London South East Trading

Covered Warrants and Other Complex Instruments Risk Warning Notice

Covered Warrants and other complex instruments are derivative products for which special risks apply. We are required to make sure you understand how dealing in these types of investment differs from trading ‘non-complex’ investments such as most shares and unit trusts. We are therefore required to carry out an Appropriateness Assessment which requires you to provide information regarding your knowledge and experience in these products. Based on the answers you provide, if we believe the investment would not be appropriate for you, we will inform you and will not undertake the transaction.

The Process

1. Read, and understand this risk warning notice.
2. Complete the Appropriateness Assessment.

This notice is provided to you as a Retail Client, in compliance with the rules of the Financial Services Authority. Retail Clients are afforded greater protections under these rules than other customers. Please note that this notice cannot disclose all the risks and other significant aspects of complex investments. You should not deal in these products unless you understand the nature and extent of your exposure to them. You need to be satisfied that the product is suitable for you having considered your circumstances and financial position. Although these products can be used for the management of investment risk, some of these products are unsuitable for many investors.

1. Warrants

A warrant is a time-limited right to subscribe for shares, debentures, and loan stock or government securities and is exercisable against the original issuer of the underlying securities. 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 predetermined time-scale then the investment becomes worthless. 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.

2. Off-exchange warrant transactions

Transactions in off-exchange warrants may involve greater risk than dealing in exchange traded warrants because there is no exchange 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 where they are, they will be established by dealers in these instruments and consequently it may be difficult to establish what a fair price is. Your firm must make it clear to you if you are entering into an off-exchange transaction and advise you of any risks involved.

3. Securitised derivatives

These instruments may give you a time-limited right or an absolute 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 to 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 or substantial 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 please seek professional advice.

4. Contracts for differences
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, 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 risks as investing in a future or an option and you should be aware of these as set out in paragraphs 4 and 5 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 9.

5. Off-exchange transactions in derivatives
It may not always be apparent whether or not a particular derivative is arranged on exchange or in an off- exchange derivative transaction. Your firm 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 be impossible 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 prices 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 a fair price is.

6. Foreign markets
Foreign markets will involve different risks from the UK markets. In some cases the risks will be greater. On request, your firm must 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 or loss from transactions on foreign markets or in foreign denominated

7. Contingent liability investment transactions
Contingent liability investment 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 firm 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 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 the contract. Save as specifically provided by the FSA, your firm may only carry out margined or contingent liability transactions with or for you if they are traded on or under the rules of a recognised or designated investment exchange. Contingent liability investment transactions which are not so traded may expose you to substantially greater risks.

8. Limited liability transactions
Before entering into a limited liability transaction, you should obtain from your firm or the firm with whom you are dealing a formal written statement confirming that the extent of your loss liability on each transaction will be limited to an amount agreed by you before you enter into the transaction. The amount you can lose in limited liability transactions will be less than in other margined transactions, which have no predetermined loss limit. Nevertheless, even though the extent of loss will be subject to the agreed limit, you may sustain the loss in a relatively short time. Your loss may be limited, but the risk of sustaining a total loss to the amount agreed is substantial.

9. Collateral
If you deposit collateral as security with your firm, the way in which it will be treated will vary according to the type of transaction and where it is traded. There could be significant differences in the treatment of your collateral depending on whether you are trading on a recognised or designated investment exchange, with the rules of that exchange (and the associated clearing house) applying, or trading off-exchange.

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. You should ascertain from your firm how your collateral will be dealt with.

10. Commissions
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 percentage of contract value), you should obtain a clear and 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.

11. 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 exchange 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.

12. Clearing house protections
On many exchanges, the performance of a transaction by your firm (or third party with whom he is dealing on your behalf) is guaranteed by the exchange or clearing house. However, this guarantee is unlikely in most circumstances to cover you, the customer, and may not protect you if your firm or another party defaults on its obligations to you. On request, your firm 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.

13. Insolvency
Your firm's insolvency or default, or that of any other brokers involved with your transaction, 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 payments in cash. On request, your firm must provide an explanation of the extent to which it will accept liability for any insolvency of, or default by, other firms involved with your transactions.

Complex Instrument Appropriateness Assessment Form

Please complete the form in BLOCK CAPITALS and return to :
Jarvis Investment Management, 78 Mount Ephraim, Tunbridge Wells, Kent TN4 8BS

Investor 1

Title		Surname	
Forename(s)			
Email			
Occupation			
Daytime Telephone number			

Investor 2 (if the account is in joint names)

Title		Surname	
Forename(s)			
Email			
Occupation			
Daytime Telephone number			

Section 1: Your Details

Your London South East Trading Sharedealing Account Number ☐☐☐☐☐☐☐

Section 2: Trading Experience

Which of the following have you traded in the past 12 months?

	Please Tick	Average No of Trades (monthly)	Average Amount Invested Size (£'s)
Warrants			
Securitised Derivatives			
Convertible Bonds			
Exchange Traded Commodities (ETCs)			
Nil Paid Rights			
Structured Products			

Section 3: Assessment - please tick one answer per question

What is your attitude to risk?
☐ Cautious ☐ Moderate ☐ Adventurous

How long have you been dealing on the Stock Market ?
☐ Up to 1 year ☐ 1 – 3 years ☐ 3 – 5 years
☐ 5 – 10 years ☐ 10 – 15 years ☐ Over 15 years

Would you be prepared to lose most or all of your investment?
☐ Yes ☐ No

Are you fully aware of the risks of investing in securitised warrants & derivatives?
☐ Yes ☐ No

What is your average total dealing activity per year?
☐ Up to 5 deals ☐ 5 – 15 deals ☐ 15 - 25
☐ 25 – 50 ☐ Over 50

Do you believe your education and/or profession are relevant in understanding the risks involved?

☐ Yes ☐ No

What is the approximate value of your overall investment portfolio?

☐ Up to £5,000 ☐ £5,000 - £10,000
☐ £10,000 - £25,000 ☐ £25,000 – 50,000 ☐ £50,000+

In percentage terms, what level of your overall portfolio will this investment represent?

☐ Up to 1% ☐ 1% - 3% ☐ 3% - 5%
☐ 5% - 10% ☐ 10% - 20% ☐ 20%+

Do you consider yourself financially able to take on the risk that you may lose your initial capital?

☐ Yes ☐ No

Section 4: Declaration

I / we have read and understood the 'Covered Warrants and Other Complex Instruments Risk Warning Notice,' and have answered the questions to the best of my knowledge.

Name ______________ **Name** ______________

Signature ______________ **Signature** ______________

If your account is in joint names, please ensure that this form is signed by both parties

Date ______________