



Schneider Trading Associates Limited

Risk Warnings

## **SCHEDULE 1**

### **Risk Warning**

#### **Introduction**

We will communicate appropriate risk warnings prior to providing products or services. These are for your benefit as you should understand any risks before trading products/financial instruments.

The risks detailed relate to, and in varying magnitudes, those financial instrument/s as defined by

MiFID ("financial instrument/s") where you are provided with any services and activities by us. Although this notice cannot disclose all the risks and other significant aspects of designated investments, we have set out the general nature of the greatest volume of products traded with us by clients.

The investment risks detailed should be considered by clients in regard to their portfolio and investment strategies. You should be mindful of situations where you have an exposure to any of the risks set out below, or other risks, and be aware of the magnitude of that risk in terms of your overall position. The following list is not exhaustive and investors should consider how these risks might apply to their own circumstances. You should not deal in financial instruments unless you understand their nature and the extent of your exposure to risk. You should also be satisfied that the product is suitable for you in the light of your circumstances and financial position. Different instruments involve different levels of exposure to risk, and in deciding whether to trade in such instruments, you should be aware of the following specific points and the additional risks identified.

This notice is provided to you in compliance with the rules of the FSA as amended in accordance with the implementation of the Markets in Financial Instruments Directive ("MiFID").

### **FUTURES AND OPTIONS PRODUCT INFORMATION**

#### **1 Understanding the Risk of Derivative Products**

**1.1** You should not deal in derivative products unless you understand the nature of the contract you are entering into and the extent of your exposure to risk. You should also be satisfied that the contract is suitable for you in the light of your 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 the broker may differ depending on the product and style of the transaction, and clearing houses may not always owe you a direct commitment. Different products involve different levels of exposure to risk and in deciding whether to trade in such products you should be aware of the following points.

**1.3** You should be aware that the product information and advice contained in this Module is not necessarily a comprehensive description of all aspects of the product. [Additionally, specific products may be tailored for a particular client or market and may differ in detail from the outline set forth in this Module. The terms of the particular transactions will prevail over the product description and information given in this disclosure].

## **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 commodity futures contracts can be substantial. You should, therefore, carefully consider whether such trading is suitable for you in light of your circumstances and financial resources. Placing contingent orders, such as "stop-loss" or "stop-limit" orders, will not necessarily limit your 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, you 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 your investment, and this can work against you as well as for you.

**2.5** Futures transactions have a contingent liability, and you should be aware of the implications of this, in particular the margining requirements. You may sustain a total loss of the funds that you deposit with your broker to establish or maintain a position in the commodity futures market, and you may incur losses beyond these amounts. If the market moves against your position, you may be called upon by your broker to deposit a substantial amount of additional margin funds, on short notice, in order to maintain your position. If you do not provide the required funds within the time required by your broker, your position may be liquidated at a loss, and you will be liable for any resulting deficit in your account.

**2.6** You should consult your broker concerning the nature of the protections available to safeguard funds or property deposited for your account.

## **3 Options**

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

**(a) Buying options:** Buying options involves less risk than selling options because, if the price of the underlying asset moves against you, you can simply allow the option to lapse. The maximum loss is limited to the premium, plus any commission or other transaction

charges. However, if you buy a call option on a futures contract and you later exercise the option, you will acquire the future. This will expose you to the risks described under 'futures' and 'contingent liability investment transactions'.

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

**(c) 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 his 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 you may subsequently be called upon to pay margin on the option up to the level of your premium. If you fail to do so as required, your position may be closed or liquidated in the same way as a futures position.

#### **4 Contracts for differences**

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

#### **5 Foreign markets**

**5.1** Foreign markets will involve different risks from the UK markets. In some cases the risks will be greater. On request, your firm must 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 you to make a series of payments against the purchase price, instead of paying the whole purchase price immediately.

**6.2** If you trade in futures, contracts for differences or sell options you may sustain a total loss of the margin you deposit with your firm to establish or maintain a position. If the market moves against you, you may be called upon to pay substantial additional margin at short notice to maintain the position. If you fail to do so within the time required, your position may be liquidated at a loss and you 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 you entered the contract.

## **7 Limited liability transactions**

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

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

## **8 Warrants**

**8.1** 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.

**8.2** It is essential for anyone who is considering purchasing warrants to understand that 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.

**8.3** You should not buy a warrant unless you are prepared to sustain a total loss of the money you have invested plus any commission or other transaction charges.

**8.4** 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 your 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.

## **9 Securitised derivatives**

**9.1** These instruments may give you a [time-limited right/absolute right/right] to acquire or sell one or more types of investment which is normally exercisable against someone other than the issuer of that investment, or they may give you rights under a contract for differences which allow for speculation on fluctuations in the value of the property of any description or an index, such as the FTSE 100 index. In both cases, the investment or property may be referred to as the "underlying instrument".

**9.2** 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.

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

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

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

## **10 Metals and Soft Commodities**

**10.1** The risk in any commodity bought by you will pass to you on delivery. Where a commodity is in your possession before the property in it has passed to you, you agree fully to preserve, or procure the full preservation of, its condition and make good any damage or deterioration that may occur, or fully compensate us for any such damage or deterioration.

## **11 Oil and Gas**

**11.1** The risk in any energy commodity bought by you will pass to you on delivery. Where an energy commodity is in your possession before the property in it has passed to you, you agree fully to preserve, or procure the full preservation of, its condition and make good any damage or deterioration that may occur, or fully compensate us for any such damage or deterioration.

## **12 Suspensions of trading**

**12.1** 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 your losses to the intended

amounts, because market conditions may make it impossible to execute such an order at the stipulated price.

### **13 Clearing house protections**

**13.1** On many Markets, the performance of a transaction by your firm (or third party with whom he is dealing on your behalf) is 'guaranteed' by the Market or clearing house. However, this guarantee is unlikely in most circumstances to cover you, the client, and may not protect you if your firm or another party defaults on its obligations to you. Not all Markets act in the same way. Further specific information about trading on the London Metal Exchange ("**LME**") can be found at [www.lme.co.uk](http://www.lme.co.uk). Further specific information about trading derivative products on NYSE Euronext (formerly LIFFE) can be found at [http://www.euronext.com/home\\_derivatives-2153-EN.html](http://www.euronext.com/home_derivatives-2153-EN.html).

### **14 Insolvency**

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

### **15 General Information**

**15.1** Exchange-traded futures and options are not subject to a prospectus.

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

**15.3** Your firm may not deal directly in the relevant Market but may act through one or more brokers or intermediaries. In such cases, your positions may be affected by the performance of those third parties in addition to the performance of your firm. [In addition, settlement of such transactions may not be effected via the Market itself but may be effected on the books of your firm 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. Your rights in such circumstances differ from those you would enjoy if your transaction was effected in the Market.]

**15.4** 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.

**15.5** Any payments made or received in relation to any investment may be subject to tax and you should seek professional advice in this respect.

Where you are unable to transfer a particular instrument which you hold, to exit your commitment under that instrument, you may have to offset your 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 you received or paid for the sale or purchase of the initial instrument.

### SECURITIES PRODUCT INFORMATION

#### 16 Bonds

**16.1** Bonds are negotiable debt instruments issued in bearer or registered form: by a company or a government body to creditors and whose par value at issuance represents a fraction of the total amount of debt. The duration of the debt as well as the terms and conditions of repayment are determined in advance. Unless stipulated otherwise, the bond is repaid either at the maturity date, by means of annual / semi-annual payments, or at different rates determined by drawing lots. The interest payments on bonds may be either: (i) fixed for the entire duration; or (ii) variable and often linked to reference rates. The purchaser of a bond (the creditor) has a claim against the issuer (the debtor).

Dealing in bonds may involve the following specific risks:

**(a) Insolvency risk:** the issuer risks becoming temporarily or permanently insolvent, resulting in its incapacity to repay the interest or to redeem the bond. The solvency of an issuer may change according to the issuing company, the issuer's economic sector and/or the countries concerned, as well as political developments with economic consequences. The deterioration of the issuer's solvency will influence the price of the securities that it issues and of any existing securities already in issue.

**(b) Interest rate risk:** uncertainty concerning interest rate movements means that purchases of fixed-rate securities carry the risk of fall in the prices of the securities if interest rates rise, the longer the duration of the security (ie: loan by the entity concerned) and the lower the interest rate, the higher a bond's sensitivity to a rise in market rates.

**(c) Credit risk:** the value of a bond will fall in the event of a default or reduced credit rating of the issuer. Generally, the higher the rate of interest, the higher the perceived credit risk of the issuer.

**(d) Early redemption risk:** the issuer of a bond may include a provision allowing early redemption of the bond if market interest rates fall. Such early redemption may result in a change to the expected yield

**(e)** Risks specific to bonds redeemable by early drawing have a maturity which is difficult to determine, so unexpected changes in the yield on these bonds may occur.

(f) Risks specific to certain types of bonds: additional risks may be associated with certain types of bonds, for example, floating rate notes, reverse floating rate notes, zero coupon bonds, foreign currency bonds, convertible bonds, indexed bonds, and subordinated bonds. For such bonds, you are advised to make inquiries about the risks referred to in the issuance prospectus and not to purchase such securities before being certain that all risks are fully understood. In the case of subordinated bonds, you are advised to enquire about the ranking of the debenture compared to the issuer's other securities. Indeed, if the issuer becomes bankrupt, those bonds will only be redeemed after payment of all higher ranked creditors. In the case of reverse convertible notes, there is a risk, that you will not be entirely reimbursed, but will receive only an amount equivalent to the underlying securities at maturity.

## 17 Equities

**17.1** An equity is a certificate representing a shareholder's rights in a company. Equities may be issued in bearer or registered form. A single equity represents a fraction of a corporation's share capital. Dividend payments and an increase or decrease in the value of the security are both possible. The shareholder has financial and ownership rights which are determined by law and the issuing company's articles of association. Unless otherwise provided, transfers of bearer equities do not entail any formalities. However, transfers of registered equities are often subject to limitations.

Dealing in equities may involve the following specific risks:

(a) **Company risk:** an equity purchaser does not lend funds to the company but makes a capital contribution and, as such becomes co-owner of the corporation. He or she thus participates in its development as well as in chances for profits and losses, which makes it difficult to forecast the precise yield on such an investment. An extreme case would be if the company went bankrupt, thereby wiping out the total sums invested in equities.

(b) **Price risk:** equity prices may undergo unforeseeable price fluctuations causing risks of loss. Price increases and decreases in the short-medium and long term alternate without it being possible to determine the duration of those cycles. General market risk must be distinguished from the specific risk attached to the company itself. Both risks, jointly or in aggregate, influence the evolution of equity prices.

(c) **Dividend risk:** the dividend per equity mainly depends on the issuing company's earnings and on its dividend policy. In case of losses or even low profits, dividend payments may be reduced or not made at all.