

## **RISKS AND WARNINGS**

### **Introduction**

All financial products carry a certain degree of risk, and even low risk investment strategies contain an element of uncertainty. Different instruments involve different levels of exposure to risk and in deciding whether to trade in such instruments you should be aware of the risks associated with each of these instruments. The information contained in this Schedule cannot disclose the nature of all risks of all specific products or services or disclose everything about generic types of risk. The information contained in this Schedule is a general description of the risks associated with the specific products or services which we may provide to you. You should not rely on the highlighted risks as being the only risks in relation to the product or service. You should always satisfy yourself that a product or service is suitable for you in light of your (or, where applicable, your principal's or principals') financial circumstances and that you fully understand the nature and risk associated with that product or service. Any risks highlighted are not to be relied upon as investment advice or a personal recommendation.

The purpose of this document is to warn you about the risks, whether 'generic' (as detailed in Section A) or 'product specific' (as detailed in Section B) for the products that you may wish to trade with us.

This is not intended to be an exhaustive list of all risks but a range of examples of risks for you to consider. We may add to or amend this list from time to time. The availability of any financial instrument through our services is not (and shall not be regarded as) a recommendation to invest in any financial instrument.

### **Section A: General Risks**

#### **Investment value**

The value of your investment is not guaranteed and prices may go up as well as down. You may get back less than the amount that you originally invested. The value of investments may be affected by a variety of factors, including economic and political developments, interest rates and foreign exchange rates, inflation and issuer-specific events. If the value of your investment changes by less than the rate of inflation it will have less buying power in the future. Past performance is no indicator of future performance.

#### **Liquidity risk**

Some investments may be illiquid and/or restricted or traded infrequently, meaning that there may be no readily available market and from time to time there may be difficulty in dealing in such investments, or we may be unable to buy or sell them, or there may be a delay in settlement. This may mean that fair value for those investments is not achievable or difficult to determine. This may happen in circumstances when the fluctuation in price movement is such that, in accordance with the rules of the exchange, trading will be suspended or restricted.

Where an investment has a liquid market at the time you are looking to disinvest, disinvestment should be possible within a reasonable timeframe. Where an investment is illiquid at the time you are looking to disinvest, it may take longer to disinvest successfully.

Disinvestment may be at cost to you, for example where you are "out of the money" with respect to the market value of your investment. The overall value of the product will impact the level of return you will receive in the event of an early disinvestment. Exit costs may also be levied, such as early exit fees or broker fees. The more illiquid an investment, the harder it may be to exit and therefore the more likely that the overall cost of exit will be higher.

#### **Market risk**

External factors may cause the value of your investments to fall in value. Investments in foreign securities may give rise to different payment, settlement, taxation, legal and regulatory requirements from those in the United Kingdom and different practices for the separate identification and segregation of investments. Where your money or investments are held outside of the United Kingdom, your rights may be different from those that would apply under English law. For example, you may be subject to the risk that a counterparty fails to deliver securities after receiving payment. Foreign countries may impose restrictions on the ownership, purchase or sale of securities by non-residents.

#### **Currency and interest rate risk**

If you hold investments which are denominated in foreign currencies, movements in exchange rates and interest rates may cause the value of your investments to fluctuate which may not be in your favour. Returns could be reduced, or losses incurred, due to currency fluctuations. Movement of exchange rates may be favourable or unfavourable on the gain or loss otherwise accruing to the value of an investment. Hedging techniques may, in certain circumstances, be limited or not be successful.

## **Tax risk**

All United Kingdom residents are subject to the United Kingdom taxation regime. As a result of using our services, your tax position may change. Levels of tax, tax rules and tax relief are subject to change. You have sole responsibility for the management of your legal and tax affairs and if you are unclear as to what your position is, you should seek professional advice.

## **Change in law risk**

If there is a change in law (including any regulation, rules or guidance) or market requirements which affects an investment, or the manner in which it is traded or held, additional costs may be incurred or in extreme circumstances investments lost.

## **Section B: Product-specific Risks**

### **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 security 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:

- **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.
- **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.
- **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.

### **Debt Instruments**

Debt instruments (such as bonds or commercial paper) are 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 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 or often linked to reference rates (e.g. EURIBOR or LIBOR). The purchaser of a bond (the creditor) has a claim against the issuer (the debtor).

Dealing in debt instruments may involve risks including but not limited to the following:

- **Insolvency risk:** The issuer may become temporarily or permanently insolvent, resulting in its incapacity to repay the interest or redeem the debt instrument. 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 and/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.
- **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 sensitivity to a rise in the market rates of that debt instrument.
- **Credit risk:** The value of a debt instrument 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.

- Early redemption risk: The issuer of a debt instrument 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.
- Risks specific to bonds redeemable by drawing: Debt instrument redeemable by drawing have a maturity that is difficult to determine, so unexpected changes in the yield on these bonds may occur.
- Risks specific to certain types of bond: Additional risks may be associated with certain types of debt instrument, 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 instruments, 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 debentures. Indeed, if the issuer becomes bankrupt, those debt instruments 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.

### **Securities which may be subject to stabilisation**

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.

The FCA allows 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.

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:

- Limit the period when a stabilisation manager may stabilise a new issue;
  - Fix the price at which it may stabilise (in the case of shares and warrants but not bonds); and
  - Require it to disclose that it may stabilise but not that it is actually doing so.
- 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