Interactive Brokers

Disclosures

v 2.0.1 - 20151123

Day Trading Risk Disclosure Statement

This Day Trading Risk Disclosure Statement is being provided to you in the event your Interactive Brokers (IB) margin account becomes, or already is, classified as a Pattern Day Trader account. As required by current SEC and SRO rules and regulations, IB will classify an account that effects three (3) day trades within a five (5) day period as a Pattern Day Trader account. (A day trade is a buy and sell of the same security on the same day). The regulations prohibit IB from permitting a Pattern Day Trader account from effecting any transactions unless such account maintains a Minimum Equity Requirement of at least $25,000.

You should consider the following points before engaging in a day-trading strategy. For purposes of this notice, a "day-trading strategy" means an overall trading strategy characterized by the regular transmission by a customer of intra-day orders to effect both purchase and sale transactions in the same security or securities.

Day trading can be extremely risky. Day trading generally is not appropriate for someone of limited resources and limited investment or trading experience and low risk tolerance. You should be prepared to lose all of the funds that you use for day trading. In particular, you should not fund day-trading activities with retirement savings, student loans, second mortgages, emergency funds, funds set aside for purposes such as education or home ownership, or funds required to meet your living expenses. Further, certain evidence indicates that an investment of less than $50,000 will significantly impair the ability of a day trader to make a profit. Of course, an investment of $50,000 or more will in no way guarantee success.

Be cautious of claims of large profits from day trading. You should be wary of advertisements or other statements that emphasize the potential for large profits in day trading. Day trading can also lead to large and immediate financial losses.

Day trading requires knowledge of securities markets. Day trading requires in-depth knowledge of the securities markets and trading techniques and strategies. In attempting to profit through day trading, you must compete with professional, licensed traders employed by securities firms. You should have appropriate experience before engaging in day trading.

Day trading requires knowledge of a firm's operations. You should be familiar with a securities firm's business practices, including the operation of the firm's order execution systems and procedures. Under certain market conditions, you may find it difficult or impossible to liquidate a position quickly at a reasonable price. This can occur, for example, when the market for a stock suddenly drops, or if trading is halted due to recent news events or unusual trading activity. The more volatile a stock is, the greater the likelihood that problems may be encountered in executing a transaction. In addition to normal market risks, you may experience losses due to systems failures.

Day trading will generate substantial commissions, even if the per trade cost is low. Day trading involves aggressive trading, and generally you will pay commission on each trade. The total daily commissions that you pay on your trades will add to your losses or significantly reduce your earnings. For instance, assuming that a trade costs $16 and an average of 29 transactions are conducted per day, an investor would need to generate an annual profit of $111,360 just to cover commission expenses.

Day trading on margin or short selling may result in losses beyond your initial investment. When you day trade with funds borrowed from a firm or someone else, you can lose more than the funds you originally placed at risk. A decline in the value of the securities that are purchased may require you to provide additional funds to the firm to avoid the forced sale of those securities or other securities in your account. Short selling as part of your day-trading strategy also may lead to extraordinary losses, because you may have to purchase a stock at a very high price in order to cover a short position.

Potential Registration Requirements. Persons providing investment advice for others or managing securities accounts for others may need to register as either an "Investment Advisor" under the Investment Advisors Act of 1940 or as a "Broker" or "Dealer" under the Securities Exchange Act of 1934. Such activities may also trigger state registration requirements.

RISK DISCLOSURE STATEMENT FOR FOREX TRADING AND IB MULTI-CURRENCY ACCOUNTS

Rules of the U.S. National Futures Association ("NFA") require Interactive Brokers ("IB") to provide you with the following Risk Disclosure Statement:

RISK DISCLOSURE STATEMENT

OFF-EXCHANGE FOREIGN CURRENCY ("FOREX") TRANSACTIONS INVOLVE THE LEVERAGED TRADING OF CONTRACTS DENOMINATED IN FOREIGN CURRENCY CONDUCTED WITH A FUTURES COMMISSION MERCHANT OR A RETAIL FOREIGN EXCHANGE DEALER AS YOUR COUNTERPARTY. BECAUSE OF THE LEVERAGE AND THE OTHER RISKS DISCLOSED HERE, YOU CAN RAPIDLY LOSE ALL OF THE FUNDS YOU DEPOSIT FOR SUCH TRADING AND YOU MAY LOSE MORE THAN YOU DEPOSIT.

YOU SHOULD BE AWARE OF AND CAREFULLY CONSIDER THE FOLLOWING POINTS BEFORE DETERMINING WHETHER SUCH TRADING IS APPROPRIATE FOR YOU.

(1) TRADING IS NOT ON A REGULATED MARKET OR EXCHANGE—YOUR DEALER IS YOUR TRADING PARTNER WHICH IS A DIRECT CONFLICT OF INTEREST. BEFORE YOU ENGAGE IN ANY RETAIL FOREIGN EXCHANGE TRADING, YOU SHOULD CONFIRM THE REGISTRATION STATUS OF YOUR COUNTERPARTY.

The off-exchange foreign currency trading you are entering into is not conducted on an interbank market, nor is it conducted on a futures exchange subject to regulation as a designated contract market by the Commodity Futures Trading Commission ("CFTC"). The foreign currency trades you transact are trades with the futures commission merchant or retail foreign exchange dealer as your Counterparty. WHEN YOU SELL, THE DEALER IS THE BUYER. WHEN YOU BUY, THE DEALER IS THE SELLER. As a result, when you lose money trading, your dealer is making money on such trades, in addition to any fees, commissions, or spreads the dealer may charge.

(2) AN ELECTRONIC TRADING PLATFORM FOR RETAIL FOREIGN CURRENCY TRANSACTIONS IS NOT AN EXCHANGE. IT IS AN ELECTRONIC CONNECTION FOR ACCESSING YOUR DEALER. THE TERMS OF AVAILABILITY OF SUCH A PLATFORM ARE GOVERNED ONLY BY YOUR CONTRACT WITH YOUR DEALER.

Any trading platform that you may use to enter off-exchange foreign currency transactions is only connected to your futures commission merchant or retail foreign exchange dealer. You are accessing that trading platform only to transact with your dealer. You are not trading with any other entities or customers of the dealer by accessing such platform. The availability and operation of any such platform, including the consequences of the unavailability of the trading platform for any reason, is governed only by the terms of your account agreement with the dealer.

(3) YOUR DEPOSITS WITH THE DEALER HAVE NO REGULATORY PROTECTIONS.

All of your rights associated with your retail forex trading, including the manner and denomination of any payments made to you, are governed by the contract terms established in your account agreement with the futures commission merchant or retail foreign exchange dealer. Funds deposited by you with a futures commission merchant or retail foreign exchange dealer for trading off-exchange foreign currency transactions are not subject to the customer funds protections provided to customers trading on a contract market that is designated by the CFTC. Your dealer may commingle your funds with its own operating funds or use them for other purposes. In the event your dealer becomes bankrupt, any funds the dealer is holding for you in addition to any amounts owed to you resulting from trading, whether or not any assets are maintained in separate deposit accounts by the dealer, may be treated as an unsecured creditor's claim.

(4) YOU ARE LIMITED TO YOUR DEALER TO OFFSET OR LIQUIDATE ANY TRADING POSITIONS SINCE THE TRANSACTIONS ARE NOT MADE ON AN EXCHANGE OR MARKET, AND YOUR DEALER MAY SET ITS OWN PRICES.

Your ability to close your transactions or offset positions is limited to what your dealer will offer to you, as there is no other market for these transactions. Your dealer may offer any prices it wishes, and it may offer prices derived from outside sources or not in its discretion. Your dealer may establish its prices by offering spreads from third party prices, but it is under no obligation to do so or to continue to do so. Your dealer may offer different prices to different customers at any point in time on its own terms. The terms of your account agreement alone govern the obligations your dealer has to you to offer prices and offer offset or liquidating transactions in your account and make any payments to you. The prices offered by your dealer may or may not reflect prices available elsewhere at any exchange, interbank, or other market for foreign currency.

(5) PAID SOLICITORS MAY HAVE UNDISCLOSED CONFLICTS

The futures commission merchant or retail foreign exchange dealer may compensate introducing brokers for introducing your account in ways which are not disclosed to you. Such paid solicitors are not required to have, and may not have, any special expertise in trading, and may have conflicts of interest based on the method by which they are compensated. Solicitors working on behalf of futures commission merchants and retail foreign exchange dealers are required to register. You should confirm that they are, in fact registered. You should thoroughly investigate the manner in which all such solicitors are compensated and be very cautious in granting any person or entity authority to trade on your behalf. You should always consider obtaining dated written confirmation of any information you are relying on from your dealer or a solicitor in making any trading or account decisions.

FINALLY, YOU SHOULD THOROUGHLY INVESTIGATE ANY STATEMENTS BY ANY DEALERS OR SALES REPRESENTATIVES WHICH MINIMIZE THE IMPORTANCE OF, OR CONTRADICT, ANY OF THE TERMS OF THIS RISK DISCLOSURE. SUCH STATEMENTS MAY INDICATE POTENTIAL SALES FRAUD.

THIS BRIEF STATEMENT CANNOT, OF COURSE, DISCLOSE ALL THE RISKS AND OTHER ASPECTS OF TRADING OFF-EXCHANGE FOREIGN CURRENCY TRANSACTIONS WITH A FUTURES COMMISSION MERCHANT OR RETAIL FOREIGN EXCHANGE DEALER.

PERFORMANCE OF INTERACTIVE BROKERS RETAIL CUSTOMER FOREX ACCOUNTS FOR THE PAST FOUR CALENDAR QUARTERS:

The table below sets forth the percentage of non-discretionary retail forex customer accounts maintained by Interactive Brokers LLC that were profitable and unprofitable for the past four calendar quarters. The accounts were identified and these statistics were calculated according to the definitions and interpretations set forth by the CFTC and NFA[1].

TIME PERIOD	NUMBER OF ACCOUNTS	PERCENTAGE OF PROFITABLE ACCOUNTS	PERCENTAGE OF UNPROFITABLE ACCOUNTS
Q3 2015	32,455	44.60%	55.40%
Q2 2015	31,732	46.48%	53.525%
Q1 2015	30,398	45.45%	54.55%
Q4 2014	28,068	46.21%	53.79%

PAST PERFORMANCE IS NOT NECESSARILY INDICATIVE OF FUTURE RESULTS.

FURTHER INFORMATION PROVIDED BY INTERACTIVE BROKERS:

A. Overview: Interactive Brokers Multi-Currency enabled accounts allow IB Customers to trade investment products denominated in different currencies using a single IB account denominated in a "base" currency of the customer's choosing. IB Customers can also use their Multi-Currency enabled accounts to conduct foreign exchange transactions in order to manage credits or debits generated by foreign securities, options or futures trading, to convert such credits or debits back into the Customer's base currency, or to hedge or speculate. IB foreign exchange transactions offered to retail customers are forex spot transactions.

B. Nature of Your Account and Whether SIPC Covers Foreign Currency: Foreign currency trading at Interactive Brokers takes place in a securities account. Your IB securities account is governed by rules of the U.S. Securities and Exchange Commission ("SEC") and the Financial Industry Regulatory Authority. In addition, IB observes the rules of the National Futures Association in connection with foreign currency trading.

Interactive Brokers LLC is a member of the Securities Investor Protection Corporation ("SIPC"). SIPC protects cash and securities held with Interactive Brokers as specified in the Securities Investor Protection Act. SIPC protects cash, including US dollars and foreign currency, to the extent that the cash was deposited with Interactive Brokers for the purpose of purchasing securities.Whether foreign currency in your IB account would be protected by SIPC would depend in part on whether the cash was considered to be deposited with Interactive Brokers for the purpose of purchasing securities. Interactive Brokers expects that at least one factor in deciding this would be whether and the extent to which the customer engages in securities trading in addition to or in conjunction with forex trading, but, as discussed in section 3 above, funds deposited specifically for forex trading have no regulatory protections under NFA rules or CFTC regulations. For further information, you must contact your own legal counsel or SIPC.

Customer money held in the securities account is subject to Securities Exchange Act Rule 15c3-3 governing customer reserve requirements. Although relevant regulations only require computation of the 15c3-3 reserve requirement and associated segregation of customer funds to be performed weekly, IB performs such calculations and segregation on a daily basis.

C. General Risk: Customer understands and acknowledges that buying and selling securities, options, futures and other financial products that are denominated in foreign currencies or traded on foreign markets is inherently risky and requires substantial knowledge and expertise. Customers applying for Interactive Brokers Multi-Currency enabled accounts represent that they are aware of and understand the risks involved in trading foreign securities, options, futures and currencies and that they have sufficient financial resources to bear such risks.

D. Customer Responsibility for Investment Decisions: Customer acknowledges that IB representatives are not authorized to provide investment, trading or tax advice and therefore will not provide advice or guidance on trading or hedging strategies in the Multi-Currency enabled account. Customers must evaluate carefully whether any particular transaction is appropriate for them in light of their investment experience, financial objectives and needs, financial resources, and other relevant circumstances and whether they have the operational resources in place to monitor the associated risks and contractual obligations over the term of the transaction. In making these assessments, IB strongly recommends that Customers obtain independent business, legal, and accounting advice before entering into any transactions.

E. Exchange Rate Risk: Exchange rates between foreign currencies can change rapidly due to a wide range of economic, political and other conditions, exposing the Customer to risk of exchange rate losses in addition to the inherent risk of loss from trading the underlying financial product. If a Customer deposits funds in a currency to trade products denominated in a different currency, Customer's gains or losses on the underlying investment therefore may be affected by changes in the exchange rate between the currencies. If Customer is trading on margin, the impact of currency fluctuation on Customer's gains or losses may be even greater.

F. Currency Fluctuation: When Customer uses the foreign exchange facility provided by IB to purchase or sell foreign currency, fluctuation in currency exchange rates between the foreign currency and the base currency could cause substantial losses to the Customer, including losses when the Customer converts the foreign currency back into the base currency.

G. Nature of Foreign Currency Exchange Transactions Between Customer and IB: When Customer enters into a foreign exchange transaction with IB, IB, as the counterparty to Customer's trade, may effectuate that transaction by entering into an offsetting transaction with one of IB's affiliates, with another customer that enters quotes into IB's system, or with a third party bank (IB's "Forex Providers"). In such transactions, the Forex Provider is not acting in the capacity of a financial adviser or fiduciary to Customer or to IB, but rather, is taking the other side of IB's offsetting trade in an arm's length contractual transaction. Customer should be aware that the Forex Provider may from time to time have substantial positions in, and may make a market in or otherwise buy or sell instruments similar or economically related to, foreign currency transactions entered into by Customer. IB's Forex Providers may also undertake proprietary trading activities, including hedging transactions related to the initiation or termination of foreign exchange transactions with IB, which may adversely affect the market price or other factors underlying the foreign currency transaction entered into by Customer and consequently, the value of such transaction.

H. Prices on the IB Forex Platforms: The prices quoted by IB to Customers for foreign exchange transactions on IB's IdealPro platform will be determined based on Forex Provider quotes and are not determined by a competitive auction as on an exchange market. Prices quoted by IB for foreign currency exchange transactions therefore may not be the most competitive prices available. For purposes of maintaining adequate scale and competitive spreads, a minimum size is imposed on all IdealPro orders (USD $25,000 as of September 2015 but this is subject to change at any time). Orders below the minimum size are considered odd lots and limit prices for these odd lot-sized orders are not displayed through IdealPro. Retail leveraged forex orders for odd lot-sized orders are generally executed within 1 pip of the best bid and best offer of the Interbank spread (NBBO). However, if the best quote for such orders is more than 1 pip outside of the NBBO, IB will generally route the order to execute against a bank or dealer bid or offer regardless of the order size in order to get an improved price. Customers may also enter a Request for Quote ("RFQ") on the system. IB will charge transaction fees as specified by IB for foreign currency exchange transactions. IB's Forex Providers will try to earn a spread profit on transactions with IB (differential between the bid and ask prices quoted for various currencies).

I. Price Slippage; Order Cancellation and Adjustment: Prices quoted on IB's system generally reflect the prices at which IB's Forex Providers are willing to trade. Prices quoted on IB's system reflect changing market conditions and therefore quotes can and do change rapidly. As such, when a Customer order is received and processed by IB's system, the quote on IB's platform may be different from the quote displayed when the order was sent by Customer. This change in price is commonly referred to as "slippage." IB generally will not execute a Customer order at a certain price unless IB is able to trade at that price against one of IB's Forex Providers.

If Customer sends an order for a forex transaction to IB's system but Customer's requested price is no longer available and therefore the order is non-marketable, IB will not execute the order then but will place it in IB's limit order book in accordance with Customer's time-in-force instructions. Other customers can then trade against this order when it becomes the National Best Bid and Offer ("NBBO") or IB may execute the order if it becomes marketable based on prices received from IB's Forex Providers.

If Customer sends an order for a forex transaction to IB's system and the current price is more favorable for Customer than what Customer requested in the order, the order will generally be executed at the available better price.

Although IB attempts to obtain the best price for Customer orders on forex transactions, because of the inherent possibility of transmission delays between and among Customers, IB and Forex Providers, or other technical issues, execution prices may be worse than the quotes displayed on the IB platform.

To execute your order, Interactive Brokers engages in back-to-back transactions with one or more counterparties. These counterparties on occasion may cancel or adjust forex trades with us in the event of market or technical problems. In these cases we may have to cancel or adjust forex trades that you have executed.

J. Other Risks: There are other risks that relate to trading foreign investment products and trading foreign currencies that cannot be described in detail in this document. Generally, however, foreign securities, options, futures and currency transactions involve exposure to a combination of the following risk factors: market risk, credit risk, settlement risk, liquidity risk, operational risk and legal risk. For example, there can be serious market disruptions if economic or political or other unforeseen events locally or overseas affect the market. Also, the settlement date of foreign exchange trades can vary due to time zone differences and bank holidays. When trading across foreign exchange markets, this may necessitate borrowing funds to settle foreign exchange trades. The interest rate on borrowed funds must be considered when computing the cost of trades across multiple markets. In addition to these types of risk there may be other factors such as accounting and tax treatment issues that Customers should consider.

(1)Information regarding the performance of Interactive Brokers retail forex customers for the past 5 years is available upon request.

Risks of After-Hours Trading

There are special characteristics and unique risks associated with trading in securities at times that are outside the ordinary trading hours for the exchange(s) upon which such securities are traded ("After-Hours Trading" or “Extended Hours Trading”). Customers must familiarize themselves with these risks and determine whether After-Hours Trading is appropriate in light of their objectives and experience. Customers are responsible for familiarizing themselves with the hours of the relevant markets upon which they trade and for determining when to place orders for particular securities, how they wish to direct those orders, and what types of orders to use. Interactive Brokers' offer of After-Hours Trading does not constitute a recommendation or conclusion that After-Hours Trading will be successful or appropriate for all customers or trades.

Some risks associated with After-Hours Trading are as follows:

1. **Risk of Lower Liquidity.** Liquidity refers to the ability of market participants to buy and sell securities. Generally, the more orders that are available in a market, the greater the liquidity. Liquidity is important because with greater liquidity it is easier for investors to buy or sell securities, and as a result, investors are more likely to pay or receive a competitive price for securities purchased or sold. There may be lower liquidity in extended hours trading as compared to regular market hours. As a result, your order may only be partially executed, or not at all.

2. **Risk of Higher Volatility.** Volatility refers to the changes in price that securities undergo when trading. Generally, the higher the volatility of a security, the greater its price swings. There may be greater volatility in extended hours trading than in regular market hours. As a result, your order may only be partially executed, or not at all, or you may receive an inferior price in extended hours trading than you would during regular markets hours.

3. **Risk of Changing Prices.** The prices of securities traded in extended hours trading may not reflect the prices either at the end of regular market hours, or upon the opening of the next morning. As a result, you may receive an inferior price in extended hours trading than you would during regular market hours.

4. **Risk of Unlinked Markets.** Depending on the extended hours trading system or the time of day, the prices displayed on a particular extended hours system may not reflect the prices in other concurrently operating extended hours trading systems dealing in the same securities. Accordingly, you may receive an inferior price in one extended hours trading system than you would in another extended hours trading system.

5. **Risk of News Announcements.** Normally, issuers make news announcements that may affect the price of their securities after regular market hours. Similarly, important financial information is frequently announced outside of regular market hours. In extended hours trading, these announcements may occur during trading, and if combined with lower liquidity and higher volatility, may cause an exaggerated and unsustainable effect on the price of a security.

6. **Risk of Wider Spreads.** The spread refers to the difference in price between what you can buy a security for and what you can sell it for. Lower liquidity and higher volatility in extended hours trading may result in wider than normal spreads for a particular security.

7. **Risk of Lack of Calculation or Dissemination of Underlying Index Value or Intraday Indicative Value ("IIV").** For certain Derivative Securities Products, an updated underlying index value or IIV may not be calculated or publicly disseminated in extended trading hours. Since the underlying index value and IIV are not calculated or widely disseminated during the pre-market and post-market sessions, an investor who is unable to calculate implied values for certain Derivative Securities Products in those sessions may be at a disadvantage to market professionals. Additionally, securities underlying the indexes or portfolios will not be regularly trading as they are during Regular Trading Hours, or may not be trading at all. This may cause prices during Extended Trading Hours to not reflect the prices of those securities when they open for trading.

8. **Index Values.** The Exchange will not report a value of an index underlying an index option trading during Extended Trading Hours, because the value of the underlying index will not be recalculated during or at the close of Extended Trading Hours.

During After-Hours Trading, Interactive Brokers ("IB") may provide quotations from and execute Customer trades through various Electronic Communications Networks ("ECNs"), exchanges or other trading systems ("After-Hours Trading Facilities"). Quotations provided during After-Hours Trading may be different than quotations provided during exchange trading hours. Likewise, it is possible that the quotations displayed by IB from After-Hours Trading Facilities on which IB can execute Customer trades may be less favorable than those on other After-Hours Trading Facilities to which IB does not have access. Last sale information provided by IB may not reflect the prices of the most recent trades on all of the various After-Hours Trading Facilities.

For a list of trading hours for exchanges and ECNs, click here.

FRENCH RISK DISCLOSURE STATEMENT AND ACKNOWLEDGEMENTS

Please click on the appropriate link below to read the Risk Disclosure Statement for futures and options contracts traded on the Monep and Matif exchanges. The French language version is the official document and is controlling. Adobe Acrobat is required to view these documents. If you need the Acrobat reader, please download it from the Adobe website

French Product Risk Disclosures - French Version

- MONEP Product Risk Disclosure
- Matif Risk Disclosure

I hereby represent that I have printed and received this Prospectus Note d'Information risk disclosure statement and the product specifications for the CAC 40 futures and short-term options contracts and understand them.

Je declare par la presente confirmer que j'ai bien imprime et recu une copie du document nomme Note d'Information relatif aux risques encourus et les caracteristiques des contrats a terme CAC 40 et des contrats d'options a court terme. Je declare aussi avoir bien compris ces produits et ces mecanismes.

SwissBanking

2008

Special Risks in Securities Trading

v 2.0.1 - 20151123

Should you have any suggestions with regard to future editions of this information brochure, please send them to: office@sba.ch. We are interested in your feedback, which we will evaluate at the earliest opportunity.

Swiss Bankers Association

Contents

Introduction

What this brochure is about

Since 1 February 1997, commercial trading in securities is governed by the Stock Exchange Act (Swiss Federal Act on Stock Exchanges and Securities Trading of 24 March 1995). The Act requires securities dealers to inform their clients about types of transaction and investments that may involve special risks. This brochure contains information about these risks. 1

The term **"securities dealer"** is used in this brochure to mean your bank.

Securities and the risks involved

What are securities?

Securities are standardised certificates which are suitable for mass trading, as well as rights not represented by a certificate but with similar features (book-entry securities). They include equities, bonds, units of mutual funds and derivatives. They are offered to the public in a standardised form and denomination, or are sold to more than 20 clients. 2

What are derivatives?

Derivatives are financial instruments for which the price is derived either from assets (underlyings) such as equities, bonds, precious metals and other commodities; or from benchmark rates such as currencies, interest rates and indices; or from credit or catastrophe events. 3

An equity option, for example, derives its value from the "underlying" equity. In the following chapters, we will go on to look at **different types** of derivatives, including forwards, futures and structured products as well as options. 4

What do you particularly need to bear in mind when carrying out securities transactions?

Securities, and especially derivatives, entail **financial risks**. Derivatives are financial instruments based on a separate underlying and are often composed of different elements, which sometimes makes them difficult to understand. This is particularly true for "exotic" options. This brochure explains these financial instruments and their associated risks. However, it is no substitute for the product descriptions provided by issuers and securities dealers. If you have any further questions, consult your securities dealer. 5

Can the risks be unlimited?

There are basically two types of **financial instruments**: those with **limited risk** and those with **unlimited** risk. The purchase of equities or options involves limited risk. At worst, you will lose the entire amount of your invested capital and not make a profit. 6

CAUTION

On the other hand, there are certain types of derivatives that can require an additional outlay of capital over and above the original investment. The obligation to make such **margin payments** can amount to many times the purchase price of the investment. Unlimited risk is particularly associated with: 7

– selling (writing) an uncovered call option,
– selling (writing) a put option or
– forwards and futures transactions.

Your right to information

What must your securities dealer inform you about?

The Stock Exchange Act obliges securities dealers to inform their clients about the 8
risks associated with a given **type of transaction**.

The obligation to inform is dependent of the **client's level of experience and special-** 9
ist knowledge in the area concerned. Clients must be informed about transactions that entail higher levels of risk or have a complex risk profile, but not about the specific risks relating to individual transactions.

Limits of the duty to provide information

When can you waive your right to information?

If you are already familiar **with the risks pertaining to a particular type of transac-** 10
tion, you may choose not to receive this information from your securities dealer.

What information are securities dealers not obliged to supply?

Securities dealers are not obliged to inform you about **normal risks**. These are not 11
covered in this brochure. Normal risks chiefly include:

- **The risks attached to conventional, widely used financial instruments, such as equities, bonds and collective investments (e.g. units in mutual funds)**

  For example, the debtor (issuer) can get into financial difficulties, making him/her 12
  incapable of payment (credit and default risks).

- **Country risks**

  A country risk can arise if a country restricts securities trading, for instance by 13
  imposing economic sanctions or currency restrictions.

- **Settlement risks**

  A settlement risk occurs when you have to pay the purchase price of a security in 14
  advance but do not actually receive the security until later. In this event, the risk is that you will pay the purchase price and receive the securities late or even not at all. Conversely, when you are obliged to deliver securities that you have sold, you may not simultaneously receive the purchase price from the buyer. Settlement risks mainly occur in emerging markets (see 209).

- **Risks associated with custody of financial instruments**

  Financial instruments can be held either in your country or abroad. Generally, they 15
  are held where they are most often traded, and are governed by the regulations that apply there. If your securities dealer becomes insolvent, Swiss law stipulates that the financial instruments deposited with that dealer will not form part of their bankruptcy assets, but will be kept separate for your benefit. However, insolvency proceedings can delay the transfer of the financial instruments to you or another securities dealer. If a third-party custodian becomes insolvent, the law in many countries provides that the financial instruments deposited with that custodian by your securities dealer are also normally protected. In less advanced markets (see 196 ff.), however, financial instruments deposited with a third-party custodian in the country concerned may be included in the custodian's bankruptcy assets.

- **Liquidity risk**

  Liquidity risk is the risk that you will not always be able to obtain an appropriate 16
  price for your investment when you sell it. When certain securities and derivatives are impossible to sell, or can only be sold with difficulty and at a sharply reduced price, the market is said to be illiquid. Illiquidity risk occurs especially with shares in un-

listed or poorly capitalised companies, investments with sales restrictions, and certain structured products.

The Stock Exchange Act does not require securities dealers to inform you about risks associated with **investments in alternative (non-traditional) investments and emerging or developing markets**. Given the significance of these types of investment, we nonetheless explain the risks typically encountered in these markets in Section Two of this brochure (see 196 ff. below). 17

This brochure does not deal with the issues of **taxation or any other legal consequences** pertaining to securities transactions (e.g. duties of disclosure). We advise you to look into these matters yourself or obtain professional advice. 18

Please read through this brochure carefully and consult your securities dealer if you have any questions. 19

1 Section One: Transactions involving special risks

Options

What are your rights and duties in an option transaction?

As the **buyer** of an **option**, you have the right to buy a specified amount of an **under-** 20
lying asset (often simply referred to as the "underlying") from the **seller** (**call option**) or sell it to the **seller** (**put option**) at a predefined price (**strike price**) up until a set time (**expiration date**). The price you pay for this right is called the **premium**.

As the **seller** (**writer**) of an option, you must sell the underlying to the buyer at the 21
strike price (call option) or buy the underlying from him/her at the strike price (put option) up until the expiration date, irrespective of the market value of the underlying asset at the time, if he/she chooses to exercise the option.

What is the leverage effect in the context of options?

The price of an option is closely linked to that of the underlying asset. Any change 22
in the market value of the underlying asset will result in a greater change in the price of the option. This is termed the **leverage effect**. It means you participate disproportionately in any rise or fall in the market value of the underlying asset.

Which underlying assets can options be based on?

The commonest underlying assets for options are: 23

- assets such as equities, bonds, precious metals and other commodities,
- benchmark rates such as currencies, interest rates and indices,
- derivatives and
- any combination of the above.

What are "American-style" options?

"American-style" options can normally be exercised on any trading day up to the expi- 24
ration date.

What are "European-style" options?

"European-style" options can only be exercised on the expiration date, in other words 25
the date set out in the contract. This does not, however, normally affect their tradability on the secondary market (e.g. on a stock exchange).

When are options settled physically, and when are they settled in cash?

Where a call option provides for **physical settlement**, you can require the seller of 26
the option (writer) to deliver the underlying asset when you exercise the option. With a put option, the writer is obliged to buy the underlying asset from you.

If an option provides for **cash settlement**, you are only entitled to a sum of money 27
corresponding to the difference between the strike price and the current market value of the underlying asset.

When is an option
– in the money,
– out of the money,
– at the money?

A call option is **in the money** if the current market value of the underlying asset is 28
above the strike price. A put option is in the money if the current market value of the underlying asset is below the strike price. An option that is in the money is said to have an **intrinsic value**.

A call option is **out of the money** if the current market value of the underlying asset 29
is below the strike price. A put option is out of the money if the current market value of the underlying asset is above the strike price. In this case, the option has **no intrinsic value**.

If the current market value of the underlying asset is the same as the strike price, the 30
option is **at the money**. In this case, it has **no intrinsic value**.

What determines the price of an option?

The price of an option depends on its intrinsic value and on what is referred to as the 31
time value. The latter depends on a variety of factors, including the remaining life of the option and the volatility of the underlying. The time value reflects the chance that the option will be in the money. It is higher for options with a long duration and a very volatile underlying and for options that are at the money.

What types of options are there?

Warrants are options in securitised form that are traded on an exchange or over the 32
counter (OTC).

Exchange Traded Options are non-securitised, but are traded on an exchange. 33

OTC (Over-the-Counter) options are neither securitised nor traded on-exchange. They 34
are agreed directly off-exchange between the seller and the buyer. If you wish to cancel **(close out)** an option of this type before the expiration date, you must make a corresponding offsetting trade with your counterparty. OTC options with precious metals and currencies as their underlying are offered publicly as standardised products. **Tailor-made OTC options**, by contrast, are specially created for individual investors.

What is "margin cover"?

If you sell an option, you have to deposit either an amount of the underlying asset or 35
another form of collateral for the entire duration of the contract. The level of this collateral or **margin** is determined by the securities dealer. The exchange stipulates a minimum margin for traded options.

CAUTION If the **margin cover** proves insufficient, the securities dealer can require you to pro- 36
vide additional collateral (via a **margin call**).

What risks do you face as the buyer of an option?

Generally speaking, if the market value of the underlying asset falls, so does the value of 37
your **call option**. The value of your **put option** tends to fall if the underlying asset rises in value. Normally, the less your option is in the money, the larger the fall in the option's value. In such cases, value reduction normally accelerates close to the expiration date.

The value of your call option can drop even when the value of the underlying remains 38
unchanged or rises. This can happen as the time value of your option falls or if supply and demand factors are unfavourable. Put options behave in precisely the opposite manner.

CAUTION You must therefore be prepared for a potential loss in the value of your option, or 39
for it to expire entirely without value. In such a scenario, you risk losing the whole of the premium you paid.

What risks do you face as the seller (writer) of a covered call option?

If, as writer of a call option, you already have a corresponding quantity of the under- 40
lying at your disposal, the **call option** is described as **covered**. If the current market value of the underlying exceeds the strike price, your opportunity to make a profit is lost since you must deliver the underlying to the buyer at the strike price, rather than selling the underlying at the (higher) market value. You must have the underlying assets freely available as long as it is possible to exercise the option, i.e. they may not, for example, be blocked by being pledged for other purposes. Otherwise, you are essentially subject to the same risks as when writing an uncovered call option (see below).

What risks do you face as the seller (writer) of an uncovered call option?

If, as writer of a call option, you do not have a corresponding quantity of the under- 41
lying at your disposal, the **call option** is described as **uncovered**. In the case of options with physical settlement, your potential loss amounts to the price difference between the strike price paid by the buyer and the price you must pay to acquire the

underlying assets concerned. Options with cash settlement can incur a loss amounting to the difference between the strike price and the market value of the underlying.

CAUTION Since the market value of the underlying can move well above the strike price, your potential loss cannot be determined and is theoretically unlimited. 42

As far as American-style options in particular are concerned, you must also be prepared for the fact that the option may be exercised **at a highly unfavourable time when the markets are against you**. If you are then obliged to make physical settlement, it may be very expensive or even impossible to acquire the corresponding underlying assets. 43

You must be aware that your potential losses can be far greater than the value of the underlying assets you lodged as collateral (margin cover) either when entering into the contract or thereafter. 44

What risks do you face as the seller (writer) of a put option?

As the writer of a put option, you must be prepared for potentially substantial losses if the market value of the underlying falls below the strike price you have to pay the seller. Your potential loss corresponds to the difference between these two values. 45

As the writer of an American-style put option with physical settlement, you are obliged to accept the underlying assets at the strike price if the buyer exercises the option, even though it may be difficult or impossible to sell the assets and may well entail substantial losses. 46

CAUTION Your potential losses can be far greater than the value of any underlying assets you may have lodged as collateral (margin cover). You could in a worst case lose your entire capital invested. 47

What is a covered option?

With a **covered option**, you purchase an underlying asset (equity, bond or currency) and simultaneously write a call option on that same asset. In return, you are paid a premium, which limits your loss in the event of a fall in the market value of the underlying asset. By the same token, however, your potential return from any increase in the asset's market value is limited to gains up to the option's strike price. **Traditional covered options** require that the underlying asset be lodged as collateral, which makes **you the covered writer**. 48

Synthetic **covered options** are based on the idea of replicating traditional covered options. However, this is achieved by means of only one transaction. Both the purchase of the underlying asset and the writing of the call option are carried out synthetically using derivatives. The purchase price of such a product is identical to that of the underlying, less the premium received for the sale of the call option. Hence, the synthetic product is sold more cheaply than its underlying. 49

What are the risks of a covered option?

Covered options do **not contain a hedge against falls in the market value of the underlying**. However, by writing a call option (traditional covered option) or by calculating the return from the sale of a call option into the product price (synthetic covered option), any loss in market value of the underlying has less impact than it would in the case of a direct investment. In effect, the option premium thereby limits any loss in the market value of the underlying. 50

Either cash settlement or physical delivery of the underlying takes place on the expiration date. If the market value of the underlying on expiration is higher than the strike price, the holder of an option with cash settlement is paid a specified cash amount as settlement. 51

CAUTION If, however, the market value of the underlying is lower than the strike price, the holder of an option with physical settlement receives physical delivery of the underlying asset. In this case, the option holder bears the full risk associated with the underlying. 52

What are option strategies?

If you acquire two or more options, based on the same underlying, which differ in either the option type (call or put), the quantity, the strike price, the expiration date or the type of position (long or short), this is referred to as an **option strategy**. 53

CAUTION Given the large number of possible combinations, we cannot go into detail here about the risks involved in any particular case. Before entering into any such transaction, be sure to consult your securities dealer about the particular risks involved. 54

What are exotic options?

Unlike the "plain vanilla" put and call options described above, **exotic options** are linked to additional conditions and agreements. Exotic options come in the form of tailor-made OTC options or as warrants. 55

Given the special composition of exotic options, their price movements can vary markedly from those of their "plain vanilla" cousins. 56

CAUTION You must be aware that larger transactions can trigger price movements even shortly before expiration and that these can render an option worthless. Before buying or selling any exotic options, be sure to seek comprehensive advice about the particular risks involved. 57

There is no limit to the possible structures for exotic options. We cannot describe in full here the risks involved in any particular case. 58

The examples of exotic options listed below can be broadly divided into two categories: path-dependent options and options on more than one underlying.

What are path-dependent options?

Unlike "plain vanilla" options, for **path-dependent options**, it is not just when the option expires or is exercised that the market value of the underlying is important. You also need to take into account fluctuations in the market value of the underlying during the life of the option when contemplating such an investment. The following are examples of path-dependent options: 59

– **Barrier options**

Your exercise rights for **knock-in barrier options** only arise if the market value of the underlying reaches a fixed threshold **(barrier)** within a specified period. Exercise rights for **knock-out barrier options** expire if the market value of the underlying reaches the specified barrier during the given time period. 60

If this barrier is between the market value of the underlying at the time the option was entered into and its strike price, it is referred to as a **kick-in/kick-out** barrier option. 61

Double-Barrier options have both an upper and a lower barrier and may take the form of knock-in and knock-out barrier options. 62

CAUTION When buying a **barrier option**, you must be aware that your exercise rights only arise when the market value of the underlying reaches the barrier (knock-in/kick-in option) or that they expire irrevocably when that barrier is reached (knock-out/kick-out option). 63

– Payout options

The **Payout options** accord you the right to payment of a fixed amount agreed in advance. 64

In the case of a **digital** (otherwise known as **"binary"**) **option**, you receive payment if the market value of the underlying reaches a fixed value once during a specified time period **(one-touch digital option)** or precisely on the day of expiration **(all-or-nothing option)**. For the one-touch digital option, payment occurs either immediately the barrier is reached or on the date of expiration **(lock-in option)**. 65

With **lock-out options**, you only receive the fixed payment if the market value of the underlying does not reach the agreed barrier during a specified time period. 66

CAUTION If you sell a payout option you owe the fixed amount if the barrier is reached, regardless of whether or not the option is in the money when exercised or on the expiration date, or to what extent. This means that the amount you owe can be considerably larger than the option's intrinsic value. 67

– Asian options

For Asian options, an average value is derived from the market value of the underlying over a specified time period. This average is used to determine the underlying's value for an **average-rate option** and to calculate the strike price for an **average-strike option**. 68

CAUTION The calculation of an average value for the underlying in the case of the average-rate option can result in the value of the option on the expiration date being considerably lower for the buyer and considerably higher for the writer than the difference between the strike price and the current market value on expiry. 69

CAUTION For an average-strike option, the average strike price of a call option can be considerably higher than the price originally set. For an equivalent put option, the strike price can similarly be lower than the price originally set. 70

– Lookback options

With a **lookback option**, the market value of the underlying is recorded periodically over a specified time period. 71

For a **strike-lookback option** the lowest value (call option) or the highest value (put option) of the underlying becomes the strike price. 72

The strike price remains unchanged for a **price-lookback option**, with the highest value (call option)/lowest value (put option) being used in calculating the option value of the underlying. 73

CAUTION For lookback options, both the calculated strike price and the calculated value of the underlying can vary considerably from the market prices prevailing on the expiration date. If you sell an option of this type, you must be aware that it will always be exercised at the most unfavourable value for you. 74

– Contingent options

When you buy a **contingent option** you must pay the premium only if the market value of the underlying reaches or exceeds the strike price during the life of the option (American-style option) or on the expiration date (European-style option). 75

CAUTION You will have to pay the entire premium even if the option is only just at the money or just in the money. 76

– Cliquet and Ladder options

For **cliquet options** (also known as **ratchet options**), the strike price is modified for the following period, normally at regular intervals, in line with the market value of the underlying. Any intrinsic value of the option is locked in. All lock-ins arising over the entire life of the option are accumulated. 77

For **ladder options**, these modifications take place when the underlying reaches specified market prices, rather than at regular intervals. Normally, only the highest intrinsic value is locked in. In rare cases, all the intrinsic values recorded are added together. 78

CAUTION If you sell a cliquet option, you are required on the expiration date to pay the buyer all the accumulated lock-ins in addition to any intrinsic value of the option. If you sell a ladder option you must pay the buyer the highest lock-in amount, which can be considerably higher than the option's intrinsic value on the expiration date. 79

What are options on more than one underlying?

Examples of options on more than one underlying are:

– Spread and outperformance options

Both spread and outperformance options are based on two underlyings. With a **spread option**, the absolute difference in movement between the two underlyings forms the basis for calculating the option's value. By contrast, the value of an **outperformance option** is based on the relative difference, i.e. the percentage outperformance of one underlying compared to the other. 80

CAUTION Even if the underlying performs positively, the difference between the underlyings may be equal or lower in absolute as well as relative terms, thus having a negative impact on the value of the option. 81

– Compound options

The **Compound options** have an option as their underlying, i.e. they are options on options. 82

CAUTION Compound options can have an especially large leverage effect. If you sell an option of this type, you can be faced with very substantial obligations. 83

– Credit default options

With a **credit default option**, a credit risk of the original risk-taker (risk seller) is transferred to a third party (risk buyer), who receives a premium in return. If the defined credit event occurs, the risk buyer is obliged to effect a cash settlement or take on the non-performing loan (or another delivery obligation) by way of physical settlement at a previously determined price. Credit default options are a form of credit derivatives. 84

CAUTION The risk of chain reactions on the credit market is high and can easily be underestimated. There is also the risk that lack of liquidity will lead to price distortions when volumes are low. This may mean that the investment can only be sold at a low price, longer term or even not at all. 85

Forwards and Futures

What duties do you have with forwards and futures?

With **forwards** and **futures** you undertake to deliver or take delivery of a defined quantity of an underlying on a specified expiration date at a price agreed on the contract date. Unlike with options, which (for the buyer at least) only give rise to rights, forwards and futures involve both parties entering into obligations. You do not have to pay a premium when the contract is concluded. 86

CAUTION Forwards and futures can involve special risks. You should therefore only make investments of this type if you are familiar with this type of instrument, have sufficient liquid assets and are able to absorb any losses that may arise. 87

What is the difference between futures and forwards?

Futures are traded on an exchange. They take the form of contracts in which the quantity of the underlying and the expiration date are standardised. 88

Forwards are not traded on an exchange; hence they are referred to as OTC (over-the-counter) forwards. Their specifications may also be standardised; otherwise they may be individually agreed between the buyer and seller. 89

What underlying assets can forwards and futures be based on?

The **most common underlyings** for forwards and futures are: 90

– assets (equities, bonds, precious metals and other commodities),
– benchmark rates such as currencies, interest rates and indices.

What is a margin?

When you buy or sell (short) an underlying asset on the futures market, you must supply a specified **initial margin** when entering into the contract. This is usually a percentage of the total value of the contracted instruments. In addition, a **variation margin** is calculated periodically during the life of the contract. This corresponds to the book profit or loss arising from any change in value in the contract or underlying instrument. The way in which the variation margin is calculated will depend on the rules of the exchange concerned and/or the conditions of the contract. 91

As the investor, you are obliged to deposit the required initial and variation margin cover with the securities dealer for the entire life of the contract. 92

CAUTION In the event of a book loss, the **variation margin** can be several times as large as the initial margin. 93

How is a transaction closed out?

As the investor, you are entitled to close out the contract at any time prior to the expiration date. How this is done depends on the type of contract or stock exchange practice. You either "sell" the contract or agree an offsetting trade with identical terms. Concluding such an offsetting trade means that the obligations to deliver and receive cancel one another out. 94

How is the transaction settled?

If you do not close out the contract prior to the expiration date, you and the counterparty must settle it. 95

If the underlying in your contract is a **physical asset**, settlement is achieved by physical delivery or a cash payment. Generally, the asset is physically delivered. Only in exceptional cases do the contract provisions or stock exchange practice call for cash settlement. All other fulfilment specifications, especially the definition of the place of fulfilment, can be found in the relevant contract provisions. 96

The difference between **physical delivery** and **cash settlement** is that with physical delivery, underlyings amounting to the entire contractual value must be delivered, whereas with cash settlement, only the difference between the agreed price and the market value on settlement needs to be paid. This means that you need more funds available for physical delivery than for cash settlement. 97

If the underlying in your contract is a **reference rate** or **benchmark**, fulfilment by physical delivery is not permitted (except for currencies). Instead, settlement is always in cash. 98

What special risks do you need to bear in mind?

For **forward sales**, you must deliver the underlying at the price originally agreed even if its market value has since risen above the agreed price. In such a case, you risk losing the difference between these two amounts. 99

CAUTION Theoretically, there is no limit to how far the market value of the underlying can rise. Hence, your potential losses are similarly unlimited and can substantially exceed the margin requirements. 100

CAUTION For **forward purchases**, you must take delivery of the underlying at the price originally agreed even if its market value has since fallen below the agreed price. Your potential loss corresponds to the difference between these two values. Your maximum loss therefore corresponds to the originally agreed price. Potential losses can substantially exceed the margin requirements. 101

In order to limit price fluctuations, an exchange may set price limits for certain contracts. Find out what price limits are in place before effecting forward or futures transactions. This is important since closing out a contract can be much more difficult or even impossible if a price limit of this type is reached. 102

CAUTION If you sell forward an underlying which you do not hold at the outset of the contract, this is referred to as a **short sale**. In this case, you risk having to acquire the underlying at an unfavourable market value in order to fulfil your obligation to effect delivery on the contract's expiration date. 103

What special factors apply to OTC forwards?

The market for standardised **OTC forwards** is transparent and liquid. Hence, contracts can normally be closed out without difficulty. There is no actual market for OTC forwards agreed individually, and hence the positions they entail may only be closed out with the agreement of the counterparty. 104

What special factors apply to combinations?

Since **combinations** comprise a number of elements, closing out individual elements can considerably alter the risks inherent in the overall position. Before entering into any such transaction, be sure to consult your securities dealer about the particular risks involved. 105

Given the many possible combinations, we cannot go into detail in this brochure about the risks involved in any particular case. Before making a purchase, be sure to seek comprehensive advice about these risks. 106

Structured Products

What are structured products?

Structured products are issued either publicly or privately. Their **redemption value depends on the performance of one or more underlyings**. They may have a fixed or unlimited term and consist of one or more components. 107

What are the common types of structured products?

Here is a list of the **common product categories**, based on the categorisation model used by the Swiss Structured Products Association (SSPA): 108

- capital protection products (see 116 ff. below)
- yield enhancement products (see 126 ff. below)
- participation products (see 130 ff. below)
- leverage products (see 135 ff. below)

Can products of this type be traded on an exchange?

Structured products may be listed for trading **on an exchange**, but do not have to be. 109

Can you sell a structured product?

The tradability of a structured product depends on whether the issuer or a market maker is prepared to make a price. Even if they are, **liquidity risks** can still arise. If the market is not liquid, you run the risk of having to either hold the financial instrument until the end of its term or sell it during the term at an unfavourable price. It can also be difficult or impossible to determine a fair price or even compare prices at all, as there is often only one market maker. 110

What is the issuer risk?

You bear the risk that the debtor of a structured product may become insolvent **(issuer risk)**. The instrument's value is therefore dependent not only on the performance of the underlying asset but also on the creditworthiness of the issuer, which may change over the term of the structured product. 111

What special risks do you need to bear in mind?

Every structured product has its **own risk profile**, and the risks of its individual components may be reduced, eliminated or increased. In particular, it may profit to different degrees from rising, constant or falling market values of the underlying, depending on the product involved. 112

CAUTION It is extremely important to find out exactly what the risks are before acquiring a product of this kind. This information can be found in, for example, the issue documents or the product description concerned. 113

Are structured products covered by the Collective Investment Act?

Structured products are **not categorised as collective investments** under the Collective Investment Schemes Act (Federal Act on Collective Investment Schemes of 23 June 2006). Unlike with collective investments, the issuer is liable with his or her own assets (as is any guarantor, to the extent of a guarantee they have provided), and there is no backing from specially protected assets. You therefore need to bear in mind that in addition to a potential loss resulting from a decline in the market value of the underlyings (market risk), you may in the worst case lose your entire investment because the issuer or guarantor becomes insolvent (issuer or guarantor risk). 114

Do you have an entitlement to voting rights and dividends?

You do not normally have any entitlement to voting rights or dividends if you buy a structured product. 115

Capital Protection Products

What types of capital protection are there?

Some structured products offer capital protection. The level of this protection is fixed 116
by the issuer when the product is issued and indicates the percentage of the **nominal value** that will be repaid to the investor on expiration. However, capital protection generally only applies at the end of the term and may, depending on the product conditions, be (far) lower than 100% of the invested capital.

CAUTION

Some structured products offer only conditional capital protection, which can be lost 117
if the value touches, falls below or rises above a predefined threshold (barrier, knock-out level). Repayment is then dependent on the performance of one or more underlyings.

What are structured products with capital protection?

Structured products with capital protection consist of two elements, such as a fixed- 118
income investment (especially a bond or a money market investment) and an option. This combination enables the holder to participate in the performance of one or more underlyings (via the option or **participation component**) while at the same time limiting potential losses (via the fixed-income investment or **capital protection component**). The capital protection component may only cover a portion of the capital invested.

What is the purpose of the capital protection component?

The **capital protection component** determines the minimum repayment you receive 119
on expiration, regardless of how the participation component performs.

What does the capital protection relate to?

The capital protection is linked to the nominal value rather than the issue price or 120
purchase price. Hence, if the issue/purchase price you pay exceeds the nominal value, **only the nominal value** is capital-protected. The protection of your capital outlay drops accordingly. If, however, the issue/purchase price is less than the nominal value, the protection of your capital outlay rises accordingly.

Is the invested capital fully protected?

The capital protection component can be well under 100% of the capital invested, 121
depending on the product. Capital protection does not therefore mean 100% repayment of nominal value or the purchase price for all products. Structured products with capital protection generally offer lower returns than direct investments in the underlying, as the capital protection costs money.

CAUTION

Does the capital protection still apply if you sell the product during its term?

If you wish to sell a structured product with capital protection before it expires, you 122
may receive less than the capital protection component as the capital protection only applies if you keep the product until the redemption date.

What is the purpose of the participation component?

The **participation component** determines how you benefit from price movements in 123
the underlying(s) when you buy a structured product. In other words, it fixes the level of your potential return over and above the capital protection component. Some structured products with capital protection offer only a limited potential participation (those with a cap); some (those without a cap) offer unlimited potential participation. Others require the market value of the underlying to touch, rise above or fall below a specific barrier before you can make a profit.

How high is the risk on the participation component?

The risk on the participation component is **the same as that on the corresponding** 124
option or combination of options. Depending on the movements in the market value of the underlyings, the participation component may therefore be zero.

CAUTION
What is the maximum possible loss?

Your maximum loss on a structured product with capital protection is limited to the 125
difference between the purchase price and the capital protection, provided you continue to hold the product until expiration. You may also miss out on a profit due to the fact that full or partial repayment of the capital is guaranteed but no income (interest) is paid. Please be aware that there is also issuer risk (see 111).

Yield Enhancement Products

What are structured products with yield enhancement?

Structured products with yield enhancement consist of two elements, such as a 126
fixed-income investment and an option (mainly on equities or currencies), and possibly a currency swap. This combination enables you to participate in the performance of one or more underlyings (via the option component). However, these financial instruments offer **no or only conditional capital protection**. The interest that is paid means you receive a higher return than with a direct investment if the price of the underlying remains essentially unchanged. On the other hand, you will not benefit from the full potential return of the underlying.

If the market value of the underlying rises, you will receive the stipulated interest and 127
the nominal value on expiration (equally, the product may provide for a discount on the issue price). If the market value of the underlying rises sharply, you could possibly have earned a higher return on a direct investment. However, if the market value of the underlying falls sharply, you will receive both the interest payment and the underlying on expiration (unless the product offered a discount on the issue price).

What special risks do you need to bear in mind?

Many products with yield enhancement refer to several underlyings. You as investor 128
receive the security with the worst performance on expiration (either physically or in the form of cash) if the underlying touches, rises above or falls below a predefined barrier during the term of the financial instrument. If the performance of the underlying is negative, the financial instrument can trade some way below the issue price during its term even if the barrier is not touched, exceeded or undershot.
The level of interest rate is directly related to the level of the barrier. The nearer the barrier is to the market price of the underlying on the day of issue, the higher the interest you receive will generally be, but the higher the risk that the barrier will be reached, and vice versa.

CAUTION
What is the maximum possible loss?

When you invest in a structured product with yield enhancement, you could in the 129
worst case scenario lose the entire capital that you have invested.

Participation Products

What are structured products with participation?

Structured products with participation enable you to participate in the performance 130
of one or more underlyings. However, they offer **no or only conditional capital protection**.
If the participation product offers conditional capital protection, the risk is smaller than with a direct investment provided the market value of the underlying does not reach a specific barrier (termed the "knock-out").

CAUTION

If the market value of the underlying touches, rises above or falls below the barrier, 131
you will lose the capital protection.

What special risks do you need to bear in mind?

The **risk of a structured product with participation** is generally the same as that of the underlying. Unlike with a direct investment, however, you do not receive voting rights and you are not entitled to a dividend. You do, though, bear the credit risk of the product's issuer. 132

Many products with participation refer to several underlyings. You as investor receive the security with the worst (or sometimes best) performance on expiration (either physically or in the form of cash) if the market value of the underlying touches, rises above or falls below a predefined barrier during the term of the financial instrument. The financial instrument can trade some way below the issue price during its term even if the barrier is not touched, exceeded or undershot. Moreover, the level of participation is directly related to the level of the barrier. If you have a higher risk tolerance when selecting the barrier, you will enjoy a higher participation. 133

CAUTION
What is the maximum possible loss?

When you invest in a structured product with participation, you could in the worst case scenario lose the entire capital that you have invested. 134

Leverage Products

What are structured products with leverage?

Structured products with leverage enable you to achieve a leverage effect by investing less capital than you would have to if you invested directly in the underlying. This means you can benefit from short-term trends. 135

Structured products with leverage are suitable for short-term speculation but also for strategically hedging a portfolio. 136

What special risks do you need to bear in mind?

Because of the leverage effect, you need to **carefully and regularly monitor** the underlying, since structured products with leverage can experience a larger rise in profits but also a bigger loss than the underlying. 137

CAUTION
What is the maximum possible loss?

When you invest in a structured product with leverage, you could in the worst case lose the entire capital that you have invested. 138

Products Used for Financing or Risk Transfer

What exactly are these products?

The financial instruments discussed in this section have the **same or similar profit and loss structures as certain conventional financial instruments** (equities or bonds). 139

Such financial instruments may be listed for trading on an exchange, but do not have to be. 140

The risks associated with these products are not necessarily the same as those of the financial instruments they contain. It is therefore extremely important to find out exactly what the risks are before acquiring a product of this kind. This information can be found in, for example, the **product description concerned**. 141

What are credit and catastrophe derivatives?

There are some products that are mainly used to transfer risks. These include **credit and catastrophe derivatives**. They are financial instruments where the "underlying" is an event such as a credit event (default of a loan or bond) or a natural disaster. 142

Derivatives of this type can be used by the bearer of a risk to transfer it to others. Credit derivatives come in the form of swaps, options or hybrid financial instruments.

CAUTION Credit and catastrophe derivatives involve a **liquidity risk**. Often such instruments cannot be sold before the end of their term, because there is no market for them. 143

Credit bonds securitise the risks and transfer them to third parties as **credit-linked notes, collateralised debt obligations and asset-backed securities**. As a result, the buyer takes on the risk associated with a loan portfolio. 144

Credit-linked notes (CLN)

CLN are bonds whose redemption and interest payments depend on the performance of a specific underlying or benchmark portfolio (e.g. loan, bond). 145

CAUTION Look closely at the creditworthiness of the debtor to which the CLN is linked, as the CLN can end up being valueless if a credit event occurs. There is an issuer risk, i.e. a credit risk of the issuing bank, just as with structured products. The secondary market for CLN is highly illiquid, and you should therefore assume that you will not be able to sell one before the end of its term. 146

Collateralised debt obligations (CDO)

CDO are bonds backed by a diversified debt portfolio (mostly loans, bonds or credit default swaps). They give you access to investments that are unattractive or even unattainable for individual investors. Since CDO are often divided up into a number of tranches with differing credit risks, you can decide what credit risk you wish to take on. If a debtor in the debt portfolio experiences a credit event, the equity-like tranches are affected first: they may be only partially redeemed, or not redeemed at all. If a number of debtors default, this affects the remaining tranches in order of creditworthiness, until finally the tranche with the highest credit rating (comparable to that of first-class bonds) may only be partially redeemed, or not redeemed at all. 147
The value of a CDO is based primarily on the probability of a credit event affecting the individual companies in the portfolio. This probability of default is determined using statistical methods and on the basis of historical data, and can cease to be meaningful in extreme market conditions.

Before you invest in a CDO, you should also look at the track record of the manager in charge of it: he or she will receive a performance-related bonus and will often have a holding in the CDO him/herself. If the portfolio is not run by a manager (which is termed a "static" portfolio), its composition remains unchanged throughout its term. In this case you should pay special attention to the composition of the portfolio. 148

CAUTION CDO typically have a term of several years. As there is generally no secondary market, you should assume that you will not be able to sell the CDO before the end of its term. 149

Asset-backed securities (ABS)

In ABSs, risks (such as a range of receivables) are grouped together and transferred to a special purpose vehicle (SPV). The SPV finances this transaction by issuing securities backed by a pool of assets or a portfolio. If the collateral is a mortgage, this kind of instrument is called a **mortgage-backed security (MBS)**. The individual com- 150 ponents of the portfolio would be unattractive or even unobtainable in this form for individual investors. However, the composition of the portfolio makes it possible to combine together and sell a range of assets and risks. By grouping together different types of credit risk, different risk profiles can be created.

Even if a pool or portfolio is created, lack of diversification can lead to a concentration of risk. 151

CAUTION Credit bonds are often issued by particular types of offshore companies (SPV). In this event you should pay special attention to the issuer risk and the quality of government supervision of such SPVs. 152

Alternative (Non-Traditional) Investments

What are alternative or non-traditional investments?

Alternative or non-traditional investments are investments that do not fall within the traditional asset classes, such as equities, bonds or money market products. They include a **wide range of instruments and strategies**. This section focuses on the classes that are most important in terms of risk information: 153

- hedge funds (see 159 ff. below)
- private equity (see 174 ff. below)
- real estate (see 182 ff. below)
- precious metals and other commodities (see 189 ff. below)

This list is not exhaustive and this brochure cannot point out all the risks and issues that need to be taken into account in connection with **alternative or non-traditional investments**. 154

CAUTION Be sure to obtain comprehensive advice before investing in **alternative or non-traditional investments**, and examine the offering carefully.

What do you need to bear in mind when making direct investments?

Instruments allowing for **direct investment** can make sense in terms of diversifying a portfolio (risk distribution) because their returns are less dependent on factors such as the performance of the markets and levels of interest rates than those of conventional investments. However, the minimum outlay required for direct investments is generally very high, and they are often not accessible to all investors. 155

What about indirect investments?

To overcome these obstacles and avoid the risks of the large direct investments required, the financial sector has developed instruments for **indirect investment**. They include certificates, notes, investment funds, funds of funds, commodity futures and forward contracts. All these structures are based on one or more of the asset classes mentioned below. If you are interested in indirect investments, you need to bear in mind not just the risks of alternative investments as an asset class, but also the risks of the instrument concerned – the risks associated with structured products, for example. Please note that this section does not deal with the risks of structured products, forward contracts and futures, as these were discussed in the preceding sections (see “Forwards and Futures” and “Structured Products”). 156

What are offshore funds?

Offshore investments are often structured as funds or partnerships (such as limited partnerships) and domiciled in countries where legislation and supervision can be weak – hence the name “offshore funds”. The Swiss financial supervisory authority does not permit the public distribution of such funds in Switzerland. 157

CAUTION The legislation and supervision applying to offshore funds are much less strict than for traditional investments, which means that **investors may enjoy less protection**. They may find it difficult to enforce their rights, and problems and delays may occur when settling buy and sell orders for units of such funds. 158

Hedge Funds

What are hedge funds?

Hedge funds are the best-known form of alternative or non-traditional investments. Despite what their name suggests, **hedge funds** do not necessarily have anything to do with hedging. Indeed, they take on sometimes very high levels of risk in order to obtain an above-average return. Hedge funds include all forms of investment funds, investment companies and partnerships that use derivatives not just for hedging but also for investment, that are able to engage in short selling or take on significant leverage by borrowing. Other features typical of hedge funds include their freedom to choose their asset classes, markets (including emerging markets) and trading methods. Hedge funds normally require high minimum investments. They frequently offer only limited opportunities for subscription and redemption, with long notice periods. The portfolio managers of hedge funds receive performance-related bonuses and often hold a personal stake in the funds. 159

CAUTION

What should you particularly bear in mind about hedge funds?

Pay special attention to the following:

- A hedge fund may be **less transparent than a traditional investment fund, for example**, as investors are not always informed about planned strategies and changes to them, or changes of portfolio manager. Hedge funds are also not subject to any disclosure requirements. 160

- Unlike traditional collective investments, hedge funds have **limited liquidity (units may generally only be redeemed once a month, quarterly or annually)**. Normally, investors can only invest in a hedge fund at specific times. There are generally long notice periods for redemptions and long lock-up periods (periods during which investors are obliged to leave their capital in the fund). 161

- Delays may occur, and unfavourable prices may result, when settling buy and sell orders for hedge fund units. There is no guarantee that investors will be able to enforce their rights. 162

What are funds of hedge funds or multi-manager hedge funds?

Investors invest in **funds of hedge funds or multi-manager hedge funds** in order to reduce risk. These funds invest their capital in a number of hedge funds and spread it across a range of hedge fund managers that cover different investment styles, markets and instruments. There are also structured products that you can use to invest in hedge funds or hedge fund indices. 163

What strategies do hedge funds pursue?

The main hedge fund **strategies** seen on the market are as follows: 164

- **Equity hedge (“long”, “short”)**

  Equity hedge funds identify undervalued (buy or long position) and overvalued (short selling or short position) equities in specific regions or market segments and attempt to make profits in the belief that sooner or later these positions can be closed out at a profit. 165

- **Arbitrage strategies**

  Arbitrage strategies identify price differences between identical or similar investments in different markets and try to exploit them. Such strategies include equity-market neutral, fixed-income arbitrage, convertible-bond arbitrage and mortgage-backed-securities arbitrage. 166

– **Event-driven**

Managers that pursue this kind of strategy try to make a profit from events such as upcoming changes in a company (mergers, takeovers, restructurings, turnarounds, etc.). Examples of such strategies are merger arbitrage, distressed securities and special situations. 167

– **Global macro**

Hedge funds that pursue global macro strategies attempt to identify macro-economic developments such as changes in interest or exchange rates at an early stage and exploit them for profit. This category includes growth funds and emerging market funds. 168

– **Managed futures**

This type of hedge fund deals in futures (standardised, exchange-listed contracts) on financial instruments, currencies and commodities. 169

What risks do you take on when you invest in a hedge fund?

Generally speaking, hedge fund managers do not need to be licensed by an authority and are **largely unregulated**. In particular, hedge funds are not subject to the numerous investor protection regulations that apply to authorised collective investments. These include rules on liquidity, redemption of fund units at any time, avoiding conflicts of interest, fair prices for fund units, disclosure and limitations on borrowing. 170

Since these rules do not apply to hedge funds, they can use much more leverage than traditional authorised funds, and engage in complex investment transactions that are not permitted for traditional collective investments. A hedge fund is allowed to adopt **aggressive strategies** including the widespread use of short selling, leverage, swaps, arbitrage, derivatives and programme trading. Their investment strategies are often highly complex and very intransparent. You will often receive little or no information about changes of strategy that may lead to a significant increase in risk, or receive such information only at a late stage. 171

As part of their investment strategy, hedge funds can also use derivatives such as futures, options and swaps that may be listed for trading on an exchange but do not have to be. These instruments may be subject to significant price volatility, resulting in a **high risk of loss** for the fund. The low margins typically required to build up a position in such instruments mean that high levels of borrowing can be used. Depending on the instrument, a relatively small change in the price of the contract can therefore lead to a large profit or loss in comparison with the capital lodged as collateral and hence to further, unforeseeable losses that can exceed any margin cover. 172

CAUTION **Investment vehicles that are not listed on an exchange** also involve further risks as there is neither an exchange nor a secondary market where units can be sold or open positions closed out. It may be impossible to unwind an existing position or determine the value or risk of a position. If a hedge fund sells uncovered options on securities, it may be exposing itself to an unlimited risk of loss. 173

Private Equity

What is private equity?

Private equity is a form of risk capital financing for companies that either are **not exchange-listed** or – occasionally – wish to delist. Investments are usually made at an early stage in a company's development, when its chances of success are uncertain and the risks are therefore high. 174

Where private equity flows into young companies (start-ups) or small companies 175 with growth potential that are at an early stage in their development, the term **venture capital** is also used. Private equity now also extends to risk capital made available to a company immediately before it goes public **(late-stage financing, mezzanine financing)**. Normally the financing is constructed in such a way that the proceeds of the initial public offering are used to wholly or partially redeem the holdings of the shareholder entrepreneurs. If a change of ownership is financed, for example a delisting, the term **"buyout"** is customarily used.

The success of a private equity investment depends on the correct timing of the "exit" 176 or sale and – especially with indirect investments via a fund, for example – on the quality of the private equity manager. The exit can be effected by going public (initial public offering or IPO), a sale to another company (trade sale) or to another private equity fund (secondary sale), or a management buyout. The choice of solution will depend largely on the market conditions prevailing at the time. How easy or difficult the exit phase is, and whether the proceeds meet expectations, will depend on factors such as the performance of the equity markets.

What are the risks of private equity investments?

Private equity investments are **not regulated compared to equities listed for trading** 177 **on an exchange**. This means that investors may be exposed to more risks, for example due to lack of transparency (e.g. limited access to financial statements, lack of publication).

Private equity investments involve considerable risks and can lead to substantial loss- 178 es. They are based on a long-term approach and are much less liquid than exchange-listed equities. Normally, private equity investments cannot be sold until some years after the original investment. You should be aware that your capital will be tied up, either completely or with access subject to restrictions, for a long time. No distributions are made prior to exit from investments. You do not normally have any entitlement to exit early.
Companies that are potential candidates for private equity investments may have high levels of borrowing and therefore be more sensitive than established companies to negative market developments such as rising interest rates. There is also a greater danger of the company becoming insolvent and going bankrupt than with listed companies.

CAUTION It is not unusual for further calls for capital to be made at short notice after the ini- 179 tial investment. If you fail to comply with such a demand, you may lose all the capital you have invested up to that time.

CAUTION A change of management in a young company where the personality of the individ- 180 uals occupying key functions is a particularly important factor can have a highly detrimental effect on a private equity investment.

What do you need to bear in mind when making indirect investments

With **indirect investments**, there is no guarantee that the manager of a private equi- 181 ty fund will be able to make investments and generate profits that fulfil the expectations for this form of investment. The abilities of the private equity manager are therefore crucial to the success of an indirect investment.

Real Estate

How can you invest in real estate?

Investments in real estate can be made directly or indirectly. Real estate comprises **office buildings, retail and industrial premises, residential property and special real estate** (such as hotels or hospitals). The variables that determine the value of a property are its location, construction, equipment fittings and the variety of ways in which it can be used. 182

What do you need to bear in mind when making direct investments?

A **direct investment** involves actually buying property. This will usually require a high capital outlay, a long term investment horizon, in-depth knowledge of the sector, familiarity with the location and often personal involvement, as property needs to be professionally managed. 183

What about indirect investments?

Indirect investments in real estate generally require a lower capital outlay than direct investments. Indirect investments are divided into those that are exchange-listed and those that are not. Examples of unlisted indirect investments include real estate funds, shares of real estate companies that are not listed for trading on an exchange, and certificates on real estate funds. Real estate funds can reduce risk by diversifying across geographical areas and real estate categories. The main category of exchange-listed indirect investments is real estate investment trusts (REITs). These enable investors to invest in real estate without incurring certain disadvantages, such as illiquidity. 184

What risks do you need to be aware of?

Real estate investments are based on physical assets – land and buildings – that are ultimately **unique, and in which trading is not regulated**. 185

Where real estate is concerned, it is therefore often **difficult, or even impossible, to spread risks adequately or diversify investments sufficiently**. With direct real estate investments especially, the high capital outlay required and the illiquidity of the property market makes diversification difficult or even impossible. 186

Property markets are also frequently **intransparent**, and require precise knowledge of local circumstances. It is therefore vital to involve local experts, which hampers access to the market. 187

Real estate often reacts to **interest rate changes** in a similar way to bonds: when interest rates are low, for instance, mortgages are cheap and it is easy to generate above-average profits. Conversely, high interest rates cause profits to contract. Fiscal incentives offered by the state to promote home ownership and attractive lending conditions can also lead to excessively high prices. 188

Precious metals and other commodities

What are commodities?

Commodities are **physical goods that are produced via agriculture and mining, for example, and standardised for use as the underlying of a transaction**. Derivatives on commodities such as energy sources, precious and other metals, and agricultural products are traded on futures markets. 189

Contractual agreements allow investors to buy or sell **futures** linked to the performance of a particular commodity. This means that they can buy a standardised amount of a commodity at a specific time in the future for a specific price. 190

The commonest way in which private individuals invest indirectly in commodities is via structured products (see 107 ff. above). There are other alternatives, such as **commodity swaps and options** that are not listed for trading on an exchange. These are traded directly between the parties concerned and are tailor-made products. More information on how forwards and futures work can be found in a separate section of this brochure (see 86 ff. above). 191

CAUTION With commodity futures, you may receive physical delivery of the commodity concerned on expiration, while structured products normally provide for cash payment. If you prefer cash settlement, you will have to sell the futures before their expiration date. Such products are therefore more risky than, for instance, equities or collective investments. 192

What are the risks of commodity investments?

The price of commodities is influenced by a number of factors. These include: 193
- the relationship between supply and demand
- climate and natural disasters
- state programmes and regulations, national and international events
- state intervention, embargoes and tariffs
- movements in interest and exchange rates
- trading in commodities and the corresponding contracts
- provisions relating to monetary policy, trading, fiscal and currency controls.

These variables can lead to additional investment risks.
Commodities investments are **more volatile than conventional investments**, and yields on commodities can collapse at short notice. The volatility of commodity prices also affects the value, and hence the price, of a futures contract based on those commodities. 194
Conventional futures on oil, base and precious metals are normally easy to trade, regardless of their term.

CAUTION When market activity is limited, a contract can become illiquid. Depending on how the yield curve moves, such **illiquidity** can lead to **significant price changes**. This is a typical feature of commodities. 195

Investments in Emerging Markets

What are emerging markets?

There is no standard definition of the term "emerging markets". In the broadest sense it includes **all economies that are not regarded as "advanced"** (see 197 below). Common criteria for defining what is an emerging market are per capita income, the level of development of the financial sector, and the proportion of the total economy that is made up by the service sector. 196
The creditworthiness of countries that fall within this definition can vary widely: from very high to very low, with – in the latter case – very high default risk.
Although they can be at very different stages in their economic development, most emerging markets have a political system that is very new (for instance they have only recently become democracies) or is currently changing. This means that the political system and its institutions may be less stable than in an advanced nation.

Which countries are deemed to be "advanced economies"?

The list of emerging markets is changing constantly. According to the criteria applied by the International Monetary Fund in October 2007, they include all countries except: Australia, Austria, Belgium, Canada, Cyprus, Denmark, Finland, France, Germany, Greece, Hong Kong, Iceland, Ireland, Israel, Italy, Japan, Korea, Luxembourg, the Netherlands, New Zealand, Norway, Portugal, Singapore, Slovenia, Spain, Sweden, Switzerland, Taiwan, the UK and the US. These nations are **classed as having advanced economies**. 197

Which factors should you be especially aware of when making investments in emerging markets?

There are risks linked to investments in emerging markets that are not encountered in their advanced counterparts. This is also the case when the issuer or provider of a product has its headquarters or primary focus of activity in an emerging nation. 198

CAUTION

Investing in products linked to emerging markets is therefore often speculative. Before investing in emerging markets, you should form an impression of them that allows you to assess the risks involved. 199

What are the individual risks involved?

When investing in emerging markets, the following risks should be taken into account. The list is not exhaustive. Depending on the type of investment product, there may be additional risks involved as described elsewhere in this brochure. 200

Political risk

A government's political inexperience or the instability of the political system increases the risk of short-term, fundamental shifts in a nation's economy and politics. The consequences for you as an investor can include the confiscation of your assets with no compensation, the restriction of your rights of disposal over your assets, or government-imposed controls. State intervention in specific sectors of industry can result in a dramatic fall in the value of investments in those sectors. 201

Economic risk

Emerging market economies are more sensitive to changes in interest and inflation rates, which are in any case subject to greater swings than in the developed nations. The focus of such economies is often relatively narrow, allowing single events to have a magnified impact. In addition, emerging nations generally have a lower capital base. Finally, their financial markets often lack an adequate structure and sufficient supervision. 202

Credit risk

Investments in debt securities (e.g. bonds, notes) issued by emerging market governments or companies tend to entail higher levels of risk than advanced market debt. This can be due to inferior creditworthiness, a high level of government debt, debt restructuring, a lack of market transparency or a lack of information. It is also much more difficult to assess credit risk due to inconsistent valuation standards and the absence of ratings. 203

Currency risk

The currencies of emerging market nations are subject to unpredictable fluctuations in value that are larger than those of advanced countries. Some countries limit the export of their currency or can impose short-term restrictions, or stop pegging their currency to a reference currency such as the dollar. Hedging can help limit losses resulting from currency swings, but they can never be entirely eliminated. 204

Inflation risk

Large fluctuations in the value of the currency and an insufficiently developed financial market can make it difficult for an emerging market nation's central bank to stick to its inflation targets. As a result, inflation may fluctuate more than in advanced countries. 205

Market risk

Because there is little or no supervision of financial markets in emerging market nations, regulation, market transparency, liquidity and efficiency are often inadequate. Moreover, high volatility and large price differences are characteristic of these markets. Finally, the inadequacy or absence of regulatory measures gives rise to an increased danger of market manipulation or insider trading. 206

Market liquidity risk

Liquidity is dependent on supply and demand. The impact on the emerging markets of social, economic and political changes or natural disasters can involve a much more rapid and lasting change to this supply and demand equation than would be the case in the advanced markets. In an extreme case, illiquidity can be the result. This can make it impossible for an investor to sell his/her investments. 207

Legal risk

The absence or inadequacy of financial market supervision can lead to your legal rights being difficult or impossible to enforce. Moreover, legal uncertainty may exist due to the inexperience of the emerging nation's judiciary. 208

Settlement risk

Certain emerging markets have an array of different clearing and settlement systems. These are often outmoded and prone to processing errors as well as considerable delays in settlement and delivery. Some countries do not have any such systems at all (see 14 above). 209

Shareholder risk and creditor risk

Legislation to protect the rights of shareholders and creditors (e.g. duties of disclosure, insider trading ban, management responsibilities, minority shareholder protection) may often be inadequate or non-existent. 210

Appendix: Definitions

Advanced market	197 ff.
All-or-nothing option	65
American-style option	**24**, 43, 46, 75
Asian option	68
Asset-Backed Securities (ABS)	144, **150 ff.**
At the money	28 ff.
Average-rate, average-strike option	See Asian option
Barrier Option	60 ff.
Binary option	See Payout option
Call Option	7, **20 f.**, 26 ff., 37 ff., 48 ff., 72 f.
Capital protection	108, 116 ff.
Cash Settlement	**27**, 97 ff., 192
Certificate	156, 184
Clearing and Settlement	Exchange of securities for payment between securities traders, in Switzerland through SIS SegaInterSettle AG
Cliquet option	**77 ff., 79**
Closing out	34, 94
Code of conduct for securities dealers	Professional rules of conduct issued by the Swiss Bankers Association for securities dealers (see Securities dealer) in Switzerland, describing their statutory (see Stock Exchange Act) duties of information, due diligence and good faith towards their clients
Collateralized debt obligations (CDO)	144, **147 ff.**
Collective Investment Schemes Act	(Swiss) Federal Act on Collective Investment Schemes of 23 June 2006, which entered into force on 1 January 2007 (Classified Compilation of Federal Law 951.31)
Combination	105
Compound option	82 f.
Contingent option	75
Covered option	48 ff.
Credit and catastrophe derivatives	142
Credit default swap (CDS)	Credit derivative whereby one counterparty undertakes to compensate the other counterparty for future credit losses (i.e. take on credit risks) in return for a premium 147
Credit-linked notes (CLN)	144, **145 f.**
Credit risk	84, 147, **203**
Creditor risk	210
Currency risk	204
Derivative	Financial contract for which the price is derived either from assets such as equities, bonds, commodities or precious metals, or from benchmarks such as currencies, interest rates and indices **3 ff.**, 16, 23, 49
Digital option	See Payout option
Double-barrier option	See Barrier option
Economic risk	202
Emerging market	17, 159, 168, **196 ff.**
European-style option	**25**, 75

Exotic option 55, 58 f.

Expiration date 20 f.

Financial instrument Generic term for all securities, book-entry securities and derivatives, including those that are not standardised and suitable for mass trading (on standardised securities suitable for mass trading, see Security)

Force majeure Events neither party in a transaction can influence or be held liable for, such as natural or man-made disasters, armed conflicts, terrorist attacks, uprisings, employment disputes (strikes and lockouts), embargoes, etc.

Hedge fund 159 ff.

Hedge fund strategies 164 ff.

In the money 28, 37, 67, 76

Indirect investments 156

IPO (Initial public offering) The first sale of previously unlisted shares by a company to the public, commonly known as "going public" (as distinct from issuance)
176

Issuance Creation and placement of securities in the primary market (as distinct from "Initial public offering [IPO]")
113, 116, 120 f.

Issuer 5, 12, 107, 110 ff., 114, 132, 146, 152, 198

Issuer risk 111, 146, 152

Kick-in, kick-out barrier option See Barrier option

Knock-in, knock-out barrier option See Barrier option

Ladder option 77 ff.

Legal risk 208

Leverage effect Enhanced exposure to losses and gains due to price changes
22, 135, 159

Lock-in, lock-out option See Payout option

Lock-up period 161

Lookback option 71 ff.

Margin, margin cover, variation margin, margin requirement 35 ff., 44, 47, 91 ff., 100 f.

Market liquidity risk 207

Market maker A securities dealer (see Securities dealer) who undertakes, either permanently or on request, to maintain firm bid and offer prices for one or more financial instruments (see Financial instrument)

Market risk 114, 206

Mortgage-backed securities (MBS) 150

Nominal Value Face value or par value

Non-traditional investments, non-traditional funds 153 ff.

Off-exchange trading See OTC trading

Offshore investments Investments (often in form of funds or limited liability partnerships) domiciled in countries where they are subject to a comparably weaker legislation and supervision
157 f.

One-Touch digital option 65

On-exchange trading Trading, especially with securities and rights not embodied in a certificate but with similar functions (book-entry securities; see Securities) on an organised, regulated market (the "secondary market"), as opposed to issuance (which takes place on the "primary market"; see Issuance)

Option 4 ff., 20 ff.

OTC Trading with securities which are not traded on a stock exchange, are agreed on an individual basis and not standardised

OTC (over-the-counter) forward 89, **104**

OTC option **34**, 55

Out of the money 29

Outperformance option 80

Participation component 118 f., **123 f.**

Path-dependent option 58 ff.

Payout option 64 ff.

Physical settlement, physical delivery 26, 41, 46, 51, 84

Plain vanilla option **55 f.**, 59

Political risk 201

Price-lookback, strike-lookback option See Lookback option

Private equity 174 ff.

Put option 7, **20 f.**, 26, 28 f., 37 f., 45 f., 55, 72 f.

Ratchet option See Cliquet option

Real estate investment trust (REIT) 184

Securities dealer Natural person or legal entity that offers new securities (see Security) publicly on the primary market on a professional basis, and/or trades securities on the secondary market or creates derivatives (see Derivative) which it offers publicly.
1, 5, 8, 10 f., 15, 17, 19, 35 f., 54, 92, 105

Security Standardised certificate which is suitable for mass trading, as well as rights not embodied in a certificate but with similar functions (book-entry securities). They include equities, bonds, units of investment funds and derivatives (see also Derivative), and must be offered to the public in a standardised form and denomination, or sold to more than 20 buyers
1, **2**, 5, 13

Settlement risk 14, 209

Shareholder risk 12, 210

Short put option Sale of a put option whereby the seller (writer) undertakes to buy the underlying at the strike price on the strike date

Short selling 91, 103, 165

Spread option 80

Stock Exchange Act (Swiss) Federal Act on Stock Exchanges and Securities Trading of 24 March 1995, which entered into force on 1 February 1997, with subsequent amendments (Classified Compilation of Federal Law 954.1)
1, 8, 17

Strike price **20 f.**, 27 ff., 40 ff., 45 ff., 51 ff., 61, 68 ff.

Structured product 107 ff.

Swap Contract for the exchange of payment streams; not traded on-exchange or en masse. See OTC
142, 147, 171 f.

Time value **31**, 38

Traded option 33, 35

Underlying, underlying asset The asset on which a derivative financial instrument is based. Examples include interest rates, equities, bills, etc. Increasingly, derivatives are also traded on alternative underlyings such as catastrophe risks and weather as well as credit risks, although these underlyings are not traded assets in their own right.
3, **20 ff.**, 26 ff., 59 ff., 80, 86 f., 96 ff., 107 ff.

Volatility Range within which a price or rate is expected to fluctuate
31, 206

Warrant **32**, *55*

Writer (of an option) Seller (of an option)
21, 26, **40 f.**, *45 f.*

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German Risk Disclosure (English)

Important Information on Loss Exposures in Respect of Forward Exchange Transactions

Dear Customer,

In forward exchange transactions, the profit potential is confronted with a high loss exposure. Any investor who wishes to conclude a forward exchange transaction must have been informed of the risks beforehand.

A. General Information on Loss Exposures in Respect of Forward Exchange Transactions

The German Stock Exchange Act (Borsengesetz) provides in Section 53, sub-section 2 that we inform you of the following risks:

Forfeiture or depreciation
The rights you acquire under forward exchange transactions may forfeit or depreciate as the rights conferred under such transactions are in any case limited in time. The shorter the time limit, the greater your risk may be.

Incalculable losses
Your loss exposure in commitments under forward exchange transactions may be indeterminable and may also include your entire property, beyond the collateral furnished by you.

Missing hedging opportunities
It is possible that transactions by which risks under forward exchange transactions entered into shall be excluded or limited (closing transactions) will not be concluded at all or only be concluded at a price meaning a loss for you.

Additional loss potential in respect of borrowings or as a result of currency fluctuations.
Your loss exposure will increase if you make use of a credit facility for your forward exchange transactions. The same applies to forward transactions where your liabilities or claims are denominated in a foreign currency or a unit of account (e.g. ECU).

B. Risks in the individual types of transactions

I. Purchase of options

1. Purchase of an option on securities, currencies or precious metals

The transaction:
If you purchase an option on securities, currencies or precious metals, you acquire the claim for delivery or acceptance of the underlying instrument at the price already fixed when purchasing the option.

Your risk:
Changes in the price of the underlying instrument, such as e.g. the stock on which your option is based, may reduce the value of your option. In the case of a call option, such depreciation will be triggered by price losses, whereas in the case of a put option, price gains of the underlying instrument will trigger a depreciation. If such depreciation occurs, it will in each case be disproportionate in relation to the changes in the price of the underlying instrument, so that your option may even be worthless. Your option may, however, also depreciate if the price of the underlying instrument does not change, as the value of your option is co-determined by other price determinants (such as the maturity or the frequency and intensity of price fluctuations of the underlying instrument. Due to the limited maturity of an option, in such case you cannot rely on the price of the option recovering in good time. If your expectations as to the market development are not come up to and you therefore waive the exercise of the option or fail to exercise it, your option will expire worthless at the end of its maturity. In such case, your loss will be composed of the price paid for the option plus the costs incurred by you.

2. Purchase of an option on financial futures

The transaction:
When purchasing an option on financial futures, you acquire the right to enter into a contract on terms fixed beforehand, by which contract you undertake to purchase and sell, for example, securities, currencies or precious metals for forward delivery.

Your risk:
First, such option is also subject to the risk mentioned under no. 1 above. However, after exercising the option, you run new risks; these new risks are dependent on the financial futures contract then entered into and may be considerably higher than your original risk - i.e. the price paid for the option. Then, you will incur the additional risks under the forward exchange transactions with forward settlement described below.

II. Sale of options and forward exchange transactions with forward settlement

1. Sale with forward delivery and sale of a call option on securities, currencies or precious metals

The transaction:
As a seller for forward delivery, you assume the obligation to deliver securities, currencies or precious metals at an agreed purchase price. As seller of a call option, you will assume that obligation only if the option is exercised.

Your risk:
In case of a price increase, you must nevertheless effect delivery at the price agreed before, and that price may be considerably lower than the current market price. If the underlying instrument which you have to deliver is already in your possession, you will no longer enjoy the advantage of increasing market prices. If you wish to acquire the underlying instrument only at a later point in time, the current market price may be considerably higher than the price agreed in advance. That price difference represents your risk. The loss exposure cannot be determined in advance, which means that it is theoretically unlimited. The loss exposure may exceed the collateral furnished by you to a considerable extent in the event that you do not possess the instrument to be delivered but only wish to acquire it at maturity. In such case, you may incur considerable losses, as - depending on the market situation - you may be forced to purchase at a very high price or to effect cash settlement payments in case an acquisition of the instrument is rendered impossible for you.

Please note:
if the underlying instrument which you have to deliver is in your possession, you are protected from losses incurred by an acquisition; however, if these assets are blocked in whole or in part for the duration of your forward exchange transaction (as collateral), you may not dispose of the same during that period of time or prior to the closing of your futures contract, nor can you sell such assets in order to avoid losses in case of decreasing prices.

2. Purchase with forward delivery and sale of a put option on securities, currencies or precious metals

The transaction:
As a purchaser for forward delivery or as seller of a put option, you assume the obligation to purchase securities, currencies or precious metals at an agreed price.

Your risk:
In case of decreasing prices, you must nevertheless take delivery of the purchased instrument at the price agreed before, and that price may be considerably higher than the current market price. That price difference represents your risk. The loss exposure cannot be determined in advance and may exceed collateral furnished by you (if any) to a considerable extent. If you intend to resell the product immediately after taking delivery thereof, you should note that it may be impossible, or very difficult, for you to find a purchaser; depending on the market situation, it is possible that you will only succeed in selling the instrument with a considerable price reduction.

3. Sale of an option on financial futures contracts

The transaction:
When selling an option on a financial futures contract, you assume the obligation to enter into a contract on terms fixed in advance, by which contract you undertake to purchase and sell, for example, securities, currencies or precious metals for forward delivery.

Your risk:
Should the option sold by you be exercised, you run the risk of a seller or purchaser for forward delivery, as set out in Sections 1 and 2 of this Chapter II.

III. Options and financial futures contracts containing a cash settlement

The transaction:
Several forward exchange transactions only contain a cash settlement. These include in particular:

- options and financial futures contracts on an index, i.e. a variable number which is calculated on the basis of a portfolio of securities determined according to certain criteria, and the variations of which mirror the price movements of these securities;
- options and financial futures contracts on the interest rate for a time deposit with a standardised maturity.

Your risk:
If your expectations are not met, you have to pay the difference between the price fixed at the conclusion of the transaction and the current market price at maturity. That difference represents your risk. The amount of the loss suffered by you cannot be determined in advance. It may exceed collateral furnished by you (if any) to a considerable extent.

C. Additional risk under forward exchange transactions

I. Forward exchange transactions containing a currency risk

The transaction:
When entering into a forward exchange transaction in respect of which your commitment or the consideration to be claimed by you is denominated in a foreign currency or a unit of account (e.g. the ECU), or where the value of the underlying instrument is determined thereby (such as in the case of gold), you are exposed to an additional risk.

Your risk:
In this case, your loss exposure is not only linked with the performance of the underlying instrument. Developments on the foreign exchange market can rather cause additional incalculable losses. Currency fluctuations may:

- reduce the value of the purchased option;
- increase the price of the underlying instrument to be delivered by you for the settlement of forward exchange transactions if the same is payable in a foreign currency or a unit of account. The same applies to a payment obligation under the forward exchange transaction to be settled by you in a foreign currency or a unit of account;
- reduce the value or the sales proceeds of the underlying instrument to be taken delivery of or the value of the payment received.

II. Transactions intended to exclude or limit risks

Do not rely upon being able to enter into transactions at any time during the term so as to compensate for, or limit, your risks under forward exchange transactions. Whether or not you have that possibility depends on the market conditions and also on the structuring of your forward exchange transaction. It may be that you will not be in a position to enter into said transactions at all, or only at an unfavorable market price, so that you will incur a loss.

III. Drawing on a credit facility

Your risk will increase if you use a credit facility for the financing of, in particular, the acquisition of options or the performance of your delivery and payment obligations under forward exchange transactions. In such case, if the market development is contrary to your expectations, you must - in addition to the loss suffered - also pay interest on the credit facility and redeem the same. You should therefore never start from the assumption that you will be in a position to pay interest and capital in respect of such credit facility from gains achieved under forward exchange transactions. Rather make sure prior to entering into a transaction that your financial situation allows you to pay interest on, or - should the situation arise - redeem, such credit facility at short notice even if you suffer losses instead of gains.

D. Certification in securities

The risks in respect of the transactions described above will not change if rights and obligations are certificated (e.g. in a warrant).

According to Section 53, sub-section 2 of the German Stock Exchange Act (Borsengesetz), this Information Memorandum must be signed by you if you wish to enter into forward exchange transactions.

German Risk Disclosure (German)

Sehr geehrte Kundin, sehr geehrter Kunde,

bei Börsentermingeschäften stehen den Gewinnchancen hohe Verlustrisiken gegenüber. Jeder Anleger, der ein Börsentermingeschäft eingehen will, muß zuvor über die Risiken bei Börsentermingeschäften informiert sein.

A. Grundsätzliches über Verlustrisiken bei Börsentermingeschäften

Das Börsengesetz (53 Abs. 2) sieht vor, daß wir Sie über die nachfolgenden Risiken informieren:

Verfall oder Wertminderung

Die Rechte, die Sie aus Börsentermingeschäften erwerben, können verfallen oder an Wert verlieren, weil diese Geschäfte stets nur befristete Rechte verschaffen. Je kürzer die Frist ist, desto größer kann Ihr Risiko sein.

Unkalkulierbare Verluste

Bei Verbindlichkeiten aus Börsentermingeschäften kann Ihr Verlustrisiko unbestimmbar sein und auch über die von Ihnen geleisteten Sicherheiten hinaus Ihr sonstiges Vermögen erfassen.

Fehlende Absicherungsmöglichkeiten

Geschäfte, mit denen Risiken aus eingegangenen Börsentermingeschäften ausgeschlossen oder eingeschränkt werden sollen (Glattstellungsgeschäfte), können möglicherweise nicht oder nur zu einem für Sie verlustbringenden Preis getätigt werden.

Zusätzliches Verlustpotential bei Kreditaufnahme oder aus Wechselkursschwankungen

Ihr Verlustrisiko steigt, wenn Sie für Ihr Börsentermingeschäft einen Kredit in Anspruch nehmen. Dasselbe ist bei einem Termingeschäft der Fall, bei dem Ihre Verpflichtungen oder Ansprüche auf ausländische Währung oder eine Rechnungseinheit (z.B. ECU) lauten.

B. Die Risiken bei den einzelnen Geschäftsarten

I. Kauf von Optionen

1. Kauf einer Option auf Wertpapiere, Devisen oder Edelmetalle

Das Geschäft: Wenn Sie Optionen auf Wertpapiere, Devisen oder Edelmetalle kaufen, erwerben Sie den Anspruch auf Lieferung oder Abnahme der genannten Basiswerte zu dem beim Kauf der Option bereits festgelegten Preis.

Ihr Risiko:Eine Kursveränderung des Basiswertes, also z.B. der Aktie, die Ihrer Option als Vertragsgegenstand zugrunde liegt, kann den Wert Ihrer Option mindern. Zu einer Wertminderung kommt es im Fall einer Kaufoption (Call) bei Kursverlusten, im Fall einer Verkaufsoption (Put) bei Kursgewinnen des zugrundeliegenden Vertragsgegenstandes. Tritt eine Wertminderung ein, so erfolgt diese stets überpropotional zur Kursveränderung des Basiswertes, sogar bis hin zur Wertlosigkeit Ihrer Option. Eine Wertminderung Ihrer Option kann aber auch dann eintreten, wenn der Kurs des Basiswertes sich nicht ändert, weil der Wert Ihrer Option von weiteren Preisbildungsfaktoren (z.B. Laufzeit oder Häufigkeit und Intensität der Preisschwankungen des Basiswerts) mitbestimmt wird. Wegen der begrenzten Laufzeit einer Option können Sie dann nicht darauf vertrauen, daß sich der Preis der Option rechtzeitig wieder erholen wird. Erfüllen sich Ihre Erwartungen bezüglich der Marktentwicklung nicht und verzichten Sie deshalb auf die Ausübung der Option oder versäumen Sie die Ausübung, so verfällt Ihre Option mit Ablauf ihrer Laufzeit. Ihr Verlust liegt dann in dem für die Option gezahlten Preis zuzüglich der Ihnen entstandenen Kosten.

2. Kauf einer Option auf Finanzterminkontrakte

Das Geschäft: Beim Kauf einer Option auf einen Finanzterminkontrakt erwerben Sie das Recht, zu im vorhinein fixierten Bedingungen einen Vertrag abzuschließen, durch den Sie sich zum Kauf oder Verkauf per Termin von z.B. Wertpapieren, Devisen oder Edelmetallen verpflichten.

Ihr Risiko: Auch diese Option unterliegt zunächst den unter 1. beschriebenen Risiken. Nach Ausübung der Option gehen Sie allerdings neue Risiken ein: Diese richten sich nach dem dann zustande kommenden Finanzterminkontrakt und können weit über Ihrem ursprünglichen Einsatz - das ist der für die Option gezahlte Preis - liegen. Sodann treffen Sie zusätzlich die Risiken aus den nachfolgend beschriebenen Börsentermingeschäften mit Erfüllung per Termin.

II. Verkauf von Optionen und Börsentermingeschäfte mit Erfüllung per Termin

1. Verkauf per Termin und Verkauf einer Kaufoption auf Wertpapiere, Devisen oder Edelmetalle

Das Geschäft: Als Verkäufer per Termin gehen Sie die Verpflichtung ein, Wertpapiere, Devisen oder Edelmetalle zu einem vereinbarten Kaufpreis zu liefern. Als Verkäufer einer Kaufoption tritt Sie diese Verpflichtung nur dann, wenn die Option ausgeübt wird.

Ihr Risiko: Steigen die Kurse, müssen Sie dennoch zu dem zuvor festgelegten Preis liefern, der dann ganz erheblich unter dem aktuellen Marktpreis liegen kann. Sofern sich der Vertragsgegenstand, den Sie zu liefern haben, bereits in Ihrem Besitz befindet, kommen Ihnen steigende Marktpreise nicht mehr zugute. Wenn Sie ihn erst später erwerben wollen, kann der aktuelle Markpreis erheblich über dem im voraus festgelegten Preis liegen. In der Preisdifferenz liegt Ihr Risiko. Dieses Verlustrisiko ist im vorhinein nicht bestimmbar, d.h. theoretisch unbegrenzt. Es kann weit über von Ihnen geleistete Sicherheiten hinausgehen, wenn Sie den Liefergegenstand nicht besitzen, sondern sich erst bei Fälligkeit damit eindecken wollen. In diesem Fall können Ihnen erhebliche Verluste entstehen, da Sie je nach Marktsituation eventuell zu sehr hohen Preisen kaufen müssen oder aber entsprechende Ausgleichszahlungen zu leisten haben, wenn Ihnen die Eindeckung nicht möglich ist.

Beachten Sie: Befindet sich der Vertragsgegenstand, den Sie zu liefern haben, in Ihrem Besitz, so sind Sie zwar vor Eindeckungsverlusten geschützt. Werden aber diese Werte für die Laufzeit Ihres Börsentermingeschäftes (als Sicherheiten) ganz oder teilweise gesperrt gehalten, können Sie während dieser Zeit oder bis zur Glattstellung Ihres Terminkontraktes hierüber nicht verfügen und die Werte auch nicht verkaufen, um bei fallenden Kursen Verluste zu vermeiden.

2. Kauf per Termin und Verkauf einer Verkaufsoption auf Wertpapiere, Devisen oder Edelmetalle

Das Geschäft: Als Käufer per Termin oder als Verkäufer einer Verkaufsoption gehen Sie die Verpflichtung ein, Wertpapiere, Devisen oder Edelmetalle zu einem festgelegten Preis abzunehmen.

Ihr Risiko: Auch bei sinkenden Kursen müssen Sie den Kaufgegenstand zum vereinbarten Preis abnehmen, der dann erheblich über dem aktuellen Marktpreis liegen kann. In der Differenz liegt Ihr Risiko. Dieses Verlustrisiko ist im vorhinein nicht bestimmbar und kann weit über eventuell von Ihnen geleistete Sicherheiten hinausgehen. Wenn Sie beabsichtigen, die Ware nach Abnahme sofort wieder zu verkaufen, sollten Sie beachten, daß Sie unter Umständen keinen oder nur schwer einen Käufer finden; je nach Marktentwicklung kann Ihnen dann ein Verkauf nur mit erheblichen Preisabschlägen möglich sein.

3. Verkauf einer Option auf Finanzterminkontrakte

Das Geschäft: Beim Verkauf einer Option auf einen Finanzterminkontrakt gehen Sie die Verpflichtung ein, zu im vorhinein fixierten Bedingungen einen Vertrag abzuschließen, durch den Sie sich zum Kauf oder Verkauf per Termin von z.B. Wertpapieren, Devisen oder Edelmetallen verpflichten.

Ihr Risiko: Sollte die von Ihnen verkaufte Option ausgeübt werden, so laufen Sie das Risiko eines Verkäufers oder Käufers per Termin, wie es unter Ziff. 1., und 2. dieses Abschnittes II. beschrieben ist.

III. Options- und Finanzterminkontrakte mit Differenzausgleich

Das Geschäft: Bei manchen Börsentermingeschäften findet nur ein Barausgleich statt. Hierbei handelt es sich insbesondere um:

- Option- oder Finanzterminkontrakte auf einen Index, also auf eine veränderliche Zahlengröße, die aus einem nach bestimmten Kriterien festgelegten Bestand von Wertpapieren errechnet wird und deren Veränderungen die Kursbewegungen dieser Wertpapiere widerspiegeln.

- Options- oder Finanzterminkontrakte auf den Zinssatz für eine Termineinlage mit standardisierter Laufzeit.

Ihr Risiko:Wenn Ihre Erwartungen nicht eintreten, haben Sie die Differenz zu zahlen, die zwischen dem bei Abschluß zugrunde gelegten Kurs und dem aktuellen Marktkurs bei Fälligkeit des Geschäfts besteht. Diese Differenz macht Ihren Verlust aus. Die maximale Höhe Ihres Verlustes läßt sich im vorhinein nicht bestimmen. Er kann weit über eventuell von Ihnen geleistete Sicherheiten hinausgehen.

C. Weitere Risiken aus Börsentermingeschäften

I. Börsentermingeschäfte mit Währungsrisiko

Das Geschäft: Wenn Sie ein Börsentermingeschäfte eingehen, bei dem Ihre Verpflichtung oder die von Ihnen zu beanspruchende Gegenleistung auf ausländische Währung oder eine Rechnungseinheit (z.B. ECU) lautet oder sich der Wert des Vertragsgegenstandes hiernach bestimmt (z.B. bei Gold), sind Sie einem zusätzlichen Risiko ausgesetzt.

Ihr Risiko: In diesem Fall ist Ihr Verlustrisiko nicht nur an die Wertentwicklung des zugrundeliegenden Vertragsgegenstandes gekoppelt. Vielmehr können Entwicklungen am Devisenmarkt die Ursachen für zusätzliche unkalkulierbare Verluste sein: Wechselkursschwankungen können

- den Wert der erworbenen Option verringern
- den Vertragsgegenstand verteuern, den Sie zur Erfüllung des Börsentermingeschäfts liefern müssen, wenn er in ausländischer Währung oder einer Rechnungseinheit zu bezahlen ist. Dasselbe gilt für eine Zahlungsverpflichtung aus dem Börsentermingeschäft, die Sie in ausländischer Währung oder einer Rechnungseinheit erfüllen müssen.
- den Wert oder den Verkaufserlös des aus dem Börsentermingeschäft abzunehmenden Vertragsgegenstandes oder den Wert der erhaltenen Zahlung vermindern.

II. Risikoausschließende oder -einschränkende Geschäfte

Vertrauen Sie nicht darauf, daß Sie während der Laufzeit jederzeit Geschäfte abschließen könne, durch die Sie Ihre Risiken aus Börsentermingeschäften kompensieren oder einschränken können. Ob diese Möglichkeit besteht, hängt von den Marktverhältnissen und auch von der Ausgestaltung Ihres jeweiligen Börsentermingeschäfts ab. Unter Umständen können Sie ein entsprechendes Geschäft nicht oder nur zu einem ungünstigen Marktpreis tätigen, so daß Ihnen ein Verlust entsteht.

III. Inanspruchnahme von Kredit

Ihr Risiko erhöht sich, wenn Sie insbesondere den Erwerb von Optionen oder die Erfüllung Ihrer Liefer- oder Zahlungverpflichtungen aus Börsentermingeschäften über Kredit finanzieren. In diesem Fall müssen Sie, wenn sich der Markt entgegen Ihren Erwartungen entwickelt, nicht nur den eingetretenen Verlust hinnehmen, sondern auch den Kredit verzinsen und zurückzahlen. Setzen Sie daher nie darauf, den Kredit aus den Gewinnen des Börsentermingeschäftes verzinsen und zurückzahlen zu können, sondern prüfen Sie vor Geschäftsabschluß Ihre wirtschaftlichen Verhältnisse daraufhin, ob Sie zur Verzinsung oder gegebenenfalls kurzfristigen Tilgung des Kredits auch dann in der Lage sind, wenn statt der erwarteten Gewinne Verluste eintreten.

D. Verbriefung in Wertpapieren

Die Risiken aus den oben geschilderten Geschäften ändern sich nicht, wenn die Rechte und Pflichten in einem Wertpapier (z.B. Optionsschein) verbrieft sind.

Nach 53 Abs. 2 Satz 2 des Börsengesetz ist dieses Informationsblatt von Ihnen zu -unterschreiben, wenn Sie Börsentermingeschäfte abschließen wollen.

Ort, Datum Ihre Unterschrift

Notice Regarding NFA's BASIC System

Interactive Brokers LLC ("IBL") is required to inform its customers of the National Futures Association ("NFA") Background Affiliation Status Information Center ("BASIC"). The BASIC system compiles various information on registrants and anyone can access this system on the Internet.

The information in the BASIC system includes Commodity Futures Trading Commission ("CFTC") registration information and membership information from the NFA. Also included are regulatory and non-regulatory actions contributed by the NFA, the CFTC and the U.S. futures exchanges regarding futures-related activity.

The NFA BASIC system may be accessed at www.nfa.futures.org/basicnet/. To locate information on a registrant, simply enter the registrant's NFA ID number when prompted. For questions regarding this system, you may contact the NFA information center at 1-800-621-3570 between the hours of 8:00 a.m. to 5:00 p.m. CST.

NOTICE REGARDING PRE-ARRANGED TRADING ON U.S. FUTURES EXCHANGES

Pre-arranged trading results when a discussion is held by market participants prior to trade execution to ensure that a contra party will take the opposite side of a particular order. U.S. futures exchanges, including, but not limited to, CME, CBOT, NYMEX, NYSE Liffe U.S., ICE-US, CFE, OneChicago and Nasdaq OMX Futures have regulations regarding the execution of pre-arranged trades. Interactive Brokers customers are responsible to know and abide by **ALL** exchange restrictions regarding pre-arranged trading. Interactive Brokers customers should not engage in pre-arranged trading unless such transactions are permitted by the relevant exchange. Customers should review the rules of each exchange to determine whether, and under what circumstances, such transactions are permitted. For your reference, various exchange rulebooks can be found at the following websites:

CME, CBOT, NYMEX
http://www.cmegroup.com/market-regulation/rulebook/

ICE Futures U.S.
https://www.theice.com/futures-us/regulation#Rulebookf

CFE
http://cfe.cboe.com/aboutcfe/rules.aspx

OneChicago
http://www.onechicago.com/?page_id=4

ELX Futures
http://www.elxmarkets.com/Files/Regulatory-Rules/2014-06-04-ELX-FUTURES-RULES.aspx

Nasdaq OMX Futures
http://nasdaqomxphlx.cchwallstreet.com/nasdaqomxphlx/nqf/

Interactive Brokers Group Privacy Notice

At Interactive Brokers ("IB"), we understand that confidentiality and security of the personal information that you share with us is important. That is why we have developed specific policies and practices designed to protect the privacy of your personal information.

By opening an account with IB or by utilizing the products and services available through IB, you have consented to the collection and use of your personal information in accordance with the privacy notice set forth below. We encourage you to read this privacy notice carefully.

IB does not sell customer lists or customer email addresses to third party marketers.

In order to provide brokerage services and to comply with regulatory requirements, IB collects certain personal, nonpublic information from you. This includes information:

- Provided during the IB account application process (e.g., your name, e-mail address, telephone number, birth date, social security number, investment objectives, etc.);
- Acquired as a result of the transactions you conduct through the IB system;
- Received from consumer-reporting agencies;
- Collected through Internet "cookies."

Cookies are bits of textual information that are sent electronically from a web server to your browser and are stored on your computer. They do not identify you individually or contain personal information about you, unless you have identified yourself or provided the information by, for example, opening an account or registering for an online service. IB may use cookies to measure and identify website traffic patterns and to track the performance of web features and advertisements. By providing IB with a better understanding of how you and others use IB's website and other web services, cookies enable IB to improve the navigation and functionality of its website and to present you with the most useful information and offers. IB may share information obtained from cookies with its employees, agents, and affiliates, but does not sell such information to unaffiliated third parties. IB may permit other companies or their third party ad servers to set cookies on your browser when you visit an IB website. Such companies generally use these cookies as we do.

We safeguard the confidentiality of your information in a number of ways. For example:

- We do not sell or license lists of our customers or the personal, nonpublic information that you provide to us.
- We restrict access to the personal, nonpublic information that you have shared with us to those IB employees, agents, and affiliates who need to know such information in connection with the services that IB provides to you.
- We maintain strict employment policies that prohibit employees who have access to your personal, nonpublic information from using or disclosing such information except for business purposes.
- We take substantial precautions to safeguard your personal, nonpublic information. For example, the IB system can be accessed only by authorized IB personnel via valid user names and passwords. In addition, our Internet-based systems include security measures such as encryption and firewalls.

We do not disclose personal, nonpublic information to individuals or entities that are not affiliated with IB, except as provided by law. For example, among other reasons, we may disclose or report such information: where necessary to authorize, effect, administer, or enforce transactions that you request or authorize; to maintain and administer your account; to provide you with account confirmations, statements, and records; to maintain appropriate archival records; where we believe that disclosure is required by applicable law, rules, or regulations; to cooperate with law enforcement, regulatory, or self-regulatory organizations; to enforce our customer and other agreements; to meet our obligations; or to protect our rights and property.

Finally, if you choose to subscribe to any of the Marketplace@IB suite of third-party services that are provided through the IB website, we may disclose such information to the service providers as necessary for them to provide the services that you have requested. IB requires these service providers to enter into confidentiality agreements with IB that limit their use of the information that they receive. Such agreements prohibit the service provider from using IB customer information that they receive other than to carry out the purposes for which the information was disclosed.

If you have any questions about these policies, please contact IB Customer Service through the IB website at the Customer Service Contact Page.

Interactive Brokers LLC
Business Continuity Plan Disclosure

I. Introduction

In accordance with applicable regulations, Interactive Brokers LLC has developed a Business Continuity Plan to assist the firm in appropriately responding to a significant business disruption as promptly as possible under prevailing conditions. Among other things, IB's Business Continuity Plan:

- Identifies Emergency Contact Personnel to the firm's regulators;
- Describes the systems infrastructure protections that the firm has established in an effort to minimize the potential adverse effects of a disruption (for example, redundancy of telecommunications and power generation, fire protection and building security);
- Describes the firm's daily back-up of specified data and records and maintenance of back-up media at secure off-site locations;
- Identifies the firm's Disaster Recovery Site(s) and the methods that the firm would use to recover particular data and operations at the site;
- Identifies important firm operations and where applicable, describes how those operations could be re-established in the event of a disruption;
- Identifies the means by which IB will provide customers prompt access to their funds and securities and/or the ability to transfer their funds and positions to another broker or futures commission merchant in the event of a disruption of such magnitude that IB does not intend to continue business; and
- Describes the means by which IB will communicate with its customers, employees, business constituents and regulators in the event of a disruption.

In the event of a significant business disruption, IB intends to continue its operations to the extent reasonable and practical under the circumstances and will place utmost priority in re-establishing the data and operational systems necessary to provide its customers with prompt access to their funds and securities.

IB intends to respond to disruptions of particular scope as follows:

II. Branch Office Disruption

Basic Access to Funds and Securities in the Event of a Branch Office Disruption: Critical systems and personnel necessary to provide customers with access to their funds and securities generally are not dependent on operation of IB's branch offices (Chicago, London, Hong Kong and Zug, Switzerland). Thus, IB does not anticipate that even a significant disruption to the operations of a single IB branch office would have more than a temporary impact – if any – on customers' basic access to their funds and securities.

Connection to IB Trading System for Certain Customers: In the event of a significant disruption to certain branch offices, customers that connect to the IB online trading system (e.g., the IB Trader Workstation) through the branch office likely would temporarily lose the ability to connect to the trading system. This likely would last only briefly, as connections for these customers could be reestablished through other IB offices in as little as a matter of hours. Recovery time probably would be minimal (measured in hours or days). Customers would still have the ability to place trades by telephone during the temporary outage. Customers' access to account functions other than trading (e.g., deposits and withdrawals, account management, etc.) likely would be unaffected, as connections for many internet based functions other than trading are not location-dependent.

We remind our customers that electronic and computer-based facilities and systems such as those provided by IB are inherently vulnerable to disruption, delay or failure. As specified in the IB Customer Agreement, customers must maintain alternative trading arrangements in addition to their IB accounts for the placement and execution of customer orders in the event that the IB system is unavailable.

Connection to Market Centers in Same Region as Branch: A significant disruption in a branch office could temporarily impact all IB customers' ability to execute trades on market centers in the same geographic region of the branch office, because necessary communications lines or personnel could be affected. In this case, IB would strive to reconnect to affected markets from its Greenwich, CT headquarters, another branch office, or through a third party. Recovery time to restore some basic ability to trade on local markets probably would be minimal (measured in hours or days).

Other Branch Office Functions: Most important operations performed in IB branch offices, such as Customer Service, Account Application Processing, Compliance, etc. are also performed in other IB offices and could be migrated to similarly-trained personnel in other branch offices promptly. Accordingly, IB does not anticipate that localized failures in a branch office would have a substantial negative impact on the firm's ability to respond to customer needs. Recovery time would be minimal.

III. Headquarters Disruption

In the Event of a Modest Disruption at IB's Headquarters: IB has generally designed its systems, procedures and personnel structure such that there is significant redundancy and cross-capability. Limited disruptions affecting particular communications lines, particular pieces of computer hardware, or particular systems typically can be addressed quickly through use of redundant systems with similar capability. Likewise, the firm has significant capacity and capability in its branch offices, both in terms of systems and personnel, such that limited disruptions in particular areas at the firm's headquarters may be ameliorated quickly.

In the Event of a Very Significant Disruption at IB's Headquarters: IB's response to a very significant disruption at its headquarters necessarily will depend on the extent of the damage caused thereby. In the event of a total loss of IB's headquarters, or the data processing center at its headquarters, IB intends to recover, at its Disaster Recovery Site(s), the relevant data and operational systems (*e.g.*, trade and account data and modified versions of its market data, credit vetting and customer authentication capability) necessary to provide customers prompt access to their funds and securities. IB's Disaster Recovery Site(s) are located in remote geographic locations that should not be subject to the same communications, electricity and/or transportation restrictions that may be experienced in the firm's Greenwich headquarters.

During the immediate aftermath period of, for example, a terrorist attack resulting in the destruction of the firm’s Greenwich headquarters, the firm does not anticipate that customers could continue to place new trades. IB anticipates that it could recover customer data and position information at its Disaster Recovery Site(s) and establish basic customer access to funds and positions within approximately 2 to 5 days of a total loss of its headquarters operations. Thus, while they could not trade, we anticipate that, within this 2 to 5 day window after the loss of the headquarters facility, customers would be able to request a withdrawal of funds or transfer of their positions to another broker whose operations were unaffected by, for example, the terrorist attack. Although IB’s Business Continuity Plan is designed to provide customer access to funds and securities within 2 to 5 days, the actual recovery time will depend on the nature of the disruption, how many IB facilities and personnel are affected, the state of the national and global financial and banking system, and a host of other factors.

In the event of a very significant disruption or total loss of IB’s headquarters facilities, IB anticipates that IB customers may be able to access either of the following websites: www.ibgdr.com or www.interactivebrokers.co.uk to obtain information about the extent of the disruption and the state of IB’s operations (assuming that the public internet remained available). Likewise, because most customer service personnel are in offices other than at IB headquarters, IB anticipates that customers would continue to be able to contact IB telephonically. Of course, in the event of a significant outage or major terrorist or other disaster affecting the markets, large numbers of customers likely would try to contact IB at the same time, potentially causing major delays.

Beyond the initial aftermath of a very significant disruption or total loss of the firm’s headquarters (i.e., in the time period after the first 5 days), the firm would evaluate the nature of the disruption, the availability of its systems and personnel, its financial condition, the condition of the national and global financial markets, and other factors, and the firm would determine whether to restore full brokerage operations or to discontinue brokerage operations and require its customers to transfer their accounts to another broker.

IV. City Wide Disruptions and Regional Disruptions

In the event of a significant city-wide or regional disruption in one of the cities in which an IB branch office is located, IB would follow the procedures described in Section II (Branch Office Disruption) above. Since no two IB branch offices are located in the same city or region, we expect that the disruption’s effects would be limited (see Section II above). In the event of a significant city-wide or regional disruption, affecting the firm’s Greenwich, CT headquarters IB would follow the procedures described in Section III (Headquarters Disruption). IB’s Disaster Recovery Site(s) are not located in the same city or region as the firm’s headquarters.

V. Important Disclaimers

IB will adhere to the procedures set forth in its Business Continuity Plan and described in this disclosure to the extent commercially reasonable and practicable under prevailing circumstances. However, there are innumerable potential causes of a business disruption. In addition, disruptions (and the events that caused them) may vary significantly in nature, size, scope, severity, duration and geographic location and will result in distinct degrees of harm to human life; firm assets; the banks, exchanges, clearing houses and depositories with which the firm conducts business; and local, regional and national systems infrastructure (e.g., telecommunications, Internet connectivity, power generation and transportation) that could affect the firm's recovery in vastly disparate ways. In recognition of this, IB reserves the right to flexibly respond to particular emergencies and business disruptions in a situation-specific manner which the firm deems prudent, in its sole discretion. Nothing in this document is intended to provide a guarantee or warranty regarding the actions or performance of IB, its computer systems, or its personnel in the event of a significant disruption.

IB may modify its Business Continuity Plan and this disclosure at any time. IB will post updates to its Business Continuity Plan Disclosure on its website. Should you wish to receive a copy of an updated disclosure by mail, please contact the IB Document Processing Department at newaccounts@interactivebrokers.com.