



Risk Disclosure Notice

This notice is provided to you in compliance with the rules of the Financial Services Authority (FSA).

If you are a private customer you are afforded greater protections than other customers, and you should ensure that your dealer tells you what these are. This notice does not disclose all of the risks and other significant aspects of derivative products such as futures, options and contracts for differences. You should not deal in derivatives unless you understand the nature of the contract you are entering into and the extent of your exposure to risk. You should also be satisfied that the contract 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.

Whilst derivative instruments can be utilised for the management of investment risk, some investments are unsuitable for many investors. Different instruments involve different levels of exposure to risk, and in deciding whether to trade in such instruments you should be aware of the following points.

Futures

(1) 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 your position with cash. They carry a high degree of risk. 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 market 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 may have to be margined, and you should be aware of the implications of this, which are set out in paragraph (6) below.

Options

(2) There are many different types of options with different characteristics subject to different 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 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 "margined transactions".

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 and a loss may be sustained well in excess of any 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 (known as "covered call options") the risk is reduced. If you do not own the underlying asset (known as "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.

Contracts for differences

(3) Futures and options contracts can also be referred to as contracts for differences. These can be options and futures on the FTSE-100 index or any other index or share, 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 risk as investing in a future or an option and you should be aware of these as set out in paragraphs (1) and (2) respectively. Transactions in contracts for differences may also have a contingent liability and you should be aware of the implications of this as set out in paragraph (6) below.

Off-exchange transactions

(4) It may not always be apparent whether or not a particular derivative is effected on exchange or is an off-exchange derivative transaction. Your dealer must make it clear to you if you are entering into an off-exchange derivative transaction.

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 not be possible 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.

The potential for profit or loss from transactions in foreign currency denominated contracts will be affected by fluctuations in foreign exchange rates.

Foreign markets

(5) Foreign markets will involve different risks from 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 will be affected by fluctuations in foreign exchange rates.

Contingent liability transactions

(6) 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 in futures, contracts for differences or sell options you may sustain a total loss of the margin you deposit with your dealer 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 liable for any 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. Contingent liability transactions which are not traded on or under the rules of a recognised or designated investment exchange may expose you to substantially greater risks.

Collateral

(7) If you deposit collateral as security with your dealer, you should ascertain from your dealer how your collateral will be dealt with. 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.

Commissions

(8) Before you begin to trade, you should obtain details of all commissions and other charges for which you will be liable. If any charges are not expressed in money terms (but, for example, as a dealing spread), you should obtain a clear written explanation, including appropriate examples, to establish what such charges are likely to mean in specific money terms. In the case of futures, when commission is charged as a percentage, it will normally be as a percentage of the total contract value, and not simply as a percentage of your initial payment.

Suspensions of trading

(9) 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 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.

Clearing house protections

(10) On many exchanges, the performance of a transaction by your broker (or the third party with whom he is dealing on your behalf) is "guaranteed" by the exchange or its clearing house. However, this guarantee is unlikely in most circumstances to cover you, the customer, and may not protect you if your broker or other party defaults on its obligations to you. On request, your broker must explain any protection provided to you under the clearing guarantee applicable to any on-exchange derivatives in which you are dealing. There is no clearing house for traditional options, nor normally for off-exchange instruments which are not traded under the rules of a recognised or designated investment exchange.

Insolvency

(11) Your dealer's insolvency or default 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 payment in cash.

July 2005



CFD Trader
Friars House
157-168 Blackfriars Road
London SE1 8EZ
Helpdesk: 0800 409 6789
Switchboard: 020 7896 0011
Fax: 020 7896 0010
Email: isd@marketdatasystems.com