Information to clients concerning the properties and special risks relating to trading in options, forward/future contracts and other derivative instruments

The client must fully understand:

- that all trading takes place at his/her own risk
- the need to carefully study the conditions which apply to trading in derivative instruments
- that the conditions for trading in derivative instruments often change and must be constantly monitored
- the need to immediately check contract notes and complain about any errors
- the need to regularly monitor changes in the value of his/her investments and positions in the financial instruments
- that he/she must him/herself carry out the acts necessary to avoid the risk of loss on his/her own investments, for example by providing additional security or terminating his/her investments in derivatives contracts.

1. In general regarding the risks involved in trading in derivative instruments

Trading in derivative instruments is associated with certain risks which will be described in greater detail here. The client is responsible for the risks and must become conversant with the conditions, in the form of general business terms and conditions, prospectuses and suchlike which apply to trading in such instruments and with the instruments' characteristics, as well as the special risk that is linked to these instruments. The client must also constantly monitor his/her investments (positions) in such instruments. Information to assist in monitoring can be obtained from price lists published by the media and from the client's investment firm.

Some derivative trades may entail the client having to provide separate security (*margin requirement*), for example in the case of the sale of options without owning underlying shares or corresponding options, and the purchase and sale of forward/futures contracts and swap agreements. However, the margin requirement will vary depending on such things as the underlying security, type of instrument and the instrument's term to maturity and volatility. The margin requirement may also vary considerably from day to day. The client should, in his/her own interests, be prepared to take swift action should this prove necessary, for example by providing further security (to meet any margin requirement) or by terminating his/her investments in derivative contracts (closing out his/her positions) through the purchase or sale of (offsetting) contracts if this proves necessary.

For further information on trading in financial instruments, refer to "Information to clients regarding the characteristics of, and risk associated with trading in financial instruments (shares, share-related instruments, bonds and mutual funds)".

2. Use of derivative instruments

A derivative instrument is a form of agreement (contract) where the agreement itself is traded on the financial instruments market. The derivative instrument is linked to an underlying asset or an underlying value. This asset or value (described below simply as an asset) can be comprised of another financial instrument, another asset with a financial value (for example, a currency or commodity), or some form of value indicator (such as an index). Derivative instruments can be used to create a hedge against an anticipated unfavourable price development in the underlying asset. They can also be used to achieve a profit or yield with a smaller capital investment than would be required in order to trade directly in the underlying asset. Derivative instruments can also be used for other purposes. The use of derivative instruments is based on a certain expectation as to how the price of the underlying asset will develop

over a certain period of time. Before starting to trade in derivative instruments, it is therefore important that the client is clear in his/her own mind as to the intended purpose and the price developments in the underlying asset that can be expected and, on that basis, chooses the right derivative instrument or combination of such instruments.

3. Various types of derivative instruments

The principal types of derivative instruments are options, forward/futures contracts and swap agreements.

For information on Exchange Traded Products (ETP), refer to chapter 7 in the document on "Information to clients regarding the characteristics of, and risk associated with trading in financial instruments (shares, share-related instruments, bonds and mutual funds)".

3.1 Options

An ***option*** is a contract which involves one party (the issuer (writer) of the option contract) undertaking to buy or sell the underlying asset to the other party (the holder of the contract) at a predetermined price (the exercise price). The date when the holder can exercise the right may depend on the type of option in question. An ***American option*** may be exercised at any time during the maturity period while a ***European option*** may only be exercised on the expiry date. The holder pays a premium to the writer and is then entitled to exercise the rights stated in the contract but has no obligation to do so. The writer, however, is obliged to fulfil the contract if the holder so wishes. The price of the option normally follows the price of the underlying asset. The risk run by the party buying an option is that it will be reduced in value or be worthless by the expiry date. The writer of an option runs a risk which, unless special precautions are taken, may be unlimited.

3.1.1 Call options

The ***buyer*** of a call (purchase) option obtains a ***right*** to buy an underlying asset at a future date at a predetermined price. The buyer of a call option pays an option premium and costs related to selling and administering the option contract.

The maximum amount the holder of a call option can lose is limited to the option premium and the costs paid. The maximum loss arises when the price of the underlying financial instrument remains lower than or equal to the exercise (strike) price.

The potential for gain is in theory unlimited. The gain is the value of the underlying financial instruments on the exercise date minus the strike price and option premium including costs.

The ***writer/seller*** of a call option incurs a ***duty*** to sell (if the option holder so requires and buys) the underlying assets at a future date at a predetermined price. The seller of a call option receives an option premium minus costs relating to selling and administering the option contract.

The potential for gain on the issuance of a call option is limited to the net option premium. If the strike price remains higher than or equal to the market price of the underlying financial instrument, the writer is allowed to keep the option premium without the holder normally demanding to be allowed to buy the securities.

If the writer has hedged his/her interests by owning the underlying financial instruments, the writer does not incur a loss if the price rises but misses out on the increase in value in excess of the option premium. In the case of a fall in price, the writer incurs a loss if the price of the underlying security falls below the cost price of the security minus the option premium received.
If the writer has not hedged his/her interests by owning the underlying financial instruments, he/she has an unlimited loss potential if the price rises. If the holder demands to exercise the option, the

writer must buy the financial instruments in the market at the market price. The loss is calculated as the market value of the underlying financial instruments minus the strike price and option premium.

3.1.2 Put options
The ***buyer*** of a put (sell) option obtains a ***right*** to sell underlying assets at a future date at a predetermined price. The buyer of a put option pays an option premium as well as costs related to selling and administering the option contract.

The maximum amount that the holder of a put option can lose is limited to the option premium and the costs paid. The maximum loss arises when the price of the underlying financial instrument remains higher than or equal to the strike price.

The potential for gain is limited to the strike price minus the option premium including costs. The gain is the strike price minus the value of the underlying financial instrument on the exercise date and the option premium including costs.

The ***writer/seller*** of a put option incurs a ***duty*** to buy (if the holder demands to sell) the underlying asset at a future date at a predetermined price. The seller of a put option receives an option premium minus costs related to selling and administering the option contract.

The potential for gain on the issuance of a put option is limited to the net option premium. If the strike price remains lower than or equal to the price of the underlying financial instrument, the writer is allowed to keep the option premium without the holder normally demanding to be allowed to sell the securities.

In the case of a fall in price, a loss arises when the value of the underlying financial instruments is lower than the strike price minus the net option premium. The loss is limited to the strike price minus the net option premium.

3.2 Forward/futures contracts
A ***forward/futures contract*** means that the parties enter into a mutually binding contract to purchase/sell the underlying asset at a predetermined price, with delivery or other performance of the contract on a further agreed date.

No premiums are paid for forward/futures contracts but the agreed forward/futures price will normally be stipulated to be the spot price (the current market price) of the underlying financial instrument plus interest costs until the forward/futures settlement date. In addition, the costs of trading and administering the forward/futures contract must be paid.

Under a forward/futures contract, the ***buyer*** has assumed the entire price risk relating to the underlying financial instrument. If the price falls, a loss arises which is equal to the difference between the value of the underlying financial instrument and the forward/futures price. If the price rises, a corresponding gain arises, equal to the difference between the value of the underlying financial instrument and the forward/futures price. In addition, the buyer runs a credit risk related to the seller delivering the agreed financial instruments on the settlement date.

A ***seller that owns*** the underlying financial instruments bears no risk relating to developments in the price of the underlying financial instrument, he/she only runs a credit risk related to the buyer being able to settle the agreed amount on the settlement date.
If the ***seller does not own*** the underlying financial instruments, he/she has in principle an unlimited potential for loss if the price rises. The loss is calculated as the value of the underlying financial instruments minus the agreed forward/futures price. Correspondingly, in the case of a fall in price,

the seller has a potential for gain which is ca
the underlying financial instruments. The se
able to settle the agreed amount on the settl

3.3 Swap agreements

A ***swap agreement*** means that the parties a
for example calculated at a fixed or floating
asset with each other, for example different
time.

4. Characteristic properties of derivative inst

Trading in derivative instruments can be desc
party that expects prices to fall in the marke
market falls. In order to reduce or avoid the
ie, what the option costs. Trading in derivati
limited experience of trading in financial in
knowledge. It is important that those inten
following characteristic properties of these in

The structure of derivative instruments is suc
reflected in the price of the derivative instru
the amount invested than the change in th
therefore referred to as a leverage/gearing
capital than if the investment had been mad
leverage effect may result in a greater loss
value of the underlying asset if the price of th
The leverage effect, i.e. the possibility of mak
the derivative instrument's structure and sc
and underlying asset is therefore of the
interests, be prepared to act swiftly, often
developing in an unfavourable direction.

A party that assumes an obligation by writing
to provide collateral for his/her position from
upward or downward movements in the pr
derivative instrument increasing or decrea
collateral may therefore be required. Thus,
requirement, which can change quickly and
the clearing organisation or investment firr
position), without the client's permission,
carefully monitor price developments and c
closing out of their positions.

The maturity period for derivative instrume
years. The relative price changes are often g
period. The price of a held option, for exam
the end of the maturity period due to the fa
carefully monitor the maturity periods of the

5. Standardised and non-standardised deriva

Derivative instruments are traded in standarc