

## INFORMATION REGARDING TRADING IN OPTIONS, FUTURES AND OTHER DERIVATIVE INSTRUMENTS

You as a Client should understand, *inter alia*, the following:

- that investments and other positions in derivative instruments are at the Client's own risk
- that you as a Client must yourself carefully and sufficiently familiarise yourself with the terms and conditions which apply to the trading in financial instruments in general and, where applicable, information in the prospectus and other information regarding the relevant derivative instrument, its characteristics and risks
- that in conjunction with trading in financial instruments, it is important to scrutinise the contract notes and other reports regarding your holding and positions and immediately submit complaints about any errors
- that it is important to monitor changes in value of holdings of, and positions in, the relevant instrument regularly
- that you as a Client must fulfil the requirements for collateral within the agreed framework
- that you as a Client must initiate the measures which are required in order to reduce the risk of losses on your investments and other positions
- that the terms and conditions for trading in derivative instruments often change and must be regularly monitored

### 1. GENERALLY REGARDING RISKS ASSOCIATED WITH DERIVATIVE INSTRUMENTS

Trading in derivative instruments is associated with particular risks which are described in further detail in this information. The client is personally responsible for the risks and must, therefore, at the retained securities institution - or through its own asset management representative - become acquainted with the terms and conditions, in the form of general terms and conditions, prospectuses and suchlike, which apply to the trade of such instruments and the characteristics of the instruments and risks associated therewith. The client must also regularly monitor his investments (positions) in such instruments. The information to be monitored (price information, etc.) can be obtained, e.g. on execution venues' websites, in daily newspapers and other media as well as from the client's securities institution. Further, the client should, in his own interests, be prepared to take measures promptly where such prove necessary, for example, by providing additional collateral or by ending his investments in derivative contracts (redeem or close his positions).

For further information regarding trading in financial instruments in general, various risk concepts and risk reasoning, see also INFORMATION REGARDING CHARACTERISTICS AND RISKS IN RELATION TO FINANCIAL INSTRUMENTS.

### 2. THE USE OF DERIVATIVE INSTRUMENTS

Derivative instruments are a form of agreement (contract) where the agreement itself is negotiable on the capital market. The derivative instrument is connected to an underlying property or an underlying value. This property or value (hereinafter referred to as "property") may consist of a financial instrument, any other assets of economic value, e.g. currency or commodity, or some form of value measurement, e.g. an index. A derivative instrument can be used to create protection against an undesired change in price of the underlying asset. It can also be used to yield a profit or return through a lower capital investment than that which would be required for an equivalent transaction directly in the underlying asset. Derivative instruments may also be used for other purposes. The use of derivative instruments is based on a certain expectation regarding the changes in the price of the underlying asset over a certain period of time. Therefore, before trading is commenced in derivative instruments, it is important that the client, personally, sets out the aim thereof and the price changes in the underlying asset which can

be expected and, based on this, chooses the correct derivative instruments or combination of such instruments.

### 3. VARIOUS TYPES OF DERIVATIVE INSTRUMENTS

The main types of derivative instruments are options, futures and swap agreement.

An **option** is an agreement entailing one party (issuer of an option contract) undertaking to purchase or sell the underlying asset of or to the other party (holder of the contract) at a predetermined price (redemption price). The agreement can, depending on the type of option, either be exercised at any time during the term (American option) or only on the expiry date (European option). The holder pays a fee (premium) to the issuer and obtains the right to exercise the contract but is not obliged to do so. However, the issuer is obliged to fulfil the contract where so requested by the holder (redeem the option). The price of the option normally follows the price of the underlying asset. The risk for the person who acquires an option is, unless measures are undertaken to limit the risks, that the option will decrease in value or become worthless on the expiry date. In the latter case, the premium paid upon the purchase of the option is consumed in its entirety. The issuer of the option runs a risk which, in certain cases, unless measures are undertaken to limit the risks, may be unlimited in scope. The price of the options normally follows the price of the underlying share or indexes, but subject to greater volatility.

A **future** means that the parties enter into a mutually enforceable agreement regarding the purchase and sale of the underlying asset at a predetermined price and with delivery or other completion event, e.g. cash payment, of the agreement at an agreed time (the closing date). No premium is paid as the parties have corresponding obligations under the agreement.

A **swap** agreement means that the parties agree to make regular payments to each other, for example based on fixed or variable interest (interest swaps), or at a certain time swap some form of asset with each other, e.g. different types of currencies (currency swap).

Trading also takes place of certain call and put options with longer terms until expiration, which in Sweden are normally referred to as warrants. Warrants may be used in order to purchase or sell underlying shares or,

## INFORMATION REGARDING TRADING IN OPTIONS, FUTURES AND OTHER DERIVATIVE INSTRUMENTS

in other cases, provide a cash return where the price of the underlying shares performs well in relation to the warrants' redemption price. Subscription warrants for shares may, within a certain period, be used to subscribe for corresponding newly-issued shares.

A **leverage certificate**, which is often just called a certificate, is often a combination of e.g. a call and put option and is dependent on an underlying asset, for example a share, an index or a commodity. A certificate has no nominal amount. A leverage certificate should not be confused with e.g. a commercial paper, which is a type of debt instrument which can be issued by companies in conjunction with the company borrowing money on the capital market, which latter instrument often are referred to in Swedish as *certifikat*.

A significant characteristic of a leverage certificate is that relatively small changes in the price of the underlying assets can result in significant changes in the value of the investor's investment. These changes in value may be to the investor's advantage, but may also be to the investor's disadvantage. The investor should be particularly aware that the leverage certificate may fall in value and also completely lose its value resulting in all or parts of the invested amount being lost. The same reasoning may also apply to options and warrants.

The derivative instruments can be combined in a certain manner in order to create, e.g. a certain protection against changes in price in the underlying asset, or in order to obtain a certain economic result in relation to the expected changes in prices in the underlying asset.

It is important, in relation to trading in combined products, to acquire knowledge of the product's characteristics and how these interact. In certain cases the characteristics' interaction can mean a higher risk than each characteristic by itself. Further details regarding a certain product's various characteristics and the manner in which these interact can be obtained, *inter alia*, from the issuer or the securities institution.

### 4. CUSTOMARY CHARACTERISTICS OF DERIVATIVE INSTRUMENTS

Trading in derivative instruments can be described as trading in, or transferring, risks. For example, a person who fears a fall in prices on the market can purchase put options which increase in value if the market falls. In order to decrease or remove the risk of a fall in price, the buyer pays a premium, i.e. the price of the option.

Trading in derivatives can, in many cases, be said to be less appropriate for amateurs as such trading requires special expertise. Therefore, it is important to highlight the following customary characteristics of derivative instruments for those who intend to trade in such instruments. The construction of derivative instruments means that the changes in price in the underlying asset have effect on the price of the derivative instrument. This price effect is often stronger in relation to the invested amount (paid premium) than the change in value of the underlying asset. The price effect is therefore called the **leverage effect** and may result in a larger profit on the invested capital than where the investment had been made directly in the underlying asset. Conversely, the leverage effect may just as well result in a larger loss on the derivative instrument compared to the change in value of the underlying asset where the price of the underlying asset becomes different than expected. The leverage effect, i.e. the possible profit and the risk of loss, varies depending on the derivative instrument's construction and manner of use. Stringent

requirements are therefore imposed on the monitoring of prices of derivative instruments and the underlying asset. In their own interest, investors should be prepared to act quickly, often during the day, in case the investment in the derivative instrument performs in a negative way. It is also important to consider in the risk assessment that the ability to dispose of a holding can be more difficult where the price decreases.

The party who undertakes an obligation by issuing a standardised option or by entering into a standardised futures agreement is, from the beginning, obliged to provide collateral for its undertakings. In conjunction with the price of the underlying asset in time increasing or decreasing, and therefore the value of the derivative instrument increasing or decreasing, the requirements for collateral also changes. Further security in the form of additional collateral may therefore be required. Therefore, the leverage effect also affects the requirements for collateral which may change quickly and vigorously. In the event the client fails to provide sufficient collateral, the counterparty or the securities institution is normally entitled, without informing the client, to terminate the investment (close the position) in order to minimise the loss. Therefore, a client should diligently monitor changes in prices also in relation to the requirement for collateral in order to avoid an involuntary closing of the position.

The term of the derivative instrument may vary from a very short period up to several years. Changes in prices are often greater for instruments with short terms. The price of, e.g. a held option generally falls more quickly towards the end of the term due to the fact that the so-called time value decreases. Therefore, the client should also diligently monitor the term of the derivative instrument.

### 5. STANDARDISED AND NON-STANDARDISED/OTC DERIVATIVE INSTRUMENTS

Derivative instruments are traded in standardised and non-standardised form.

Trading in standardised derivative instruments takes place on regulated markets ("derivative exchanges") and is subject to standard contractual terms and conditions. On the Swedish derivatives market, e.g. NASDAQ OMX Stockholm AB and Nordic Growth Market NGM AB (NGM) offer standardised trading in and clearing (settlement of completed transactions) of, *inter alia*, options and futures. Standardised clearing of derivative instruments traded in manner other than through a derivative exchange also takes place at such derivative exchanges. Trading and clearing at a derivatives exchange takes place through a securities institution which trades therein.

Some securities institutions offer their own forms of derivative instruments for which they normally provide both the trading and transaction settlement according to specific agreements and terms and conditions which are provided by the institution. These derivative instruments, *inter alia*, are often termed as non-standardised/over the counter (OTC derivatives). A person who wants to trade in such over the counter derivative instruments should specifically acquaint himself with the specific contractual terms and conditions which apply.

Trading in foreign standardised derivative instruments is normally subject to the rules and terms and conditions of the country where the exchange trading and clearing is organised. It is important to note that these foreign

# MANGOLD™

FAST, MODERN & ACCESSIBLE

## INFORMATION REGARDING TRADING IN OPTIONS, FUTURES AND OTHER DERIVATE INSTRUMENTS

rules and terms and conditions do not need to correspond to those which apply to Swedish circumstances.

MANGOLD FONDKOMMISSION AB

STOCKHOLM | MALMÖ

POSTAL ADDRESS: BOX 55691, 102 15 STOCKHOLM | VISITING ADDRESS: ENGELBREKTSPLAN 2, 114 34 STOCKHOLM | HAMNGATAN 4, 211 22 MALMÖ

TELEPHONE: 08-503 01 550 | FAX: 08-503 01 551 | E-MAIL: [INFO@MANGOLD.SE](mailto:INFO@MANGOLD.SE) | WEBPAGE: [WWW.MANGOLD.SE](http://WWW.MANGOLD.SE)

ORGANISATIONALNUMBER: 556628-5408