

## **Risk disclosure statement: derivative products information**

Before dealing in derivative products (futures and options) the client (investor) must assess the risks in trading these products. It must be aware that the loss it may incur could be higher than the amount initially exchanged (paid or received) or deposited. The loss in trading derivative products is potentially unlimited and is not proportional to the initial amount invested or exchanged (paid or received).

The client should not deal in derivative products unless it understands the nature of the contract it is entering into, the extent of its obligations and exposure to risk, and is satisfied that the contract is suitable for it in light of its skills, objectives and financial resources.

Although derivative products can be utilised to limit or hedge against risk, the client should be aware that derivative products are not suitable for all investors.

The client's exposure to risk may vary according to the product, market and type of transaction. Commitments entered into and the protection offered by Calyon Financial and the clearing houses may vary depending on the product, market and type of transaction.

The information available relating to derivative products is not always complete and exhaustive. Derivative products may be tailored for some clients or markets 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.

The client must assess the suitability of its investment, in particular in light of its skills, objectives and financial resources.

### **The main risks linked to derivative products are:**

#### **1. Leverage**

When an investor trades derivative products it must provide a deposit and/or exchange (pay or receive) a premium. The amount provided as the deposit or exchanged as a premium represents only a fraction of the derivative product's value.

Transactions in derivative products involve significant leverage as a relatively small fluctuation in the price of the underlying instrument can have a proportionately greater impact on the cash or on the value of any other guarantee deposited by the investor. This can work for and against the client. If the market moves in an unfavourable direction, the investor may not only lose more than the full amount of the initial margin deposit, but also pay an additional margin and meet margin calls. To maintain the investor's position, new margin payments can be requested on very short notice, occasionally during a market session. If the investor does not meet margin calls within the required time limit, its position may be liquidated and the investor will be liable for any debit balance on its account.

Losses may therefore be far greater than the margin initially deposited with the clearing house or than the premium exchanged.

## **2. *Liquidity and price fluctuations***

Derivatives markets can be illiquid. If the market is not sufficiently liquid, the investor may be unable to liquidate or even partially close out a futures position at the desired time. In addition, the difference between the bid price and the offer price of a given contract may be significant.

Prices on derivatives markets can fluctuate considerably, depending on a number of factors that are difficult to forecast. 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. The impact of these events on the liquidity and prices increases as the maturity date is near.

## **3. *Orders aimed at limiting a loss (stop-limit, stop-loss)***

Trading conditions on futures markets allow investors to place orders with a stop-limit price and orders with a trigger threshold, which are also referred to as "stop orders". These orders were designed to limit losses that could occur as a result of market fluctuations. The use of such orders does not provide a guarantee that losses will be limited to the intended amounts. 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 difficult or impossible to execute such orders.

## **4. *Commission, fees and taxes***

All charges relating to a futures transaction reduce the investor's profit or increase its loss. Commission, agreed upon between the broker and investor, is paid in addition to the fees due to the markets and clearing houses. Before concluding a transaction, investors must be informed of all fees and costs to be paid.

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.

## **5. *Seller and buyer obligations***

Transactions in derivative products 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, in accordance with the applicable market conditions.

### **(a) *Obligation to deliver***

Unless it is able to offset its position before the delivery date and thereby free itself from its obligation, the seller of a futures contract or a call option may be required to deliver a predetermined quantity of the underlying instrument, in accordance with the relevant market and clearing house rules. The terms and conditions of trading require the seller to deliver the underlying asset in accordance with the characteristics of the contract. If the seller does not comply with this obligation, it may risk incurring additional costs and penalties.

## **(b) Obligation to take delivery**

Unless it is able to offset its position before the delivery date and thereby free itself from its obligation, the buyer of a futures contract or the seller of put option must accept delivery of and pay for the underlying instrument, in accordance with the relevant market and clearing house rules. It may have to pay an amount higher than the margin deposited with the clearing house.

For commodities, it may be required to agree to the necessary storage, to organise transport and to take responsibility for any subsequent related costs. If the buyer is not the end buyer of the commodity or a trader in commodities of this type, it may encounter difficulties relating to storage or sales, due to the fact that it cannot use the commodity in question. Furthermore, there is a risk of loss if it decides to sell the commodity on the spot market.

The margin deposited by the buyer of a futures contract serves solely as a guarantee and is not valid for the partial execution of its obligations.

## **6. Option contracts**

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

**Buying options:** Buying options involves less risk than selling options because, if the price of the underlying asset moves against 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 in this document.

**Writing (selling) 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.

## **7. Derivative instruments and the spot market**

It is important to understand the relationship between prices of derivative products and those of the spot market. Although market forces tend to balance prices on derivatives markets against those on spot markets for a given underlying instrument, thereby neutralising any differences on the delivery date, many factors linked to the market, including supply and demand, may have the effect of maintaining differences.

## **8. *Non-fungibility of contracts***

Calyon Financial is a Trader/Clearing Agent specialising in the derivatives markets. As such, the orders we execute on behalf of our clients are carried out on regulated markets and in some cases on over-the-counter markets.

Cases in which the same instrument can be traded on different markets, and where two instruments are fungible, are exceptional.

Before placing an order relating to a product and prior to selecting a market, the client must assess the market and its historical performance in order to take into account, in particular, its liquidity.

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

## **9. *Foreign markets and emerging markets***

Foreign markets will involve different risks from the French markets. In some cases the risks will be greater. On request, Calyon Financial 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

## **10. *Clearing houses***

On many markets, the performance of a transaction by Calyon Financial (or third party with whom Calyon Financial 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 Calyon Financial or another party defaults on its obligations to the Client. Not all markets act in the same way.

## **11. *Risk of default or insolvency***

Calyon Financial 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, Calyon Financial 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.

**12. Calyon Financial policy with regard to clients classified as non-professional clients**

Non-professional clients will be only allowed to trade commodity derivative products for hedging purposes.

**13. General information**

Futures contracts are not subject to a prospectus.

Exchange-traded futures and options may give rise to liabilities for the investor, calculated in accordance with market or clearing house rules.

Calyon Financial 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 Calyon Financial.

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.