ADM Investor Services International Limited

# Risk Disclosure Information about Financial Instruments

# Retail and Elective Professional Clients

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# Risk Disclosure – Information about Financial Instruments

## Introduction

In connection with the services provided by ADM Investor Services International Limited ('ADMISI'), we hereby provide you with additional information on products offered under our Terms of Business (‘Terms’).

The information included in this Risk Disclosure document cannot explain everything about the nature and risks of financial instruments. Rather, this document is intended to provide a general overview and description of the nature and risks of financial instruments in respect of which ADMISI may offer services to you, as well as the risks particular to these instruments.

In general you should not deal in these instruments unless you understand the nature of the contract you will be entering into and the extent of the exposure to risk. You should also be satisfied that the contract is suitable for you in the light of your circumstances and financial position. Additionally specific products may be tailored for a particular client or market and may differ in detail from the outline set out in this document. The terms of any particular contract will prevail over the product description and information given in this document.

Although financial instruments can be utilised for the management of investment risk, some of these products may be unsuitable for many investors. Different instruments involve different levels of exposure to risk and in deciding whether you want to invest in any particular financial instruments, you should bear in mind the points outlined in this document. Also relationships with different brokers may differ depending on the product and style of the transaction; further clearing houses may not owe you a direct commitment.

Market prices and values are dependent on movements in financial markets and the investment risk inherent in any market or product varies across countries and investments.

Market risk depends on factors that impact the overall performance of the financial market or markets involved.

Overseas markets will be subject to the risks related to those markets which may differ and additionally are likely to be subject to currency fluctuations.

Emerging markets in particular may be subject to extreme and sudden volatility. Further, they may suffer from lack of transparency and a shortage of liquidity. There may also be less regulatory oversight and you may be exposed to political risk.

Any foreign exchange transaction as well as transactions involving another currency will be affected by exchange rate movements and this creates additional risk related to the relevant exchange rate when you decide to close a transaction.

Interest rate risk is the risk that changes in interest rates adversely impact the value of debt securities.

Market volatility indicates the dispersion of return for a security or index, it is the amount of variation of trading prices over time. Volatile markets may also involve gaps in pricing and these can have a significant impact on the price at which an order can be executed.

Some investments may be very illiquid and therefore they may be difficult to sell within a reasonable time frame or price range and it extreme situations may not be readily realisable. It may also be difficult to obtain reliable independent information on value and risk related to such investments.

The tax treatment of an investment depends on the specific circumstances of each investor and the tax implications may change over the period of the investment. You may need to seek specific tax advice.

Leverage or Gearing is associated with derivative market transactions and arises due to the margining system, that is, you will be required to deposit a small percentage of the full value of the transaction. Therefore any movement in the market will have a greater effect on your capital than if you had purchased the underlying asset in full. Put another way, a small movement in the market will result in a great gain or loss on your investment. Further, in the case of adverse market movements you may lose more that the deposit that you provided initially; this will result in additional margin calls and can result in substantial losses, if you do not satisfy margin calls we may need to take action to close such positions and you will be liable for any losses.

Due to the nature of margined trades in certain circumstances your losses may be potentially unlimited, for example, if you open a selling or short position. You must ensure that you understand all the properties of a particular investment and that you are willing to accept the associated level of risk.

## Equity and Debt Securities

Buying equity securities, the most common form of which is shares, means that you will become a member of the issuer company and participate fully in its economic risk. In general, subject to the particular rights which attach to the equity securities, you will be entitled to receive any dividend distributed each year, if any, out of the issuer's profits made during the reference period.

On the other hand, buying debt instruments, such as bonds and certificates of deposit, means that you are, in effect, a lender to the company or entity that has issued the securities. In general, subject to the particular rights which attach to the debt instruments, you are entitled to receive specified periodic interest payments, as well as a repayment of the principal at maturity.

These types of securities are typically used by investors seeking longer term capital growth. The price volatility of equity markets can change quickly and cannot be assumed by looking at historic trends. In adverse market conditions irrecoverable capital losses can be incurred, indeed at worst the company itself can fail and if that happens your shareholding can be worthless. Other examples of typical company characteristics which could increase equity investment risks are

- A low market capitalisation
- A product set that is undiversified or reliance on a single market as a major source of income
- A significant level of fixed costs to pay, irrespective of output, production or turnover levels
- Major income sources which are seasonal or 'cyclical' in nature

- Companies that trade primarily in emerging markets particularly during poor market conditions or in countries where legal and property rights may be difficult to enforce.

Generally holdings in equity securities expose holders to more risk than debt securities since remuneration is tied more closely to the profitability of the issuer. In the event of insolvency of the issuer, your claims for recovery of your equity investment in the issuer will generally be subordinated to the claims of both preferred or secured creditors and ordinary unsecured creditors of the issuer. The risks involved in equity investments can often be managed through investment via diversified investment vehicles, or by investing directly in a wide range of difference companies, industries, countries and currencies.

There is an extra risk of losing money when shares are bought in smaller companies, the equity may trade in very small sums per share and will usually involve a proportionately large difference between the market buying and selling price of these shares and this may realise significant losses. Also even if they have to be sold immediately, you may get back much less than was paid for them. The price may change quickly and it may go down as well as up. Smaller companies may not be subject to the rules of a Listing Authority, they may also be high risk ventures with an unproven trading history or management team. These equities may be difficult to realise or value independently due to the lack of a secondary market.

The value of debt securities or bonds are often expected to be more stable than that of equity investments. Debt securities issued by major governments or supranational bodies tend to be lower risk investments, while the risk of other debt securities, such as those with emerging market or corporate issuers, can vary greatly. However in some circumstances, particularly when interest rate expectations change the value of debt securities can be volatile.

Holdings in debt securities generally expose holders to the risk of not being remunerated only if the issuer is in a state of financial distress. If an issuer is in financial difficulty, there is an increased risk that it will default on its repayment obligations. It may be difficult to recover capital. Moreover, in the event of insolvency of the issuer, holders of debt securities holders are likely to be able to participate with other creditors in the allotment of the proceeds from the sale of the company's assets in priority to holders of equity positions and any amounts repaid may take a significant amount of time to obtain.

Both holders of equity and debt securities will be exposed to the specific risks associated with individual securities held, and the financial soundness of the issuers, as well as the systemic risks of the equity and debt securities markets.

It may not always be apparent whether or not a particular security is purchased as an on exchange or off exchange transaction. ADMISI will endeavour to make it clear to you if you are entering into an off exchange transaction. While some off exchange markets are highly liquid, transactions in off exchange securities may involve greater risk than investing in on exchange securities because it may be difficult to liquidate an existing position to assess the value of the position or to assess the exposure to risk.

## Warrants

A warrant is a time-limited right to subscribe for shares, debentures, loan stock or government securities and is exercisable against the original issuer of the underlying securities. Warrants often involve a high degree of gearing, so that a relatively small movement in the price of the underlying security results in a disproportionately large movement, unfavourable or favourable, in the price of the warrant. The prices of warrants can therefore be volatile.

It is essential for anyone who is considering purchasing warrants to understand that the right to subscribe, which a warrant confers, is invariably limited in time with the consequence that if the investor fails to exercise this right within the pre-determined timescale then the investment becomes worthless.

If you exercise a warrant you may be required to pay additional amounts to the issuer, further, exercise of the warrant will give you the rights and risks of owning the underlying security.

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.

A warrant is a contract between the issuer and yourself, you could therefore be exposed to the risk that the issuer does not perform their obligations under the warrant.

Transactions in off-market warrants may involve greater risk than dealing in market traded warrants because there is no access to a market through which to liquidate your position or to assess the value of the warrant or the exposure to risk. Bid and offer prices need not be quoted, and even when they are, they will be established by dealers in these instruments and consequently it may be difficult to establish what is a fair price.

## Securitised Derivatives

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

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.

These instruments have a limited life and may (unless there is some form of guaranteed return of the amount you are investing in the product) expire worthless if the underlying instrument does not perform as expected. You should only buy this product if you are prepared to sustain a total loss of the money you have invested plus any commission or other transaction charges.

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 you should seek professional advice.

This category of investment covers a very broad range of financial instruments which can be used either for risk management or for achieving speculative exposure to specific economic risks. Derivative instruments, like futures or options, are those which can be derived from other forms of assets. The market can be divided into exchange traded and over the counter derivatives. Exchange traded derivatives typically offer more liquidity and transparency with a lower counterparty risk than over the counter derivatives which offer increased contract customisation, which may be at additional cost.

## Futures

Transactions in futures or forwards 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 at an agreed price. These transactions usually carry a high degree of risk which arises because an investor is exposed to the movement of a proportionately large amount of the underlying in return for a small up-front payment. This can either work in favour of or against an investor depending upon the difference between the current market price of the underlying and the initial agreed price of the contract.

A futures contract is a contract specifying that the seller can sell and the buyer can buy a, specified, underlying assets at a specified quantity, price and date in the futures. Futures contracts are typically used to hedge against a particular risk over a particular period of time and by speculators to profit from price movements in the underlying asset in the future. A wide range of exchange traded futures are available ranging from grains, to oils, soft commodities, metals and energy as well as indices and other financial products.

The risk of loss in trading futures contracts can be substantial. You should, therefore, carefully consider whether such trading is suitable for you in light of your circumstances and financial resources. Placing contingent orders, such as ‘stop loss’ or ‘stop limit’ orders, will not necessarily limit your losses to the intended amounts, since market conditions on the exchange where the order is placed may make it impossible to execute such orders.

Under certain market conditions, you may find it difficult or impossible to liquidate a position. This can occur, for example, when the market reaches a daily price fluctuation limit (‘limit move’).

The ‘gearing’ or ‘leverage’ often obtainable in futures trading means that a small deposit or down payment can lead to large losses as well as gains. It also means that a relatively small movement can lead to a proportionally 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. You may sustain a total loss of the funds that you deposit with your broker to establish or maintain a position in the futures market, and you may incur losses beyond these amounts. If the market moves against your position, you may be called upon by your broker to deposit a substantial amount of additional margin funds, on short notice, in order to maintain your position. If you do not provide the required funds within the time required by your broker, your position may be liquidated at a loss, and you will be liable for any resulting deficit in your account.

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

## Options

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

### Buying Options

Buying options involves less risk than selling options because, if the price of the underlying asset moves against 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 an asset and you later exercise the option, you will acquire the asset. This will expose you to the risks described under the relevant sections above and below, including 'contingent liability transactions' where the option is on a future. An option to buy is referred to a call option and an option to sell is referred to as a sell.

In the event that an investor buys an option on a futures contract and later exercises this option the investor will be exposed in the case of a call option to the risks of a long future and in the call of a put option to the risks of a short future.

### Selling Options

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

Selling options involves significantly greater risks than buying options. This is because the seller usually accepts a relatively small premium in return for the possible obligation to either buy or sell a much larger value amount of the underlying at exercise or expiry at the strike price as determined at the current time and by the time of exercise or expiry the price of the underlying may be significantly different.

Certain options markets operate on a margined basis, under which buyers do not pay the full premium on their options 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.

Options are derivatives that grant the buyer or holder the right but not the obligation to buy or sell an underlying asset at a pre-specified date and quantity. Exchange traded options are normally standardised as to contract size, strike prices, price or premium and expiry dates.

Using an example, excluding transaction costs, to show the effect of leverage in relation to options to purchase 100 shares of an equity trading at £50.00 would cost £5,000.00.

Purchasing a Call Option (being an option to buy the underlying) at a Strike Price of £50.00 gives you the right, but not the obligation, during the lifetime of the option, to purchase 100 shares at a Premium cost of, say, £5.00 as quoted per share. That is, a total cost (each contract being for 100 shares) of £500.00.
If we assume the underlying equity price after one month has moved to £40.00, the loss on the equity holding would be £1,000.00, 20%.
However the call option premium may decrease to, say, £2.00. The effect of leverage resulting in a loss of £300.00, 60%. The maximum loss for the buyer being the full premium amount paid.

Option pricing is a complex subject with its own specific terminology and you should ensure that you are familiar with and have an understanding of this and the factors that influence options markets. In particular before considering derivatives you should study the following aspects of derivatives

- The characteristics of the risks and the volatility of the underlying asset will directly impact the value of the derivative
- The market quote conventions including the contract or lot size may vary according to the option contract
- The leveraged exposure to price movements in the underlying significantly increases volatility of the derivative
- The sums that you could lost and consider the amount you could afford to lose
- How different derivative contracts that you hold may interact with each other
- The ongoing liabilities to post cash amounts as margin and the implications of a failure to do so
- The effect of the passage of time over the lifetime of the option
- Actions you may need to take and the timeframe in order to exercise the option for settlement at expiry or, if the possibility is available, before expiry
- Actions you may need to take to settle or close an open option position
- If you have sold an option monitoring your position and the actions that you will need to take in the event that you are assigned and on expiry
- Actions you need to be in a position to put into effect, often within a very short timeframe, in the event of exercise or assignment
- The persons that will be responsible for paying any sums owing to you during the contract and at expiry and the likelihood of payment

Derivatives can involve contingent liabilities. Contingent liability transactions which are margined may require investors to make a series of payments from time to time. In the case of exchange traded options and futures the Clearing House calls margin from market participants. These margins may or may not correspond with the margins that ADMISI will call you.
The buyer or taker of an option will normally be required to pay the option premium in full up front and this is the maximum loss.

The seller or writer of an option will be required to pay initial or risk margin, this is the deposit amount and reflects an assessment of the potential change in the price of the option contract based on the maximum probable movement in the underlying. In addition the seller may be required to

pay an amount of variation margin which is calculated daily with reference to the market value of the underlying as a the close of business.

## Contracts for Difference

Contracts for Difference or CFDs carry a high risk. The price of the CFD is determined by the price of the underlying instrument such as shares, an index, a commodity or bond. While there are certain similarities to futures or forward there are also important differences, in particular CFDs normally involve a contract with the CFD provider, that is, they will not be undertaken on a recognised or designated investment exchange, and may accordingly, expose you to greater risks than exchange transactions. The CFD structure and transaction rules will be established by the CFD provider, notwithstanding for UK based provider these will be always in accordance with FCA rules. You will only be able to close a CFD transaction through the CFD provider and the price may be less favourable than the price in the underlying market.

In addition to CFD contracts being subject to initial and variation margin calls, daily financing fees will also apply. CFD trade will also attract commission charges on each transaction.

Your profit or loss is essentially the difference between the price that you open a trade and the price at which you close the trade.

As an example XYZ plc is currently trading at 1500p. Ignoring transaction costs, assume you purchase 1,000 CFD units in the expectation that the price of XYZ will rise and assume the margin is 5%. Then the margin amount will be £750.00 ((1,000 x 1500) x 5%).
Assuming you are correct, the price rises to 1525p and you decide to close then you will have made a profit of 25 points, and this on 1,000 units is £250.00
However now assume that the price falls quickly to 1419 and you feel it may continue to fall you therefore decide to close at 1429. This is a loss 71 points on 1,000 being a loss of £710.00, almost all your margin deposit.

CFDs are leverage products, this means that you can lose more than your margin deposit and you may be required to make further payments as noted in relation to other products. There is therefore a high degree of risk to your capital. Before considering trading in CFD you must ensure that you understand the risks and differences to other products, if you are in any doubt you should seek independent professional advice before you start entering into any transactions.

## Exchange Traded Funds

Exchange traded funds or ETFs are complex financial instruments that are typically a type of investment fund that is traded on a stock exchange. ETFs are typically a marketable security that tracks and index, a commodity, bonds or other underlying. ETFs experience price changes intra-day as the product is bought and sold. A potential investor in an ETF should ensure that they are aware of the actual investment vehicle structure and the relevant jurisdiction as well as how the ETF is designed to perform, how these objectives are achieved and the impact of market volatility.

## Commodity Linked Products

Commodity based investments may be impacted by a variety of political, economic, environmental and seasonal factors relating to issues that impact either upon demand or on the available supply of the commodity in question.

Investment in commodities is often achieved either via a structured product over a commodities index or basket of different commodities accompanied by specific risk disclosures to which you should refer for further information.

## Foreign Markets

Foreign markets will involve different risks from the UK markets. In some cases the risks will be greater. On request, ADMISI will provide an explanation of the relevant risks and protections (if any) which will operate in any foreign markets, including the extent to which it will accept liability for any default of a foreign firm through whom it deals. The potential for profit and loss from transactions on foreign markets or in foreign denominated contracts will be affected by fluctuations in foreign exchange rates. Such transactions may also be affected by exchange controls that could prevent or delay performance.

## Contingent Liability Transactions

Contingent liability transactions, which are margined, require you to make a series of payments against the purchase price, instead of paying the whole purchase price immediately.

If you trade futures or sell options you may sustain a total loss of the margin you deposit to establish and 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.

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 into the contract.

## General Information

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

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

ADMISI may not deal directly in the relevant market but may act through one or more brokers or intermediaries. In such cases, your positions may be affected by the performance of those third parties in addition to the performance of ADMISI. Also, settlement of such transactions may not be effected via the market itself but may be effected on the books of ADMISI or of a broker or intermediary if such transactions can be crossed with equal and opposite orders of another participant transacting through the same firm, broker or intermediary. Your rights in such circumstances differ from those you would enjoy if your transaction was effected in the market.

The price and liquidity of any investment depends upon the availability and value of the underlying asset, which can be affected by a number of extrinsic factors including, but not limited to, political, environmental and technical factors. Such factors can also affect the ability to settle or perform on time or at all.

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

Where you are unable to transfer a particular instrument which you hold, to exit your commitment under that instrument, you may have to offset your position by either buying back a short position or selling a long position. Such an offsetting transaction may have to be over the counter and the terms of such a contract may not match entirely those of the initial instrument. For example, the price of such a contract may be more or less than you received or paid for the sale or purchase of the initial instrument.

## 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 market trading is suspended or restricted or if the systems of the relevant market cannot function for any reason.

Placing a stop-loss order will not necessarily limit your losses to the intended amounts, because market conditions may make it impossible to execute such an order at the stipulated price.

## Clearing House Protections

On many markets, the performance of a transaction by ADMISI (or third party with whom ADMISI is dealing on your behalf) is 'guaranteed' by the market or clearing house. However, this guarantee is unlikely in most circumstances to cover you, the client, and may not protect you if we or another party defaults on its obligations to you. Not all markets operate in the same way and you should familiarise yourself with the operations of the relevant markets.

## Insolvency

ADMISI's insolvency or default, or that of any other brokers or clearing services providers involved in your transactions, may lead to positions being liquidated or closed out without your consent. In certain circumstances, you may not get back the actual assets that you lodged as collateral and you may have to accept any available payments in cash.