Liquidity Risk

The depth of the market in which your CFDs are traded may limit your ability to close out your CFD. Where a stock is tightly held by market participants the market in the Underlying Instrument is 'illiquid'. If this is the case it may be difficult for you to close your position with us at the time or price that you want. Should you open a substantial CFD position in an illiquid market, a corresponding hedging transaction that we may have entered into, may be above the normal market size for the instrument in question and represent a large transaction. In an illiquid market, it may take us hours, days or even weeks to properly hedge against your CFD position. During these illiquid times you may not be able to close out your CFD position and it is possible that the price of the CFD could move against you.

1.8 Foreign Exchange Rate Risk

All trades are conducted in the currency appropriate to the Underlying Instrument of the CFD contract and will be converted to Australian Dollars at the previous day's closing exchange rate for the purposes of calculating the components of your account summary. We do not however physically convert your positions and it is your responsibility to contact us with your instruction As a result, because exchange rates are volatile and may be different from one day to the next, this may affect your net position.

1.9 Interest Rate Risk

The interest paid or received on account will vary according to the interest rate fluctuations specified by City Index for the currency in which the account is held.

For example, the Daily Funding Charge is determined by the Reserve Bank Interbank Overnight Cash Rate (RBA IOCR) plus a margin. The RBA IOCR is subject to change by the RBA and will affect the costs associated with an open CFD position. The same is true for interest rates in foreign markets which will affect the Daily Rollover Charge.

1.10 Changes in margins, fees and costs

Fees and costs can be changed by City Index under the Customer Agreement. Changes in Margin requirements, fees and costs made as a result of the day-to-day volatility of the regular market functioning will be posted on the web-site in the day the change becomes effective.

1.11 Cessation of the Underlying Asset or Trading

Your CFD position may be closed if there is any interruption to trading on the market for the Underlying Asset or currency; or if the Underling Asset or currency is no longer traded for any other reason, for example, where the company issuing the Underlying Asset has been acquired.

1.12 Discretion to close your position in certain circumstances

In exercising our rights under the CA we may close any of your open CFD positions, exercise a right of set-off, close your accounts or refuse to accept any further CFD positions from you upon the occurrence of an event of default, or an event of insolvency of the company issuing the Underlying Instrument, whether or not you have made a complaint and it is necessary to mitigate both your and our losses or as otherwise provided in the CA.

1.13 System Infrastructure

City Index has disaster recovery procedures in place. Despite these procedures, we cannot guarantee the ITP will always be available or accessible when the exchanges on which the Underlying Instrument in respect of which you have traded or wish to trade are open. We may have to remove altogether or reduce the ITP service at any time for any purpose.

Our computer records of your trades are conclusive evidence of your CFD position. If you are having any difficulty with the website or the ITP you should telephone the following numbers:

- For customers in Australia: 1800 354 182
- For customers elsewhere please visit: www.cityindex.com.au

1.14 Unregulated markets

As CFDs are not traded on licensed markets, some of the protections afforded to trades conducted on licensed markets are not available for CFDs.

1.15 Regulatory changes

Regulatory changes in taxation, corporations and other laws, as well as fiscal, monetary and regulatory policy changes may affect your dealings with City Index.

1.16 Solvency of City Index

City Index Limited is the counterparty to you in each CFD transaction you enter. If City Index Limited were to become insolvent then there is the possibility that we might not be able to meet any or all of our obligations to you as counterparty.