**INFORMATION ON TRADING IN OPTIONS, FORWARD COMMITMENTS, AND OTHER DERIVATIVE INSTRUMENTS**

**Date of decision 15 March 2022**

***[This version is intended for retail clients*]**

**As a client, you must understand, among other things, the following:**

* **investments or other positions in derivative instruments take place at your own risk and it is therefore important that you understand the characteristics and risks of the derivative instruments before investing in them;**
* **you, as the client, must personally understand the information about the relevant derivative instrument and its characteristics and risks, as well as the investment firm's general terms and conditions for trading in financial instruments;**
* **when trading in financial instruments, it is important that to check all reporting in respect of your transactions, holdings, and positions, as well as to give notice of any errors immediately;**
* **it is important to continually monitor changes in the value of holdings and positions in relevant instruments and be prepared to act quickly;**
* **you, as the client, must satisfy agreed requirements for collateral within agreed parameters;**
* **you, as the client, must personally initiate the measures which are necessary to reduce the risk of losses.**

1. **GENERAL INFORMATION ON TRADING AND RISKS IN DERIVATIVE INSTRUMENTS**  
   Trading in derivative instruments can be described as trading in or transferring risks. For example, a person who anticipates a price decline can buy put options that increase in value if the market goes down. In order to reduce or avoid the risk of a price decline, the buyer pays a premium, i.e. the cost of the option. Derivative instruments are classified as so-called complex financial instruments. Complex financial instruments may be associated with a higher risk level than that for non-complex financial instruments, and it may also be more difficult to understand the risks associated with complex financial instruments.

Trading in derivative instruments is associated with specific risks and this information document provides an overall view of these risks. As a client, you are personally responsible for the risks in your investments and must therefore personally read and acquire knowledge regarding any terms and conditions, information documents, prospectuses or suchlike, which apply to trading in such instruments and regarding the characteristics of the instruments and their associated risks. You can obtain this information from the investment firm you have retained. You must also continually monitor your investments (positions) in such instruments. This applies even if you obtained investment advice at the time of investment. You can obtain information for this monitoring (price data, etc.) from, for example, the websites of trading venues, daily newspapers, other media, and the investment firm you have retained. If you manage your investments personally and if necessary, it is your responsibility to be prepared to take prompt action, for example by reviewing your investments and assessing whether there is reason to take action such as lodging additional collateral or closing out your investments in derivative contracts (settling or closing your positions).

There are both standardised and non-standardised derivative contracts. Trading in standardised derivatives takes place on a trading venue, and the trading venue also determines the terms and conditions of the standardised derivative contracts. The trading venue's product descriptions contain information detailing the terms and conditions for such derivatives, including, for example, the underlying assets, maturity, and strike price. Non-standard derivatives can be traded on a trading venue or over the counter (OTC), i.e. directly between buyer and seller.  
  
For further information on trading in financial instruments in general, various risk concepts, and reasoning in respect of risks, see also INFORMATION REGARDING CHARACTERISTICS AND RISKS IN RESPECT OF FINANCIAL INSTRUMENTS.

1. **CHARACTERISTICS OF DERIVATIVE INSTRUMENTS**

Trading in derivatives requires special expertise. It is therefore important that anyone who intends to trade in derivative instruments is aware of the following characteristics of such instruments.

Due to the structure of a derivative instrument, the price performance of the underlying asset may have an impact on the rate or price of the derivative instrument. This price effect is often stronger in relation to the investment (premium paid) than the change in value of the underlying asset. This effect on the price is, consequently, called the leverage effect, and it may lead to greater losses on the derivative instrument when compared with the change in value of the underlying asset, where the price performance in respect of the underlying asset is different than expected. The leverage effect can also lead to greater profit on the capital invested than would have been the case had the investment been made directly in the underlying asset. The leverage effect varies, depending on the structure of the derivative instrument and the way in which it is used. Accordingly, significant requirements are imposed on monitoring price performance for the derivative instrument and on the underlying asset. As an investor, you should be prepared to act quickly, often during the course of a day, if the investment in a derivative instrument develops unfavourably. In making your risk assessment, it is also important for you to consider the possibility that settling a position/holding may be more difficult in the event of negative price performance. Examples of leveraged financial instruments are certificates and warrants.  
  
A party who assumes an obligation by issuing an option or entering into a forward commitment is required, from the outset, to lodge collateral for their undertaking. As the price of the underlying asset moves up or down, and thus the value of the derivative instrument increases or decreases, the collateral requirement shifts as well. Additional collateral in the form of a margin call may therefore be required. The leverage effect thus also applies to the collateral requirement, which can change rapidly and significantly. If you, the client, do not provide sufficient collateral, the counterparty or the investment firm may have reserved the right to terminate the investment (close the position) without contacting you, the client, in order to minimise the loss. As the client, you should therefore closely monitor price performance while also bearing in mind the collateral requirement in order to avoid an involuntary closing of the position.  
  
The time to maturity for derivative instruments can vary from a very short time up to several years. Some derivatives are known as open-ended and have no fixed maturity date. Price changes are often greatest for instruments with short maturities. For example, the price of an option generally falls more rapidly towards the end of its term due to a decrease in the so-called time value. As the client, you should therefore also carefully monitor the maturity of the derivative instruments.

1. **USE OF DERIVATIVE INSTRUMENTS**  
   Derivative instruments are a form of agreement (contract) where the agreement itself is traded on the capital market. The derivative instrument is linked to an underlying asset or an underlying value. This asset or value may be a financial instrument, some other asset with financial value, such as currency or commodities, or some form of measure of value, such as an index. Derivative instruments may be used, for example, to hedge against an unwanted change in the price of the underlying asset. They can also be used to achieve a profit or return with a smaller capital investment than would be required to make a similar 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 of how the price of the underlying asset will perform over a certain period of time. Before trading in derivative instruments, it is therefore important that you, as the client, ensure that you understand the purpose of the derivative instrument in question and your expectations for price performance of the underlying asset and, based on this, select the right derivative instrument or combination of such instruments.
2. **VARIOUS TYPES OF DERIVATIVE INSTRUMENTS**  
   1. **OPTIONS**

An optionis a contract under which one party (the issuer of an option contract) undertakes to buy or sell the underlying asset from or to the other party (the holder of the contract) at a pre-determined price (the strike price). There are different types of options. Call options give the holder a right, within a certain time period, to buy the underlying asset, for example already-issued shares, at a pre-determined price. Put options do the opposite – they give the holder a right, within a certain time period, to sell the underlying assets at a pre-determined price. Each acquired option corresponds to one issued option. Depending on the type of option, the contract can be exercised either at any time during the term (American option) or only on the maturity date (European option). The holder pays consideration (premium) to the issuer and obtains a right to use the contract but has no obligation to do so. The issuer, on the other hand, is obligated to honour the contract if the holder so requests (exercises the option). The performance in value of the option is normally determined by the performance in value of the underlying asset.  
  
The risk for the party acquiring the option is that the option will diminish in value or be worthless on the maturity date unless risk mitigation measures are taken. If the option expires worthless, the premium paid for the option at the time of acquisition is entirely lost. The issuer of an option runs a risk that may be unlimited in certain cases unless risk mitigation measures are taken. The price of the option is affected by the price of the corresponding underlying asset in the same or opposite direction, but usually with greater price deviations and impact on the price than for the asset.  
  
Examples of different types of options are share options, share index options, interest rate options, and currency options. The most extensive trading in share options takes place on trading venues. Trading in share index options also takes place there. These index options provide for a profit or loss directly in cash (cash settlement) based on the performance of the underlying index.

* 1. **FORWARD COMMITMENTS**

A forward commitment entails that the parties have entered into a mutually binding agreement regarding the buying or selling of an underlying asset at a pre-agreed price and on delivery or other performance (e.g. cash settlement) of the agreement on a date stated in the agreement (maturity date). No premium is paid since both parties have corresponding obligations under the agreement.  
  
There are two main types of forward commitments: futures and forwards. The difference between a future and a forward is in the settlement process, i.e. when a party to a contract receives payment or pays, depending on whether the position has generated a profit or a loss. In respect of a future, a daily settlement is made in the form of regular payments between buyer and seller based on the day-by-day change in value of the underlying asset. In the case of a forward, settlement does not take place until the maturity date of the instrument.

Examples of different types of forward commitments are share futures, share index futures, commodity futures, and currency futures.

* 1. **SWAP AGREEMENTS**  
     Under a swap agreement, the parties agree to make payments to each other on an ongoing basis, e.g. based on fixed or variable interest rates (interest rate swap), or to swap some form of property with each other at a certain time, e.g. different types of currencies (currency swap), shares (share swap), or commodities (commodity swap).
  2. **WARRANTS**  
     Trading also takes place in certain call and put options with longer terms; in Sweden these are usually called warrants. Warrants also differ from options and forward commitments in that they are issued by an issuer, usually a bank or investment firm, and traded on trading venues. Warrants can be exercised to buy or sell an underlying asset, but in practice they are used to participate in the performance of the warrant without the underlying asset being bought or sold. If the value of the warrant has performed positively, the holder can exercise the warrant on the maturity date and receive only a cash settlement corresponding to the increase in the price of the warrant.  
       
     Warrants should not be confused with subscription warrants. Subscription warrants can be exercised within a certain period of time to subscribe for corresponding newly issued securities.
  3. **CERTIFICATES**

A certificate is a security that is admitted to trading on a trading venue and whose value, like other derivative instruments, is linked to the value of an underlying asset. They are usually structured so that they consist of a bond component and a derivative component, which provide exposure against the underlying asset. The underlying asset can be, for example, a single stock, a commodity, an interest rate, currency, an index or a basket of traditional assets.

Certificates may be structured so that there are limits on how much they can yield or how much they can decline in value. They can also be structured so that the certificates provide returns in a market without major price fluctuations.

Certificates sometimes have a so-called price drop protection, which allows the underlying asset to fall in value before a loss occurs.

Something which distinguishes certificates from certain other types of securities is that the underlying asset may be a more alternative type of asset, which may otherwise be difficult to invest in or gain exposure to through other types of financial instruments. Such alternative assets can be, for example, cryptoassets and special indices that have no direct financial link (e.g. ESG indices).

* + 1. **LEVERAGE CERTIFICATES**  
       Some certificates, called leverage certificates or bull & bear certificates, have a built-in constant daily leverage. The leverage can vary in size between different leverage certificates and it can sometimes be very high. In some leverage certificates, the leverage can reach a factor of 20, which means that a change in the price of the underlying asset causes a change in the price of the leverage certificate that is 20 times greater. As the client, you should be aware that the spread, i.e. the difference between the buy and sell price, for leverage certificates can be significant.  
         
       A leverage certificate usually contains derivative elements, where the certificate may be structured to include elements such as a swap, a forward commitment, and/or a call or put option. The performance of the leverage certificate is also usually dependent on an underlying asset, such as a share, an index, or a commodity.
    2. **AUTOCALLS**  
       Autocallsare a type of instrument structured to provide the possibility of a return in a sideways market (a market without large price fluctuations) or in a moderately declining market. Investment in an autocall may entail a significant risk of losing a large part or all of the nominal amount. Autocalls are usually offered with a conditional capital protection down to a certain level, known as a barrier. This protection ceases if the barrier is breached.
    3. **TRACKERS**  
       A tracker is a product admitted to trading on a trading venue that tracks the change in value of an underlying asset's price movements. The underlying asset can be, for example, a stock, a share index, a commodity, a currency, or a combination of different underlying assets. Trackers usually have no fixed maturity date. This is known as being open-ended, and means that they run until the issuer chooses to delist the security. Trackers can generate the opportunity for returns in either rising markets or falling markets.
    4. **CREDIT-LINKED CERTIFICATES/FIXED INCOME CERTIFICATES**  
       A credit-linked certificate (which can also be called a fixed income certificate) is a certificate linked to the credit risk of, for example, a company, a basket of companies, or a credit index. A credit-linked certificate's yield is dependent on the coupon level, the underlying credit risk, and credit events. A credit event can be, among other things, a delay in payments or the company being placed into company re-organisation or bankruptcy. If a credit event occurs, the amount paid to the holder is reduced on the maturity date of the credit-linked certificate. If enough credit events occur, the nominal value of the credit-linked certificate may be lost entirely. If a credit-linked certificate has price drop protection, this protection is the number of credit events that can occur in the underlying credit basket before a loss occurs.
    5. **COMBINED DERIVATIVE INSTRUMENTS**  
       Derivative instruments may be combined in certain ways to create an exposure in order to achieve a certain financial result in relation to the expected price performance of the underlying asset.  
         
       When trading in combined products, it is important to understand the different components of the product and how they interact. In some cases, the interaction of the components may pose a higher risk than each component alone. A more detailed description of the different components of a given product and the way in which they interact can be obtained from, among other sources, the issuer or the investment firm.

------------------------------------------------------

Additional general information regarding various types of financial instruments and trading in financial instruments, as well as suggestions for additional literature in the area, are also available on the Consumers' Banking and Finance Bureau's website, [www.konsumenternas.se](http://www.konsumenternas.se) and on SwedSec's website, [www.swedsec.se](http://www.swedsec.se).

Information on individual financial instruments and their issuers is available in published prospectuses, which can easily be found on the website of the relevant trading venue and [*the institution’s website*].