

# COWEN

## COWEN EXECUTION SERVICES LIMITED

### REGULATORY DISCLOSURES NOTICE - CORPORATE FINANCE BUSINESS

We are required by Applicable Law and our regulator, the Financial Conduct Authority, to provide you with certain details about our business, how we are regulated and how we will interact with you. There are also certain matters of a legal nature that we must disclose. This Notice contains a number of the regulatory and legal disclosures that we are required to provide, and it should be read in conjunction with any other terms that we agree with our clients, including the Engagement Letter and any associated side letters. This Notice will be updated from time to time (see section 11 below).

#### 1. Information about Cowen Execution Services Limited

Cowen Execution Services Limited (“CESL”), with registered address 1 Snowden Street, London EC2A 2DQ, is authorised and regulated by the Financial Conduct Authority (the “FCA”) under registration number 472780. Contact details for CESL are set out below. The address of the FCA is 12 Endeavour Square, London E20 1JN.

#### 2. Defined terms

“**Affiliate Company**” or “**Affiliated Companies**” means, in relation to CESL, any entity directly or indirectly controlling or controlled by, or under direct or indirect common control with CESL.

“**Applicable Law**” means the laws and rules in the United Kingdom or elsewhere, including but not limited to, acts, regulations, the FCA Rules or other similar regulatory rules or handbooks; governmental, regulatory and self-regulatory organisation rules; rules of execution venues and clearing houses; and customs (except as modified herein), that are in effect from time to time.

“**Client**” means the relevant client (sometimes referred to as the “Company”) identified in the engagement letter under which CESL agrees to provide its corporate finance services.

“**Engagement Letter**” means the engagement letter under which CESL agrees to provide its corporate finance services to the Client.

“**FCA Rules**” means rules and guidance of the FCA from time to time as set out in the FCA’s Handbook, as amended from time to time.

#### 3. Recording of Conversations

To the extent that CESL in its sole discretion determines is necessary in order to comply with Applicable Law and its internal compliance policies, CESL may record, monitor and retain all communications and conversations, including email, telephone conversations and other communications with the Client and may record telephone, mobile phone or other mobile handheld communications device-based conversations between the Client and CESL’s employees. CESL

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may also take records and notes of relevant face-to-face conversations with the Client to the extent that CESL, in its sole discretion, decides this is required under Applicable Law. CESL may retain such records for the period required as a matter of its internal policies and/or Applicable Law. Such records can be made available to you on request during that period, subject to any reasonable charge CESL may in its sole discretion impose.

## **4. CESL services and risk warning**

- (a) CESL's services in respect of financial instruments are intended for professional clients only.
- (b) CESL will not provide personal recommendations or investment advice to you. CESL will therefore not undertake suitability assessments (as that concept is set out in the FCA Rules) and any recommendation or advice CESL provides in the course of its services to you will not be personalised to you and will not take into account your personal circumstances and therefore may not be suitable for you.
- (c) As you are categorised as a professional client, where Applicable Law requires CESL to assess whether the transaction is appropriate for you (as that concept is set out in the FCA Rules), CESL is entitled to assume that you have the necessary experience and knowledge to understand the risks involved in the transaction and CESL will rely on relevant information you have supplied to it for these purposes.
- (d) CESL is required under Applicable Law to provide certain disclosures about CESL's services, and information and risks relating to relevant financial instruments and of particular investment strategies.
- (e) Please refer to the relevant Engagement Letter between you and CESL for the relevant description of services that CESL has agreed to provide to you.
- (f) Please refer to Schedule 3 of this Regulatory Disclosures Notice for the relevant information and risk disclosures related to CESL's services agreed pursuant to the Engagement Letter.

## **5. Costs and charges disclosures**

As permitted under the FCA Rules and Applicable Law, CESL shall only provide the costs details outlined in the relevant Engagement Letter between CESL and the Client. To the extent that Applicable Law requires more detailed costs and charges disclosure such disclosure will be provided by CESL to the Client.

## **6. Conflicts of Interest**

- (a) CESL is continuously working on preventing and managing conflicts of interest that may arise in CESL's business. A summary of the policies and procedures that CESL has in place for identifying, preventing, minimising and managing conflicts of interest is set out in CESL's Conflicts of Interest policy which is available in

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Schedule 1 of this Regulatory Disclosures Notice.

- (b) CESL and its Affiliated Companies provide services and maintain positions in a wide range of products, whether as a result of trading activities requested by clients or counterparties, or as part of a hedging strategy in reasonable expectation of near-term demand. CESL's Affiliate Companies may also have an interest or arrangement that is material to a transaction effected with or for the Client. These activities may give rise to a conflict of interest.

## 7. Third Party Remuneration and Inducements

- (a) CESL may receive remuneration from Affiliated Companies and provide remuneration to its Affiliated Companies in the ordinary course of its business, such as when CESL introduces clients to an Affiliate Company or an Affiliate Company introduces clients to CESL. Such introduction fees may be paid or received by CESL on an ongoing basis only if permitted under Applicable Law.
- (b) Any arrangements concerning third party remuneration and inducements shall be set forth in an agreement between CESL and the third party (including relevant Affiliated Companies).
- (c) Where permitted by Applicable Law, CESL may receive or provide any fees, commission, rebates or other form of remuneration or non-monetary benefits ("**Inducements**") from a third party (including an Affiliated Company) in connection with services provided to the Client. CESL, as a MiFID firm, will only pay or receive such Inducements provided that: (i) they are designed to enhance the quality of the services that CESL provides to the Client; and (ii) they do not impair compliance with CESL's duty to act honestly, fairly and professionally in accordance with the Client's best interests. Details of the nature and amount of such Inducements shall be disclosed to the Client only if and as required by Applicable Law.

## 8. Complaints and Compensation

- (a) In the event that the Client is dissatisfied with the service it receives from CESL or any Affiliate Company, the Client should make its complaint in writing to the Compliance Officer of CESL at the address below, including as many details as possible. Further information about CESL's complaints handling process is available on request.
- (b) If you, the Client, are unhappy with the way your complaint was resolved and you are an "eligible complainant" (as defined in DISP 2.7 of the FCA Rules) you may choose to contact the Financial Ombudsman free of charge. The Ombudsman's contact details are:

Financial Ombudsman Service, Exchange Tower, London, E14 9SR

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Telephone: 0800 023 4567 or 0300 123 9123

Email: [complaint.info@financial-ombudsman.org.uk](mailto:complaint.info@financial-ombudsman.org.uk)

Website: [www.financial-ombudsman.org.uk](http://www.financial-ombudsman.org.uk)

- (c) CESL participates in the Financial Services Compensation Scheme ("FSCS"). The Client may be entitled to compensation from the FSCS if CESL cannot meet its obligations. Whether the Client enjoys protection from the FSCS will depend on the type of business that the Client carries out and the circumstances of the claim. This means that professional clients and eligible counterparties may not be eligible claimants. Payments under the FSCS are subject to a maximum payment per eligible investor per claim. Further details of the FSCS and these payment limits can be found at [www.fscs.org.uk](http://www.fscs.org.uk).

## 9. Data Protection

As referenced in the relevant Engagement Letter, where a Client shares personal data with CESL, the Client is obligated to ensure it has provided a fair processing notice informing the data subject of CESL processing of such personal data. The relevant description of such processing is found in Schedule 2 to this Regulatory Disclosures Notice.

## 10. Client Money and Assets

- (a) CESL is not authorised to hold client money (as defined under the CASS sourcebook under the FCA Rules). As such, any fees received by CESL that are due and payable by the Client will not be classified as client money and will not be treated as such. In the event that the Client makes an overpayment of fees to CESL, CESL will rely on the Client to provide account details promptly, such that the overpayment of fees may be returned to the Client at the earliest opportunity. Such fees will not be segregated from the monies of CESL and may be used by CESL in the course of its business, and the Client will rank only as a general creditor of CESL.
- (b) CESL is not authorised to safeguard or administer client assets and shall not hold any assets belonging to the Client or any other person.

## 11. Amendments to this Regulatory Disclosures Notice

CESL may from time to time make such amendments to this Regulatory Disclosures Notice as CESL, in its reasonable discretion, views as necessary to comply with Applicable Laws, and provide the amended versions by publishing them on its website. All amendments will come into effect on the date specified on the website. These amendments shall in each case constitute disclosures in

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advance of any further services provided under any Engagement Letter or otherwise.

## 12. Notices and Communications

- (a) All notices and communications by either CESL or the Client shall be in English (or such other language as shall be agreed between CESL and the Client from time to time).
- (b) CESL and the Client may communicate with each other by letter, email, telephone or any other method of communication unless otherwise required by Applicable law. As detailed in the Engagement Letter, all statements, requests, notices and agreements under the Engagement Letter and the Regulatory Disclosures Notice shall be in writing, and delivered or sent by mail, telex, facsimile transmission or email.

Notwithstanding the above, CESL may also communicate information not personally addressed to the Client via its website:

<https://www.cowen.com/regulatory-disclosures/>

- (c) Notices and communications shall be sent to:

- (1) if to CESL: Cowen Execution Services Limited  
1 Snowden Street,  
London,  
EC2A

Email: [michael.page@cowen.com](mailto:michael.page@cowen.com)

For the attention of the Chief Operating Officer

- (2) if to the Client, CESL will use the address and contact person that was most recently received from the Client to communicate with or make notifications to the Client.

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## **Schedule 1 Conflicts of Interest**

CESL and its Affiliated Companies provide services and maintain positions in a wide range of products, whether as a result of trading activities requested by clients or counterparties, or as part of a hedging strategy in reasonable expectation of near-term demand. CESL's Affiliated Companies may also have an interest or arrangement that is material to a transaction effected with or by the Client. These business activities have the potential to result in CESL or its Affiliated Companies having an interest that diverges from that of the Client.

CESL maintains and operates effective organisational and administrative arrangements and is committed to taking all appropriate steps to identify, monitor and manage conflicts of interest. CESL has arrangements in place to:

- identify circumstances which may give rise to conflicts of interest with the potential to result in material risk of damage to clients' interests;
- establish appropriate mechanisms and systems to mitigate and manage those conflicts; and
- maintain systems designed to prevent identified conflicts of interest from resulting in damage to clients' interests.

The Client accepts that CESL and its Affiliated Companies may have interests which are material in relation to any service or transaction, and which give rise, or have the potential to give rise, to a conflict of interest. Further, CESL and its Affiliated Companies may have multiple clients with conflicting interests in relation to any service or transaction. Without limiting the nature of such interests, examples include where CESL or its Affiliated Companies could be:

- providing services to other clients where such clients may have an interest in the investments, related investments, or assets underlying the investments which conflict with the Client's interests;
- dealing in the investment, a related investment or an asset underlying the investment for CESL's or an Affiliate Company's principal account, or another Client's own account;
- providing Investment Banking services such as financial advisory, lending, underwriting or otherwise participating in the issuance of a financial instrument, to a company whose financial instruments are the subject of the Client's transaction.

### **Management and Disclosure of Conflicts of Interest**

Any identified conflicts of interests will be managed by CESL to prevent such conflicts from adversely affecting the interests of clients. Where the measures undertaken by CESL are unable to prevent adverse effect from arising in relation to any clients' interests, CESL will notify the relevant client of the nature or source of the conflict and the measures taken to mitigating the risks before CESL carries out any business on behalf of the relevant client. Such disclosure will be used

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as a last resort. In the event that a conflict cannot be managed or prevented, CESL may decline to act on the client's behalf.

## **Policies and Procedures**

CESL has adopted numerous internal policies and procedures, often set out in its internal procedures manuals, in order to manage the potential conflicts of interests that it has identified.

The policies and procedures have been designed to ensure that CESL has taken all reasonable steps to protect the interests of its clients. CESL provides training to its staff in respect of the CESL procedures for identifying, managing and escalating conflicts. All staff are made fully aware of their responsibilities under the relevant policies and procedures to ensure that clients are treated fairly.

These policies and procedures are subject to CESL's normal oversight processes to identify, manage, control, monitor and review conflicts of interest. The policies and procedures include:

*(a) Conflicts policy including conflicts register*

CESL maintains a conflict of interest policy which ensures that staff can identify, escalate and mitigate any conflicts of interest which are identified. In particular, internal procedures define and identify conflicts. This is complemented by a conflicts register, which is presented to the board on a regular basis for oversight and approval.

*(b) Integrity and Standards of Conduct*

CESL insists that, in its dealings with its clients, its staff must use the highest standard of integrity in their actions at all times. CESL's monitoring and training programmes are designed to ensure that all relevant staff are familiar with and observe, inter alia, the FCA Principles for Businesses, the Statements of Principle and Code of Practice for Approved Persons and the Code of Conduct for SMCR firms.

*(c) Personal Account Dealing ("PAD") and Outside Business Activity*

CESL has a policy on PAD and the rules are signed off as understood by all relevant employees regardless of their position within CESL.

The PAD procedures require pre-approval by the relevant business head and notification to CESL's Compliance Officer and all staff are required to annually attest to PAD holdings and annually report any outside business investment activity to the Compliance Officer.

All staff are regularly reminded of the PAD rules.

*(f) Inducements to Employees from Clients*

CESL employees are not permitted to receive gifts, entertainment or any other inducement that may incentivise the favouring of one Client over another; or incentivise the employee to act in a way which may conflict with the interest of CESL, its Affiliated Companies, the Client, or a third

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party. CESL maintains a policy which limits the value of gifts or entertainment an employee is permitted to receive, although the policy does not preclude an employee accepting reasonable corporate hospitality, provided it is not excessive and does not result in a conflict of interest for the employee.

Employees are not permitted to receive any other form of inducement whether monetary or non-monetary which might benefit (or have the perception of benefitting) one client at the expense of another when conducting investment business.

## *(g) Inducements to Clients from Employees*

CESL employees are not allowed to place pressure upon clients to persuade their client to act through the firm to the extent that this might give rise to a conflict of interest between that client and its own underlying clients.

## *(i) Information Barriers*

CESL prevents the flow of information where the interests of clients of one business function may conflict with the interests of clients of another business function. This includes using a separate network with no shared systems and client data access between the two business functions. Further, CESL insists on strict client confidentiality to ensure that information is disclosed only to those entitled to receive it.

## *(j) Remuneration Policy*

All relevant staff that are open to a conflict of interest are paid a basic salary including Compliance. This salary is not dependent on company performance. A bonus structure does exist which is linked to company performance, team performance or the individual's performance but the structure does not contain performance targets or bonus arrangements that are tiered in a fashion that might incentivise an employee to take inappropriate risks on a client's behalf. The bonus structure is at the discretion of the senior management and notified only on payment.

CESL is subject to SYSC 19F in respect of remuneration and applies such remuneration code accordingly to ensure that conflicts of interest are mitigated.

## *(k) Disclosure*

Where there are no other means of managing the conflict or where the measures in place do not, in the view of CESL sufficiently protect the interests of clients, the conflict of interest will be disclosed to clients to enable an informed decision to be made by the client as to whether they wish to continue doing business with CESL in that particular situation.

## *(l) Declining to Act*

Where CESL considers it is not able to manage the conflict of interest in any other way it may decline to act for a client.



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## Schedule 2

### Data Protection

The Engagement Letter makes certain references to data protection disclosures and notices. These can be found within this Schedule.

#### Notice to Data Subjects

In providing the Services to the Client, your personal data such as contact details, email address, phone numbers, passport, residency history, employment history, NI number, DBS check, (this is not an exhaustive list), may be disclosed to CESL to enable them to communicate with you to perform the “Services”. CESL has a registered address at 1 Snowden Street, London, EC2A 2DQ and will be the data controller of your data for these purposes.

#### Purposes of Processing and Legal Basis for Processing

CESL may process your personal data for the following purposes:

- to contact and interact with you to perform its obligations under the contract with the Client;
- to carry out anti-money laundering and counter-terrorist financing checks and related actions which we consider appropriate to meet any legal obligations imposed on us, or where the processing is in the public interest, or to pursue our legitimate interest to counter the risk of fraud, bribery, corruption, tax evasion and to prevent the provision of financial and other services to persons who may be subject to economic or trade sanctions on an on-going basis, in accordance with our anti-money laundering and other financial crime compliance procedures;
- to monitor and record calls and emails to comply with our legal and regulatory obligations and for investigation and crime prevention purposes, and to enforce or defend our rights, or pursue our legitimate interests in relation to such matters;
- to report tax related information to tax authorities in order to comply with a legal obligation;
- to monitor and record calls for quality, training, analysis and other related purposes in order to pursue our legitimate interest to improve service delivery;
- to provide you with information about our products and services that may be of interest to you; and
- to provide information to you regarding any changes to our service.

#### Recipients of Data and International Transfers

CESL may disclose your personal data as follows:

- to its Affiliate Companies for the above-mentioned purposes;
- to credit reference agencies in order to carry out money laundering and identity checks;

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- to competent authorities, courts and other bodies as required by law or as requested;
- to agents, service providers or third-party vendors in order to process the personal data for the above mentioned purposes; and
- to purchasers of the whole or part of our business or on any merger or group reorganisation.

The disclosure of personal data to the parties noted above may include the transfer of personal data outside the European Economic Area (EEA). Such countries may not have the same data protection laws as your country. Whenever that happens, CESL puts in place standard contractual clauses with the recipient of the personal data in order to adequately protect the personal data.

Should you wish to discuss the above or have any questions please use the contact details set out below.

## **Retention Period**

CESL may retain your personal data for as long as required to perform services to you or its clients and/or for the purposes of processing set out above.

## **Data Subject Rights**

You may have certain rights, in certain circumstances, in relation to your personal data e.g. the right to access, rectify, erase, restrict the use, or object to the processing and data portability.

You may exercise the rights set out above by contacting us on the below contact details. In the event you wish to make a complaint about how CESL processes your personal data, please use the below contact details and CESL will endeavour to deal with your requests as soon as possible. This is without prejudice with your right to lodge a complaint with a supervisory authority.

For more information about Data Protection at CESL please read the CESL EMEA Privacy Notice, <https://www.cowen.com/about/customer-notices-policies/>

## **How to contact us**

If you have any questions about our use of your personal data, please contact the Compliance Officer at Cowen Execution Services Limited, 1 Snowden Street, London, EC2A 2DQ, United Kingdom.

## Schedule 3

### Information on CESL's services, relevant financial instruments and risks

#### 1. CESL services

Please refer to the Engagement Letter for the description of services that CESL has agreed to provide to you.

#### 2. Risks of particular financial instruments or investment strategies

- (a) You may be considering entering into transactions in financial instruments. You should not enter into transactions in financial instruments unless you understand their nature and the extent of exposure to risk that you may be exposed to. You should also consider and decide if the relevant transaction service is suitable for you in light of your financial and other circumstances and you should consider seeking appropriate independent advice before taking any investment decisions. Any risks mentioned here are not intended to be relied upon as investment advice or a personal recommendation.
- (b) All financial products carry a degree of risk. Low risk investment strategies can also contain an element of uncertainty. Different instruments involve various levels of risk exposure and when you consider whether to transact in such instruments you should consider the risks associated with each of these instruments. Risks of specific instruments, and general categories of risk are mentioned below.
- (c) The information and risks described here are not exhaustive and cannot disclose all the risks of all specific products or services or disclose all generic types of risk. Considering the services that CESL has agreed to provide to you, the information here generally describes the transactions that you may as a result be considering entering into. You should not rely on the risks mentioned here as the only risks that may apply. You must also read any product/transaction specific disclosures mentioned in any documentation provided to you.
- (d) Risk factors can apply simultaneously and/or compound in some circumstances which can result in unpredictable effects e.g. on value. In the circumstances described below, using leverage (which magnifies potential positive or negative results) can significantly increase the impact on you of a certain risk.
- (e) The types of risks that you may be exposed to depend on various factors, including the manner of creation, manufacture, structure or drafting of the instrument. The risks of a specific product or transaction depend on the relevant product or transaction terms and the specific circumstances and relationships the relevant parties involved in such product or transaction.

#### 3. Information about particular financial instruments and associated risks

- (a) This Regulatory Disclosures Notice is provided to you as a professional client and includes guidance and warnings about the nature and risks associated with the different types of

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investments that you might be considering and in relation to which you may be requesting CESL's corporate finance services.

(b) Below are some specific risks and considerations for investors in relation to financial instruments of the type referred to above.

(c) Products and Investments

i. Shares and other types of equity instruments

A risk with an equity investment is that the company must both grow in value and, if it elects to pay dividends to its shareholders, make adequate dividend payments, or the share price may fall. If the share price falls, the company, if listed or traded on-exchange, may then find it difficult to raise further capital to finance the business, and the company's performance may deteriorate vis à vis its competitors, leading to further reductions in the share price. Ultimately the company may become vulnerable to a takeover or may fail.

Shares have exposure to all the major risk types referred to in the "Generic risk types" section below. In addition, there is a risk that there could be volatility or problems in the sector that the company is in. If the company is private, i.e. not listed or traded on an exchange, or is listed but only traded infrequently, there may also be liquidity risk, whereby shares could become very difficult to dispose of.

ii. Ordinary shares

Ordinary shares are issued by limited liability companies as the primary means of raising risk capital. The issuer has no obligation to repay the original cost of the share, or the capital, to the shareholder until the issuer is wound up (in other words, the issuer company ceases to exist). In return for the capital investment in the share, the issuer may make discretionary dividend payments to shareholders, which could take the form of cash or additional shares. Ordinary shares usually carry a right to vote at general meetings of the issuer. There is no guaranteed return on an investment in ordinary shares for the reasons set out above, and in a liquidation of the issuer, ordinary shareholders are amongst the last with a right to repayment of capital and any surplus funds of the issuer, which could lead to a loss of a substantial proportion, or all, of the original investment.

iii. Preference shares

Unlike ordinary shares, preference shares give shareholders the right to a fixed dividend the calculation of which is not based on the success of the issuer company. They therefore tend to be a less risky form of investment than ordinary shares.

Preference shares do not usually give shareholders the right to vote at general meetings of the issuer, but shareholders will have a greater preference to any surplus funds of the issuer than ordinary shareholders, should the issuer go into liquidation. There is still a risk that you may lose all or part of your capital.

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## iv. Warrants

A warrant is a time-limited right to subscribe for shares, debentures or loan stock 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.

## v. Debt Instruments

Debt instruments are issued by a corporate entity or by a government body to creditors and create a binding obligation to repay the creditor under terms and conditions which dictate provisions such as rate of interest, collateral and timeframe to maturity.

Debt instruments are subject to many of the generic risk types listed below, in particular credit and interest rate risk.

### (d) Generic Risk Types

#### i. General

The price or value of an investment will depend on fluctuations in the financial markets outside of anyone's control. Past performance is no indicator of future performance.

The nature and extent of investment risks varies between countries and from investment to investment. These investment risks will vary with, amongst other things, the type of investment being made, including how the financial products have been created or their terms drafted, the needs and objectives of particular investors, the manner in which a particular investment is made or offered, sold or traded, the location or domicile of the issuer, the diversification or concentration in a portfolio (e.g. the amount invested in any one currency, security, country or issuer), the complexity of the transaction and the use of leverage.

The risk types set out below could have an impact on each type of investment:

#### ii. Liquidity

The liquidity of an instrument is directly affected by the supply and demand for that instrument and also indirectly by other factors, including market disruptions (for example

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a disruption on the relevant exchange) or infrastructure issues, such as a lack of sophistication or disruption in the securities settlement process. Under certain trading conditions it may be difficult or impossible to liquidate or acquire a position. This may occur, for example, at times of rapid price movement if the price rises or falls to such an extent that under the rules of the relevant exchange trading is suspended or restricted.

### iii. Credit risk

Credit risk is the risk of loss caused by borrowers, bond obligors, guarantors, or counterparties failing to fulfil their obligations or the risk of such parties' credit quality deteriorating. Exposure to the credit risk of one or more reference entities is particularly relevant to any credit linked product such as credit linked notes, and the potential losses which may be sustained, and the frequency and likelihood of such losses occurring, when investing in credit links products may be substantially greater than when investing in an obligation of the reference entity itself.

### iv. Market risk

#### *General*

The price of investments goes up and down depending on market supply and demand, investor perception and the prices of any underlying or allied investments or, indeed, sector, political and economic factors. These can be totally unpredictable.

#### *Overseas markets*

Any overseas investment or investment with an overseas element can be subject to the risks of overseas markets which may involve different risks from those of the home market of the investor. In some cases, the risks will be greater. The potential for profit or loss from transactions on foreign markets or in overseas denominated contracts will be affected by fluctuations in overseas exchange rates.

#### *Emerging Markets*

Investment in shares issued by issuers in emerging markets (by which we mean those that have an underdeveloped infrastructure or which are less economically or politically stable as markets in developed countries) involves risks not typically associated with equities investment in well developed markets. Price volatility in emerging markets, in particular, can be extreme. Price discrepancies, low trading volumes and wide pricing spreads can be common and unpredictable movements in the market not uncommon. Additionally, as news about a country becomes available, the financial markets may react with dramatic upswings and/or downswings in prices during a very short period of time. Emerging markets generally lack the level of transparency, liquidity, efficiency, market infrastructure, legal certainty and regulation found in more developed markets. For example, these markets might not have regulations governing market or price manipulation and insider trading or other provisions designed to "level the playing field" with respect to the availability of information and the use or misuse thereof in such markets. They may also be affected by sector, economic and political

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risk.

v. Insolvency

The insolvency or default of the firm with whom you are dealing, or of any brokers involved with your transaction, may lead to positions being liquidated or closed out without your consent or, indeed, investments not being returned to you. There is also insolvency risk in relation to the investment itself, for example of the company that issued a financial instrument.

vi. Currency risk

In respect of any transactions in securities that are denominated in a currency other than that in which your own funds are denominated, a movement in exchange rates may have a favourable or an unfavourable effect on the gain or loss achieved on such transactions.

The weakening of a country's currency relative to a benchmark currency or the currency of your funds will negatively affect the value of an investment denominated in that currency. Currency valuations are linked to a host of economic, social and political factors and can fluctuate greatly, even during intra-day trading. Some countries have foreign exchange controls which may include the suspension of the ability to exchange or transfer currency, or the devaluation of the currency. Hedging can increase or decrease the exposure to any one currency, but may not eliminate completely exposure to changing currency values.

vii. Interest rate risk

Interest rates can rise as well as fall. A risk with interest rates is that the relative value of a security, especially a bond, will worsen due to an interest rate increase. This could impact negatively on other products. There are additional interest rate related risks in relation to floating rate instruments and fixed rate instruments; interest income on floating rate instruments cannot be anticipated. Due to varying interest income, investors are not able to determine a definite yield of floating rate instruments at the time they purchase them, so that their return on investment cannot be compared with that of investments having longer fixed interest periods. If the terms and conditions of the relevant instruments provide for frequent interest payment dates, investors are exposed to the reinvestment risk if market interest rates decline. That is, investors may reinvest the interest income paid to them only at the relevant lower interest rates then prevailing.

Changes in market interest rates have a substantially stronger impact on the prices of zero coupon bonds than on the prices of ordinary bonds because the discounted issue prices are substantially below par. If market interest rates increase, zero coupon bonds can suffer higher price losses than other bonds having the same maturity and credit rating.

viii. Regulatory/legal/structural risk

All investments could be exposed to regulatory, legal or structural risk.

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Returns on all, and particularly new, investments are at risk from regulatory or legal actions and changes which can, amongst other issues, alter the profit potential of an investment. Legal changes could even have the effect that a previously acceptable investment becomes illegal. Changes to related issues such as tax may also occur and could have a large impact on profitability. Such risk is unpredictable and can depend on numerous political, economic and other factors. For this reason, this risk is greater in emerging markets but does apply everywhere. In emerging markets, there is generally less government supervision and regulation of business and industry practices, stock exchanges and over-the-counter markets.

The type of laws and regulations with which investors are familiar in the UK and EEA may not exist in some places, and where they do, may be subject to inconsistent or arbitrary application or interpretation and may be changed with retroactive effect. Both the independence of judicial systems and their immunity from economic, political or nationalistic influences remain largely untested in many countries. Judges and courts in many countries are generally inexperienced in the areas of business and corporate law. Companies are exposed to the risk that legislatures will revise established law solely in response to economic or political pressure or popular discontent. There is no guarantee that an overseas investor would obtain a satisfactory remedy in local courts in case of a breach of local laws or regulations or a dispute over ownership of assets. An investor may also encounter difficulties in pursuing legal remedies or in obtaining and enforcing judgments in overseas courts.

In the case of many products, there will be no legal or beneficial interest in the obligations or securities of the underlying reference entity but rather an investor will have a contractual relationship with the counterparty only and its rights will therefore be limited to contractual remedies against the counterparty in accordance with the terms of the relevant product.

In all cases the legal terms and conditions of a product may contain provisions which could operate against your interests. For example, they may permit early redemption or termination at a time which is unfavourable to you, or they may give wide discretion to the issuer of securities to revise the terms applicable to securities. In other cases, there may be limits on the amounts in relation to which rights attaching to securities may be exercised and in the event that you hold too many (or too few) securities, your interests may be prejudiced and should scrutinise these carefully. In some cases, the exercise of rights by others may impact on your investment.

In particular, the various regulatory, legal and structural risks detailed above may also affect the nature and profitability of any particular transaction which you might arrange, intend or enter into.

## ix. Operational risk

Operational risk, such as breakdowns or malfunctioning of essential systems and controls, including IT systems, can impact on all financial products. Business risk, especially the risk that the business is run incompetently or poorly could also have an adverse impact on shareholders of, or investors in, such business. Personnel and organisational changes can severely affect such risks and, in general, operational risk may not be apparent from outside the organisation.



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