RISK DISCLOSURE NOTICE

SAXO MARKETS

Effective as at **3 September 2020**

Saxo Markets is a registered Trading Name of Saxo Capital Markets UK Limited
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Registered in England & Wales under registered no: 7413871 | Authorised and regulated by the Financial Conduct Authority

1. INTRODUCTION

1.1 In this Notice any reference to **us**, **we**, **our** or **Saxo Markets** means Saxo Capital Markets UK Limited and any reference to **you** or **the client**, is a reference to a client of Saxo Markets.

1.2 This Notice is provided to you in compliance with the Financial Conduct Authority (FCA) Handbook of Rules and Guidance. Below is an overall description of the characteristics of investment products offered by Saxo Markets and of the risks associated with these products and the markets on which they trade.

1.3 Saxo Markets is a wholly owned subsidiary of Saxo Bank A/S, a private company incorporated in Denmark (Company No: 15731249). Saxo Bank executes all Saxo Markets' client orders on our behalf, whether we are acting as principal or agent to the trade. Saxo Markets does not execute client orders through any other dealing venue or counterparty. We therefore place reliance on Saxo Bank as our single execution venue. However, in accordance with regulatory requirements, Saxo Markets remains solely responsible to its clients for taking all sufficient steps to obtain the best possible result for them.

2. INVESTMENT PRODUCT TYPES

2.1 General

2.2.1 All financial investments involve an element of risk. The value of any investment you make may fall as well as rise and you may get back less than your initial investment. Past performance is not an indication of future performance.

2.2.2 The risks you are exposed to will differ according to the instruments you trade with us or instruct us to buy and sell on your behalf. You should be aware that:

a) physical shares admitted to trading on a regulated market are not high risk financial products;
b) many Exchange Traded Funds are not high risk financial products; and
c) exchange Traded Commodities and certain ETFs are considered high risk financial products, normally due to their use of derivatives, and are not appropriate for many individuals.

2.2.3 When trading CFDs, FX or other derivative products, the amount of initial margin required to open a position may be small, relative to the value of the derivative contract. Typically, the initial margin required is dependent upon the product but effectively this means that you trade the products using leverage.

2.2.4 With leveraged products, a relatively small price movement in the underlying asset may result in proportionately larger profits or losses. If the market moves against your position(s) and/or the margin requirements are increased, you may be required to deposit additional funds at short notice in order to maintain your open margined position(s). If you do not provide additional funds or other acceptable collateral to satisfy the margin requirements (where applicable) Saxo Markets will be entitled to close your open margined position(s). Consequently, you will be liable for any losses or deficit on the account as the result of the close out. It is important to note that it is your responsibility to ensure that you continuously monitor your account at all times and that Saxo Markets is not obliged to provide you with any alert regarding failure to maintain margin on your account.

2.2 Leveraged Products

2.2.5 ***Foreign Exchange Trading (FX)***

a) When trading in FX, the investor speculates in the development of the price of one currency relative to another, where one is sold and the other is purchased. By way of example, an investor may sell British pounds (GBP) against the US dollar (USD) if they expect that the USD will increase relative to the GBP.

b) FX is traded as a margin product. Margin refers to the use of a small amount of capital to support an investment of a larger exposure. Please note that margin trading requires extra caution, because whilst you can realise large profits if the price moves in your favour, you risk extensive losses if the price moves against you. For further understanding of Margin, please refer to Saxo Markets' General Business Terms.

c) FX may be traded as FX Spot or FX Forward. FX Spot is the purchase of one currency against the sale of another for immediate delivery. The objective of trading an FX Forward outright is to gain exposure to fluctuations related to the underlying currency pair without owning it. Your return depends on the size of the performance (or movement) of the underlying currency pair and the size of your position. This product is entered into for the purpose of speculation or hedging and is commonly traded on margin.

d) The currency exchange market is the world's largest financial market with 24 hour trading all working days. It is characterised, among other things, by a relatively low profit margin compared to other products. A high profit is therefore subject to a large trading volume, which is achieved by margin trading as described above. When trading in FX, a gain net of costs, such as commission and spread, will be realised by one market player and always be offset by another player's loss. FX transactions are always made with Saxo Markets as counterparty, and Saxo Markets quotes prices based on the prices that it can obtain in the market.

   FX trades are complex instruments and come with a high risk of losing money rapidly due to leverage. You should consider whether you understand how FX works and whether you can afford to take the high risk of losing your money. You may need to provide further funds with little or no notice. It is possible to lose more money than you have deposited into the account.

2.2.6 ***Contracts for Difference (CFDs)***

a) A CFD is speculation in changes in values. The product allows you to speculate in future increases or decreases in the value of a specific asset. If your speculations prove to be correct, you will make a profit from the difference in value (less costs), but you will have to pay the difference in value (plus costs) if your speculations turn out to be wrong. Being tied to an underlying asset, the value of a CFD depends on that asset. CFDs are always margin traded (see the above paragraph on FX transactions). CFDs are normally traded with Saxo Markets as the counterparty, but some CFDs are traded on a regulated market. However, the price always moves with the price of the underlying product, which is in most cases traded on a regulated market. The price and liquidity of CFDs on individual shares mirrors the price and liquidity of the share on the market in which the share is admitted for trading. This is different to index CFDs, which are over-the counter (OTC) products with a price fixed by Saxo Markets on the basis of the price and liquidity of the underlying shares, the futures market, estimated future dividends, the effects of interest rates and any other relevant factors relating to CFD trading.

b) As CFDs are margin traded, allowing you to take a larger position than you would otherwise be able to based on your funds with Saxo Markets, a relatively small negative or positive movement in the underlying instrument can have a significant effect on your investment. CFD trading therefore involves a high level of risk.

c) CFDs are complex instruments and come with a high risk of losing money rapidly due to leverage. You should consider whether you understand how CFDs work and whether you can afford to take the high risk of losing your money. You may need to provide further funds with little or no notice. It is possible to lose more money than you have deposited into the account.

2.2.7 ***Futures***

a) Futures trading involves speculating on the price of a specific underlying asset going up or down in the future. A future gives the holder a standardised obligation to either buy or sell the underlying asset at a specified price at a certain date in the future. The underlying asset may, for instance, be raw materials, agricultural produce or financial products. Depending on the nature of the future, the asset either has to be settled for the price difference or by actual delivery at the settlement date. Futures are

always traded on margin (see Clause 2.1 above). Futures are always traded in a regulated market, either by direct trading in the stock exchanges' trading systems, or by reporting of transactions.

b) As futures are margin traded, they allow you to take a larger position than you would otherwise be able to based on your funds with held in your Saxo Markets account and a relatively small negative or positive market movement can have a significant effect on your investment. Futures trading therefore involves a relatively high degree of risk. This makes the potential gain high, even if the deposit is relatively small. However, if your total exposure on margin trades exceeds your deposit, you risk losing more than your deposit.

2.2.8 ***Options trading (Contract Options)***

a) Options trading is highly speculative and is not suitable for all investors due to the risks involved. Buyers and sellers of Contract Options should familiarise themselves with the type of option (i.e. put or call, bought or sold) they intend to trade and the associated risks.

b) A Contract Option gives you the right or the obligation to either buy or sell a specified amount or value of a particular underlying asset at a fixed exercise price, by the option being exercised either before or on its specified expiration date. A Contract Option which gives you the right to buy or the obligation to sell is a call option and a Contract Option that gives you the right to sell or the obligation to buy is a put option.

c) A Contract Option that is in the money on expiry will always be exercised.

d) Trading Contract Options involves a high level of risk. Contract Options that give you the right to either sell or buy an underlying asset (bought Contract Options) might expire worthless and your initial investment (i.e. premium and transaction costs) will be lost. Contract Options that give you the obligation to either sell or buy an underlying asset (sold Contract Options) can result in substantial (potentially unlimited) losses. To ensure you will be able to cover losses on sold Contract Options, Saxo Markets will require margin charges. Nonetheless, potential losses can exceed the margin charged and you will be liable for these losses.

e) If your total exposure on margin trades exceeds your deposit, you risk losing more than your deposit. If the underlying asset of a Contract Option is a margin traded product (i.e. a derivative), and if the Contract Option is being exercised by the buyer, then the buyer (in case of a call option) or the seller (in case of a put option) of the Contract Option will acquire a position in the underlying margin traded product with associated risks as well as liabilities to provide margin.

f) Please note that if you are considered appropriate for the product, by default, you will be enabled for buy Contract Options (puts and calls) only. Should you wish to be enabled to write / sell Contract Options (puts and calls), please contact Client Account Services.

2.2.9 ***Stock Options***

a) Final Settlement of Stock Options requires physical delivery of the underlying stocks vs. payment of the strike value in cash. If you are holding a stock option position, but are short either cash or stocks, you will not be able to settle the option position and you will fail to deliver on his contractual obligation.

b) Final settlement of a Stock Option position occurs when you, the holder of a long option position exercises your right to buy or sell the underlying stocks on and/or, in case of American Style options, prior to expiry. On expiry, all in-the-money long option positions held by you are automatically exercised. Both prior as well as on expiration, if you hold short option positions, you will be assigned by means of a random assignment lottery. At expiry, there should be no "assume" procedure for delivering on short option positions. Instead of the assume procedure, the clearing statements from the broker should be used to reflect the true exchange expiry outcome.

c) As a general rule, you have a responsibility to meet the delivery requirements related to your option positions. As such Saxo Markets will not pre-emptively act on client positions to avoid delivery failure. It will be your responsibility to manage your positions especially when approaching expiry to make sure

you can meet any delivery obligations.

d) If you fail to meet your delivery obligation, Saxo Markets will act on your behalf and without the need to notify you in advance to resolve the delivery failure. Saxo Markets will resolve a short stock position by acquiring the required stocks at market price. Saxo Markets will resolve a short cash position by liquidating any or all positions under delivery and if available any long option position that provided cover for a settling short option position. In the Exchange Traded Options context, this will be referred to as default handling. Transactions executed for the purpose of default handling, will be charged additional (substantial) commissions. Default Handling will be performed by Saxo Markets.

e) Closing the position before expiry will avoid default handling by Saxo Markets on your account.

f) If Saxo Markets is exposed to uncollateralised losses incurred by clients, Saxo Markets reserves the right to act pre-emptively and close-out some or all of your positions that could cause potential losses which you cannot carry on your account balances. Pre-emptive close-out will be conducted by Saxo Markets' Market Analysis & Control.

2.2.10 ***Bonds (fixed income)***

a) Bonds are short to long-term debt securities that securitise a claim for repayment of a principal amount plus accrued interest vis-a-vis the issuer of the instrument.

b) These are the primary risks associated with bonds:
   - *Issuer risk*
     the risk that the issuer (or guarantor) is not able to honor its obligations under the security (i.e. interest payments and repayment of the principal amount).
   - *Interest rate risk*
     Increases in interest rate levels in general may have a negative impact on the price of the security on the secondary market.

It is important to note that bonds may trade below their nominal value during the term of the instrument.

2.3 Non-Leveraged Products

2.3.1 ***Shares***

a) Shares or Stocks represent a portion of a company's share capital. The extent of your ownership in a company depends on the number of shares you own in relation to the total number if shares in issue. Shares are bought and sold on exchanges and their values can go down as well as up.

b) These are the primary risks associated with shares:
   - *Currency risk*
     If you trade in a market denominated in a currency other than your base currency, currency exchange fluctuations will affect your profits and losses.
   - *Liquidity Risk*
     Under certain market conditions you may be faced with difficulty or the inability to liquidate a position. This may occur, for example, at times of rapid price movement if the price rises or falls in one trading session to such an extent that under the rules of the relevant exchange trading is suspended or restricted.

2.3.2 ***Exchange Traded Funds (ETFs)***

a) ETFs are listed collective investment schemes. Similar to classic collective investment schemes, ETFs may (depending on the ETF's strategy) invest in various asset classes, such as equities, bonds, real estate or commodities. The value of an ETF is therefore determined by the value of its underlying investments, i.e. the assets into which the ETF invests. Accordingly, you should also read the risk disclosure related to the specific underlying product type (e.g. for a Bond ETF you should consult Clause 2.2.6 above).

b) ETFs are not actively managed by an investment manager, but rather mirror an index. The index can be reflected in two ways, either physically, i.e. through investments in index components, or synthetically, i.e. through the use of derivative instruments (e.g. swaps).

c) These are the primary risks associated with investments in ETFs:
- *Market risk*
  ETFs are subject to the market risk of the assets they invest in or which are reflected in the index.
- *Tracking risk*
  The value of ETFs can fall as well as rise, and you could get back less than you initially invest. The specific risks of each ETF are dependent on the benchmark the ETF seeks to track (i.e. what the ETF itself is invested in. ETFs which invest in emerging markets are often subject to higher levels of volatility than those invested in the developed world and the price of ETFs which invest in bonds will likely change if interest rates do. ETFs that focus on a specific country or sector may display greater volatility than those tracking the wider market and so should be considered as higher risk than more diversified ETFs. However, there are no guarantees that an ETF will have the same characteristics as the benchmark index and the returns will vary from that of the benchmark index. There are no guarantees that an ETF will have the same characteristics as the benchmark index and the returns will vary from that of the benchmark index.
- *Counterparty risk*
  In case the index is replicated synthetically, there is a counterparty risk in relation to the swap/derivative counterparty. It may not be possible to trade units or shares in ETFs if there is no liquid market. If there is low liquidity in the market then we may not be able to buy or sell units at a price considered to be fair, which could have a negative impact on the value of your portfolio. More detailed information including information on the total cost for the management and operation of the ETF, i.e. information on the Total Expense Ratio (TER), can be found in the relevant fund documentation.
- *Liquidity risk*
  It may not be possible to trade units or shares in ETFs if there is no liquid market. If there is low liquidity in the market then you may not be able to buy or sell units at a price considered to be fair.

2.3.3 ***Exchange Traded Commodities (ETCs)***

a) ETCs track the performance of individual commodities, the entire commodity sector, or a sub-sector.

b) Characteristics of ETCs can vary significantly from the underlying market to which they provide exposure. The value of your investment can go down as well as up and you might not get back the originally amount you invested.

c) It may not be possible to trade units in ETCs if there is no liquid market or if there is low liquidity in the market then you may not be able to sell units at a price considered to be fair. In relation to the ETCs that you may purchase, you do not have any right to the underlying instruments.

d) Other risks in stock trading and ETF include:
- *Market Orders*
  Certain exchanges do not support Market orders. If a client places a market order in these markets, Saxo Markets will automatically convert the order to an aggressive Limit order within a certain percentage limit "in the money". The Percentage Limit varies between 1% and 4% depending on the exchange and the type of instrument. Please note that it is your responsibility to check if the order is filled in the market after order entry.
- *Market Orders placed during closed markets:*
  Saxo Markets supports the placement of market orders while the market is closed. As the market may open at a very different price from where it closed, this could lead to shares being bought for more cash than is available in your account. To minimise this risk, the system will calculate an additional cash buffer that must be available in order to place market orders to buy shares. Should the order placement be rejected a limit order may be attempted instead as the limit price

will provide a maximum purchase price.

- *Split Orders*
  In case an order regarding a security is split and filled partially over a period of more than one day, the total trading costs may increase. The reason for such increase is that the minimum fee may be charged more than one time based on the number of days necessary for the total execution of the order.
- *Order Routing during US Market Open*
  In general, Saxo Markets consolidates liquidity from a number of sources in addition to the primary exchange to improve the execution price for our clients. However, when there is a delay in the opening of a listing on the primary exchange, orders sent prior to the opening uncross will only participate on the primary exchange until trading commences. Other sources of liquidity (secondary venues, dark pools, MTFs etc.) are utilised post primary market open. Please note, you may see streaming prices inside the trading platform before the primary exchange is open depending on your data subscription. However, market orders, stop orders or aggressive limit orders submitted prior to the open, will not be filled until the opening print from the primary exchange.

2.4 **Collateral Risks (only applicable to professional clients)**

2.4.1 If you are a professional client, you can use a percentage of your shares' value as margin collateral to increase your market exposure when trading Forex, CFDs, Futures and Options.

2.4.2 The value of shares and margin products will rise and fall. If the collateral value of the assets in your account together with any cash falls below the amount required to maintain your open positions, you may be closed out of your margined positions and Saxo Markets will have the right to sell the assets in your account in order to pay for any resulting deficit.

2.4.3 As the value of the assets in your account fluctuates, the value of the collateral that you can utilise as margin will also fluctuate. You will need to monitor all your positions to ensure that the collateral value and any cash you have deposited is sufficient to fund your open positions.

2.4.4 Saxo Markets also allows a percentage of the investment of certain bonds to be used as collateral to trade margin products such as Forex, CFDs, Futures and Options.

3. GENERAL TRADING AND OTHER RISKS

3.1 **Market Risks**

3.3.1 It is important that you understand that trading financial instruments on different markets has its own inherent risk. Some of such risks include:

- *Currency*
  If you transact in an instrument denominated in a currency other than your account currency, you will be subjected to currency fluctuation which may ultimately impact the profit and loss of the transaction.
- *Volatility*
  Movements in the price of the instruments can be volatile and unpredictable. 'Gapping' (a sudden shift in the price of the instrument up or down from one level to next, without trading at the prices in between) can occur and result in a significant loss. Gapping can occur both when the underlying market is open and when it is closed.
- *Liquidity*
  Market conditions can change significantly in a very short time and this will impact the price, spreads and sizes that your order is executed. under certain trading conditions it may be difficult or impossible to liquidate a position. This may occur for example at rapid price movement if the price rises or falls in one trading session to such an extent that under the rules of the relevant exchange trading is suspended or restricted.

3.2 **Insolvency**

Saxo Markets' insolvency or default, or that of any other brokers involved with your transaction, may lead to positions being liquidated or closed out without your consent. In certain circumstances, you may not get back the actual assets which you lodged as collateral and you may have to accept any available payments in cash. On request, we must provide an explanation of the extent to which we will accept liability for any insolvency of, or default by, other firms involved with your transactions.

3.3 **Non-readily realisable investments**

We may arrange or enter into transactions in non-readily realisable investments. These are investments in which the market is limited or could become so. You may have difficulty selling this investment at a reasonable price and, in some circumstances, it may be difficult to sell it at any price. Do not invest in such investments unless you have carefully thought about whether you can afford it and whether it is right for you.

3.4 **Suspensions of trading**

Under certain trading conditions it may be difficult or impossible to liquidate a position. This may occur, for example, at times of rapid price movement if the price rises or falls in one trading session to such an extent that under the rules of the relevant exchange trading is suspended or restricted. Placing a stop-loss order will not necessarily limit your losses to the intended amounts, because market conditions may make it impossible to execute such an order at the stipulated price.

3.5 **Internet Trading Risks**

There are risks associated with trading on an electronic internet-based deal execution trading system. If you undertake transactions electronically over the internet you will be exposed to risks associated with internet trading including, but not limited to, the failure of hardware, software and internet connection.

3.6 **Need to Monitor Positions**

It is important that you monitor all of your positions closely. It is your responsibility to monitor your positions and during the period that you have any open Contracts or Transactions, you should always have the ability to access your accounts.

3.7 **Clearing House Protections**

On many exchanges, the performance of a transaction by us (or third-party with whom we are dealing on your behalf) is 'guaranteed' by the exchange or clearing house and we may have the benefit of certain legal protections from our clearing member. However, it is unlikely that in most circumstances this guarantee or legal protections will cover you, the customer, and may not protect you if we or, another party were to default on obligations owed to you.

3.8 **Tax**

Your tax treatment is your responsibility. Please note that tax rules may change and are subject to HMRC interpretation in individual cases. Saxo Markets does not provide tax advice and if you are in any doubt as to your tax obligations, you should seek independent advice.

3.9 **Regulatory and Legal Risk**

The risk that a change in laws and regulations will materially impact a security and investments in a sector or market. A change in laws or regulations made by the government or a regulatory body can increase the costs of operating a business, reduce the attractiveness of investment and/or change the competitive landscape and as such alter the profit potential of an investment. This risk is unpredictable and may vary from market to market. In emerging markets such risk may be higher than in more developed markets. For example in emerging markets the inadequacy or absence of regulatory measures can give rise to an increased danger of market manipulation, insider trading or the absence of financial market supervision can affect the enforceability of legal rights.

RISK DISCLOSURE NOTICE

Effective as of 30th July 2018

This Notice is provided by Saxo Capital Markets UK Ltd (registered in England with number 7413871) whose registered office is at 40 Bank Street, Canary Wharf, London E14 5DA (**we**) to **you** in compliance with the **FCA Rules**. Saxo Capital Markets UK Ltd is authorised and regulated by the Financial Conduct Authority.

All words and expressions defined in the General Business Terms shall, unless the context requires otherwise, have the same meaning in this Notice.

The following statements are intended to make **you** aware of and disclose to **you** the nature and risk of certain investment types and trading strategies and potential for risk and loss that will arise in respect of trading on the financial markets.

This Notice cannot disclose all the risks and other significant aspects of either the investment types such as warrants and derivative products including futures, options, and contracts for differences, or the different trading strategies. Before undertaking any trading you must familiarise yourself with the product that you propose to trade and the way in which the market operates. Please ensure that you read all the information on our Website that is relevant to the trading that you propose to undertake with us. You should not deal in these products unless you understand their nature and the extent of your exposure to risk. You should also be satisfied that the product is suitable for you in the light of your circumstances and financial position. Certain strategies, such as a "spread" position or a "straddle", may be as risky as a simple "long" or "short" position.

Although warrants and/or derivative instruments can be utilised for the management of investment risk, some of these products are unsuitable for many investors. Different instruments involve different levels of exposure to risk and in deciding whether to trade in such instruments **you** should be aware of the following points:

1 SECURITISED DERIVATIVES

These instruments may give **you** a time-limited right or an absolute right to acquire or sell one or more types of investment, which is normally exercisable against someone other than the issuer of that investment. Or they may give **you** rights under a contract for difference, which allows for speculation on fluctuations in the value of the property of any description or an index,

such as the FTSE 100 index. In both cases, the investment or property may be referred to as the "underlying instrument".

These instruments often involve a high degree of gearing or leverage, so that a relatively small movement in the price of the underlying investment results in a much larger movement, unfavourable or favourable, in the price of the instrument. The price of these instruments can therefore be volatile.

These instruments have a limited life, and may (unless there is some form of guaranteed return to the amount **you** are investing in the product) expire worthless if the underlying instrument does not perform as expected.

You should only buy this product if **you** are prepared to sustain a total or substantial loss of the money **you** have invested plus any commission or other transaction charges.

You should consider carefully whether or not this product is suitable for **you** in light of **your** circumstances and financial position, and if in any doubt please seek professional advice.

2 FUTURES

Transactions in futures involve the obligation to make, or to take, delivery of the underlying asset of the contract at a future date, or in some cases to settle the position with cash. They carry a high degree of risk. The gearing or leverage often obtainable in futures trading means that a small deposit or down payment can lead to large losses as well as gains. It also means that a relatively small movement can lead to a proportionately much larger movement in the value of **your** investment, and this can work against **you** as well as for **you**. Futures transactions have a contingent liability, and **you** should be aware of the implications of this, in particular the Margining requirements, which are set out in paragraph 8 below.

3 OPTIONS

There are many different types of options with different characteristics subject to the following conditions.

Buying options:

Buying options involves less risk than selling options because, if the price of the underlying asset moves against **you**, **you** can simply allow the option to lapse. The maximum loss is limited to the premium, plus any commission or other transaction charges. However, if **you** buy a call option on a futures contract and **you** later exercise the option, **you** will acquire the future. This will expose **you** to the risks described under "futures" and "contingent liability investment transactions".

Writing options:

If **you** write an option, the risk involved is considerably greater than buying options. **You** may be liable for Margin to maintain **your** position and a loss may be sustained well in excess of the premium received. By writing an option, **you** accept a legal obligation to purchase or sell the

underlying asset if the option is exercised against **you**, however far the market price has moved away from the exercise price. If **you** already own the underlying asset which **you** have contracted to sell (when the options will be known as "covered call options") the risk is reduced. If **you** do not own the underlying asset ("uncovered call options") the risk can be unlimited. Only experienced persons should contemplate writing uncovered options, and then only after securing full details of the applicable conditions and potential risk exposure.

Traditional options:

Certain London Stock Exchange member firms under special exchange rules write a particular type of option called a "traditional option". These may involve greater risk than other options. Two-way prices are not usually quoted and there is no exchange market on which to close out an open position or to effect an equal and opposite transaction to reverse an open position. It may be difficult to assess its value or for the seller of such an option to manage his exposure to risk.

Certain options markets operate on a Margined basis, under which buyers do not pay the full premium on their option at the time they purchase it. In this situation **you** may subsequently be called upon to pay Margin on the option up to the level of **your** premium. If **you** fail to do so as required, **your** position may be closed or liquidated in the same way as a futures position.

4 CONTRACTS FOR DIFFERENCE

Futures and options contracts can also be referred to as contracts for difference. These can be options and futures on the FTSE 100 index or any other index, as well as currency and interest rate swaps. However, unlike other futures and options, these contracts can only be settled in cash. Investing in a contract for differences carries the same risks as investing in a future or an option and **you** should be aware of these as set out in paragraphs 5 and 6 respectively. Transactions in contracts for differences may also have a contingent liability and **you** should be aware of the implications of this as set out in paragraph 8 below.

5 OFF-EXCHANGE TRANSACTIONS IN CONTRACTS FOR DIFFERENCE

These transactions are not carried out on a recognised exchange or designated exchange and this may mean a higher level of risk is incurred by the investor. The betting structure and the betting roles are established solely by **us**. This means, for example, that if **you** wish to close the bet earlier than at the time at which it would otherwise automatically expire, **you** will have to close it at **our** quotation, which may reflect a premium or discount to the underlying market. When the underlying market is closed, **our** quotation can be influenced by the weight of other clients buying or selling. Bets entered into with **us** can only be closed with **us**.
Contracts for Difference and Foreign Exchange are complex products which come with a high level of risk of losing money rapidly, due to leverage. You should consider whether you understand how Contracts for Difference, Foreign Exchange or any of our other products work and whether you can afford to take the high risk of losing your money, before investing in these products with us.

6 OFF-EXCHANGE TRANSACTIONS IN DERIVATIVES

It may not always be apparent whether or not a particular derivative is arranged on exchange or in an off-exchange derivative transaction. **We** must make it clear to **you** if **you** are entering into an off-exchange derivative transaction.

While some off-exchange markets are highly liquid, transactions in off-exchange or non-transferable derivatives may involve greater risk than investing in on-exchange derivatives because there is no exchange market on which to close out an open position. It may be impossible to liquidate an existing position, to assess the value of the position arising from an off-exchange transaction or to assess the exposure to risk. Bid prices and offer prices need not be quoted, and, even where they are, they will be established by dealers in these instruments and consequently it may be difficult to establish what is a fair price.

7 FOREIGN MARKETS

Foreign markets will involve different risks from the UK markets. In some cases the risks will be greater. On request, **we** must provide an explanation of the relevant risks and protections (if any) which will operate in any foreign markets, including the extent to which **we** will accept liability for any default of a foreign firm through whom **we** deal. The potential for profit or loss from transactions on foreign markets or in foreign denominated contracts will be affected by fluctuations in foreign exchange rates.

8 CONTINGENT LIABILITY INVESTMENT TRANSACTIONS

Contingent liability investment transactions, which are Margined, require **you** to make a series of payments against the purchase price, instead of paying the whole purchase price immediately.

If **you** trade in futures, contracts for differences or sell options, **you** may sustain a total loss of the Margin **you** deposit to establish or maintain a position. If the market moves against **you**, **you** may be called upon to pay substantial additional Margin at short notice to maintain the position. If **you** fail to do so within the time required, **your** position may be liquidated at a loss and **you** may be responsible for the resulting deficit remaining on your account.

Even if a transaction is not Margined, it may still carry an obligation to make further payments in certain circumstances over and above any amount paid when **you** entered the contract.

Save as specifically provided by the **FCA**, **your** firm may only carry out Margined or contingent liability transactions with or for **you** if they are traded on or under the rules of a recognised or designated investment exchange. Contingent liability investment transactions which are not so traded may expose **you** to substantially greater risks.

9 LIMITED LIABILITY TRANSACTIONS

Before entering into a limited liability transaction, **you** should obtain from **us** or the firm with whom **you** are dealing a formal written statement confirming that the extent of **your** loss liability on each transaction will be limited to an amount agreed by **you** before **you** enter into the transaction.

The amount **you** can lose in limited liability transactions will be less than in other Margined transactions, which have no predetermined loss limit. Nevertheless, even though the extent of loss will be subject to the agreed limit, **you** may sustain the loss in a relatively short time. **Your** loss may be limited, but the risk of sustaining a total loss to the amount agreed is substantial.

10 COLLATERAL

If **you** deposit collateral as security with **us**, the way in which it will be treated will vary according to the type of transaction and where it is traded. There could be significant differences in the treatment of **your** collateral depending on whether **you** are trading on a recognised or designated investment exchange, with the rules of that exchange (and the associated clearing house) applying, or trading off-exchange. Deposited collateral may lose its identity as **your** property once dealings on **your** behalf are undertaken. Even if **your** dealings should ultimately prove profitable, **you** may not get back the same assets which **you** deposited, and may have to accept payment in cash. **You** should ascertain from **us** how **your** collateral will be dealt with. The use of non-cash collateral may not be acceptable in certain circumstances.

11 COMMISSIONS

Before **you** begin to trade, **you** should obtain details of all commissions and other charges for which **you** will be liable. If any charges are not expressed in money terms (but, for example, as a percentage of contract value), **you** should obtain a clear and written explanation, including appropriate examples, to establish what such charges are likely to mean in specific money terms. In the case of futures, when commission is charged as a percentage, it will normally be as a percentage of the total contract value, and not simply as a percentage of **your** initial payment.

12 SUSPENSIONS OF TRADING

Under certain trading conditions it may be difficult or impossible to liquidate a position. This may occur, for example, at times of rapid price movement if the price rises or falls in one trading session to such an extent that under the rules of the relevant exchange trading is suspended or restricted. Placing a stop-loss order will not necessarily limit **your** losses to the intended amounts, because market conditions may make it impossible to execute such an order at the stipulated price.

13 CLEARING HOUSE PROTECTIONS

On many exchanges, the performance of a transaction by **us** (or third party with whom he is dealing on **your** behalf) is guaranteed by the exchange or clearing house. However, this guarantee is unlikely in most circumstances to cover **you** and may not protect **you** if **your** firm or another party defaults on its obligations to **you**. On request, **we** must explain any protection provided to **you** under the clearing guarantee applicable to any on-exchange derivatives in which **you** are dealing. There is no clearing house for traditional options, nor normally for off-exchange instruments which are not traded under the rules of a recognised or designated investment exchange.

14 INSOLVENCY

Our insolvency or default, or that of any other brokers involved with **your** transaction, may lead to positions being liquidated or closed out without **your** consent. In certain circumstances, **you** may not get back the actual assets which **you** lodged as collateral and **you** may have to accept any available payments in cash. On request, **we** must provide an explanation of the extent to

which it will accept liability for any insolvency of, or default by, other firms involved with **your** transactions.

15 PAST PERFORMANCE

You should be aware that the price of the financial instruments that **you** are dealing with depends on fluctuations in the financial markets outside of **our** control and that past performance is no indicator of future performance.

16 NON-READILY REALISABLE INVESTMENTS

We may arrange or enter into transactions in non-readily realisable investments. These are investments in which the market is limited or could become so. **You** may have difficulty selling this investment at a reasonable price and, in some circumstances, it may be difficult to sell it at any price. Do not invest in such investments unless **you** have carefully thought about whether **you** can afford it and whether it is right for **you**.

17 DEALING IN SECURITIES WHICH MAY BE SUBJECT TO STABILISATION

This statement complies with the **FCA Rules**.

We, and/or **our** representatives, may from time to time carry out transactions on **your** behalf where the price may have been influenced by measures taken to stabilise it.

You should read the explanation below carefully. This is designed to help **you** judge whether **you** wish **your** funds to be invested at all in such securities and, if **you** do, whether **you** wish:

(a) to be consulted before **we** carry out any such transaction on **your** behalf;

or

(b) to authorise **us** to carry out any such transaction on **your** behalf without first having to consult **you**.

What is Stabilisation?

Stabilisation enables the market price of a security to be maintained artificially during the period when a new issue of securities is sold to the public. Stabilisation may affect not only the price of the new issue but also the price of other securities relating to it. The **FCA** allows stabilisation in order to help counter the fact that, when a new issue comes onto the market for the first time, the price can sometimes drop for a time before buyers are found.

Stabilisation is being carried out by a 'stabilisation manager' (normally the firm chiefly responsible for bringing a new issue to market). As long as the stabilising manager follows a strict set of rules, he is entitled to buy back securities that were previously sold to investors or allotted to institutions, which have decided not to keep them. The effect of this may be to keep the price at a higher level than it would otherwise be during the period of stabilisation.

The Stabilisation rules:

(a) limit the period when a stabilising manager may stabilise a new issue;

(b) fix the price at which he may stabilise (in the case of shares and warrants but not bonds); and

(c) require him to disclose that he may be stabilising but not that he is actually doing so.

The fact that a new issue or a related security is being stabilised should not be taken as any indication of the level of interest from investors, or of the price at which they are prepared to buy the securities.

18 LISTED SECURITIES WHERE GEARING IS INVOLVED

In relation to listed securities where gearing is involved, the gearing strategy used by the issuer may result in movements in the price of the securities being more volatile than the movements in the price of the underlying investments. **Your** investment may be subject to sudden and large falls in value and **you** may get back nothing at all if there is a sufficiently large fall in **your** investment.

19 TRADING FACILITIES

Most open-outcry and electronic trading facilities are supported by computer-based component systems for the order-routing, execution, matching, registration or clearing of trades. As with all facilities and systems, they are vulnerable to temporary disruption or failure. Your ability to recover certain losses may be subject to limits on liability imposed by the system provider, the market, the clearing house and/or member firms. Such limits may vary: you should ask the firm with which you deal for details in this respect.

20 ELECTRONIC TRADING

Trading on an electronic trading system may differ not only from trading in an open-outcry market but also from trading on other electronic trading systems. If you undertake Transactions on an electronic trading system, you 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 your order is either not executed according to your instructions, is not executed at all and a lack of capability to keep you informed continuously about your positions and fulfilment of the Margin requirements.