

## **RISK DISCLOSURE STATEMENT FUTURES AND OPTIONS PRODUCT INFORMATION**

**This statement sets out the risks in trading certain products between Calyon Financial SNC German Branch (“CF”) and the client (the “Client”).**

The Client should note that other risks will apply when trading in emerging market products, and if the Client trades such products, CF will notify the relevant risks to the Client in separate emerging markets risk disclosures.

### **1. UNDERSTANDING THE RISK OF DERIVATIVE PRODUCTS**

- 1.1 The Client acknowledges that it should not deal in derivative products unless it understands the nature of the contract it is entering into, the extent of its exposure to risk and is satisfied that the contract is suitable for it in the light of its circumstances and financial position.
- 1.2 Although futures and options can be utilised for the management of investment risk, some of these products are unsuitable for many investors. Derivative products will not always act in the same way. Relationships with CF may differ depending on the product and style of the transaction, and clearing houses may not always owe the Client a direct commitment. Different products involve different levels of exposure to risk.
- 1.3 The product information and advice contained in this Risk Disclosure Statement is not necessarily a comprehensive description of all aspects of the products. Additionally, specific products may be tailored for a particular client or market and may differ in detail from the outline set forth herein. The terms of particular transactions will prevail over the product descriptions and information given in this Risk Disclosure Statement.

### **2. FUTURES**

- 2.1 Transactions in futures involve the obligation to make, or to take, delivery of the underlying asset of the contract at a future date, or in some cases to settle the position with cash.
- 2.2 The risk of loss in trading futures contracts can be substantial. The Client should, therefore, carefully consider whether such trading is suitable for it in light of its circumstances and financial resources. Placing contingent orders, such as "stop-loss" or "stop-limit" orders, will not necessarily limit its losses to the intended amounts, since market conditions on the exchange where the order is placed may make it impossible to execute such orders.
- 2.3 Under certain market conditions, the Client may find it difficult or impossible to liquidate a position. This can occur, for example, when the market reaches a daily price fluctuation limit (“limit move”).
- 2.4 The “gearing” or “leverage” often obtainable in futures trading means that a small deposit or down payment can lead to large losses as well as gains. It also means that a relatively small movement can lead to a proportionately much larger movement in the value of the Client’s investment, and this can work for and against the Client.
- 2.5 Futures transactions have a contingent liability, and the Client should be aware of the implications of this, in particular the margining requirements. The Client may sustain a total loss of the funds that it deposits with CF to establish or maintain a position in the futures market, and the Client may incur losses beyond these amounts. If the market moves against the Client’s position, the Client may be called upon by CF to deposit a

substantial amount of additional margin funds, on short notice, in order to maintain the Client's position. If the Client does not provide the required funds within the time required by CF, the Client's position may be liquidated at a loss, and the Client will be liable for any resulting deficit in its account.

- 2.6 The Client should consult CF concerning the nature of the protections available to safeguard funds or property deposited for the Client's account.

### 3. **OPTIONS**

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

3.1.1 *Buying options:* Buying options involves less risk than selling options because, if the price of the underlying asset moves against the Client, the Client can simply allow the option to lapse. The maximum loss is limited to the premium, plus any commission or other transaction charges. However, if the Client buys a call option on a futures contract and later exercises the option, it will acquire the future. This will expose the Client to the risks described under "Futures" and "Contingent Liability Investment Transactions".

3.1.2 *Writing options:* If the Client writes an option, the risk involved is considerably greater than buying options. The Client may be liable for margin to maintain its position and a loss may be sustained well in excess of the premium received. By writing an option, the Client accepts a legal obligation to purchase or sell the underlying asset if the option is exercised against it however far the market price has moved away from the exercise price. If the Client already owns the underlying asset which it has contracted to sell (when the options will be known as "covered call options") the risk is reduced. If the Client does not own the underlying asset ("uncovered call options") the risk can be unlimited. Only experienced persons should contemplate writing uncovered options, and then only after securing full details of the applicable conditions and potential risk exposure.

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

- 3.2 Certain options Markets operate on a margined basis, under which buyers do not pay the full premium on their option at the time they purchase it. In this situation the Client may subsequently be called upon to pay margin on the option up to the level of its premium. If the Client fails to do so as required, its position may be closed or liquidated in the same way as a futures position.

### 4. **CONTRACTS FOR DIFFERENCES**

- 4.1 Futures and options contracts can also be referred to as contracts for differences. These can be options and futures on indices, as well as currency and interest rate swaps. However, unlike other futures and options, these contracts can only be settled in cash. Investing in a contract for differences carries the same risks as investing in a future or an

option. Transactions in contracts for differences may also have a contingent liability and the Client should be aware of the implications of this.

## 5. **FOREIGN MARKETS**

- 5.1 Foreign markets will involve different risks from the French markets. In some cases the risks will be greater. On request, CF will provide an explanation of the relevant risks and protections (if any) which will operate in any foreign markets, including the extent to which it will accept liability for any default of a foreign firm through whom it deals. The potential for profit or loss from transactions on foreign markets or in foreign denominated contracts will be affected by fluctuations in foreign exchange rates. Such transactions may also be affected by exchange controls that could prevent or delay performance.

## 6. **CONTINGENT LIABILITY TRANSACTIONS**

- 6.1 Contingent liability transactions, which are margined, require the Client to make a series of payments against the purchase price, instead of paying the whole purchase price immediately.
- 6.2 If the Client trades in futures, contracts for differences or sells options it may sustain a total loss of the margin it deposits with CF to establish or maintain a position. If the market moves against the Client, the Client may be called upon to pay substantial additional margin at short notice to maintain the position. If the Client fails to do so within the time required, its position may be liquidated at a loss and the Client will be responsible for the resulting deficit.
- 6.3 Even if a transaction is not margined, it may still carry an obligation to make further payments in certain circumstances over and above any amount paid when the Client entered the contract.

## 7. **SUSPENSIONS OF TRADING**

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

## 8. **CLEARING HOUSE PROTECTIONS**

- 8.1 On many Markets, the performance of a transaction by CF (or third party with whom CF is dealing on the Client's behalf) is "guaranteed" by the Market or clearing house. However, this guarantee is unlikely in most circumstances to cover the Client, and may not protect the Client if CF or another party defaults on its obligations to the Client. Not all Markets act in the same way.

## 9. **INSOLVENCY**

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

## 10. **WARRANTS**

- 10.1 A warrant is a time-limited right to subscribe for shares, debentures, loan stock or government securities and is exercisable against the original issuer of the underlying securities. Warrants often involve a high degree of gearing, so that a relatively small movement in the price of the underlying security results in a disproportionately large movement, unfavourable or favourable, in the price of the warrant. The prices of warrants can therefore be volatile.
- 10.2 The right to subscribe which a warrant confers is invariably limited in time with the consequence that if the investor fails to exercise this right within the pre-determined timescale then the investment becomes worthless.
- 10.3 The Client should not buy a warrant unless it is prepared to sustain a total loss of the money it has invested plus any commission or other transaction charges.
- 10.4 Transactions in off-Market warrants may involve greater risk than dealing in Market traded warrants because there is no access to a market through which to liquidate the Client's position, or to assess the value of the warrant or the exposure to risk. Bid and offer prices need not be quoted, and even where they are, they will be established by dealers in these instruments and consequently it may be difficult to establish what is a fair price.

## 11. **SECURITISED DERIVATIVES**

- 11.1 These instruments may give the Client a right to acquire or sell one or more types of investment which is normally exercisable against someone other than the issuer of that investment, or they may give the Client rights under a contract for differences which allow for speculation on fluctuations in the value of the property of any description or an index, such as the CAC 40 index. In both cases, the investment or property may be referred to as the "underlying instrument".
- 11.2 These instruments often involve a high degree of gearing or leverage, so that a relatively small movement in the price of the underlying investment results in a much larger movement, unfavourable or favourable, in the price of the instrument. The price of these instruments can therefore be volatile.
- 11.3 These instruments have a limited life, and may (unless there is some form of guaranteed return of the amount the Client is investing in the product) expire worthless if the underlying instrument does not perform as expected.
- 11.4 The Client should only buy this product if it is prepared to sustain a total or substantial loss of the money it has invested plus any commission or other transaction charges.
- 11.5 The Client should consider carefully whether or not this product is suitable for it in light of its circumstances and financial position, and if in any doubt should seek professional advice.

## 12. **GENERAL INFORMATION**

- 12.1 Exchange-traded futures and options are not subject to a prospectus.
- 12.2 Exchange-traded futures and options may give rise to liabilities for the investor, calculated in accordance with Market or clearing house rules.

- 12.3 CF may not deal directly in the relevant Market but may act through one or more brokers or intermediaries. In such cases, the Client's positions may be affected by the performance of those third parties in addition to the performance of CF. In addition, settlement of such transactions may not be effected via the Market itself but may be effected on CF's books or of a broker or intermediary if such transactions can be crossed with equal but opposite orders of another participant transacting through the same firm, broker or intermediary. The Client's rights in such circumstances differ from those it would enjoy if its transaction was effected in the Market.
- 12.4 The price and liquidity of any investment depends upon the availability and value of the underlying asset, which can be affected by a number of extrinsic factors including, but not limited to, political, environmental and technical. Such factors can also affect the ability to settle or perform on time or at all.
- 12.5 Any payments made or received in relation to any investment may be subject to tax and the Client should seek professional advice in this respect.
- 12.6 Where the Client is unable to transfer a particular instrument which it holds, to exit its commitment under that instrument, the Client may have to offset its position by either buying back a short position or selling a long position. Such an offsetting transaction may have to be over the counter and the terms of such a contract may not match entirely those of the initial instrument. For example, the price of such a contract may be more or less than the Client received or paid for the sale or purchase of the initial instrument.
- 12.7 Further specific information about trading can be found on each Exchange website.