

# BofA Risk Notice

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Where not otherwise defined in this BofA Risk Notice (“BofA”, includes Bank of America Europe Designated Activity Company, BofA Securities Europe Société Anonyme, Merrill Lynch International and other EEA and UK entities and branches. See also [BofA Entities List](#)), capitalised terms shall have the meanings given to them in BofA’s General Terms & Conditions of Business for Professional Clients and Eligible Counterparties, of which this BofA Risk Notice forms part, and a copy of which is available on the BofA MiFID II website at [www.bofaml.com/mifid2](http://www.bofaml.com/mifid2).

## 1 Introduction

- 1.1 Any investment in financial instruments, structured deposits, commodities or other financial products involves a degree of risk and some financial instruments, structured deposits, commodities or other financial products are more risky than others. Prices can fall as well as rise and there is a risk you may lose some or all of your investment in a financial instrument, structured deposit, commodity or other financial product.
- 1.2 Before deciding to transact in any financial instruments, structured deposits, commodities or other financial products generally, and in any particular case, you will need to have assessed the risks inherent in those financial instruments, structured deposits, commodities or other financial products and in any related Services and strategies, including but not limited to: credit risk; market risk and the impact of positive and negative market conditions; liquidity risk; risks relating to volatility; limitations on the available market; impediments or restrictions for divestment (including possible exit methods and their consequence, possible constraints and estimated time frame for sale); interest rate risk; tax risk; foreign exchange risk; business risk; operational risk; issuer risk; insolvency risk and related events such as bail-in; stabilisation risk; dividend risk; regulatory risk; legal risk; risks relating to leverage; margin requirements or similar obligations; the risks of “over the counter” trading, as opposed to on-exchange trading (such as the nature of clearing house “guarantees”, transparency of prices and ability to Close Out positions); and contingent liabilities additional to the cost of acquiring the investment.
- 1.3 This notice cannot disclose all the risks and other significant aspects of financial products. You should not deal in these products unless you understand their nature and the extent of your exposure to risk and potential loss. You should also be satisfied that the financial product is suitable for you in the light of your circumstances and financial position. Certain strategies, such as a 'spread' position or a 'straddle', may be as risky as a simple 'long' or 'short' position. Although derivative instruments can be utilised for the management of investment risk, some of these products are unsuitable for many investors.
- 1.4 You should also read any relevant documentation, for example term sheets and offering memoranda, which may highlight a non-exhaustive set of additional risks particular to a financial instrument, structured deposit, commodity or other financial product or Service. You should not rely on these highlighted risks as being the only risks in relation to a financial instrument, structured deposit, commodity or other financial product or Service.
- 1.5 Certain types of transactions and instruments in the fixed income, currencies and commodities markets are described, and some of the risks associated with them explained, in standards published by the Fixed Income, Currencies and

Commodities Markets Standards Board (the “FMSB”). We observe FMSB Standards in relation to the Services and accordingly you should have regard to such Standards in considering the risks associated with such transactions and instruments.

- 1.6** Where we offer products or Services packaged or bundled with other products or Services, we shall inform you whether it is possible to purchase the individual component products or Services independently of the others that make up the package or bundle. We shall assess risk, and disclose costs and charges, in respect of the package or bundle, but we shall also provide for an assessment of risk, and separate evidence of the costs and charges, of the individual component products and Services, which we shall make available to you on request.

## **2 Products and Instruments**

Different products and instruments involve different levels of exposure to risk and in deciding whether to trade in such products or instruments, you should be aware of the following points:

### **2.1 Shares**

A share is an instrument representing a shareholder's rights in a company. Shares may be issued in bearer or registered form and may be certificated or non-certificated. One share represents a fraction of a corporation's share capital. Dividend payments and an increase in the value of the share are both possible, although not guaranteed. 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 shares do not entail any formalities. However, transfers of registered shares are often subject to limitations.

Dealing in shares may involve risks including, but not limited to, the following:

- 2.1.1** Company risk: a share purchaser does not lend funds to the company, but becomes a 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.
- 2.1.2** Price risk: share 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 share prices.
- 2.1.3** Dividend risk: the dividend per share mainly depends on the issuing company's earnings and on its dividend policy. In case of low profits or losses, dividend payments may be reduced or not made at all.

### **2.2 Bonds**

Bonds are negotiable debt instruments issued in bearer or registered form by a company, government body or other entity to creditors and whose par value at issuance represents a fraction of the total amount of the 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, or by means of 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 (e.g. “interbank offered rates” such as LIBOR). The purchaser of a bond (the creditor) has a claim against the issuer (the debtor).

Dealing in bonds may involve risks, including but not limited to the following:

- 2.2.1** Insolvency risk: the issuer may become temporarily or permanently insolvent, resulting in its incapacity to repay the interest or redeem the bond. The solvency of an issuer may change due to one or more of a range of factors including the issuing company, the issuer's economic sector or the political and economic status of the countries concerned. The deterioration of the issuer's solvency will influence the price of the securities that it issues.

- 2.2.2 Interest rate risk: uncertainty concerning interest rate movements means that purchasers of fixed-rate securities carry the risk of a fall in the prices of the securities if interest rates rise. The longer the duration of the loan and the lower the interest rate, the higher a bond's sensitivity to a rise in the market rates.
- 2.2.3 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 relative rate of interest (that is, relative to the interest rate on a risk-free security of similar maturity and interest rate structure), the higher the perceived credit risk of the issuer.
- 2.2.4 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.
- 2.2.5 Risks specific to bonds redeemable by drawing: bonds redeemable by drawing have a maturity that is difficult to determine, so unexpected changes in the yield on these bonds may occur.
- 2.2.6 Risks specific to certain types of bond: additional risks may be associated with certain types of bond, for example floating rate notes, reverse floating rate notes, zero coupon bonds, foreign currency bonds, convertible bonds, reverse convertible notes, indexed bonds, and subordinated bonds. For such bonds, you are advised to make enquiries 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 debentures. Indeed, if the issuer becomes bankrupt, those bonds will only be redeemed after repayment of all higher ranked creditors and, as such, there is a risk that you will not be reimbursed. 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.
- 2.2.7 Tax call risk: the issuer of the bond may have the right to call the bond should there be an adverse change to the tax laws that affect it. This may mean that the yield on the bond is lower than anticipated.

### 2.3 Structured Products

Structured products provide economic exposure to a wide range of underlying asset classes, generally taking the form of a debt obligation embedding a derivative. The level of income/capital growth derived from a structured product is usually linked to the performance of the relevant underlying asset(s). The range of products may include those where the return is linked to an index or indices, a basket of securities or other specified factors which relate to one or more of the following: equity or debt securities, interest rates, currency exchange rates or commodities.

The potential return from the structured product may be different to that which may be achieved as compared to directly holding the underlying asset. These instruments may involve a high degree of gearing or leverage, so that a relatively small movement in the relevant index/indices, basket or other specified factor(s) results in a disproportionately large movement, unfavourable or favourable, in the amount paid on maturity of the investment.

Certain structured products provide capital protection while others provide conditional or no capital protection. It may be difficult to liquidate or sell an investment of this type, or to identify an independently determined fair valuation for an interest in this kind of vehicle. Investors will also be exposed to the credit risk of the issuer of the structured note and may lose up to the entire value of their investment if the issuer fails or is otherwise unable to meet its payment obligations.

### 2.4 Additional information regarding certain types of bond/structured product

In addition to the risks highlighted in respect of bonds/structured products above, you should be aware of certain additional risks relevant to certain specific product types:

#### 2.4.1 Covered bonds

A "covered" bond is a type of bond which gives covered bondholders recourse to the corporate credit of the issuer and a priority claim to a specified pool of financial assets known as the "cover pool". In the event of the

issuer's insolvency, the assets in the cover pool are available to bondholders on a priority basis to other creditors. In certain jurisdictions the cover pool is held on the balance sheet of the issuer (but isolated from the assets of the issuer and with legislation giving a priority claim in favour of the bondholders), whereas in others, such as the UK, the cover pool is segregated into an asset-holding subsidiary. Covered bond issuances which comply with certain regulatory requirements are "regulated", which confers preferential regulatory treatment on some investors.

Investors in covered bonds are subject to a complex range of risks, including (but not limited to): exposure to the credit of the issuer; the lack of a liquid secondary market for certain covered bonds, which may be exacerbated by the existence of selling and transfer restrictions; the marketable value of the covered bonds being negatively impacted by ratings downgrades or withdrawals in respect of the issuer and/or the covered bonds; product-specific factors such as early redemption at the option of the issuer; legal and regulatory risks, including risks arising from changes in tax, law or regulation, which could affect the issuer and its business, investors, the value of the assets in the cover pool, the value and/or marketability of the covered bonds, and the ability of covered bondholders to recover against the issuer and/or cover pool in the event of insolvency; and the risk of the value of assets in the cover pool being insufficient to meet the obligations owed to covered bondholders in the event of the issuer's insolvency.

#### **2.4.2 CDOs**

Collateralized debt obligations ("CDOs") are complex structured products based on an underlying basket or portfolio of credit assets, which typically include bonds, loans and/or structured finance securities. Typically, notes are issued by a "special purpose vehicle" (or "SPV") which holds the underlying basket of assets. CDOs are usually divided into several tranches or classes to create different levels of risk exposure for investors (with more junior tranches carrying greater risks by being at a higher risk of default in the event that the portfolio assets do not pay out as anticipated, and therefore having correspondingly lower credit ratings). Credit events on a small portion of the underlying portfolio can lead to a significant or total loss of capital invested in the more junior tranches.

Investors in CDOs are therefore exposed to a range of risks, including to the value, quality and likelihood of default of the assets underlying the CDO and their returns as well as the risks associated with them (which may be affected by market factors such as changes in interest rates), as well as to changes in the legal, tax or regulatory environment which may impact such assets, investors, or the CDO structure directly or indirectly. The secondary market for CDOs may be illiquid, selling or transfer restrictions may exist, and the value or marketability of the products may be affected by changes in ratings assigned to the CDO tranches or the underlying assets themselves. Investors have recourse only to the assets underlying the CDO, and thus the value of such assets may be insufficient to meet obligations to the noteholders in the event of a default. Product-specific features such as options for early redemption may also limit the value and/or marketability of the notes.

In synthetic structures the SPV issuer does not acquire a portfolio of bonds, loans or other receivables, but instead creates exposure synthetically through use of credit derivatives, meaning that additional risks arise for investors in such synthetic structures.

#### **2.4.3 Mortgage backed securities**

Mortgage backed securities ("MBS") are a type of complex debt security normally issued by an SPV, which are funded by, and secured over, a pool of residential mortgage loans ("RMBS") or mortgage loans to commercial borrowers ("CMBS"), that have been sold to the SPV. MBS are structured such that bondholders have recourse solely against the SPV and the underlying assets, rather than the bank which originated the relevant mortgage loans. The timing or currency of payments made on the mortgage loans may not match those due on the notes, and thus the issuing SPV may enter into swap transactions and liquidity facilities to assist the SPV in order to

make payments on time. MBS may be divided into several tranches or classes to create different levels of risk exposure for investors, with more junior tranches carrying greater risks by being at a higher risk of default in the event that the portfolio assets do not pay out as anticipated, and therefore having correspondingly lower credit ratings.

Risks of investing in MBS include (but are not limited to): exposure to the creditworthiness and risk of default of the relevant homeowners/businesses and changes in the value of the properties securing the mortgage loans, as well as to the rate of prepayments made on the underlying loans; the lack of a liquid secondary market for certain MBS, which may be exacerbated by the existence of selling and transfer restrictions; exposure to the creditworthiness and performance of the SPV's swap counterparties and other third party service providers (which may include the bank that originated the relevant mortgages/loans); product-specific factors such as early redemption at the option of the issuer; the risk that the sale of the underlying assets may be re-characterised as a type of secured loan, in respect of which relevant registration formalities have not been complied with; market risks (in particular including changes in interest rates, which may affect borrowers' ability to repay interest or principal on the loans and declines in real estate values); the marketable value of the MBS being negatively impacted by ratings downgrades or withdrawals; and legal, tax and regulatory risks (including risks arising from changes in tax, law or regulation) which could negatively affect the underlying pool of mortgages loans (including the ability to recover in respect of arrears/default on the underlying loans), investors, the issuer, the bank originating the relevant mortgages loans and/or the respective business and operations of the other parties in the structure.

The above constitutes a high-level summary only and does not purport to disclose all risks associated with covered bonds, CDOs or MBS generally, or with any particular covered bond, CDO or MBS. You should ensure that you read any relevant documentation, for example prospectuses, term sheets and offering memoranda, and you should not deal in these products unless you understand their nature and the extent of your exposure to risk and potential loss.

## **2.5 Warrants**

- 2.5.1** 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, favourable or unfavourable, in the price of the warrant. The prices of warrants can therefore be volatile.
- 2.5.2** 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 predetermined timescale, then the investment becomes worthless.
- 2.5.3** 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.
- 2.5.4** Some other instruments are also called warrants but are actually options (for example, a right to acquire securities which is exercisable against someone other than the original issuer of the securities, often called a 'covered warrant'). See below for further details.

## **2.6 Off-Exchange Warrant Transactions**

- 2.6.1** An off-exchange warrant transaction involves the trading of warrants that are not listed on any exchange. These "over-the-counter" transactions may occur electronically or over the telephone. Transactions in off-exchange warrants may entail greater risk than dealing in exchange traded warrants because there is no exchange 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. We will make it clear to you if you are entering into an off-exchange warrant transaction.

**2.6.2** See below for further general information on off-exchange transactions.

## **2.7 Securitised Derivatives**

**2.7.1** These instruments may give a time-limited or an absolute right to acquire or sell one or more types of investment, which are normally exercisable against someone other than the issuer of that investment. Alternatively, they may give you rights under a contract for differences which allow for speculation on fluctuation in the value of the property of any description or an index, such as the FTSE 100, CAC 40 and DAX 30 indices. In both cases, the investment or property may be referred to as the “underlying investment”.

**2.7.2** 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.

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

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

**2.7.5** 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.

## **2.8 Futures**

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

## **2.9 Options**

**2.9.1** An option is a financial derivative which represents a contract sold by one party (the one writing the option) to another (the one buying the option). The option buyer has the right, but not the obligation, to buy or sell a security or other financial asset at an agreed-upon price during a certain period of time or on a specific date.

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

**2.9.3** 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'.

**2.9.4** 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 (see below) 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.

**2.9.5** Certain options markets operate on a margined basis (see below), 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.

## **2.10 Contracts for Differences**

Futures and options contracts can also be referred to as a 'contract for differences'. These can be options and futures on an index (such as the CAC 40, DAX 30 and the FTSE 100), as well as currency and interest rate swaps. However, unlike other futures and options, these contracts can only be settled in cash. Investing in a contract for differences carries the same risks as investing in a future or an option and you should be aware of these as described above. Transactions in contracts for differences may also have a contingent liability and you should be aware of the implications of this as set out below.

## **2.11 Swaps**

Transactions in swaps involve an exchange of different cash flows between the parties. Parties are exposed to the market risk of the relevant underlying. For example, an interest rate swap will involve one party paying the other a variable rate of interest in exchange for payment by the other party of a fixed rate of interest, each calculated on the same notional amount. The party that pays the variable rate of interest will be exposed to the risk of a rise in the variable interest rate but will benefit from a fall in that interest rate. The receiver of the variable rate of interest will be exposed to the risk of a fall in the variable interest rate but will benefit from a rise in that interest rate.

## **2.12 Credit Default Swaps**

A credit default swap is a contract under which one party (the buyer of credit protection) pays regular fixed amounts to the other party (the seller of credit protection) in return for a payment upon the occurrence of a "credit event" (e.g. payment default, insolvency, restructuring) in respect of the underlying reference entity or entities, linked to the loss incurred by a holder of debt of the reference entity (typically calculated by reference to a recovery rate determined via an auction process run by ISDA).

The performance of standard credit default swaps is significantly influenced by the ISDA Credit Derivatives Determinations Committees (as the same may be reconstituted from time to time) "**Determinations Committees**" which make binding decisions on critical issues such as whether a credit event has occurred, whether there is a successor to the specified "reference entity" underlying the credit default swap, which obligations of the reference entity are deliverable, the terms of an auction to determine the recovery price and whether or not an auction will be held. The procedures of the Determinations Committees are codified in specific rules, which may be amended by a Determinations Committee.

None of ISDA (or any successor organisation overseeing the Determinations Committee), the institutions serving on the Determinations Committees or any external reviewers owes any duty to participants in credit default swaps in relation to the activity of the Determinations Committees. Institutions serving on a Determinations Committee may base their votes on information that is not available to participants in credit default swaps.

A Determinations Committee is not obliged to follow previous determinations or to apply principles of interpretation such as those that might guide a court in interpreting contractual provisions. Therefore, a Determinations Committee could reach a different determination on a similar set of facts. If we or an affiliate serve on a Determinations Committee, we may have an inherent conflict of interest in the outcome of any determinations. In such capacity, we or our affiliate may vote and take other actions without regard to the interests of our counterparties under credit default swaps.

Credit event triggers defined under the terms of a credit default swap may not cover all circumstances in which the participant in the credit default swap may suffer credit-related losses on a holding of obligations of the underlying reference entity. Parties intending to hedge credit exposure under an obligation of a reference entity should evaluate whether the credit default swap is an effective hedge.

The operation of the rules on successor reference entities can in certain circumstances result in the stated reference entity no longer having deliverable obligations (an “orphan credit default swap”) which means the buyer of protection under such credit default swap can no longer recover any amounts upon a credit event, but will still be obliged to make fixed payments.

## **2.13 Off-Exchange Derivative Transactions**

**2.13.1** Derivative transactions are (a) any contract (i) which is a rate swap transaction, swap option, basis swap, forward rate transaction, commodity swap, commodity option, equity or equity index swap, equity or equity index option, bond option, interest rate option, foreign exchange transaction, cap transaction, floor transaction, collar transaction, currency swap transaction, cross-currency rate swap transaction, currency option, credit protection transaction, credit swap, credit default swap, credit default option, total return swap, credit spread transaction, repurchase transaction, reverse repurchase transaction, buy/sell back transaction, securities lending transaction, or forward purchase or sale of a security, commodity or other financial instrument or interest (including, without limitation, any option with respect to any of those transactions) or (ii) which is a type of transaction that is similar to any transaction referred to in (a)(i) above that is currently, or in the future becomes, recurrently entered into in the financial markets (including, without limitation, terms and conditions incorporated by reference in such agreement) and that is a forward, swap, future, option or other derivative on one or more rates, currencies, commodities, equity securities or other equity instruments, debt securities or other debt instruments, or economic indices or measures of economic risk or value and (b) any combination of these transactions.

**2.13.2** It may not always be apparent whether or not a particular derivative is effected on exchange or in an off-exchange (over-the-counter) derivative transaction. We will obtain your prior express consent, whether in the form of a general consent or in respect of individual transactions, before entering into an off-exchange transaction on your behalf. We will make it clear to you if you are entering into an off-exchange derivative transaction.

**2.13.3** While some off-exchange markets are highly liquid, transactions in off-exchange or 'non-transferable' derivatives may involve greater risk than investing in on-exchange derivatives because there is no exchange market on which to Close Out an open position. It may be impossible to liquidate an existing position, to assess the value of the position arising from an off-exchange transaction or to assess the exposure to risk. Bid 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.

## **2.14 Exchange Traded Derivatives**

Exchange-traded derivatives are typically standardised futures or options contracts traded through an exchange or other recognised trading venue. Before entering into a transaction, you should obtain a clear explanation of all commission, fees and other charges for which you will be liable. These charges will affect your net profit (if any) or increase your loss.

Transactions in Exchange-Traded Derivatives may expose you to following specific risks:

**2.14.1** Leverage risk: Futures contracts are leveraged instruments as the amount of initial margin required is smaller relative to the potential gains or losses under the contracts.

**2.14.2** Margin risk: A relatively small market movement will have a proportionately larger impact on the margin an investor has deposited or will have to deposit: this may work against the investor as well as for them. An investor



may sustain a total loss of initial margin funds and any additional margin deposited with the firm to maintain their position. However, if the market moves against their position or margin levels are increased, the investor may be called upon to pay substantial additional collateral on short notice to cover losses incurred under the futures contracts and maintain their position. Failure to provide collateral may lead to the contracts being closed out which could crystallise a loss position.

- 2.14.3** Changes to exchange or clearing house rules: The terms and conditions of exchange-traded contracts (including the strike or forward price) may be modified by the exchange or clearing house to reflect changes or events in respect of the underlying asset or otherwise.
- 2.14.4** Market risk: “stop loss” or “stop limit” orders intended to limit losses may not be effective if market conditions make it impossible to execute such orders. Market conditions (e.g. illiquidity) and/or the operation of the rules of certain markets (e.g. the suspension of trading in any contract or contract month because of price limits or “circuit breakers”) may increase the risk of loss by making it difficult or impossible to effect transactions or liquidate/offset positions. If an investor has sold options, this may increase the risk of loss.
- 2.14.5** Operational risk: Trading facilities utilise computer systems for the order routing, execution, matching, registration or clearing of trades. As with all facilities and systems, they are vulnerable to temporary disruption or failure. An investor’s ability to recover certain losses may be subject to limits on liability imposed by the system provider, the market, the clearing house and/or member firms.

## **2.15 Funds**

Funds are collective investment vehicles which pool the funds of investors in order to make investments in accordance with the involvement objectives of the fund. Funds can be either open-ended or closed-ended. Open-ended funds are valued on the basis of the value of the assets held. Closed-ended funds are valued on the basis of what investors are prepared to pay/sell.

Investing in funds may involve risks including, but not limited to, the following:

- 2.15.1** Market risk: the value of an interest in a fund depends on the value of the assets it holds. If general market conditions deteriorate, it is likely that the value of the investment in the fund will also deteriorate.
- 2.15.2** Liquidity risk: Open-ended funds may not be able to liquidate their assets and return funds to investors in the event that there is poor liquidity in the market generally or in the specific sector in which the fund invests. Ongoing costs to service those investments could lead to increased losses or reduced profits for investors in the fund. Closed-ended funds can be subject to risks of low trading and therefore provide limited liquidity, making it difficult for an investor to realise its investment.
- 2.15.3** Interest rate risk: a leveraged fund will be exposed to interest rate rises. This could reduce the returns investors receive or even lead to losses.
- 2.15.4** Country risk: the value of a foreign investment may decline because of political changes or instability in the country where the foreign investment was issued.
- 2.15.5** Currency risk: if investments in the fund are denominated in a currency other than that in which the investor’s initial investment was made, returns could be reduced (or losses incurred) due to currency fluctuations.
- 2.15.6** Counterparty risk: the insolvency of any institution providing services to the fund such as safekeeping of assets or acting as counterparty to the fund in derivatives transactions or other instruments, may expose the fund to financial loss.
- 2.15.7** Derivatives risk: a fund may utilise instruments in the form of warrants, futures, options, forward contracts and swaps to seek to enhance investment returns. While this can potentially have the effect of enhancing the fund’s performance, it can also be detrimental if there are losses on the derivatives.

- 2.15.8** Operational risk: an investment in a fund can involve operational risks arising from a wide range of possible operational errors, including system breakdowns, human errors or external events and errors caused by service providers such as the investment manager, which may affect the value of the fund and (if applicable) its ability to pay redemptions within the scheduled timeframe.
- 2.15.9** Limited diversification risk: unless the fund is subject to investment restrictions and diversification requirements, the number and diversity of investments held by a fund may be limited.
- 2.15.10** Restrictions on subscription: an investor in the fund's units/shares may be prevented from subscribing and redeeming such units/shares, either at the official net asset value (for example, as a result of the imposition of any charges by the fund) or at all, or the prescribed notice period, timing cut-offs and minimum/maximum amounts in respect of subscriptions and redemptions for the fund's units/shares may be changed.
- 2.15.11** Compulsory redemption risk: the fund may compulsorily redeem the shares/units upon the occurrence of certain events (for example, if, following the insolvency of the investment manager, the fund becomes unable to fulfil its investment objections).
- 2.15.12** Performance risk: no assurance can be given relating to the present or future performance of a fund and any underlying component in which the fund may invest, that any analytical model used by the fund will prove to be correct or that any assessments of the short-term or long-term prospects, volatility and correlation of the types of investments in which a fund has or may invest will prove accurate.
- 2.15.13** Changes to portfolio: the composition of the fund's portfolio of investments may change from time to time. Such changes may have an impact on the value of the fund.
- 2.15.14** Sub-funds segregation: the sub-funds of the fund may be segregated as a matter of the law of the fund's home jurisdiction and as such the assets of one sub-fund will not be available to satisfy the liabilities of another sub-fund. However, the fund may operate or have assets held on its behalf or be subject to claims in other jurisdictions other than its home jurisdiction which may not necessarily recognise such segregation. There can be no guarantee that the courts of any jurisdiction outside its home jurisdiction will respect the above limitations on liability.

## **2.16 SCARPs**

Structured Capital at Risk Products (“**SCARPs**”) are usually share-based investments from banking, insurance or investment management firms, and can offer attractive returns. However, if your investment does not perform as planned, you could lose some or all of the capital that you put in. SCARPs usually invest in a variety of stock market investments such as shares or debt securities. Debt securities include corporate and sovereign bonds, which are loans to organisations such as companies or the Government.

## **3 Foreign Markets and Foreign Denominated Securities**

- 3.1** Transactions on foreign markets, which include the financial markets of Emerging Markets (as described below), will involve different risks from transactions on the UK markets. In some cases, the risks will be greater. The potential for profit or loss from transactions on foreign markets or in foreign denominated contracts and securities will be affected by fluctuations in foreign exchange rates.
- 3.2** Investments in Emerging Markets are exposed to additional risks, including accelerated inflation, exchange rate fluctuations, adverse repatriation laws and fiscal measures, and macroeconomic and political distress. See below for further information to consider when investing in Emerging Markets.

## **4 Contingent Liability Transactions**

- 4.1** A contingent liability transaction is a transaction under the terms of which you will or may be liable to make further payments (other than charges) at the time when the transaction is due to be completed or upon the earlier closing out

of your position. These payments may or may not be secured by an amount in money (or represented by securities) deposited with a counterparty or a broker as a provision against loss on transactions made on account (a “Margin”, and “Margined” shall be construed accordingly).

- 4.2 Contingent liability investment transactions for which a Margin is deposited (in other words, which are Margined) require you to make a series of payments against the purchase price instead of paying the whole purchase price immediately.
- 4.3 If you trade in futures, contracts for differences or sell options, you may sustain a total loss of the Margin you deposit with us 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.
- 4.4 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. The risks associated with Margined or contingent liability transactions carried out with or for you on or under the rules of a regulated market may differ depending on the rules of the regulated market. Contingent liability transactions which are not traded on or under the rules of a regulated market may expose you to substantially greater risk.

## 5 Limited Liability Transactions

Before entering into a limited liability transaction (our understanding is that a limited liability transaction means a transaction where you and we agree to limit the amount of loss liability that you can sustain in advance of such a transaction being entered into), you should obtain from us, or the firm with whom you are dealing, a formal written statement confirming that the extent of your loss liability on each transaction will be limited to an amount agreed by you before you enter into the transaction. The amount you can lose in limited liability transactions will be less than in other Margined transactions, which have no predetermined loss limit. Nevertheless, even though the extent of loss will be subject to the agreed limit, you may sustain the loss in a relatively short time. Your loss may be limited, but the risk of sustaining a total loss to the amount agreed is substantial.

## 6 Collateral

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

## 7 Suspensions of Trading

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

## 8 Clearing House Protections

On many exchanges, the performance of a transaction by us (or a third party with whom we are dealing on your behalf) is 'guaranteed' by the exchange or clearing house. However, this guarantee is unlikely in most circumstances to cover our or another person's obligations to you, the client, and may not protect you if we or another party defaults on its obligations to you. On request, we will explain any protection provided to you under the clearing guarantee applicable to any on-exchange derivatives in which you are dealing. There may also be a clearing house for off-exchange instruments (such as interest rate swaps) which are not traded under the rules of an exchange.

## **9 Insolvency**

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

## **10 Non-Readily Realisable Investments**

Where the investments we deal in with or for you include any investments which are (i) government or public securities, or (ii) securities other than those which are or will be admitted to official listing in an EEA state or the UK, or which are or will be regularly traded on or under the rules of a regulated market or other exchange, there is no certainty that market makers will be prepared to deal in such investments and adequate information for determining the current value of such investments may be unavailable.

## **11 Securities which may be subject to Stabilisation**

**11.1** Stabilisation enables the market price of a security to be maintained artificially during the period when a new issue of securities is sold to the public. Stabilisation may affect not only the price of the new issue but also the price of other securities relating to it.

**11.2** Applicable Rules allow stabilisation in order to help counter the fact that, when a new issue comes onto the market for the first time, the price can sometimes drop for a time before buyers are found.

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

**11.3.1** Limit the period when a stabilisation manager may stabilise a new issue;

**11.3.2** Fix the price at which it may stabilise (in the case of shares and warrants but not bonds); and

**11.3.3** Require it to disclose that it may stabilise but not that it is actually doing so.

**11.4** The fact that a new issue or a related security is being stabilised should not be taken as any indication of the level of interest from investors, nor of the price at which they are prepared to buy the securities.

## **12 Emerging Markets**

**12.1** Countries with Emerging Markets are characterised by an underdeveloped or developing infrastructure, with significant potential for economic growth and increased capital market participation by foreign investors. Whether or not a country is deemed to have an Emerging Market for these purposes will be determined by us in our absolute discretion. We may notify you from time to time of those countries which we have deemed, as at the date of any such notification, as having Emerging Markets. An up-to-date list of these countries is also available on request from your usual contact and we maintain the right to amend this list at any time without further notice to you. If you are in any doubt as to whether or not a transaction or Service relates to an Emerging Market, you should speak to your usual contact.

**12.2** When dealing for you in relation to investments in Emerging Markets our obligations shall be as set out below:

**12.2.1** Our obligations generally shall be confined to acting in good faith; in particular, when acting as your agent in relation to a dealing in a transaction, our obligations shall be limited to using reasonable steps to facilitate settlement.

**12.2.2** We shall have no duty to make or take (i) any special arrangements or precautions beyond those currently made or taken by us or any local financial institution for the safekeeping of investments, or (ii) any special enquiries as

to the safekeeping arrangements or the collection, delivery or transfer procedures of any local financial institution, or to take local legal advice in connection therewith.

- 12.2.3** We shall be entitled at our absolute discretion to refuse to hold any investments on your behalf where to do so could require us to make disclosures under local rules or regulations.
- 12.2.4** Where we hold investments on your behalf, we shall have no obligation to notify you of any voting rights or any other corporate actions with respect to such investments nor shall we be obliged to take any action in respect of such rights.
- 12.2.5** In connection with any transaction, we shall be authorised to take all steps necessary to effect the transfer of ownership in investments, including, where necessary, appointing a local representative to effect such transfer. You shall execute and deliver any documents and agreements as may be necessary or appropriate to effect such transfer under Applicable Rules.
- 12.2.6** Where, in accordance with applicable market custom, we have entered into a purchase and sale agreement in respect of a transaction, the settlement terms of such transaction shall be set forth in the purchase and sale agreement, and in the event of any inconsistency between these Terms and the purchase and sale agreement, the purchase and sale agreement shall prevail.
- 12.2.7** You shall be solely responsible for ensuring that you comply with any disclosure obligations you may be subject to under local rules and regulations.

### **12.3 Investing in Emerging Markets - General**

Clients should note that there are significant risks inherent in investing in Emerging Markets not typically associated with investing in more developed countries. Investment is only suitable for sophisticated investors who understand and are able to bear the risks involved. Such risks could result in investors losing the entire value of their investment. While the following outlines certain risks and special considerations which should be considered by all investors before investing in Emerging Markets, it does not purport to be a complete statement of all of such risks which currently exist or may develop in the future.

Clients should be aware that there may be potential risks posed by volatile political, legal and commercial conditions in Emerging Markets, which may affect the value of or result in the loss of investments, for example:

- 12.3.1** The value of investments in Emerging Markets may be affected by uncertainties such as political or diplomatic developments, social and religious instability, changes in government policies, taxation and interest rates, currency repatriation restrictions or redenomination risk, organised crime and other political, social and economic developments in laws or regulations and, in particular, the risks of expropriation, nationalisation and confiscation of assets and changes in legislation imposing restrictions on foreign ownership.
- 12.3.2** Emerging Markets are often undeveloped and there is often no developed public market for investments making them difficult to value. This means that they are smaller, less liquid and more volatile than developed markets.
- 12.3.3** Businesses may not have any history of operating within a market-orientated economy. In general, relative to companies operating in more developed countries, companies are characterised by a lack of (i) management with experience of operating in a market economy, (ii) modern technology and (iii) a sufficient capital base with which to develop and expand their operations.
- 12.3.4** There are often low levels of legal certainty due to factors such as frequently changing and often overlapping or contradictory laws and regulations, lack of precedent, lack of clarity in the interpretation of law, disproportionate sanctions for failing to comply with the law and severe limitations on the ability to enforce court judgments or arbitral awards or to achieve effective redress through the courts.

**12.3.5** There is often an absence of adequate protections for minority and/or international shareholders and low standards of corporate governance.

#### **12.4 Official Data**

The quality and reliability of official data published by the governments and government agencies in Emerging Market countries is generally not equivalent to that of more developed countries.

#### **12.5 Settlement Risk and Corporate Actions**

**12.5.1** Because of the absence of a developed securities market as well as potentially underdeveloped banking and telecommunications systems, concerns may arise in relation to settlement, clearing and registration of transactions in securities. Local custody Services may remain undeveloped and there could be significant transaction, settlement and custody risks in dealing in investments in Emerging Markets. The regulations, procedures and practices of issuers and registrars may be basic compared to developed markets, subject to significant delays and occasionally the subject of malfeasance, creating a risk that an investor may not be registered as a shareholder, or having been registered, may be removed.

**12.5.2** Legislation governing corporate actions and perceptions of corporate governance issues may be different from that in more developed countries and in general terms, management may not be expected to be as accountable to shareholders. Certain practices of companies and financial intermediaries which may be restricted in developed markets may be commonplace.

**12.5.3** Furthermore, no guarantee can be given that all entitlements and rights attaching to investments, including in relation to dividends, can be realised or exercised.

#### **12.6 Accounting Practice and Information**

Accounting, auditing and financial reporting standards may not be equivalent to those applicable in more developed market economies and the amount, quality and reliability of information available to investors may be considerably less than in respect of investments in more developed countries. There may also be limited reporting requirements for companies compared to standards in developed securities markets and a lack of trading history.

#### **12.7 Foreign Currency and Exchange Rates**

Local currencies may not be freely convertible and restrictions may be placed on the conversion and repatriation of investors' funds including any profits or dividends. You acknowledge that if we are identified as the legal owner of aggregated client funds, then restrictions imposed on repatriation may result in a greater delay in repatriation of your funds than you would have incurred if you were identified as the legal owner of your funds. The value of investments as measured in major international currencies may be affected by fluctuations in currency rates and exchange control regulations.

#### **12.8 Investment Restrictions**

Foreign investment in companies in Emerging Markets may be, in certain cases, legally restricted. Sometimes these types of restrictions may be contained in constitutional documents of an enterprise and such documents may not be publicly available. Where a company restricts the size of holdings by non-resident investors, the aggregate of purchases by us on behalf of our customers may result in such limits being exceeded and prevent us from acquiring any further securities. In such circumstances, individual holdings by our customers may be scaled down.

#### **12.9 Taxation**

Tax law and practice may not be as clearly established as that of the more developed countries. It is possible therefore that the current interpretation of the law or understanding of practice may change or, indeed, that the law may be changed with retrospective effect. Accordingly, it is possible that investors could become subject to taxation that is not anticipated when investments are made, valued or disposed of. There is no guarantee that double tax treaties, entered

into or confirmed by Emerging Market countries, will remain in place or will not be modified, or that they will in practice be honoured by local tax inspectorates. In addition, where we hold investments on your behalf, the tax treatment you receive on such investments may not necessarily be the most favourable, for instance, you may be unable to benefit from certain tax treaties as a result of the entity which holds the investments. You should consult your own professional tax advisers on the implications of making an investment in, holding, or disposing of investments in companies in Emerging Markets.

### 13 Repo and Securities Lending

Under a repurchase transaction (“**Repo**”), the parties enter into two simultaneous transactions: (i) one party (the “**Seller**”) transfers title to securities to the other party (the “**Buyer**”) for immediate settlement (or for settlement on a forward start date) at an agreed purchase price paid by the Buyer to the Seller; and (ii) with the agreement for the Seller to repurchase equivalent securities from the Buyer on a specified future date, or on demand, at an agreed repurchase price (representative of the purchase price plus the ‘Price Differential’ or ‘repo rate’ reflective of the financing charge during the term of the Repo). Repo transactions are generally short-term, with the term ranging from overnight to one year and can also be used for structured financing transactions with a longer term to maturity.

Under a securities lending transaction, one party (the “**Lender**”) transfers title to securities (normally equities) to the other party (the “**Borrower**”) for a defined period of time, or open and terminable on demand, in return for a fee paid by the Borrower to the Lender during the term of the loan (based on market value of the securities). The Borrower provides cash or securities collateral (by way of title transfer) to the Lender on commencement of the loan. On termination of the loan, the Borrower delivers equivalent securities to the Lender and, simultaneously, the Lender returns to the Borrower any collateral provided by the Borrower.

Parties to a Repo or securities lending transaction are exposed to the risk that its counterparty may become insolvent or that such counterparty may not be adequately collateralised, as well as operational risk leading to delays or failure in the delivery of securities, market risk from the economic risks and rewards associated with the underlying securities remaining with the Seller or Lender (as the case may be), and interest rate risk.

Your attention is also drawn to the important information contained in our SFTR Information Statement, available at [http://www.bofam.com/SFTR\\_Information\\_Statement\\_EN](http://www.bofam.com/SFTR_Information_Statement_EN), regarding the general risks and consequences that may be involved in consenting to a right of use of collateral provided under a security collateral arrangement or of concluding a title transfer collateral arrangement.

### 14 Bundled products

**14.1** Where a financial instrument or service (a “**bundled product**”) is composed of two or more different financial instruments or services, the associated risks may be affected by the interaction between the different components. As a result, the risk profile of the bundled product may be greater than that of the individual components. For example, the different components of the following may interact to affect the overall risk profile of the bundled product:

**14.1.1** Products embedding a derivative: certain products may be regarded as containing an embedded derivative. Where this is the case, the risk profile of the product may depend on how the risks arising in respect of the embedded derivative interact with the other components of the product. For example, a convertible bond may be regarded as composed of a bond together with an option over the shares in the issuer which may be exercised by converting the bond into equity. As a result, an investment in convertible bonds may give rise to bond risks (including exposure to the credit risk of the issuer), equity risks (including the risk of unforeseeable equity price fluctuations causing risk of loss) and conversion risks (including the risk that the holder is unable to convert the bond to equity at the most advantageous time). These risks may interact in that, for example, the equity related risk of unforeseeable price fluctuations may be correlated with heightened credit risk in the issuer. Other examples of products which may be regarded as embedding a derivative may include (but are not limited to) exchangeable bonds and credit linked notes.

- 14.1.2** Products which have derivatives as underliers: certain derivative products may themselves have derivatives as underliers. Where this is the case, the risk profile of the product may depend on how the risks arising in respect of the derivative combine with those of its derivative underlier. For example, a swaption may be regarded as composed of both a swap and an option. As a result, an investment in a swaption may give rise to risks relating to the option (including exposure to the risk the option may not be in the money at the time it must be exercised) and risks relating to the underlying swap (including exposure to the market risks of the relevant underlying cash flows). These risks may interact in that, for example, the risk that the option is not in the money at the time it is exercised may be correlated with market risks relating to the underlying cash flows.
- 14.1.3** Structured deposits: a structured deposit may be regarded as composed of a deposit together with a derivative. Where this is the case, the risk profile of the product may depend on how the risks arising in respect of the deposit combine with those of the derivative. For example, a floating rate dual currency deposit may be regarded as composed of a deposit together with a currency option. As a result, an investment in a structured deposit may give rise to interest rate risks (including exposure to fluctuations in the interest rate applicable to the deposit), credit risk and conversion risks (including the risk that the holder may receive a lower payout as a result of exercise of the option by the provider in response to changing currency exchange rates). These risks may interact in that a higher interest rate may be associated with greater currency exchange rate exposure.
- 14.1.4** Bundled services: we may provide you with multiple services together as part of a bundle. Where this is the case, the risk profile of the bundled services may depend on how the risks arising in respect of each individual service combine. For example, if we were providing you with both custody and securities lending services pursuant to a prime brokerage service, you would be exposed to risks relating to our custody of your instruments together with risks arising from any right of ours to rehypothecate such instruments pursuant to particular securities lending transactions. These risks may interact in that where we do exercise rehypothecation rights we would not be holding in custody the rehypothecated instruments.
- 14.2** The list of bundled products set out above is non-exhaustive. Where an instrument is a bundled product, we may provide additional risk disclosures to the extent required under Applicable Rules. This may include providing an adequate description of the legal nature of the financial instrument, the components of that instrument and the way in which the interaction between the components affects the risks of the investment. You should not deal in any bundled product unless you understand its nature and the extent of your exposure to risk and potential loss.

## **15 Commodities**

You should be aware of the following issues which are relevant where our Services relate to commodities or commodity derivatives.

### **15.1 Material Interests**

In addition to the disclosures made in the BofA Conflicts of Interest Policy Summary, your attention is drawn to the following:

- 15.1.1** That we, as part of a full-service financial services group, have or may have business relationships, including investment banking relationships, with companies involved in trading commodities and commodity derivatives;
- 15.1.2** That we may do business with Associated Companies, connected customers and other investors whether for our own account or for the account of Associated Companies, connected customers and other investors, including the provision of commodity management services;
- 15.1.3** That apart from any activities under the Terms, we also run our own proprietary trading book which relates to, or which may expand into, sale, purchase, exchange, transportation, commodity price swaps, commodity options or other similar transactions with respect to commodities or commodity derivatives;



**15.1.4** That the persons employed, hired or contracted by us to perform commodity management services under these Terms may also be involved in running our own proprietary trading book; and

**15.1.5** That any information provided by you or otherwise obtained by us in the course of providing Services to you may therefore be used by us for the purposes of our own proprietary trading book and in accordance with Applicable Rules.

## **15.2 Payments**

We and our Associated Companies shall be entitled to retain any payment, remuneration, profit or benefit which arises in relation to transactions undertaken pursuant to the Terms and shall not be required to disclose or account for the same to you, except as required by Applicable Rules or as otherwise stated in the Terms.

## **15.3 Absence of Fiduciary Duties**

Neither the relationship between you and us, nor the provision of Services or any recommendation or advice tendered to you or any other matter will give rise to duties on our part which would oblige either us or any Associated Companies to accept responsibilities more extensive than those set out in the Terms, including, without limitation, a duty to account for profits made by us or an Associated Company in the course of our dealing with you, except as required by the Applicable Rules or as otherwise stated in the Terms.

## **15.4 Commodity Position Limits**

**15.4.1** Except as otherwise stated, we shall have no responsibility for taking or failing to take action in respect of any rights you may have under any contract, instrument or other position pertaining to you or any of your accounts relating to commodity business held with or on behalf of us in respect of which your cash or assets (including any documents of title or any other property whatsoever) are held which has not been Closed Out in full (an **"Open Position"**) unless we receive timely instructions from you.

**15.4.2** Subject to Applicable Rules, we shall have the right to limit the size of your Open Positions (for example, but not limited to, in order to ensure compliance with position limits or position management controls imposed by competent authorities or trading venues) and to take such action as we think fit in our sole discretion to ensure these limits are respected, including to Close Out any Open Position.

**15.4.3** Where any action is taken by us or a third party pursuant to Applicable Rules which affects any Open Positions generally or other open positions to which we are a party (including the Close Out of such other open positions), or if due to an event or circumstances occurring (including any action taken by us) it becomes unlawful under Applicable Rules on any day to comply with any material provision of any agreement relating to such Open Position (including any payment or delivery obligation), we may Close Out the affected Open Positions in full or in part and in such proportions as we think fit, in our sole discretion. We shall, where reasonably practicable, notify you of such event, but will not be liable for any loss incurred by you as a result of such action hereunder or any failure to notify.

**15.4.4** In respect of any Open Position, we may, or may be required to, enter into (or arrange to enter into through an intermediate broker) an equivalent open position on any exchange, trading system, trading venue or other market (a **"Market Contract"**). Such equivalent open positions will be subject to Applicable Rules and will reflect our rights and obligations under our Market Contract. Any action that affects any such Market Contract shall be binding on the corresponding Open Position.

## **16 Exchange-Traded Fund Liquidity and Price Considerations**

**16.1** Exchange Traded Funds (**"ETFs"**) are structured so that investors can purchase and sell ETF shares/units on the applicable listing exchange at the current market price, and large institutional investors known as **"authorised participants"** (or **"market makers"**) can purchase and sell ETF shares/units directly with an ETF sponsor/issuer at the ETF's next-determined net asset value. The ability of authorised participants to arbitrage any differences between the net asset value and the

market price helps to ensure that the two prices typically will be close to one another during normal market conditions. At times, however, there can be pricing dislocations that result from stressed market conditions or other unforeseen events, such as trading halts or errors with trading infrastructure and systems. ETFs that have recently launched or that fail to attract a large amount of assets can also demonstrate market prices that have a wider premium or discount from the ETF's net asset value. If an ETF is not successful in implementing its investment strategy or fails to attract sufficient assets to realise economies of scale, the ETF sponsor/issuer may determine to liquidate the ETF, which could have negative tax consequences for holders and will result in the ETF incurring expenses in connection with the liquidation. In addition, if an ETF has only a limited number of authorised participants or where authorised participants are unwilling or unable to proceed with creation and redemption orders, ETF shares/units may trade at a premium or discount to net asset value and could be subject to delisting from the exchange.

- 16.2** ETFs' underlying investment portfolios face separate, but related, liquidity considerations. ETFs that are structured as UCITS (in accordance with the requirements of Directive 2014/91/EU of the European Parliament and of the Council, and related national implementing legislation, as amended from time to time, which is typically the case in Europe and the UK, are subject to detailed requirements and constraints relating to the types of investments they can make (and in the case where the ETF seeks to track an index by directly holding all the constituent securities or a representative sample thereof or by employing derivatives to gain synthetic exposure to the same, the requirements and constraints would apply to that index). Also, ETFs may invest a portion or all of their net assets in unlisted or illiquid securities. Illiquid or unlisted securities in which an ETF invests are subject to the risk that the fair value price determined by the ETF's board of directors will differ from the actual price that the ETF would realise upon the sale or disposal of the security. Authorised participants that submit redemption orders of ETF shares/units may get illiquid securities back from the ETF in-kind, or the ETF may have to sell illiquid securities at a loss in order to generate cash to meet in-cash redemptions which sale may be at a price lower than that at which they were bought or than the ETF's board of directors values them. Accordingly, in such circumstances customers could suffer an investment loss. These situations could occur with greater frequency or be more likely to occur during stressed market conditions and during days with high levels of redemption orders by authorised participants. Ultimately, ETF investors bear the cost of this market impact in the form of wider spreads to buy or sell ETF shares/units in the secondary market.

**17 The Bank Recovery and Resolution Directive Resolution Regime**

- 17.1** The Bank Recovery and Resolution Directive ((EU) 2014/59), as updated by BRRD II (EU) 2019/879), and related national implementing legislation, as amended from time to time ("**BRRD**") aims to reduce threats to financial stability by establishing a framework for the recovery and resolution of EEA and UK credit institutions and investment firms. The BRRD give "resolution authorities" the power to rescue failing European and UK financial institutions by using a bail-in tool that involves either the cancellation of the liabilities (typically unsecured) of the failing entity, in whole or in part, or the conversion of such liabilities into another security, including ordinary shares of the surviving entity (if any).
- 17.2** The BRRD resolution regimes (in particular, the exercise of the bail-in tool) could cause you to lose some or all of any investment in financial instruments issued by EEA or UK entities in scope of the BRRD (which would include EEA and UK credit institutions, certain EEA and UK investment firms and potentially other entities within their group). The terms and rights associated with such financial instruments (e.g. date of maturity or interest rate payable) may be varied or payments suspended, or the instruments may be converted into ordinary shares or other instruments of ownership, which have different risks or rights associated with them.

**18 Trading in Barrier Options**

Where our Services include dealing in a barrier option for you, you should be aware of the following:

- 18.1 A barrier event does not require the execution of a specific order**

A barrier event does not require the execution of an order at the barrier price which has been placed by either the buyer or the seller of the option. It is therefore possible for a barrier event to occur if an order that you or we place remains unfilled, provided that other relevant transactions in the spot market have been observed.

**18.2 We generally hedge our barrier options**

We generally hedge our positions in barrier options by trading spot, forward and other options; however, we may not always do so. We reserve the right not to hedge and also to hedge partially or fully any barrier option position. We may adjust our hedges from time to time as we see fit.

**18.3 We may unwind a hedge in anticipation of a barrier event**

If we have hedged a barrier option position, we may need to unwind the hedge transaction when a barrier event occurs. Unwinding the hedge typically requires us to buy or sell the instrument or contract to which we are exposed; however, it may not be possible to unwind the entire hedge in a single transaction which coincides with the barrier event. To complete the unwinding at an average rate as close to the barrier price as possible, we may therefore begin to unwind a hedge before the barrier event occurs. In that case we will seek to minimise the impact on the market in so doing but, where we take such action, this may affect the probability of the barrier event occurring.

**18.4 We actively participate as a dealer in markets**

We actively participate in the interbank and wholesale markets as a dealer, proprietary trader and agent or dealer for clients; therefore, we may engage in physical, currency and derivative transactions for legitimate commercial reasons. This activity may affect the probability of a barrier event occurring.

**18.5 We do not advise clients on barrier options**

We do not act as a fiduciary or as an investment adviser to clients that trade barrier options. No communication from us should be construed as investment advice, as a recommendation to buy or sell a barrier option or as an assurance or guarantee of the expected results of a barrier option. All dealings will be at arm's length on an execution-only basis.