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Product descriptions & risk warnings

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This information relates to our markets business. For further information visit www.ubs.com/ibterms

Product descriptions & risk warnings

These notices are supplementary to our terms of business which you may receive from us from time to time (the **Terms**). They may be amended or supplemented by additional risk disclosures from time to time and are intended for Professional Clients only. Defined terms used in this document shall have the same meaning as in the Terms unless the contrary intention appears.

These notices contain information about Designated Investments (as defined by the rules of the UK Financial Services Authority), including guidance on and warnings of the risks associated with those Designated Investments. They are provided to assist you in understanding the nature and risks of the service and of the specific type of Designated Investment being offered and, consequently, to be in a position to take investment decisions on an informed basis.

Nevertheless, these notices cannot disclose all the risks and other significant aspects of Designated Investments. You should not deal in products unless you understand their nature and the extent of your exposure to risk and potential loss. Except where UBS has expressly agreed to provide you with a Personal Recommendation, either upon your request or at our initiative, in respect of one or more transactions relating to financial instruments, you should also be satisfied that the Designated Investment is appropriate and suitable for you in the light of your circumstances and financial position. As a Professional Client, you are deemed by us under Applicable Rules to have the necessary knowledge and experience to understand the risks involved in any services provided to, or activities or transactions entered into with, you. All such services, activities and transactions will, therefore, be deemed appropriate for you.

Although Designated Investments can be utilised for the management of investment risk, you should have regard for your own particular experience, objectives, financial circumstances and other relevant factors in entering into a Designated Investment. Some of these products are unsuitable for many investors.

Different instruments involve different levels of exposure to risk. In deciding whether to trade in such Designated Investments, you should be aware of the following points.

1 **Shares**

(a) A share is an instrument representing a shareholder's rights in a company. Shares may be issued in bearer or registered form and be certificated or non-certificated. One share represents a fraction of a company's share capital. Dividend payments and an increase in the value of the security are both possible, although not guaranteed. The shareholder has financial and ownership rights which are determined by law and the issuing company's articles of association. Unless otherwise provided, transfers of bearer shares do not entail any formalities. However, transfers of registered shares are often subject to limitations.

(b) Dealing in shares may involve risks including but not limited to the following:

(i) **Company risk**: a share purchaser does not lend funds to the company but becomes a co-owner of the company. He or she thus participates in its development as well as in chances for profits and losses, which makes it difficult to forecast the precise yield on such an investment. An extreme case would be the company's bankruptcy resulting in the likely total loss of sums invested.

(ii) **Price risk**: share prices may undergo unforeseeable price fluctuations over time causing risks of loss. Price increases and decreases in the short-, medium- and long-term alternate without it being possible to determine the duration of those cycles. General market risk must be distinguished from the specific risk attached to the company itself. Both risks, jointly or in aggregate, influence share prices.

(iii) **Dividend risk**: the dividend per share mainly depends on the issuing company's earnings and on its dividend policy. In case of low profits or losses, dividend payments may be reduced or not made at all.

2 **Bonds**

(a) Bonds are negotiable debt instruments issued in bearer or registered form by a company or a government body to creditors and whose par value at issuance represents a fraction of the total amount of the debt. The maturity date of the debt as well as the terms and conditions of repayment are determined in advance. Unless otherwise stipulated, the bond is repaid either at the maturity date or by means of annual payments, or at different rates determined by drawing lots. The interest payments on bonds may be either (i) fixed for the entire duration; or (ii) variable and often linked to reference rates (e.g. LIBOR). The purchaser of a bond (the creditor) has a claim against the issuer (the debtor).

(b) Dealing in bonds may involve risks including but not limited to the following:

(i) **Insolvency risk**: the issuer may become temporarily or permanently insolvent, resulting in its inability to repay the interest or redeem the bond. The solvency of an issuer may change due to one or more of a range of factors including the financial prospects of the issuing company, the issuer's economic sector and/or the political and economic status of the countries where it and/or its business are located. The deterioration of the issuer's solvency will influence the price of the securities that it issues.

(ii) **Interest rate risk**: uncertainty concerning interest rate movements means that purchasers of fixed-rate securities carry the risk of a fall in the prices of the securities if interest rates rise. The longer the maturity of the bond and the lower the interest rate, the higher a bond's sensitivity to a rise in the market rates.

(iii) **Credit risk**: the value of a bond will fall in the event of a default or reduced credit rating of the issuer. Generally, the higher the relative rate of interest (that is, relative to the interest rate on a risk-free security of similar maturity and interest rate structure), the higher the perceived credit risk of the issuer.

(iv) **Early redemption risk**: the issuer of a bond may include a provision allowing early redemption of the bond if market interest rates fall. Such early redemption may result in a change to the expected yield.

(v) **Risks specific to bonds redeemable by drawing**: bonds redeemable by drawing have a maturity that is difficult to determine, so unexpected changes in the yield on these bonds may occur.

(vi) **Risks specific to certain types of bond**: additional risks may be associated with certain types of bond, for example floating rate notes, reverse floating rate notes, zero coupon bonds, foreign currency bonds, convertible bonds, reverse convertible notes, indexed bonds, subordinated bonds, collateralised bond obligations and asset backed securities. For such bonds, you are advised

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to make enquiries about the risks referred to in the issuance prospectus and not to purchase such securities before being certain that all risks are fully understood. In the case of sub-ordinated bonds, you are advised to enquire about the ranking of the debenture compared to the issuer's other debentures. If the issuer becomes bankrupt, those bonds will only be redeemed after repayment of all higher ranked creditors and as such there is a risk that you will not be reimbursed. In the case of reverse convertible notes, there is a risk that you will not be entirely reimbursed, but will receive only an amount equivalent to the underlying securities at maturity.

3 Warrants

(a) 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.

(b) Warrants often involve a high degree of gearing so that a relatively small movement in the price of the underlying securities results in a disproportionately large movement, unfavourable or favourable, in the price of the warrant. The prices of warrants can therefore be volatile.

(c) 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 timescale then the investment becomes worthless.

(d) 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.

(e) Some other instruments are also called warrants but are actually options (for example, a right to acquire securities which is exercisable against someone other than the original issuer of the securities, often called a **covered warrant**). See below for further details.

4 Off-exchange warrant transactions

(a) An off-exchange warrant transaction involves the trading of warrants that are not listed on any exchange. These **over-the-counter** transactions may occur electronically or over the telephone. 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 the position, 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 a fair price.

5 Derivatives

(a) Derivatives are financial instruments whose characteristics and value depend upon the characteristics and value of an underlying asset (typically a commodity, bond, equity, currency) or index (e.g. interest rate or foreign currency). There are many different types of derivatives, such as futures and options, which are considered below. The objective of investors in derivatives varies and can sometimes be used to manage the risk associated with the underlying security, to protect against fluctuations in value or, to profit from periods of inactivity or decline.

(b) 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.

(c) These instruments have a limited life, and may (unless there is some form of guaranteed return to the amount that you are investing in the product) expire worthless if the underlying instrument does not perform as expected.

(d) These instruments can be complicated and risky. You should only buy these products if you are prepared to sustain a total or substantial loss of the money that you have invested plus any commission or other transaction charges.

(e) You should consider carefully whether or not these products are suitable for you in light of your circumstances and financial position and, if in any doubt, please seek professional advice.

6 Futures

(a) Futures transactions 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. 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 movement in the price of the underlying asset 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 have a contingent liability, and you should be aware of the implications of this, in particular the margining requirements, which are set out below.

7 Options

(a) An option is a financial derivative which represents a contract sold by one party (the one writing the option) to another (the one buying the option). The option buyer has the right, but not the obligation, to buy or sell a security or other financial asset at an agreed-upon price during a certain period of time or on a specific date.

(b) You should inform yourself of exercise and expiration procedures and your rights and obligations upon exercise or expiry.

(c) You should ask us about the terms and conditions of specific options which you are trading and associated obligations (e.g. expiration dates and restrictions on the time for exercise). Under certain circumstances the specifications of outstanding contracts (including the exercise price of an option) may be modified by the exchange or clearing house to reflect changes in the underlying interest.

(d) There are many different types of options with different characteristics and risks subject to the following conditions:

   (i) **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 **contingent liability investment transactions**.

   (ii) **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 (see below) 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**

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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.

(iii) Traditional options

(A) Certain London Stock Exchange member firms under special exchange rules write a particular type of option called a **traditional option**. These may involve greater risk than other options. Two-way prices are not usually quoted and there is no exchange market on which to close out an open position or to effect an equal and opposite transaction to reverse an open position. It may be difficult to assess its value or for the seller of such an option to manage his exposure to risk.

(B) Certain options markets operate on a margined basis (see below) under which buyers do not pay the full premium on their option 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.

8 Contracts for differences

(a) Certain futures and options contracts can also be referred as **contracts for differences**. These can be options and futures on the FTSE 100 index or 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 risks similar to investing in futures and options and you should be aware of these as set out in the paragraphs above. Transactions in contracts for differences also contain contingent liability and you should be aware of the implications of this (see below).

9 Off-exchange transactions

(a) 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. See also above for further information on off-exchange warrant transactions.

10 Foreign markets & foreign denominated securities

(a) Transactions on foreign markets, which include the financial markets of developing countries (**Emerging Markets**), will involve different risks from transactions on the 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 and securities will be affected by fluctuations in foreign exchange rates.

(b) Investments in Emerging Markets may be exposed to additional risks, including accelerated inflation, exchange rate fluctuations, adverse repatriation laws and fiscal measures, and macroeconomic and political distress.

11 Currency risks

(a) The profit or loss in transactions in foreign currency-denominated contracts (whether they are traded in your own or another jurisdiction) will be affected by fluctuations in currency rates where there is a need to convert from the currency denomination of the contract to another currency.

12 Contingent liability investment transactions

(a) A contingent liability transaction is a transaction under the terms of which you will or may be liable to make further payments (other than charges) when the transaction falls to be completed or upon the earlier closing out of your position. These payments may or may not be secured by an amount in money (or represented by securities) deposited with a counterparty or a broker as a provision against loss on transactions made on account (a **Margin**).

(b) Contingent liability investment transactions for which a Margin is deposited (in other words which are **Margined**) require you to make a series of payments against the contract price, instead of paying the whole contract price immediately.

(c) If you trade in futures, contracts for differences or sell options, you may sustain a total loss of the Margin you deposit with UBS 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 into the contract.

13 Limited liability transactions

(a) UBS's understanding is that a limited liability transaction means a transaction where you and UBS agree to limit the amount of loss liability that you can sustain in advance of such a transaction being entered into. Before entering into a limited liability transaction you should understand obtain from UBS 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.

(b) 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 may still be substantial.

14 Collateral

(a) If you deposit collateral as security with UBS, 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. You may be called in to post collateral at short notice and if not able to do so your positions may be liquidated. You will remain liable for any resulting deficit.

(b) 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 UBS how your collateral will be dealt with.

15 Commissions

(a) Before you begin to trade, you should make yourself sufficiently aware and understand the commissions and other charges for which you will be liable (some of which might not be expressed in monetary 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.

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16 **Suspensions of trading**

(a) 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.

17 **Clearing house protections**

(a) On many exchanges, the performance of a transaction by UBS (or third party with whom it 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 client, and may not protect you if UBS or another party defaults on its obligations to you. On request, UBS will 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, or normally for off-exchange instruments which are not traded under the rules of a Recognised or Designated Investment Exchange.

18 **Insolvency**

(a) UBS'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. Whether and the extent to which UBS will accept liability for any insolvency of, or default by, other firms involved with your transactions is set out in the Terms.

19 **Non-readily realisable investments**

(a) Where the Designated Investments include any investments which are (i) government or public securities, or (ii) securities other than those which are or will be admitted to official listing in the UK or an EEA state or which are or will be regularly traded on or under the rules of a regulated market or other exchange, there is no certainty that market makers will be prepared to deal in such investments and adequate information for determining the current value of such investments may be unavailable.

20 **Structured products**

(a) Structured transactions are complex and may involve a high risk of loss. Prior to entering into a transaction you should consult with your own legal, regulatory, tax, financial and accounting advisors to the extent you consider it necessary, and make your own investment, hedging and trading decisions (including decisions regarding the suitability of this transaction) based upon your own judgment and advice from those advisors you consider necessary. UBS's hedging activities related to a transaction may impact the price of the underlying asset and may affect the likelihood that any relevant information barrier is crossed.

21 **Trading facilities**

(a) Electronic trading facilities are supported by computer-based component systems for the order-routing, execution, matching, registration or clearing of trades. As with all facilities and systems, they are vulnerable to temporary disruption or failure. Your ability to recover certain losses may be subject to limits on liability imposed by the system provider, the market, the clearing house and/or participant firms. Such limits may vary; you should ask for details in this respect.

22 **Electronic trading**

(a) Trading on an electronic trading system may differ from trading on other electronic trading systems. If you undertake transactions on an electronic trading system, you will be exposed to risks associated with the system including the failure of hardware and software. The result of any system failure may be that your order is either not executed according to your instructions or is not executed at all.

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