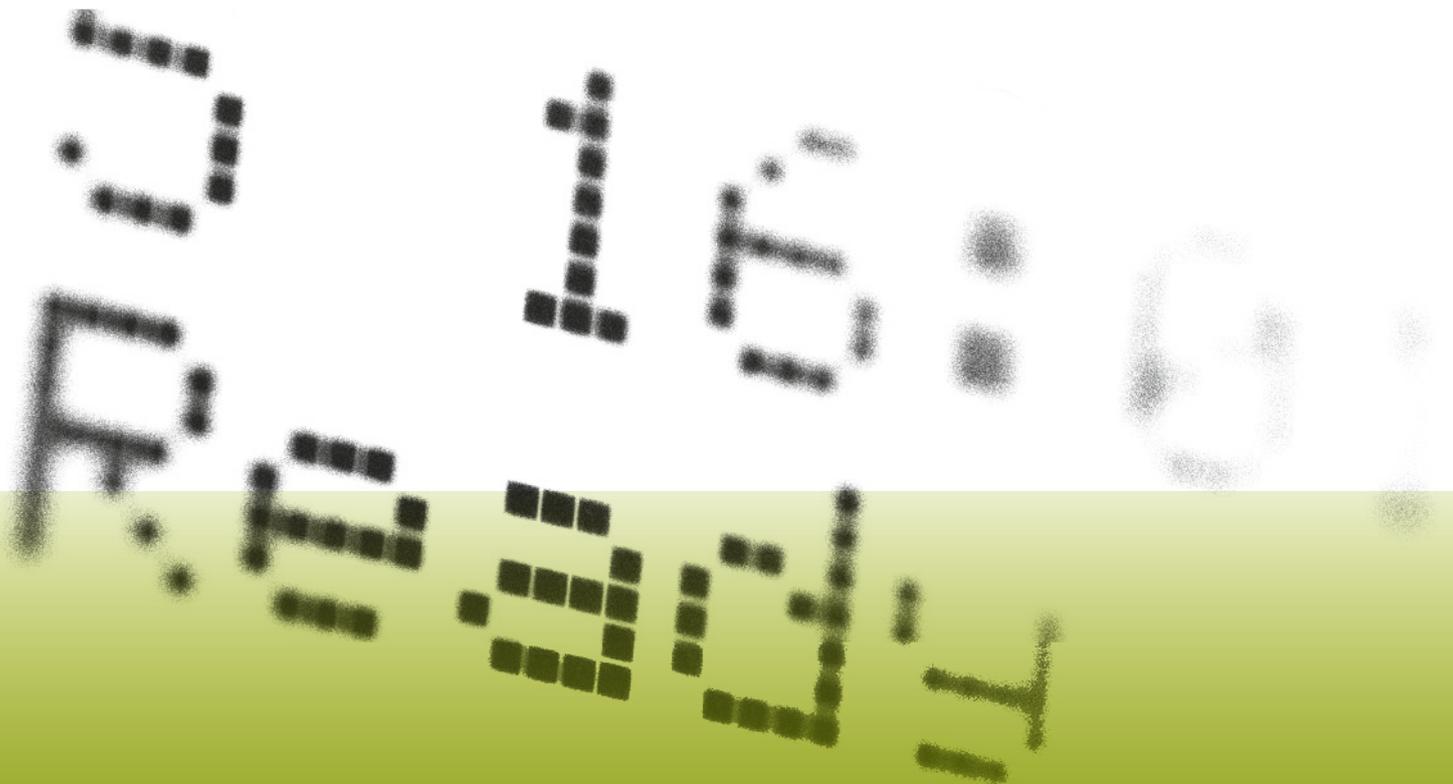


# Trading in financial instruments

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## - Guidelines and conditions

Last updated 1. September 2014





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General business terms  
and conditions for

# Trading in financial instruments

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etc, through an investment firm

1 November 2007

(Standard prepared by the Norwegian Securities Dealers Association)

These general business terms and conditions (the "General Business Terms and Conditions") have been prepared in accordance with the Norwegian Securities Trading Act and the regulations issued pursuant to it. These General Business Terms and Conditions supersede in their entirety earlier versions of the general business terms and conditions. Concepts which are defined in the Securities Trading Act have the same meaning when used in these General Business Terms and Conditions.

The Investment Firm's clients are assumed to have accepted these General Business Terms and Conditions as binding on themselves when they, after having received a copy of the General Business Terms and Conditions, submit orders to, or enter into contracts or carry out transactions with, the Investment Firm.

## 1 In brief about the Investment Firm

### 1.1 Contact information

SpareBank 1 SR-Bank ASA  
Organisation no.: NO 937 895 321  
PO Box 250  
NO-4066 Stavanger  
Telephone: +47 (915) 02002

For further information regarding direct communication with Sparebank 1 SR-Bank (hereafter called Investment Firm), refer to item 23.

### 1.2 Associated agents

Special rules in the Securities Trading Act apply to trading through associated agents.

### 1.3 The services that the Investment Firm is permitted to provide

#### ▪ The investment Firm has a license to provide the following investment services:

1. reception and transmission of orders on behalf of clients in connection with one or more financial instruments,
2. execution of orders on behalf of clients,
3. purchase/sale of financial instruments for own account,
4. active management of investors' portfolios of financial instruments on an individual basis and in accordance with the investor's mandates
5. investment advice
6. the placement of public offerings as mentioned in chapter 7 of the Securities Trading Act, the placement of share issues, and the underwriting of share issues or offers to buy financial instruments,
7. the operation of multilateral trading facilities (MTF).

#### ▪ The investment Firm will also offer the following associated services:

1. the safekeeping and management of financial instruments,
2. credit provision,<sup>1</sup>
3. advice on an undertaking's capital structure, industrial strategy and related issues, as well as advice and services in connection with mergers and acquisitions,
4. services related to foreign exchange operations when these take place in connection with the provision of investment services,
5. the preparation and dissemination of investment recommendations, financial analyses and other forms of general recommendations relating to transactions involving financial instruments,

6. services relating to underwriting,
7. services relating to underlying commodity derivatives and derivatives as mentioned in section 2-2, fifth subsection, no. 5 of the Securities Trading Act when these services are linked to investment services or associated services as mentioned in this provision.

### 1.4 Supervisory authority

The Investment Firm is under the supervision of Finanstilsynet (the Financial Supervisory Authority of Norway).<sup>2</sup>

## 2 The scope of the General Business Terms and Conditions

These General Business Terms and Conditions apply to the Investment Firm's investment services and associated services in so far as they are appropriate, as well as to services relating to transactions in instruments that are related to financial instruments.

A separate agreement or supplementary agreement may be entered into for the following:

1. the trading in and clearing of standardised (listed) derivatives contracts,
2. the trading in and/or clearing of non-standardised (OTC) derivatives contracts,
3. discretionary management,
4. trading on credit,
5. services in connection with the underwriting of share issues or other public offerings, including the placement of share issues or offers and services in connection with corporate mergers and acquisitions,
6. the borrowing and lending of financial instruments,
7. the safekeeping and management of financial instruments,
8. the conclusion of interest-rate and foreign exchange contracts,
9. the conclusion of contracts regarding charges and the provision of financial security,
10. trading in commodity derivatives,
11. trading and settlement, including clearing in foreign markets,
12. online trading, including the direct relay of orders to the Oslo Stock Exchange or other regulated market and possible programme trading.

<sup>1</sup> The provision of credit in order to buy financial instruments

<sup>2</sup> Address: Revierstredet 3, 0151 Oslo

The General Business Terms and Conditions apply in addition to separate agreements that are entered into between the Investment Firm and the client. In the case of any conflict between agreements mentioned in the previous paragraph and the General Business Terms and Conditions, the agreements are to take precedence.

Trading and clearing may also be regulated by separate trading rules/standard terms and conditions in the individual regulated markets and clearing houses where trading and settlement/clearing take place. In the case of any conflict between these General Business Terms and Conditions and/or agreements as mentioned in the previous paragraph and such trading rules/standard terms and conditions, the trading rules/standard terms and conditions for the regulated market or clearing house shall apply.

In addition to the abovementioned, the services mentioned in item 1.3 may be regulated by the Norwegian Securities Trading Act, Central Securities Depository Act, Stock Exchange Act, Companies Acts, Sale of Goods Act, Contracts Act, Consumer Purchases Act (cooling-off period) and other relevant legislation.

In addition, the Investment Firm is obliged to comply with the code of business conduct determined for the individual markets, including ethical norms stipulated by the Norwegian Securities Dealers Association. The ethical norms and rules governing the treatment of complaints regarding these are to be found at [www.vpff.no](http://www.vpff.no).

### **3 Telephone recording and other documentation**

The Investment Firm is obligated to record telephone conversations involving investment advice. Sound recordings are to be stored by the investment Firm for a retention period stipulated by prevailing law, calculated from the recording date, and will normally be deleted following the expiry of the mandatory storage period. Sound recordings of conversations with the individual client may be traced by searching, among other things, for the time of the call, the telephone number called and the Investment Firm employee who received the order. The Investment Firm may be ordered to hand the sound recording over to public authorities and others that may so demand pursuant to the law. In addition, sound recordings may be handed over to the Ethics Council of The Norwegian Securities Dealers Association, among other things in connection with the handling of complaints by clients, cf also item 26 of General Business Terms and Conditions. Agents and other undertakings that cooperate with the Investment Firm regarding the reception and transmission of orders and indications may have a duty to make sound recordings

of their conversations with clients.

Documentation of the communication through other communication channels than telephone involving investment advice will be stored by the Investment Firm for a retention period stipulated by prevailing law.

### **4 Client classification**

According to the Securities Trading Act, the Investment Firm has a duty to classify its clients in client categories as retail clients and professional clients, including eligible counterparties. The Securities Trading Act and regulations contain provisions governing how this categorisation is to take place. The Investment Firm will inform all clients of the category in which they have been classified.

The classification is important for the extent of the client's protection. The information and reports given to clients classified as retail clients are subject to more demanding standards than those given to clients classified as professional. In addition, according to the Securities Trading Act, the Investment Firm has a duty to obtain information on the client in order to assess whether the service or the financial instrument/product in question is suitable or appropriate for the client, designated the suitability test and appropriateness test in regulations. The classification is important for the scope of these tests and for the assessment of what will be the "best execution" when carrying out trading for the client, refer to item 7.3.

The General Business Terms and Conditions apply to clients classified as professional clients and retail clients. Clients classified as professional are nonetheless regarded as having particular prerequisites for assessing the individual markets, investment alternatives, transactions and the advice provided by the Investment Firm. Professional clients cannot invoke rules and conditions that have been stipulated to protect retail clients.

A client may request the Investment Firm to change its client classification. Information on such reclassification and on the consequences of this may be obtained from the Investment Firm.

### **5 The client's responsibility for information given to the Investment Firm, authorisations, etc.**

In order to meet the Securities Trading Act's requirement that a suitability test and appropriateness test must be conducted, the Investment Firm has a duty to obtain information from clients. The client is obliged to give the Investment Firm satisfactory, correct information on the client's

own financial position, investment experience and investment goals that is relevant to the desired services and financial instruments/products. The client is also obliged to inform the Investment Firm if there are any major changes in information that has previously been given.

The client understands that the Investment Firm is entitled to base its assessment of whether the service or the financial instrument/product is suitable or appropriate for the client on the information provided by the client and that the Investment Firm will basically not conduct its own investigations.

The client also understands that, if the Investment Firm is not given sufficient information, the Investment Firm will not be able to determine whether or not the service or financial instrument/product is appropriate or suitable for the client. In the case of investment advice or discretionary management, the client will then be informed that the service or instrument in question cannot be provided. In relation to the other investment services, the client will in such cases be informed that the information provided to the Investment Firm is insufficient and that the service or product is thus to be regarded as inappropriate. Should the client, despite such a warning, still wish to have the service or product, this may nonetheless be provided.

The client undertakes to comply with the prevailing legislation, rules, terms and conditions that apply to the individual trading system used for transactions. The same applies to settlement and clearing through the individual settlement or clearing houses.

The client warrants that its own trading and settlements take place in accordance with and within the scope of any permits and authorisations that apply to the client's trading in financial instruments. If requested by the Investment Firm, the client shall document such permits and authorisations. Should the client be a foreign undertaking, the Investment Firm reserves the right to demand the client to present, at the client's expense, a reasoned legal opinion on the client's permits and authorisations to enter into the trade in question.

The client shall give the Investment Firm an overview of the person or persons that may place orders, trade, enter into other agreements relating to financial instruments/products or are authorised to accept a trade on behalf of the client. A trade or acceptance from these is binding on the client unless the Investment Firm did not act in good faith in relation to the individual's authorisations. The client is responsible for keeping the Investment Firm at all times up to date as regards who may place orders or accept a trade on behalf of the client. The Investment Firm will not accept authorisations which stipulate limits for the individual client's trading unless this has been agreed on in writing in advance. The client undertakes to ensure

that the assets and financial instruments included in the individual assignment are free from liens, charges and encumbrances of any kind, such as a charge, security interest (possessory lien), attachment, etc. The same applies when the client acts as a proxy for a third party.

The client undertakes to provide the Investment Firm with information if the client places an order to sell financial instruments to which the client does not have access (short sales).

## **6 Risk**

The client understands that investing and trading in financial instruments and other related instruments are linked to a risk of loss. The invested capital may increase or decrease in value. The value of the financial instruments depends, among other things, on fluctuations in the financial markets. Historical price developments and yields cannot be used as reliable indicators of future developments in and yields on financial instruments. For more detailed information on properties linked to the various financial instruments and on the risk linked to trading in various financial instruments, refer to the information published on [www.sr-bank.no](http://www.sr-bank.no). If necessary, this material will be sent to the client prior to the Investment Firm's provision of services to the client. The client is responsible for evaluating the risk relating to the instrument and market in question.

The client should refrain from investing and trading in financial instruments and other related instruments if the client does not understand the risk relating to such an investment or trade. The client is urged to seek the advice of the Investment Firm and other relevant advisers and, if required, to seek additional information in the market before making a decision.

All trading carried out by the client after advice has been obtained from the Investment Firm is the responsibility of the client and takes place according to the client's own discretion and decision. The Investment Firm under no circumstances accepts any liability for the advice given if the client in whole or in part departs from the advice provided by the Investment Firm. The Investment Firm does not guarantee any specific outcome of a client's trading.

## **7 Orders and assignments – entering into contracts**

### **7.1 Placing and acceptance of orders and entry into of contracts<sup>1</sup>**

Orders from clients may be placed orally or in writing. Restrictions may apply to orders placed

via e-mail, SMS, MSN, AOL, Bloomberg, Reuters and other messenger systems. Further information on this is available from the Investment Firm. The order is binding on the client when it has been received by the Investment Firm unless otherwise separately agreed. Regarding trading in non-standardised derivatives (OTC) and in currency and interest-rate instruments, including foreign exchange, a trading contract will be regarded as having been entered into with binding effect once the terms and conditions for the contract in question have been accepted by the client.

The Investment Firm will record all orders and indications of orders to purchase, sell or subscribe for financial instruments that are made by telephone. The Investment Firm is unable to carry out orders or indications that are placed over telephones that are not connected to sound recording equipment (including mobile phones). Sound recordings and other documentation of contracts, orders and indications of orders placed in some other way will be stored by the Investment Firm. Reference is made to item 4 of the General Business Terms and Conditions. The Investment Firm will not be obliged to carry out orders or enter into contracts that the Investment Firm assumes may lead to a breach of public law legislation or rules stipulated for the regulated market(s) in question.

The client may not engage in programme trading to or via the Investment Firm unless this has been specifically agreed on.

## **7.2 Assignment period for orders**

For orders linked to trading in marketable securities and derivatives contracts with marketable securities as underlying instruments, the order applies on the assignment date or until the regulated market where the order has been placed closes, and it thereafter lapses unless otherwise agreed or is apparent for the order type or order specification in question. For other assignments, the duration of the assignment is to be agreed on separately.

The assignment date is the date when the client's order to the Investment Firm to buy or sell financial instruments through or to/from another undertaking has been received by the Investment Firm. When the Investment Firm initiates a trade, the assignment date is to be regarded as the date when the Investment Firm contacts the client and the assignment to purchase or sell the financial instruments in question is agreed to.

The order may be recalled to the extent that it has not been carried out by the Investment Firm.

## **7.3 Guidelines for executing orders**

The Investment Firm will endeavour to secure the client the best possible terms when carrying out received orders during the assignment period. The Investment Firm has prepared order execution

guidelines ("execution policy") that, among other things, state the trading systems in which transactions in various financial instruments are to be carried out. Trading will be carried out in accordance with these guidelines unless the client has given specific instructions regarding how the trade is to be carried out. The order will in such case be carried out in accordance with such instructions.

The order execution guidelines ("execution policy") must be separately approved by the client before the Investment Firm carries out orders on behalf of the client.

The Investment Firm reserves the right to aggregate the client's orders with orders from other clients, persons or undertakings that are or are not linked to the Investment Firm as described in the order execution guidelines. The aggregation of orders may take place if it is unlikely that aggregation in general will be a disadvantage to the clients. However, the client understands that the aggregation of orders may in individual cases cause drawbacks. The Investment Firm also reserves the right to aggregate the client's order with transactions carried out for the Investment Firm's own account. If the total order is only carried out in part, the client's order will basically be given priority over the Investment Firm's order. However, an exception to this applies if the Investment Firm could not have carried out the trade on correspondingly favourable terms without the aggregation.

Orders from a client that normally trades for the account of a third party, ie, for his employer or another natural or legal person, will be rejected if the client does not clearly state the party on whose account the order is being placed when placing the order. Should the client simultaneously place orders for both his own account and the account of his employer or another natural or legal person, the Investment Firm will give first priority to the party that the client represents.

## **7.4 Further trading rules**

For trading in financial instruments (equity instruments and debt instruments) that are listed on Oslo Stock Exchange/Oslo Axess, with the exception of derivative contracts, the separate trading rules apply to the relationship between the client and Investment Firm. These rules deal with the registration of orders and trades in the trading system, including the order conditions that can generally be used and the more detailed rules governing prioritisation and validity, etc. Refer in this context to [www.oslobors.no](http://www.oslobors.no) or [www.osloaxess.no](http://www.osloaxess.no).

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<sup>1</sup> Refer to the Norwegian Securities Dealers Association's recommendations regarding the provision of advisory services and reception of orders on anything other than a taped fixed telephone.

For trading which takes place in another Norwegian or foreign regulated market, the trading rules stipulated for the regulated market in question apply to the relationship between the client and Investment Firm.

## **7.5 Cancellation of orders and sales**

According to the trading regulations in question, the individual regulated market, may under certain circumstances cancel orders and transactions. Such a cancellation will be binding on the client.

## **8 Delivery and payment (settlement) of financial instruments in Norway**

### **8.1 Marketable securities, unit trust shares, standardised financial forward/futures contracts and options, as well as certificates**

For trading in Norway involving marketable securities in a regulated market, mutual fund holdings, standardised financial forward/futures contracts and options to buy or sell financial instruments registered in the Central Securities Depository (VPS), as well as certificates, the ordinary period allowed for settlement is three stock exchange days (T+2) unless otherwise agreed. By stock exchange day is meant any day on which the Norwegian stock exchange is open.

The period allowed for settlement is calculated as from and including the trading date up to and including the settlement date.

Settlement is conditional on the client making the necessary funds and financial instruments available to the Investment Firm on or before the settlement date. Unless otherwise agreed on separately, the Investment Firm has the client's permission and authority to, in accordance with the individual trade or transaction, debit the client's bank account or submit a request to debit the client's bank account, unless the bank in question demands that a separate written debit authorisation must have been provided by the client.

The client is to be regarded as having delivered financial instruments registered in the Central Securities Depository to the Investment Firm when the financial instruments have been received in one of the Investment Firm's securities accounts in the Central Securities Depository or in another securities account in the Central Securities Depository stipulated by the Investment Firm.

The client undertakes to deliver the sold financial instruments to the Investment Firm or to release the sold financial instruments in the client's securities account in the Central Securities Depository or another corresponding register by the settlement deadline. Unless otherwise agreed in writing, the placing of an order to sell financial instruments or acceptance of a sales offer means that the Investment Firm is authorised to request the client's account operator to release the financial instruments in question. The delivery of physical financial instruments must take place in accordance with a separate agreement with the Investment Firm.

The client is to be regarded as having paid the purchase price to the Investment Firm once the amount is credited to the Investment Firm's bank account, with a value date not later than the settlement date.

### **8.2 Foreign exchange (spot)**

Regarding foreign exchange trading (spot), the ordinary period allowed for settlement is three banking days (T+2) (including the trading day), unless otherwise agreed. By banking day is meant days on which banks in the market in question are open. The settlement period is calculated as from and including the trading date up to and including the settlement date.

### **8.3 Other financial instruments**

Special settlement deadlines and settlement rules apply to other financial instruments. These settlement rules and settlement deadlines will be stated in the separate contracts as mentioned in item 2, subsection two, and may sometimes be stipulated in the product information that has been prepared for the individual product. For trading in non-standardised derivatives (OTC) and trading in currency and interest-rate instruments, including currency exchange, the settlement deadlines and settlement rules may be agreed on when the contract is entered into. In such cases, the settlement deadlines and settlement rules will be stated on the confirmation sent to the client once the contract has been entered into.

## **9 Reporting of services carried out – confirmation of contracts and assignments carried out**

By means of a contract note/confirmation or in some other way, the Investment Firm will immediately report to the client the services it has carried out or the contracts that have been entered into. To the extent that this is relevant, the contract note/confirmation will also include information on costs related to the trade carried out for the client. Apart from this, the contract note/confirmation will contain information in accordance with the prevailing law.

Confirmations that are to be signed by the client must be signed as soon as they are received and then returned to the Investment Firm as stated in the confirmation or as agreed in some other way with the client.

The Investment Firm reserves the right to correct obvious errors in the contract note or other confirmation. Such corrections shall be made as soon as the error is discovered.

The delivery of financial instruments registered in the Central Securities Depository may be confirmed by a notification of changes from the Central Securities Depository to the extent that the client has agreed with the account operator that the client is to receive such confirmations.

## **10 Complaints to the Investment Firm by the client**

Should the client have agreed to receive a contract note or other confirmation by e-mail or other electronic medium and the client has not received such a contract note or confirmation by the end of the next stock exchange day/banking day after the date when the contract is entered into or the expiry of the assignment period, the client must notify the Investment Firm of this as quickly as possible and at the latest by the end of the second stock exchange day/banking day after the contract has been entered into or the assignment period has expired. Should the client have agreed to receive a contract note or other confirmation by ordinary post and the client has not received a contract note or other confirmation within three stock exchange days, or within seven stock exchange days for clients with a foreign address, after the contract has been entered into or after the expiry of the assignment period, the client must notify the Investment Firm of this as quickly as possible and at the latest by the end of the fourth stock exchange day or eighth stock exchange day respectively after the contract has been entered into or the assignment period has expired. The client must check the contract note or other confirmation immediately following receipt and must notify the relevant unit in the Investment Firm as quickly as possible after receipt and at the latest by the end of the next stock exchange day/banking day – if no complaint could be made during normal office hours on the date of receipt – if he wishes to allege that anything stated on the contract note/confirmation contradicts the order, assignment or trade agreed to. Should the client fail to complain as stated above, the client may be bound by such a contract note/confirmation even if this does not agree with the contract/conditions agreed on for the trade. If the delivery to the client of financial instruments registered in the Central Securities Depository has not taken place by the settlement date and the client has made the necessary funds available to

the Investment Firm, the client must immediately contact the Investment Firm and possibly give notice to the Investment Firm that the contract is terminated if the client wishes to invoke the delay as grounds for terminating the contract. However, the notice of termination will not have any effect if the client receives fulfilment within two stock exchange days after such a notice of termination is received. During this period, the client is not entitled to enter into an offsetting contract for the Investment Firm's account and risk.

"Immediately" in the previous paragraph is understood to mean the same day or – if a complaint or objection could not be submitted during normal office hours – at the latest by the end of the next stock exchange day. The deadline is counted from the earliest of:

- the date when the client became aware or ought to have become aware that delivery had not taken place by checking the Central Securities Depository account, by using an electronic confirmation system, by information from a fund manager or in some other way,
- the date when a notification of a change from the Central Securities Depository arrived at or, according to the period taken for normal postal deliveries, ought to have arrived at the address stated by the client.

If payment to the client has not taken place by the time stipulated in the contract and the client has delivered the financial instruments in question or made these available to the Investment Firm, the client must, as soon as he has ascertained or ought to have ascertained that no settlement has been received, contact the Investment Firm and possibly give notice to the Investment Firm that the contract is terminated if the client wishes to invoke the delay as grounds for terminating the contract. The client may only terminate the contract if the delay is significant.

In the case of the purchase or sale of financial instruments through the Investment Firm, the normal rules governing the invalidity of contracts apply correspondingly to the relationship between the buyer and seller. Should the client wish to assert that a contract is not binding due to invalidity, the client must submit an objection regarding this as soon as the client becomes aware or ought to have become aware of the circumstances that are pleaded as the grounds for the invalidity. (In all cases, the objection must be put forward within six months of the contract being entered into.) Such an objection will have the effect on the Investment Firm that follows from the normal rules governing the invalidity of contracts.

Verbal complaints or objections must be confirmed in writing immediately.

A partial delivery to the client does not entitle the client to terminate the contract unless the client has expressly stipulated full delivery.

For contracts concerning trading in foreign currency (currency spot contracts), the complaints deadlines are to be calculated on the basis of banking days and not stock exchange days.

Should the client not have complained during the period stated above, the right to complain is to be regarded as having lapsed.

If the Firm is an Investor Account Operator for the customer pursuant to item 16 paragraph 2, the customer shall immediately notify the Firm of any errors in the information registered for the Verdipapirsentralen ASA (VPS (Norwegian Central Securities Depository)) account. If no such notification is received by the Firm by the end of the market day after the customer received a change notice from VPS, the customer is to be regarded as having accepted the Firm's registration.

## 11 Cooling-off period

According to the Norwegian Act relating to a cooling-off period in connection with certain consumer purchase contracts, etc<sup>2</sup>, no cooling-off period applies to the services and trading in financial instruments that are covered by the General Business Terms and Conditions.

## 12 Trading abroad, including safe-keeping of the client's assets

For trading in and settlement of foreign financial instruments, reference is made to the trading rules and settlement or delivery conditions stipulated in the country or by the regulated market where the financial instruments were bought or sold. Refer also to the separate contract that must be entered into for this type of trade, cf item 2, no. 10. Should financial instruments or client assets be stored in another jurisdiction in connection with the provision of investment services or associated services, the Investment Firm will inform the client of this. The client understands that his rights in connection with such assets may deviate from that which applies in Norway. The client also understands that settlement and the provision of security in foreign markets may mean that the client's assets that have been provided as settlement or security are not kept separate from the assets of the foreign investment firm and/or settlement representatives used by the Investment Firm. The client understands that he bears the risk relating to his own assets that are transferred to foreign banks, investment firms, clearing agents, clearing houses, etc, in the form of settlement or security, and that the Investment Firm's liability to the client for such assets is limited in accordance with the laws and regulations in the country in question or in the market in question. Notwithstanding, The Investment Firm accepts no liability other than that laid down in Norwegian law,

cf item 18, unless this has been agreed upon in writing with the client.

## 13 Breach of contract

The client is considered to have breached his obligations under these General Business Terms and Conditions when, among other things:

1. the delivery of financial instruments or money is not effected within the agreed settlement deadline or the client fails to meet any other significant obligation under the General Business Terms and Conditions,
2. the client enters into a separate agreement with his creditors regarding a deferment of payments, becomes insolvent, enters into debt negotiations in any form, suspends payments, has bankruptcy proceedings initiated against him or is placed under public administration,
3. the client terminates his activities or substantial parts of these.

In the case of a breach of contract, the Investment Firm is entitled but not obliged to:

1. Declare that all unsettled trades have been breached and that assignments which have not been carried out are cancelled and terminated.
2. Exercise its right to retain security pursuant to section 12-2 of the Securities Trading Act. According to section 12-2 of the Securities Trading Act, the Investment Firm is entitled to retain the financial instruments that the Investment Firm has purchased for the client. Should the client not have paid the purchase price within three – 3 – days after the settlement deadline, the Investment Firm may, unless otherwise agreed in writing, without further notification sell the financial instruments for the client's account and risk to cover the Investment Firm's claim. Such a sale shall normally take place at the stock exchange price or a price that is reasonable with regard to the market's position. Should the financial instruments in question have been transferred to the client's securities account with the Central Securities Depository or another corresponding register for financial instruments, the Central Securities Depository or another corresponding register for financial instruments, the client is regarded as having released the financial instruments or as having authorised such a release in order for the cover sale to be carried out.
3. Realise assets other than those covered by item 2 above, and the client is regarded as having agreed to such an enforced sale

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<sup>2</sup> Act no. 105 of 21 December 2000

through an independent broker, cf section 1-3, second subsection of the Enforcement of Claims Act.

4. Close all the positions that are subject to collateral and/or the calculation of a margin.
5. Offset all of the Investment Firm's receivables from the client arising from other financial instruments and/or services, including claims for brokerage, disbursements for taxes and duties, claims for interest, etc, and expenses or losses caused by the client's breach of one or more obligations to the Investment Firm, against any credit balance the client has with the Investment Firm on the date of the breach, irrespective of whether the claims are in the same or different currencies. Claims in foreign currencies are to be converted into NOK at the market rate applicable on the date of the breach of contract.
6. For the client's account and risk, take the steps the Investment Firm deems necessary to cover or reduce the loss or liability arising from agreements entered into for or on behalf of the client, including reversing transactions.
7. Should the client fail to deliver the agreed performance or amount, including failing to deliver the financial instruments to the Investment Firm at the agreed time, the Investment Firm may immediately purchase or borrow financial instruments for the client's account and risk in order to satisfy its obligation to deliver to the purchaser. Correspondingly, the Investment Firm may carry out the actions it believes necessary to reduce the loss or liability arising from the client's breach of a contract with the Investment Firm, including actions to reduce the risk of loss linked to changes in currency rates, interest rates and other rates or prices to which the client's trade is linked. The client undertakes to cover any loss made by the Investment Firm with the addition of interest on arrears and charges, if any.
8. Demand payment of all costs and losses that the Investment Firm has incurred as a result of the client's breach of contract, including, but not limited to, share price losses in the case of cover sales and reverse transactions, costs incurred in connection with borrowing financial instruments, interest expenses, losses due to changes in currency rates, interest expenses, etc, and other charges for late delivery.

The provisions of the Sale of Goods Act relating to anticipatory breach, including cancellation in the case of such a breach, otherwise apply.

In the case of transactions as a consequence of a client's breach or anticipatory breach of contract, the client bears the risk, pursuant to item 13, no. 8 above, of price or market fluctuations through to the completion of the transaction, however in such a way that any gain does not accrue to the client unless the client can prove that he could have fulfilled his obligation on the settlement date and that the reason for settlement not taking place cannot be held against him. This applies regardless of whether the transaction is a hedging transaction carried out by the Investment Firm of a transaction carried out by the client after the Investment Firm has been notified that remedies for breach of contract will be implemented.

## **14 Interest in the case of a breach of contract**

In the event of a breach of contract by the Investment Firm or the client, interest is payable at the prevailing interest rate, cf the Act relating to interest on overdue payments<sup>3</sup>, unless otherwise specifically agreed.

## **15 Remuneration**

The Investment Firm's remuneration in the form of brokerage, price differences or other, possibly with the addition of charges related to trading and clearing, etc, will be subject to individual agreement. Brokerage is a commission (remuneration) that is added to or deducted from the value of the financial instruments which the client buys or sells. Brokerage is normally stated as a percentage. Up to a stated investment amount, the client pays a specific minimum brokerage. Alternatively, the remuneration may be calculated as a difference in price, ie, a markup on the buying price or a deduction from the sales price.

Prior to a service being provided, the client will receive more information on payment conditions and the total expenses the client is to pay for the individual financial instrument, investment service or associated service. This shall include information on commissions, charges and all the taxes and duties that are payable via the Investment Firm. Should it be impossible to state the expenses precisely, the basis for calculation shall be stated.

In addition, it shall be stated whether there may be other charges and/or expenses that are not payable or imposed via the Investment Firm.

The Investment Firm reserves the right to deduct expenses mentioned in the first paragraph, as well as any taxes, purchase taxes, etc, from the client's credit balance.

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<sup>3</sup> Act no. 100 of 17 December 1976

In the event that a trade is not effected, the Investment Firm will not demand any remuneration unless otherwise specifically agreed.

## **16 Operating a VPS account and depository**

Unless another agreement has been entered into, that stated below for operating a VPS account and storage/management in a depository applies.

If the Firm is to act as the customer's Investor Account Operator in VPS, the Firm is authorised to make the VPS account registrations that are covered by the customer's instructions, including transferring from the VPS account negotiable securities that are covered by sales orders given to the Firm. The customer is aware that bought or subscribed-for negotiable securities will be registered to the VPS account in question unless another account is stated on the order. The Firm is entitled to know the balance of the customer's VPS account. The customer is also aware that the Firm's VPS account registrations take place in accordance with the provisions stated in the Business Terms and Conditions of Verdipapirsentralen ASA, which are available on VPS's website <http://www.vps.no/public/Kontofoerer/>, and with the prevailing laws and regulations.

The Investment Firm may enter into an agreement with another depository regarding the management or safekeeping of the client's financial instruments. The choice of such a depository will be made to the best of the Investment Firm's ability, and the client is assumed to have accepted the choice of depository unless otherwise stated in the separate management and depository agreement. The Investment Firm accepts no responsibility for any breach by such a depository in dealing with or managing the client's assets.

## **17 Authorised representatives (intermediaries), managers and settlement agents**

Should the client place orders or assignments as an authorised representative, manager, settlement agent or the like for a third party, the client and the party on whose behalf or for whom the client is acting are jointly and severally liable to the Investment Firm for that third party's obligations to the Investment Firm to the extent that the obligations are a consequence of the client's order or assignment. Should the client make use of a manager, settlement bank or other intermediary, this must be regulated in a separate agreement. The use of such intermediaries does not exempt the end client from his responsibilities under these General Business Terms and Conditions. <sup>1</sup> Act no. 100 of 17 December 1976

## **18 Safekeeping of clients' assets – client accounts**

The Investment Firm will ensure that the client's assets are held separately from the Investment Firm's own assets and, as far as possible, protected from the Investment Firm's other creditors. The client will be credited with interest accrued on his assets in accordance with the Investment Firm's general terms and conditions.

Assets which are being held in safekeeping for the client by the Investment Firm will be deposited in the Investment Firm's client account with a credit institution or approved money-market fund pursuant to the written consent of the client. This account may be a combined account for assets being held in safekeeping for several clients by the Investment Firm. Should the credit institution be wound up, the account will be covered by the rules governing the Norwegian Banks' Guarantee Fund. For deposits in credit institutions that are members of the Norwegian Guarantee Fund Scheme, a combined client account of up to NOK 2,000,000 will be covered. The client's right to claim coverage will in such cases be reduced correspondingly. Should the assets be deposited in a credit institution that is not a member of the Norwegian Guarantee Fund scheme, the cover will be stipulated in the rules governing the guarantee scheme in the country where the credit institution is a member. In such a case, too, the right to cover may be reduced.

If the client's financial instruments are registered in the Central Securities Depository (VPS) or a similar securities register, they will be transferred to the client's account with this register. Should the financial instrument not be registered, it will be held in safekeeping by a bank or other depository. Should a register, bank or other depository become insolvent, the client's financial instruments will normally be protected as a claim kept separate from the assets of an insolvent debtor.

The Investment Firm accepts no liability to the client for the assets that have been transferred to client accounts with a third party (including combined accounts) provided such a third party has been chosen in accordance with prevailing law and the Investment Firm has otherwise complied with normal requirements of due care. This will also apply if a third party becomes insolvent or goes bankrupt. For further information on disclaimers of liability, refer to item 18.

If information is given in no other way, the Investment Firm will send the client an overview of the assets it is holding in safekeeping for the client each year. This does not apply if such information is included in other periodical overviews<sup>4</sup>. The Investment Firm may not use financial instruments that the Investment Firm is holding for safekeeping on behalf of the client unless otherwise separately agreed on. For separate rules apply to trading and settlement in foreign markets, cf item 12.

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<sup>4</sup> Not applicable to credit institutions

## **19 Liability and exemption from liability**

The Investment Firm is liable to the client for the fulfilment of purchases or sales it has entered into on behalf of or with the client. However, this does not apply if the client has approved the other party as the other party to the deal in advance.

The Investment Firm accepts no liability for settlement if the client does not make available to the Investment Firm the agreed funds and/or financial instruments on or before the settlement date. Nor is the Investment Firm liable if an unsuitable or inappropriate service is provided as a result of the client having given the Investment Firm incomplete or incorrect information, cf item 5.

The Investment Firm accepts no liability for indirect damage or loss that the client incurs as a result of the client's contract(s) with third parties lapsing in whole or in part or not being correctly performed. Furthermore, the Investment Firm and its employees are not liable for the client's losses as long as the Investment Firm or its employees have complied with normal requirements of due care when providing advice or carrying out orders or assignments. In the event that the Investment Firm has used credit institutions, investment firms, clearing houses, managers or other similar Norwegian or foreign intermediaries, the Investment Firm or its employees will only be liable for these intermediaries' acts or omissions if the Investment Firm has failed to use reasonable care when selecting its intermediaries. Should intermediaries as mentioned in the previous sentence have been used on the orders or demands of the client, the Investment Firm accepts no liability for errors or breaches by these intermediaries.

The Investment Firm is not liable for loss or damage due to impediments or other factors outside the Investment Firm's control, including power cuts, errors in or interruptions to electronic data processing systems or telecommunications networks, etc., fires, water damage, strikes, amendments to legislation, orders of the authorities or similar circumstances. Should a transaction be carried out in a Norwegian or foreign regulated market on the orders or demands of the client, the Investment Firm will not be liable for errors or breaches committed by this regulated market or any associated clearing house. The client is thus assumed to understand that the individual regulated market or individual clearing house may have stipulated separate rules governing its liability to members of the regulated market or clearing house, clients, etc., including different lesser disclaimers of liability.

The Investment Firm is not liable in those cases where a delay or omission is due to the settlement of money or securities being suspended or ter-

minated as a result of circumstances outside the Investment Firm's control.

Limitations on the Investment Firm's liability in addition to those stated above may result from a separate agreement with the client.

\* Not applicable to credit institutions

## **20 Withholding of taxes, etc.**

When trading in foreign markets, the Investment Firm may be obliged, pursuant to law, regulation or a tax treaty, to withhold amounts corresponding to various forms of taxes and duties. The same may apply to trading in Norway on behalf of foreign clients.

In the event that such withholding is to take place, the Investment Firm may provisionally calculate the amount in question and withhold this amount. When a final calculation is available from a competent authority, any excess amount withheld as tax shall be paid to the client as quickly as possible. The client is responsible for producing necessary and correct documentation.

## **21 Termination of the business relationship**

Trades or transactions that are under settlement at the time the business relationship is terminated shall be carried out and completed as soon as possible. On termination of the business relationship, the Investment Firm shall arrange a final settlement in which the Investment Firm is entitled to offset the Investment Firm's receivables, including brokerage, taxes, duties, interest, etc., against the client's credit balance.

## **22 Conflicts of interest**

The Investment Firm will endeavour to prevent conflicts of interest from arising.

The Investment Firm has guidelines and rules for ensuring that the Investment Firm's business areas operate independently of each other so that the client's interests are satisfactorily safeguarded.

The Investment Firm will especially place emphasis on there being satisfactory information barriers between the departments providing corporate finance activities and advisory services and other departments, and between discretionary portfolio management and the ordinary trading activities in the Investment Firm.

The Investment Firm also has a special duty to ensure that the client's interests take precedence

over the Investment Firm's interests and over the interests of persons with direct or indirect control of the Investment Firm. Similarly, individual clients are not to be unfairly favoured at the expense of other clients.

Should the Investment Firm have a particular interest above and beyond that of ordinary earnings, for example as a result of its own positions of a certain size in the financial instruments to which the advice refers, this interest will be disclosed.

This, along with the separate confidentiality provisions which apply, may result in the Investment Firm's employees who have contact with the client being prevented from using or not being aware of information that is available within the Investment Firm and which may be relevant to the client's investment decisions. In certain cases, the client's contact person(s) in the Investment Firm may not be able to provide advice on specific investments. In such cases, the Investment Firm may not state why it cannot provide advice or carry out a specific order. The Investment Firm and its employees may have interests of their own in relation to the transactions the client wishes to make. This may be a consequence of:

1. Corporate finance or advisory services for the investment object in question,
2. the provision of guarantees or participation in underwriting syndicates,
3. market-making and other forms of trading for own account,
4. advisory services and the execution of orders for other clients,
5. unpublished investment analyses, etc, prepared by the Investment Firm,
6. the employees' own investments.

## **23 Provision of security**

The Investment Firm is a member of the Norwegian Investor Compensation Scheme in accordance with the Securities Trading Act.

The Compensation Scheme provides compensation for claims which are due to its members' inability to repay money or hand back financial instruments that are stored, administered and managed by the members in connection with the provision of investment services and/or certain additional services. Each client is covered for up to NOK 200,000.

This scheme does not cover claims arising from transactions covered by a legally enforceable

money laundering conviction or clients that are responsible for or have benefited from circumstances that affect the Investment Firm when such circumstances have caused the Investment Firm's financial difficulties or contributed to a worsening of the Investment Firm's financial situation. Nor does the scheme cover claims from financial institutions, credit institutions, insurance companies, investment firms, securities funds and other collective management undertakings, pension institutions and pension funds, or from any of the companies in the same group as the Investment Firm.

## **24 Measures against money laundering**

On establishing a business relationship, the client shall, by providing proof of identity, document his identity and specify and document any powers of attorney or authority to represent others so that the Investment Firm can at all times meet its obligations pursuant to the law against money laundering. The client is aware that the Investment Firm is or may be obliged to provide public authorities with all relevant information related to its relationship with the client or individual transactions. This may be done without the client being informed that such information has been provided.

## **25 Duty to provide information to the authorities, complaints body, etc**

Notwithstanding the statutory duty of confidentiality, the Investment Firm will furnish information on the client, the client's transactions, and the balance of the client's account, etc, to any public bodies that demand such information pursuant to prevailing law.

The client is assumed to have agreed that information which is subject to a duty of confidentiality may also be given to any regulated markets, clearing houses, etc, that request such information pursuant to laws, regulations or other rules laid down for these bodies. Similarly, the client is assumed to have agreed to such information being furnished to the Ethics Council of the Norwegian Securities Dealers Association or the Banking Complaints Board (Bankklagenemnda) if this is necessary for dealing with complaints.

## **26 Amendments**

The Investment Firm reserves the right to amend the General Business Terms and Conditions. Significant amendments take effect from the date when they are notified in writing to the client. The client is regarded as having agreed to receive notification of amendments by e-mail if the client has informed the Investment Firm of his/her e-mail address. Other amendments come into force from

the date when they are published on the Investment Firm's website. Amendments will not have any effect on orders, trades, transactions, etc. that are entered into or completed prior to the date when the amendments are notified.

## **27 Notifications, language and authorisations**

The client's written notifications are to be sent by letter, fax or, subject to agreement, by SWIFT or some other form of electronic communication. Notifications sent by fax are to be confirmed by sending the original letter unless otherwise stated in these General Business Terms and Conditions. To the extent that the client knows or ought to know of the entity in the Investment Firm that is the proper recipient, the notification must be sent to the entity in question and, if it is not, is not to be regarded as having been received by the Investment Firm. The client may communicate with the Investment Firm in Norwegian or English.

When establishing the business relationship, the client shall notify the Investment Firm of his personal ID number/organisation number, address, telephone and fax number, any electronic addresses and any authorised representatives. The same applies to bank accounts and securities accounts in the Central Securities Depository or other corresponding register. Any changes are to be notified to the Investment Firm immediately in writing.

## **28 Interpretation**

In the case of any conflict with legislation that may be waived by agreement, the General Business Terms and Conditions are to take precedence.

Should there be a reference to legislation, other regulations or these terms and conditions, this shall be understood to be a reference to the prevailing legislation, regulations and terms and conditions.

Regarding the relationship between the General Business Terms and Conditions and other agreements entered into between the Investment Firm and client, refer to item 2.

## **29 Legal venue – choice of law – dispute resolution**

Disputes arising in the client-Investment Firm relationship, including disputes relating to the General Business Terms and Conditions, are to be resolved pursuant to Norwegian law, with the Stavanger District Court as the (non-exclusive) legal venue. Clients with a foreign legal venue waive any right they have to oppose a lawsuit that is related to these terms and conditions being heard by the Stavanger

District Court. Clients with a legal venue abroad may, irrespective of the above, be sued by the Investment Firm in such a legal venue should the Investment Firm wish to do so.

Should the client be dissatisfied with the way in which the Investment Firm deals with his complaint, the client is entitled to bring questions of the interpretation of the General Business Terms and Conditions and issues related to the Investment Firm before the Ethics Council of the Norwegian Securities Dealers Association in accordance with the ethical standards and rules for dealing with matters related to the ethical standards. In some cases, complaints may also be brought before the Banking Complaints Board. The Investment Firm can provide more information on complaints procedures for the individual products. Foreign clients, including Norwegians domiciled abroad, who may invoke legislation and regulations which protect them from legal action by the Investment Firm in relation to their obligations to the Investment Firm, waive such rights to the extent that this does not directly conflict with the legislation or regulations in question.

## **30 Personal Data Act**

The Investment Firm, represented by its CEO, has the role of controller pursuant to the Personal Data Act.

Personal data will be processed in accordance with prevailing laws and regulations. The objectives of processing personal data are the execution of the contracts entered into between the Investment Firm and the client, administration, invoicing/settlement and the marketing of investment products and services.

Should there be a statutory duty to disclose information, personal data may be handed over to public authorities.

The client may ask for information on the kind of processing of personal data the Investment Firm carries out and what information is registered, cf section 18 of the Personal Data Act. The client may demand that incorrect or defective information be rectified, and that information is to be deleted when the purpose of the processing has been completed and the information cannot be used/archived for other purposes, cf sections 27 and 28 of the Personal Data Act.

## **31 Language**

These General Business Terms and Conditions are issued in Norwegian and English versions. In the case of conflict, the Norwegian version is to take precedence.

# Order execution policy - financial instruments

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## Order execution policy – financial instruments

### 1 Policy

Under the Norwegian Securities Trading Act, when executing an order investment firms are obliged to take all reasonable steps to achieve the best possible result for the client ("Best Execution")<sup>1</sup>. On receiving a client order, SpareBank 1 SR-Bank will make a specific assessment of how to execute the order to achieve the Best Execution. The order execution policy given below (the Policy) will be normative for this assessment.

The policy applies to financial instruments. The definition of financial instruments, cf. Section 2-2 of the Norwegian Securities Trading Act, includes UCITS, unit trusts, money market instruments and derivatives. Refer to section 2 below regarding exceptions from the Policy.

The Policy will be updated at least once a year, or in the event of changes that are significant to SpareBank 1 SR-Bank or in the financial instruments markets. An updated version of our order execution policy will be available at any time at [www.sr-bank.no](http://www.sr-bank.no). Other than this, no other information will be sent to our clients in the event of amendments to the Policy.

### 2 Exceptions from the Policy

#### 2.1 The Policy only applies to execution of client orders

The Policy only applies when SpareBank 1 SR-Bank executes orders on behalf of clients. Acting as a market maker is not regarded as executing orders on behalf of clients. That is to say the Policy does not apply when SpareBank 1 SR-Bank publishes prices or stipulates buying and selling prices. Similarly, it will not be regarded as an order execution when the client negotiates the price of a transaction where SpareBank 1 SR-Bank is the counterparty.

#### 2.2 Execution venues

SpareBank 1 SR-Bank may quote prices when trading in certificates, bonds, foreign exchange trading and when trading in derivatives (currency, interest rate, share and raw material derivatives). When SpareBank 1 SR-Bank stipulates prices for trading in the aforementioned financial instruments and the client carries out trading in accordance with the stipulated price, the provisions in the Norwegian Securities Trading Act relating to Best Execution will not apply.

### 2.3 Specific client instructions

If the client gives specific instructions, this may prevent SpareBank 1 SR-Bank from taking the steps set out in the Policy given below in order to obtain Best Execution. If such instructions are given, the provisions in the Norwegian Securities Trading Act relating to Best Execution will not apply.

Where specific instructions relate to only part of order, we will continue to apply our Best Execution Policy to those aspects of the order not covered by those instructions.

A special agreement may be entered into between the client and SpareBank 1 SR-Bank that orders received in special situations will be dealt with as a specific instruction.

### 3 Relevant factors when choosing a method of execution

When choosing the method of execution, SpareBank 1 SR-Bank will take into account the price, costs, speed, likelihood of completion and settlement, the size and nature or any other relevant factors.

If you are a Retail Client, the total payment the client is to make will usually be a decisive factor for choice of method of execution. This means that other factors, such as speed, likelihood of completion and settlement will only have precedence over the immediate price and cost if they are instrumental in delivering the Best Execution for the client.

### 4 Emphasising relevant factors

When SpareBank 1 SR-Bank executes orders on behalf of a client, the following criteria will be taken into consideration when emphasising the relevance of the above-mentioned factors (section 3):

- The client (retail/professional)
- The order
- The financial instruments that are the subject of the order
- The execution venues to which the order can be directed

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<sup>1</sup> cf. Section 10-12 of the Norwegian Securities Trading Act

## 5 Alternative methods of order execution

SpareBank 1 SR-Bank will execute an order for the client by one of the following ways:

- (a) On a regulated market, MTF, market maker, etc.
- (b) Executing your order with a matching order from another client
- (c) By partly or fully acting as the counterparty ourselves ("own-account trading")
- (d) By placing the order with another investment firm with which SpareBank 1 SR-Bank cooperates.

Re. a) SpareBank 1 SR-Bank is a member of the following regulated markets:

- Currently none

As a general rule, SpareBank 1 SR-Bank does not currently carry out transactions that are traded over a stock exchange or other regulated market. In those rare cases where SpareBank 1 SR-Bank places an order in an execution venue, the order will be placed in the execution venue that SpareBank 1 SR-Bank believes will give the Best Execution for the client.

Re. b) The orders are executed by SpareBank 1 SR-Bank carrying out the contract formation on behalf of the clients. SpareBank 1 SR-Bank will then protect the clients' interests in the best possible way and will price the financial instruments based on the stock exchange price or if this is not available, a price that is reasonable in relation to the market position.

Re. c) If SpareBank 1 SR-Bank is the counterparty, this will be written on the contract note or through other confirmation. If SpareBank 1 SR-Bank acts as counterparty (own-account trading) in relation to a customer order, this will take place at a price equivalent to or better than the best obtainable price in an execution venue, such as the stock exchange price. The exception will apply if SpareBank 1 SR-Bank, in its capacity as a market maker, at the client's direct request states a price that SpareBank 1 SR-Bank either will buy or sell the financial instruments in question at and the client accepts this price.

Re. d) For orders relating to financial instruments traded on authorised markets where SpareBank 1 SR-Bank is not a member, SpareBank 1 SR-Bank will usually transmit the order to a third party for execution. SpareBank 1 SR-Bank's obligation to take all reasonable steps to obtain the best possible result for the customer will also apply to

execution of client orders in these markets. This means that when choosing business partners, SpareBank 1 SR-Bank will consider whether they have a satisfactory order execution policy. SpareBank 1 SR-Bank has entered into agreements with foreign investment companies regarding execution of such orders.

### 5.1 Unlisted shares

If an unlisted share (or other financial instrument) has been registered on the Norwegian OTC list, SpareBank 1 SR-Bank will enter the order as an interest in the OTC system and then contact another firm that has registered a corresponding interest in the OTC system. SpareBank 1 SR-Bank will negotiate with this firm to achieve the best possible price for the client.

## 6 Trading outside a regulated market and multilateral trading facility (MTF)

Trading may take place outside a regulated market and MTF if the client has agreed to this.

## 7. Execution of orders

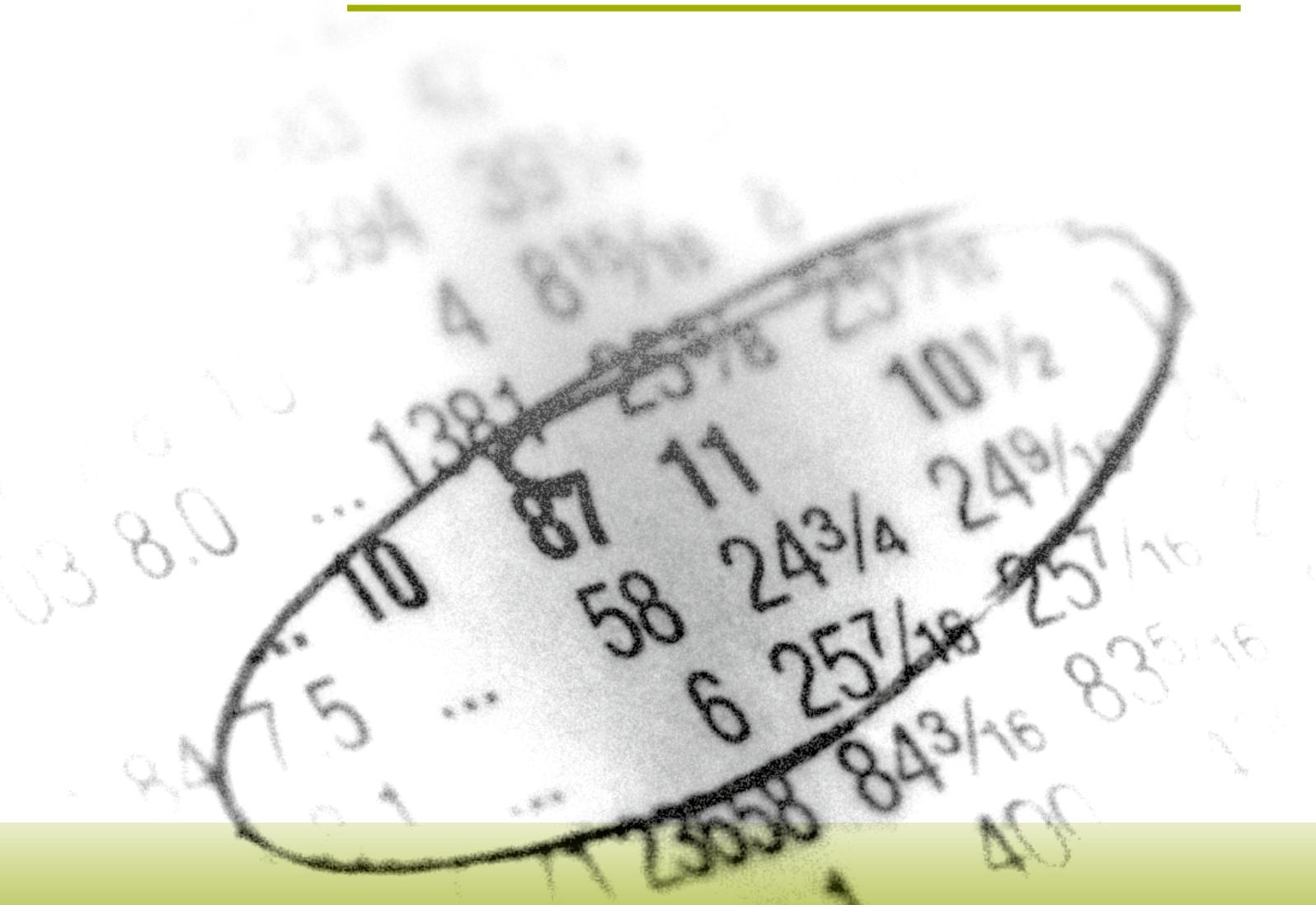
If there are no specific client instructions, SpareBank 1 SR-Bank will execute the orders immediately after receiving the order from the client. This means that SpareBank 1 SR-Bank will prioritise incoming orders according to the time when they were received, unless SpareBank 1 SR-Bank believes that the Best Execution is to be achieved by aggregating orders together with other orders. SpareBank 1 SR-Bank reserves the right to aggregate the clients' orders with other orders from other clients, persons or companies, which are or are not associated with SpareBank 1 SR-Bank. Orders will be aggregated if it is unlikely that aggregation will generally be a disadvantage to any of the clients. However, the client understands that in some cases aggregation of an order may be a disadvantage. SpareBank 1 SR-Bank also reserves the right to aggregate the client's orders with transactions made on SpareBank 1 SR-Bank's own account.

If the aggregated order is only partly executed, the client's order will be given priority over SpareBank 1 SR-Bank's order. However, an exception to this applies if SpareBank 1 SR-Bank could not have executed the order on equivalent favourable terms without the aggregation.

If the order is received outside the market's hours of business, the order will usually be executed when the marketplace re-opens.

# Information on client categorisation

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## Information on client categorisation

### 1. Categorisation

SpareBank 1 SR-Bank is obliged to classify all our clients in different client categories depending on professionalism. Clients are to be classified as retail clients, professional clients or eligible counterparties.

The extent to which the client is protected by legislation depends on the client category. Below is an account of the main features of investor protection applicable to each client category. This account is not exhaustive.

To a certain extent, the legislation allows clients that so wish to ask SpareBank 1 SR-Bank for a transfer to a different client category. SpareBank 1 SR-Bank underlines that a transfer to a different client category must be approved by SpareBank 1 SR-Bank. Even if the conditions for a reclassification stated below are met, SpareBank 1 SR-Bank is nonetheless free to decide whether or not we wish to comply with a request.

### 2. Retail client

#### 2.1 Degree of investor protection

Clients classified in this client group have the highest level of investor protection. This means, among other things, that SpareBank 1 SR-Bank is obliged, to a greater extent than for the other client categories, to adapt the services it provides to the client's individual needs and qualifications.

In addition to SpareBank 1 SR-Bank's services to the client being subject to the general code of good business conduct, SpareBank 1 SR-Bank will consider, before any trading takes place or advice is given, whether a service / transaction, including a financial instrument, is appropriate or suitable for the client. Investment advice will be given on the basis of the information provided by the client on his / her investment goals, financial position and experience and knowledge of the service / transaction in question.

Should the client wish to carry out a transaction that SpareBank 1 SR-Bank does not believe to be appropriate, taking into account the client's knowledge and experience, SpareBank 1 SR-Bank has a duty to advise against this. However, the transaction may nonetheless be carried out if the client so wishes, despite the warning. SpareBank 1 SR-Bank's duty to consider whether a service/ transaction are appropriate does not apply in all cases. Among other things, there is an extensive exception to online trading.

Status as a retail client also entails an extensive right to receive information from SpareBank 1 SR-Bank. SpareBank 1 SR-Bank is obliged, among other things, to inform the client of the financial

instruments in question and of the risks relating to these, of the trading systems and marketplaces SpareBank 1 SR-Bank uses, and also prices and other costs of all transactions, so that the client is able to make an informed investment decision.

### 2.2 Opportunity to be reclassified

Retail clients may ask to be treated as professional clients or as eligible counterparties provided more detailed conditions are met and a further specified procedure is followed. Such a reclassification results in a lower level of investor protection.

#### 2.2.1 From retail client to professional client

##### 1) The absolute requirements.

The client must meet at least two of the following criteria;

1. the client has carried out transactions of a significant size on the relevant market at an average frequency of 10 per quarter over the previous four quarters,
2. the size of the client's financial instruments portfolio, defined as cash deposits and financial instruments, exceeds an amount which in NOK is equivalent to EUR 500,000,
3. the client works or has worked for at least one year in the financial sector in a professional position, which requires knowledge of the relevant transactions or investment services.

##### 2) Procedure

Clients must inform SpareBank 1 SR-Bank in writing that they wish to be treated as a professional client. The client will be asked to document that the requirements stated in item 1 above are met. In addition, clients must declare in writing in a separate document that they know the consequences of losing the protection which is afforded by being classified as a retail client and which is mainly evident from this letter. SpareBank 1 SR-Bank may be contacted for further information.

SpareBank 1 SR-Bank must make a specific assessment of whether the client –based on the client's expertise, experience and knowledge and the planned transactions – is capable of making own investment decisions and understands the risks involved.

#### 2.2 From retail client to eligible counterparty

Should a retail client ask to be reclassified as an eligible counterparty, the client must first become a professional client. For a reclassification from a retail client to an eligible counterparty, refer therefore to the information on reclassification from a retail to a professional client in item 2.2.1 and from a professional client to an eligible counterparty in item 3.2.2.

### **3. Professional client**

#### **3.1 Degree of investor protection**

Clients classified as professional clients are protected by the legislation to a slightly lesser extent than retail clients. Professional clients are in some areas regarded as able to safeguard their own interests, and the services provided will therefore be adapted to a lesser extent to suit the client's individual needs.

As a basic rule, the code of good business conduct applies in full to professional clients. However, the extent of SpareBank 1 SR-Bank's obligations is slightly reduced. Among other things, professional clients are normally expected to have sufficient knowledge to assess whether a transaction is appropriate. When giving investment advice, SpareBank 1 SR-Bank will thus be based on the investment goals stated by the client and we will basically not ask for information on the client's financial position or knowledge / experience. SpareBank 1 SR-Bank will not assess whether carrying out the transactions in question is appropriate, and it also has no duty to advise against the transaction as it has with regard to retail clients. Therefore, execution of transactions will be slightly less elaborate than it is for retail clients. This may affect the rate at which the transaction in question is executed. Another consequence will be that professional clients can have access to a wider range of products.

Professional clients are also assumed to be able to determine the information that is necessary in order to make an investment decision. This means that professional clients must, to a greater extent than retail clients, obtain the information they regard as necessary themselves. However, professional clients will receive reports on services that have been carried out and other important information, such as SpareBank 1 SR-Bank's order execution policy and security rights or possessory liens in financial instruments or assets.

#### **3.2 Opportunity for reclassification**

Professional clients may ask to be classified as retail clients and thereby achieve a higher level of investor protection. Professional clients are responsible for SpareBank 1 SR-Bank being kept continuously informed of any change that may affect their classification.

##### **3.2.1 From professional to retail client**

It is the professional client's duty to request a higher level of protection when the client feels unable to make a correct risk assessment. Such a change of client classification is to be documented by a written contract between SpareBank 1 SR-Bank and the client.

##### **3.2.2 From professional to eligible counterparty**

Professional clients that are legal entities and meet

two of the three criteria stated in item 2.2.1 no. 1) above, may ask to be treated as eligible counterparties. Express confirmation is to be obtained from the client, in which the client agrees to be treated as an eligible counterparty.

### **4. Eligible counterparty**

Clients with the status of an eligible counterparty have basically the same protection as a professional client, refer to item 3. However, the investor protection for this group is significantly reduced when SpareBank 1 SR-Bank provides the following investment services; receiving and giving orders, execution of orders for the client's account and the own-account sale of financial instruments. When providing such services to eligible counterparties, SpareBank 1 SR-Bank is not subject to the Securities Trading Act's provisions regarding good business conduct, best execution (including SpareBank 1 SR-Bank's order execution policy) and certain rules associated with order processing.

As regards the requirement of assessing suitability and appropriateness, the rules applying to professional clients will apply correspondingly to eligible counterparties.

The exemption from the provision regarding good business conduct means, among other things, that some of the rules stipulating requirements as to information and reporting are not applicable to this client category.

This also basically applies to the rule that SpareBank 1 SR-Bank must ensure that the client's interests are safeguarded in the best possible way. However, the requirement of good business conduct as a general principle must apply irrespective of the exemption from the Securities Trading Act provision, and eligible counterparties will therefore be protected to a certain extent by general principles of good business conduct.

#### **4.2 Opportunity to be reclassified**

Eligible counterparties may ask to be reclassified as a professional client or retail client and thereby achieve a higher level of investor protection.

##### **4.2.1 From eligible counterparty to professional client**

Eligible counterparties may ask to be treated as a professional client if they wish a higher level of investor protection and to be covered by the rules regarding good business conduct.

##### **4.2.2 From eligible counterparty to retail client**

Should clients that are initially classified as eligible counterparties wish a higher level of investor protection, they may ask to be treated as a retail client. Item 3.2.1 above will apply correspondingly in the case of such a request.



# Information to clients regarding the characteristics of and risks associated with financial instruments

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(Standard prepared by the  
Norwegian Securities Dealers Association)

Last updated 10 September 2012

## Information to clients regarding the characteristics of, and risks associated with; Financial instruments (Shares, share-related instruments, bonds and mutual funds)

### The client must fully understand:

- that investments are made or other positions taken in financial instruments at the client's own risk
- the need to carefully study the securities company's general business terms and conditions and other relevant information on the financial instrument in question and its properties and risks before trading in financial instruments
- the need to immediately scrutinise contract notes and submit any complaints regarding any errors
- the need to regularly monitor changes in the value of holdings of financial instruments
- the need to react by selling holdings if required in order to reduce the risk of losses on the client's own investments

## 1. Trading in financial instruments

Trading in financial instruments, such as shares, primary capital certificates, bonds, certificates, financial derivatives or other rights and obligations that are intended for trading in the securities market, normally takes place in an organised form in a **trading system**. By a trading system <sup>1</sup> is meant a regulated market, multilateral trading facility (MTF) <sup>2</sup>, systematic internaliser (SI) <sup>3</sup>, market maker <sup>4</sup> or other liquidity guarantor.

Trading takes place through the investment firms that use the trading system. As a client, you must normally contact such an investment firm in order to buy or sell financial instruments. There are also investment firms that broker orders to an investment firm that then uses the trading system. Trading may also take place internally in an investment firm, for example by the investment firm becoming the other party to the trade or through a trade with another of the investment firm's clients (internal trade).

Various types of financial instruments are traded in a **regulated market** (including a stock exchange). On the Oslo Stock Exchange, shares, primary capital certificates, bonds, certificates, some fund units and a number of different financial derivative instruments are traded. Further information on where and how these instruments are traded will be provided below. Information on the prices of the financial instruments traded in the regulated market is published regularly via the market's website, in newspapers or through other media.

## 2. The risk relating to trading in financial instruments

### 2.1 In general regarding risk

Financial instruments normally provide a **return** in the form of a **dividend** (shares and fund units) or interest (interest-bearing instruments). In addition, the price of the instrument may increase or decrease compared to the price when the investment was made. In the description below, the word investment also means any negative positions in the instrument (short positions, refer to item 8 below). The total return is the sum of the dividend/interest and change in the price of the instrument.

Naturally, the investor is seeking a total return that is positive, i.e. a **profit**. However, there is also a **risk** that the total return will be negative, i.e. that the investor will make a **loss** on the investment. The risk of loss varies between different instruments. Normally, the chance of making a profit on an investment in a financial instrument is linked to the risk of loss. The longer the investor intends to keep the investment, the greater the chance of making a profit or loss. In an investment context, the word risk is often used to express both the risk of loss and the chance of making a profit. In the description below, however, the word risk is used solely to designate the risk of loss. There are various ways of investing in financial instruments in order to reduce the risk. It is normally better from a risk point of view to invest in several different financial instruments rather than a single one or only a few financial instruments. These instruments should have properties which mean the **risk is spread** and should not gather risks that may be triggered simultaneously. Trading in foreign financial instruments also involves a **currency risk**.

Investments in financial instruments are associated with an **economic risk**, which will be described in greater detail below. The client is personally responsible for this risk and must therefore become acquainted with the terms and conditions, prospectuses, etc, governing trading in such instruments and with the instruments' individual risks and characteristics. The client must also regularly monitor his/her investments in such instruments. This is the case even if the client has received personal advice in conjunction with the investment. Information for use in monitoring prices and thus the change in the value of the client's own investments may be obtained from price lists published in the media, e.g. newspapers, the Internet, teletext and, in certain cases, by the investment firm itself. If necessary the client should, in his/her own interests, react swiftly, for example by selling investments that are developing negatively or by providing additional collateral in conjunction with investments financed through loans where the collateral value has fallen.

<sup>1</sup> § 10-25 (2) of the Securities Regulations

<sup>2</sup> Section 2-3 (4) of the Securities Trading Act – MTFs do not currently exist in Norway

<sup>3</sup> Section 2-4 (4) of the Securities Trading Act – SIs do not currently exist in Norway

<sup>4</sup> Section 2-4 (4) of the Securities Trading Act – several investment firms act as liquidity guarantors for selected companies.

## 2.2 Various risk concepts

In connection with the risk assessment that an investor should conduct when investing and trading in financial instruments and should continue to carry out during the entire investment period, there are many different types of risk and other factors that the client should be aware of.

Below are some of the most important types of risk:

**Market risk** – the risk that the entire market, or certain parts of the market, in which the client has invested declines (for example, the Norwegian stock market).

**Credit risk** – the risk that the issuer or a contracting party will become unable to pay.

**Price volatility risk** – the risk that major fluctuations in the price of a financial instrument will have a negative effect on the investment.

**Price risk** – the risk that the price of a financial instrument will drop.

**Tax risk:** the risk that tax rules and/or tax rates are vague or may be changed.

**Currency risk:** the risk that a foreign currency to which the investment is linked falls in value (for example, certain fund units in a mutual fund which has invested in US securities listed in USD).

**Leverage/gearing effect risk:** the structure of a derivative instrument which means there is a risk that a change in the price of the underlying asset will have a major negative effect on the price of the derivative instrument.

**Legal risk:** the risk that relevant laws and rules are vague or may be amended.

**Company-specific risk:** the risk that a company does worse than expected or that the company is affected by a negative incident so that the financial instruments which are linked to the company may fall in value.

**Industry-specific risk:** the risk that a specific industry does worse than expected or is affected by a negative incident so that the financial instruments which are linked to the companies in the industry in question may fall in value.

**Liquidity risk:** the risk that the client cannot sell a financial instrument at a time when the client wishes to do so because the turnover in, and interest in buying, the financial instrument is low.

**Interest-rate risk:** the risk that the financial instrument in which the client invests falls in value due to changes in the market interest rate.

## 3. Shares and share-related instruments

### 3.1 In general regarding shares

#### 3.1.1 Shares and limited companies

Shares in limited companies entitle their owner to a proportion of the company's **share capital**. If the company makes a profit, the company usually distributes **dividends** on the shares. Shares also entitle the holders to vote at the company's general meeting, which is the highest-ranking decision-making body in the company. Normally, the more shares the holder owns, the greater the shareholder's proportion of the capital, dividends and votes is. Voting rights may vary depending on the class of shares concerned. There are two types of limited companies in Norway, **public limited companies (ASA)** and **private limited companies (AS)**.

#### 3.1.2 The share price

The **price** of a share is affected to a great extent by the **company's prospects**. A share price may rise or fall depending on investor analyses and assessments of the company's opportunities to make **future profits**. Future external developments in the economy, technology, legislation, competition, etc, determine the demand for the company's products or services and, consequently, are also of fundamental importance to developments in the price of the company's shares.

The **general interest rate level** (the market interest rate) also plays a crucial role in price developments. If the market interest rate increases, interestbearing financial instruments that are issued at the same time may provide a better return. In such cases, the prices of listed shares normally fall, as will those of already traded interest-bearing instruments with a lower interest rate. The reason for this is that the increasing return on newly issued interest-bearing instruments may be better, relatively speaking, than the return on shares or on already traded interestbearing instruments. In addition, share prices are negatively affected by the fact that interest payments on the company's debts increase, since this reduces the company's chances of making profits in the future.

**Other factors directly related to the company**, such as changes in the company's management and organisation, disruptions to production, etc, may affect the company's future ability to create profits, both in the long- and short-term. In the worst case, a company may perform so poorly that it must be declared **bankrupt**. The share capital, i.e. the capital invested by the shareholders, is that which is repaid last from the estate in bankruptcy. The company's other debts must first be repaid in their entirety. This often results in there being no assets left in the company after its debts have been paid,

so that the shares in the company are worthless.

Developments in the prices of financial instruments listed on major **foreign** regulated markets and other trading systems also affect price developments in Norway, among other things because several Norwegian companies are also listed on foreign regulated markets or are traded in other trading systems so that price equalisation (arbitrage) takes place between the markets. The prices of shares in companies that belong to the same industry/sector are often affected by changes in the prices of the shares of other companies within the same industry/sector. This effect may also apply with respect to companies in different countries.

Players in the finance market often have different opinions on how share prices will develop. These factors, which also include how the company will be valued, contribute to there being both buyers and sellers. If the investors share the same opinion regarding price trends, they will either buy, thereby creating buying pressure from many buyers, or sell, thereby creating selling pressure from many sellers. Prices increase in the event of buying pressure and fall in the event of selling pressure.

The **turnover**, i.e. the quantity of a particular share that is bought or sold, affects the share price. In the event of a high turnover, the difference, also called the **spread**, between the price the buyers are prepared to pay (bid price) and the price requested by the sellers (ask price) is reduced. A share with a high turnover, where large amounts can be traded without any major effect on the price, enjoys good **liquidity** and is thus easy to buy or sell. Companies listed on a regulated market, such as the Oslo Stock Exchange and Oslo Axess, normally enjoy good liquidity.

The **framework conditions** for industry, both national and international, may also affect share prices. Changes in tax and duty levels nationally and in other countries affect the companies' cost levels and thus their competitive situation. International agreements between countries regarding customs charges and duties on the import and export of goods and services affect the competition situation that exists between companies and thus also share prices. Major events such as disasters, terrorist acts and wars may have major effects on share prices on stock exchanges worldwide.

The key figures for the prices at which shares are traded, such as "highest" "lowest" and "latest", as well as information on traded volumes, are published every day, among other places in most major daily newspapers, on teletext and on various Internet sites that are maintained by marketplaces, investment firms and media companies. How current such price information is may vary depending on the manner in which it is published.

### 3.1.3 Share trading – including trading systems

Only shares issued by public limited companies (ASA) or equivalent foreign companies may be listed on a regulated market (including a stock exchange) in Norway. In addition, there are requirements regarding the company's size, the company's operations history, spread of owners and publication of the company's finances and other business.

In Norway, there are currently two **regulated markets** for trading in shares: Oslo Stock Exchange and Oslo Axess. Only Oslo Stock Exchange has a **stock exchange** licence ([www.oslobors.no](http://www.oslobors.no)). Oslo Axess ([www.osloaxess.no](http://www.osloaxess.no)) is on the whole subject to the same rules as Oslo Stock Exchange as regards following-up, monitoring and sanctioning contraventions of the regulations governing trading in a regulated market. Trading in Norwegian shares may also take place on regulated markets abroad, where several Norwegian companies are listed.

Trading in shares that are not listed on a regulated market takes place in the so-called OTC market. In this market, trading takes place to a large extent based on information on prices and interests that the stockbroking firms state to each other. The most commonly used method is for a stockbroking firm to enter interests in buying or selling a share in a trading support system which is operated by Fondsmeglernes informasjonstjeneste AS (FINFO/ the Norwegian Stockbrokers Information Services). The OTC list is divided into an A list and a B list. Only companies that are registered on the A list must pass price-relevant information of significant importance on to the market. For more information on the OTC list, refer to [www.nfmf.no](http://www.nfmf.no). If a share is not listed on either a regulated market or a trading support system, trading will normally take place by the stockbroking firm trying to assist the client by contacting potential clients who may be interested in becoming a contracting party. Investments in this type of share entail a considerable liquidity risk.

Trading in a regulated market or other trading systems comprises the **secondary market** for shares, primary capital certificates and bonds that a company has already issued. In addition, the OTC list functions as a secondary market for shares. If the secondary market functions well, ie, it is easy to find buyers and sellers and offer prices from buyers and sellers and the final prices of completed trades are noted continuously, companies benefit from the

fact that it is easier to issue new shares and thus raise more capital for the company's activities. The **primary market** is the market where newly issued shares, primary capital certificates and bonds are traded in/subscribed for.

Shares registered in a regulated market or other trading system are normally divided into various lists depending on the company's market value

or liquidity. These lists are often published on the trading system's home page, in newspapers and via other media. The companies listed on the Oslo Stock Exchange are divided into four different segments depending on the company's liquidity. These are: **Utvalg OBX**, **OB Match**, **OB Standard** and **OB Nye**. Different shares may demonstrate various levels of stability in their prices (volatility) during the day or over longer periods, ie, the frequency and size by which the prices change. Shares on lists with high liquidity are normally regarded as entailing a lower risk than shares on lists with lower liquidity.

### 3.1.4 Various classes of shares

There are various *classes* of shares, commonly A and B shares, and these are normally of importance to the exercise of voting rights at the company's general meeting. Only a few Norwegian listed companies have different classes of shares. Class A shares normally entitle the holder to one vote, while class B shares normally entitle the holder to a restricted voting right or no voting rights at all. The differences in voting rights may, for example, be due to the fact that, in conjunction with a diversification of ownership, the original founders and the owners of the company have wanted to maintain their influence over the company by holding stronger voting rights.

### 3.1.5 Nominal value, splits and reverse share splits

A share's *nominal value* is the amount of the company's share capital represented by each share. The sum of all the shares in a company multiplied by the nominal value of each share constitutes the company's share capital. Occasionally, companies wish to change the nominal value, for example because the market price of the share has risen significantly. By dividing the share into two or several shares, a so-called *split*, the nominal value is reduced at the same time as the price of the shares is reduced. However, after a split the shareholder's capital remains unchanged but is divided into a greater number of shares, each of which has a lower nominal value and a lower price.

Conversely, a *reverse share split* may be carried out if, for example, the share price has fallen dramatically. In such case, two or more shares are merged to form one share. Following a reverse share split, the shareholder's capital remains unchanged but is divided into fewer shares, each of which has a higher nominal value and a higher price.

### 3.1.6 Stock exchange introduction, privatisation and acquisitions

A *stock exchange introduction* means that shares in a limited company are listed in a regulated market (including a stock exchange). The general

public may then be invited to *subscribe* for (buy) shares in the company. This usually involves an existing company that has not previously been listed on a stock exchange, whose owners have decided to increase the number of shareholders and facilitate trading in the company's shares. If a state-owned company is introduced on the stock exchange, this is called *privatisation* or partprivatisation, depending on the size of the stake in the company that the state is offering to sell to the general public.

An *acquisition* normally involves an investor or investors inviting the shareholders of a company to sell their shares on certain terms. If the buyer obtains 90% or more of the share capital and votes in the company, the buyer can petition for the *compulsory purchase* of the remaining shares from those shareholders who have not accepted the acquisition offer.

### 3.1.7 Share issues

If a limited company wishes to expand its operations, additional capital is often required. The company raises this by issuing new shares through a *share issue*. The existing shareholders usually receive *subscription rights* giving them a pre-emptive right to subscribe for shares in the new issue. The number of shares that may be subscribed for is established in relation to the number of shares previously held by the shareholder. The subscriber must pay a price (issue price) for the newly issued shares that is often lower than the market price. Immediately after the subscription rights - which normally have a certain market value - are detached from the shares, the price of the shares normally declines. Shareholders that have subscription rights but do not subscribe for shares may sell their subscription rights in the marketplace where the shares are listed during the subscription period (which often lasts for a few weeks). Once the subscription period has ended and the shares have been allocated, the subscription rights lapse and thus become useless and worthless.

If the share premium account in a limited company has greatly increased in value, the company can transfer part of the value to its shareholders through what is commonly referred to as a bonus issue. In a *bonus issue*, consideration is given to the number of shares already held by each shareholder. The number of new shares offered to the shareholders through the bonus issue is established in proportion to the number of shares the shareholder already holds. Through the bonus issue, the shareholder receives more shares but the shareholder's proportion of the company's share capital remains unchanged. The price of the shares falls in conjunction with a bonus issue but, through the increase in the number of shares, the value of the shareholder's invested capital remains unchanged.

A limited company can also carry out a so-called **private placement**, which is carried out as a share issue but is directed solely at a limited group of investors. In a private placement, the existing shareholders' proportion of the shares and share capital in the company is **diluted**, but the number of owned shares is not affected and the market value of the invested capital is also not normally affected.

### 3.2 In general regarding share-related instruments

Primary capital certificates, convertible bonds/debentures, share-index bonds/index bonds, warrants, share options, share-index options and depository receipts are closely related to shares. These instruments are normally traded in a regulated market (including a stock exchange) but are also traded in the OTC market.

#### 3.2.1 Primary capital certificates

Primary capital certificates are very similar to shares. The difference is primarily related to the ownership of the company's assets and influence over the issuer's corporate bodies. There are also some restrictions on the distribution of dividend. The listed primary capital certificates in Norway are issued by savings banks. More information on primary capital certificates is available at [www.grunnfondsbevis.no](http://www.grunnfondsbevis.no).

#### 3.2.2 Convertible bonds/debentures

Convertible bonds/debentures are interest-bearing securities which may be exchanged for shares within a certain period of time. The return on the convertible bonds/debentures, ie, the coupon interest, is normally higher than the dividend on the shares to be received in exchange. The price of convertible bonds/debentures normally follows the share price and is expressed as a percentage of the nominal value of the convertible bond/debenture.

#### 3.2.3 Share-index bonds/index bonds

Share-index bonds/index bonds are bonds whose yield normally depends on how a share index develops. If the index develops positively, so does the return. In the event of a decline in the index, there may be no return. However, the nominal value of the bond is always repaid on the maturity date so the risk of loss is limited compared to shares and fund units. Apart from any share premium, the risk of investing in a share-index bond may be defined as the alternative interest income, ie, the interest the investment could have achieved if the amount had been invested differently.

#### 3.2.4 Warrants

Certain call (purchase) and put (sales) options with a longer term to maturity than the standardised call options, normally called **warrants**, are also

traded. Warrants may be used to buy underlying shares or to provide a cash settlement if a gain has been achieved as a result of the price of the underlying share being higher than the agreed future purchase price/selling price.

#### 3.2.5 Share options and share-index options

There are various types of **share options**. Acquired (bought) purchase options (call options) entitle the owner to purchase already issued shares at a predetermined price within a specific period of time. Acquired (bought) sales options (put options) entitle the holder to sell shares at a predetermined price within a specific period of time. There is an **issued/written** (sold) option corresponding to each **acquired** option. The risk borne by the party that acquires an option is that the option will decline in value or become worthless by the expiry date. Unless special precautionary measures are taken, the issuer (writer) of an option runs a risk which may be unlimited in scope.

Index options produce a gain or loss linked to the development of the underlying index. The price of options (premium/price) normally follows the developments in the price of the corresponding underlying shares or index.

#### 3.2.6 Depository receipts

Depository receipts are proof that shares are stored by a depository and give the owner the same rights as if he/she owned the actual share. Depository receipts are traded as shares and their prices normally follow the price trends in the foreign regulated market where the share is traded.

## 4. Interest-bearing financial instruments (bonds)

### 4.1 In general regarding interest-bearing financial instruments (bonds)

An interest-bearing financial instrument is a **right to claim** against the issuer of a loan. The return is normally provided in the form of **interest (coupon)**. There are various types of interest-bearing instruments depending on the issuer of the instrument, the security provided for the loan by the issuer, the term until the maturity date, and how interest is paid.

The interest (coupon) is normally paid as a fixed or floating rate. For fixed-interest loans, the interest is normally stipulated (fixed) for one year at a time. For floating-interest loans, the interest is normally stipulated (fixed) four times a year for three months at a time based on the NIBOR interest rate. On certain types of loans, no interest is payable and only the nominal amount is repaid on the loan's maturity date (zero coupons). The purchase of zero coupon bonds takes place at a considerable dis-

count, which means that the effective interest rate is the same as for bonds on which a regular coupon interest is paid. For example, all the debts that the Norwegian state issues in Treasury bills (government certificates) are zero coupon instruments.

The *risk* associated with an interest-bearing instrument consists in part of the price changes that may occur during the term of the instrument due to changes in market interest rates, and in part that the issuer may be unable to repay the loan. Loans for which satisfactory security has been provided for repayment are thus less risky than loans without security. However, in purely general terms, it can be stated that the risk of loss associated with interest-bearing instruments may be deemed lower than it is for shares.

Market interest rates are established every day both for instruments with short terms until maturity (less than one year), eg, *certificates*, and for instruments with longer terms until maturity, such as *bonds*. This takes place in the money market and bond market. Market interest rates are affected by analyses and assessments conducted by the Central Bank of Norway and other major institutional market players with regard to short-term and long-term trends in a number of economic factors, such as inflation, the state of the economy, and interest rate changes in Norway and other countries. The Central Bank of Norway also conducts operations in the money market and currency market with the aim of controlling changes in the market interest rate so that inflation does not exceed or fall below an established target.

If the market interest rate increases, the price of already issued interest-bearing financial instruments will fall if they provide a fixed interest rate. This is because new bonds are issued bearing rates of interest that follow the current market rate of interest and thereby provide a higher rate of interest than the already issued instruments. Conversely, the price of already issued instruments increases when the market interest rate declines.

Bonds issued by the State, county council and municipalities (or guaranteed by such bodies) are deemed to be more or less risk-free with respect to redemption at the predetermined value on the due date.

#### 4.2 Trading in interest-bearing financial instruments (bonds)

A number of bonds are listed on a stock exchange, so trading in these financial instruments, like trading in listed shares, takes place in a regulated market. In addition, the Oslo Stock Exchange offers an alternative marketplace for trading in bonds and certificates – the *Alternative Bond Market* (ABM). The ABM is a separate marketplace that is not regulated by, or subject to a licence pursuant to, the Norwegian Stock Exchange Act but is adminis-

tered and organised by the Oslo Stock Exchange.

Trading in bonds normally takes place in a different way to trading in shares. In practice, the interest and currency market is regarded as a *quoting or price-driven market*, unlike the stock market which is an order-driven market.

In the case of trading in standardised options, bonds and currency/interest derivatives, the investment firm normally stipulates prices as a market maker and publishes purchase and sales prices based on its own assessments of the market conditions. The market will usually be very transparent, since the prices are published on the investment firm's website or by an information distributor. Clients may thus compare the various investment firms' prices. These prices will either be indicative or binding for a specific volume per transaction. If the prices are indicative, the investment firm will give the client a binding price when the client submits an inquiry to the investment firm. The client is free to accept or reject the investment firm's offer. If the client accepts the price, the investment firm will become the other party to the transaction.

### 5. Derivate instruments

Derivative instruments, such as options, forward/futures contracts, etc, are issued with various types of underlying assets, such as shares, bonds, commodities and currencies.

One special risk that investors must be aware of when investing in derivative instruments is that the instrument is put together in a way which means that changes in the price of the underlying asset affect the price of the derivative instrument, the so-called "*leverage (gearing) effect*". The change in price is often greater in relation to the amount invested than the change in the value of the underlying asset. The change in price is therefore referred to as the leverage/gearing effect and can lead to a *larger profit* on the invested capital than if the investment had been made directly in the underlying asset. On the other hand, the leverage/gearing effect may result in a *greater loss* on the derivative instrument compared to the change in the value of the underlying asset if the price of the underlying asset does not develop as expected. The leverage/gearing effect, ie, the chance of making a profit or risk of suffering a loss, varies depending on the derivative instrument's structure and scope. Monitoring developments in the prices of the derivative and underlying asset is therefore of the utmost importance. The client should, in his/her own interests, be prepared to act swiftly, often that same day,

should the derivative instrument start developing in an unfavourable direction.

For further information on derivative instruments,

refer to "INFORMATION TO CLIENTS CONCERNING THE PROPERTIES AND SPECIAL RISKS RELATING TO TRADING IN OPTIONS, FORWARDS/FUTURES CONTRACTS AND OTHER DERIVATIVE INSTRUMENTS".

## 6. Mutual funds

A mutual fund is a "portfolio" of different financial instruments, such as shares and/or bonds. The fund is owned by all those who save in the fund, the **unit holders**, and is managed by a **management company**. There are various kinds of mutual funds with different investment strategies and risk profiles. Below is a brief description of the most common mutual funds<sup>5</sup> :

**Unit trust/equity fund:** a mutual fund that must normally invest at least 80 per cent of its total assets in shares (or other equity instruments) and which must normally not invest in interest-bearing securities.

**Combination fund:** a mutual fund that is not defined as a pure unit trust/equity fund or interest fund. A combination fund may have a more or less permanent preponderance of shares or interest-bearing securities, but the proportion of various securities may also change during the fund's lifetime.

**Interest funds:** a mutual fund that is to invest in securities other than shares. These funds are divided into bond funds and money market funds.

**Index funds:** a mutual fund that is managed relatively passively in relation to the fund's benchmark index.

**Fund of funds:** a mutual fund that invests in one (or possibly more) underlying mutual funds.

**Specialist funds:** specialist funds include funds that are often called hedge funds. Specialist funds are managed in a more flexible way than ordinary mutual funds. Specialist funds may be funds with very different levels of risk and protection. This may involve high risk taking. Specialist funds/hedge funds often use investment techniques such as extensive use of derivatives, short selling, leverage of investments and open currency position. Units of specialist funds may only be offered to professional investors. This means that specialist funds neither can be marketed nor sold to non-professional investors, regardless of whether the initiative comes from the investor or the company. Specialist funds are under the supervision of Finanstilsynet. Finans-tilsynet may authorise the marketing of foreign hedge funds to professional customers in Norway.

### Generally about funds

When they invest in a fund, unit holders receive the number of units in the fund that equals their invested capital's percentage of the fund's total assets under management.

The units may be bought from and redeemed (sold) to the management company. The units' actual value is calculated daily by the management company and is based on developments in the prices of the financial instruments in which the fund has invested. There are also fund units that can be traded in a regulated market (**Exchange Traded Funds** ("ETF")).

One of the purposes of a unit trust/equity fund is to invest in several different shares and other financial instruments. This means that the risk run by the unit holders is less than the risk run by shareholders who only invest in one share or a few shares. Unit holders do not have to select, buy, sell or monitor the shares or carry out other management work related to this.

For more information on mutual funds, visit [www.vff.no](http://www.vff.no).

## 7. Exchange traded products (ETP)

An ETP (Exchange Traded Product) is a generic term for ETFs (Exchange Traded Funds) and ETNs (Exchange Traded Notes). These products are traded in different trading systems, such as the Oslo Stock Exchange. The products allow exposure to shares, indices, currencies, commodities, etc. Some of the products contain a gearing element. The exposure can either be to a falling or bear market (short) or a rising or bull market (long). There may be huge variations in the way in which these products are structured, so investors must find out a lot about the product they choose.

ETNs are normally issued by a financial institution (bank/brokerage house) and traded in the secondary market in the same way as a share. With this type of product, the investor normally incurs a **credit risk** in relation to the issuer. The credit risk is the risk that the issuer or other party will be unable to pay. This means that if an issuer does not manage to meet its obligations, the securities may be worthless.

ETFs are fund units issued by a securities fund. This means that, through ownership of the fund units, the investor directly owns underlying assets and thus has no credit risk in relation to the issuer.

Several of the ETPs contain derivatives elements and/or have inbuilt gearing which can lead to the product having a high **market risk**. This means that their prices may fluctuate more than those of underlying assets and that the products will normally

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<sup>5</sup> Source: among others - [www.vff.no](http://www.vff.no)

have a greater risk of loss than a direct investment in underlying shares, for example. In addition, the geared products are rebalanced daily. This means that the return over lengthy periods will deviate from market trends when the gearing factor is taken into account. The return may be negative even if the underlying assets have the same value on the purchase and sales dates. These properties make the geared products less suitable as long-term investment alternatives.

The fact that underlying assets are often sold in other markets and listed in currencies other than NOK also means that investors must be aware of the possible **foreign exchange risk**. This may mean that even if the underlying developments indicate that the security should produce a positive return, the return may be reduced, disappear or be negative as a result of exchange-rate developments.

ETPs normally have one or more liquidity guarantors (market makers) that have undertaken to state bid and offer prices for the security. However, at times it may be difficult to execute trades in the ETP in question. This may be the case if, for example, there is little **liquidity** or if trading on the marketplace in question has closed.

## 8. Short trading

“Short trading” means to sell financial instruments that one does not own (by borrowing shares from the investment firm or in some other way). At the same time, the borrower undertakes to return instruments of the same type to the lender on a predetermined later date. Short trading is often used as an investment strategy when the share is expected to fall in value. On the sales date, the borrower expects to be able to buy the borrowed instruments in the market on the date when the instruments are to be returned at a lower price than the price at which these instruments were sold. If the price rises instead, the borrower will incur a loss which, in the case of a sharp price rise, may be considerable.

## 9. Leveraged (debt financed) trading

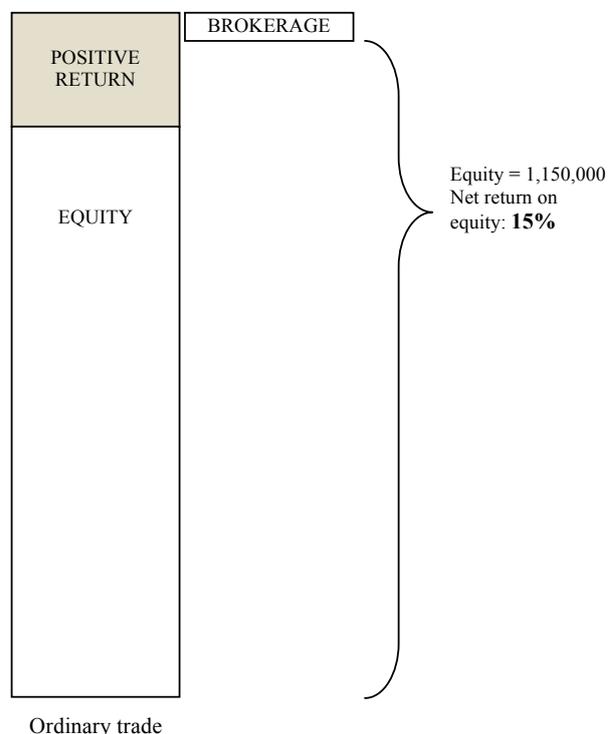
Financial instruments can in many cases be bought for partially borrowed capital. Since both the capital invested by the client and the borrowed capital affect the yield, the client may achieve a larger gain through debt financing if the investment develops positively compared to an investment that is made using only the client’s own capital. The debt linked to the borrowed capital is not affected by the prices of the purchased instruments changing in a positive or a negative direction, which is an advantage if prices increase. However, if the price of the purchased instruments falls, this results in a

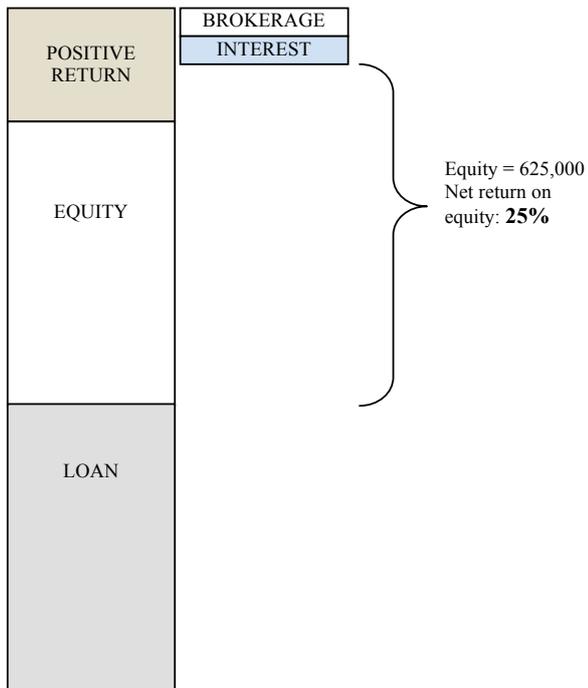
corresponding disadvantage since the debt remains unchanged. In the case of a price fall, therefore, the client’s own invested capital may be lost in whole or in part, while the debt has to be repaid in whole or in part from the revenues from the sale of the financial instruments that have fallen in value. The debt must also be repaid even if the sales revenues do not cover the entire debt.

The risk entailed in a debt-financed share purchase increases with the level of debt financing. For example, a portfolio which is 80% debt-financed will lose all its equity if share prices fall by 20%. If the portfolio is 60% debt-financed, the equity will be lost if share prices fall by 40%. The return on a debt-financed portfolio will be less than the return on a similarly sized portfolio that is equity-financed due to the interest which is paid for the debt financing.

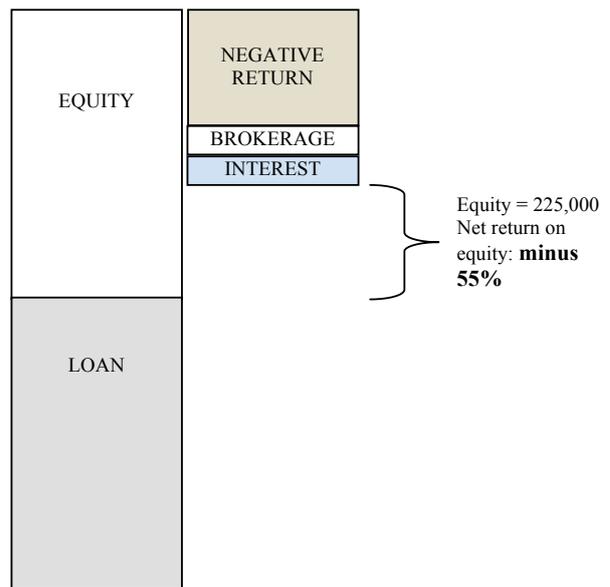
An illustration of a positive return in the case of partial debt financing is provided below. Assumptions:

- 20% positive return
- NOK 1,000,000 invested in the market
- 5% brokerage (20 transactions each with a brokerage fee of 0.25%)
- 5% interest expense
- 50% debt financing





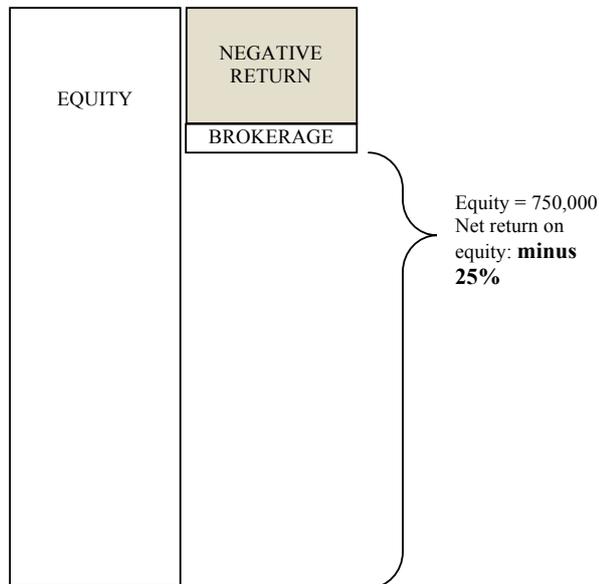
Debt-financed trade



Debt-financed trade

An illustration of a negative return in the case of partial debt financing is provided below.  
Assumptions:

- As above, but a 20% negative return



Ordinary trade

## 10. Trading frequency and costs

The more frequent the trading, the higher the brokerage costs, since costs are normally incurred for each trade (purchase or sale). If the brokerage costs over time are larger than the return, this will result in a loss for the customer. Please note that brokerage costs are also incurred in debt-financed trading.

Trading in securities leads to brokerage costs that normally increase in proportion to the size of the trade. If, for example, a client sells shares worth NOK 50,000 and the brokerage rate is 0.2%, the sale costs NOK 100. If, on the other hand, shares are sold for NOK 500,000, the brokerage cost will be NOK 1,000. In addition, minimum brokerage fees are used, so that the sale or purchase of securities for a small amount may be percentagewise more expensive than selling/buying for a larger amount.

# Information to clients concerning the characteristics and special risks associated with trading in options, futures and forwards and other derivative

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(Standard prepared by the  
Norwegian Securities Dealers Association)

Last updated 12 March 2012

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## Information to clients concerning the properties and special risks relating to trading in options, forward/futures contracts and other derivative instruments.

The client must fully understand:

- that all trading takes place at his/her own risk
- the need to carefully study the conditions which apply to trading in derivative instruments
- that the conditions for trading in derivative instruments often change and must be constantly monitored
- the need to immediately check contract notes and complain about any errors
- the need to regularly monitor changes in the value of his/her investments and positions in the financial instruments
- that he/she must him/herself carry out the acts necessary to avoid the risk of loss on his/her own investments, for example by providing additional security or terminating his/her investments in derivatives contracts.

### 1. In general regarding the risks involved in trading in derivative instruments

Trading in derivative instruments is associated with certain risks which will be described in greater detail here. The client is responsible for the risks and must become conversant with the conditions, in the form of general business terms and conditions, prospectuses and suchlike which apply to trading in such instruments and with the instruments' characteristics, as well as the special risk that is linked to these instruments. The client must also constantly monitor his/her investments (positions) in such instruments. Information to assist in monitoring can be obtained from price lists published by the media and from the client's investment firm.

Some derivative trades may entail the client having to provide separate security (**margin requirement**), for example in the case of the sale of options without owning underlying shares or corresponding options, and the purchase and sale of forward/futures contracts and swap agreements. However, the margin requirement will vary depending on such things as the underlying security, type of instrument and the instrument's term to maturity and volatility. The margin requirement may also vary considerably from day to day. The client should, in his/her own interests, be prepared to take swift action should this prove necessary, for example by providing further security (to meet any margin requirement) or by terminating his/her investments in derivative contracts (closing out his/her positions) through the purchase or sale of (offsetting) contracts if this proves necessary.

For further information on trading in financial instruments, refer to INFORMATION TO CLIENTS REGARDING THE CHARACTERISTICS OF, AND RISK ASSOCIATED WITH, TRADING IN FINANCIAL INSTRUMENTS (SHARES, SHARE-RELATED INSTRUMENTS, BONDS AND MUTUAL FUNDS).

### 2. Use of derivative instruments

A derivative instrument is a form of agreement (contract) where the agreement itself is traded on the financial instruments market. The derivative instrument is linked to an underlying asset or an underlying value. This asset or value (described below simply as an asset) can be comprised of another financial instrument, another asset with a financial value (for example, a currency or commodity), or some form of value indicator (such as an index). Derivative instruments can be used to create a hedge against an anticipated unfavourable price development in the underlying asset. They can also be used to achieve a profit or yield with a smaller capital investment than would be required in order to 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 as to how the price of the underlying asset will develop over a certain period of time. Before starting to trade in derivative instruments, it is therefore important that the client is clear in his/her own mind as to the intended purpose and the price developments in the underlying asset that can be expected and, on that basis, chooses the right derivative instrument or combination of such instruments

### 3 Various types of derivative instruments

The principal types of derivative instruments are options, forward/futures contracts and swap agreements.

For information on Exchange Traded Products (ETP), refer to chapter 7 in the document on INFORMATION TO CLIENTS REGARDING THE CHARACTERISTICS OF, AND RISK ASSOCIATED WITH, TRADING IN FINANCIAL INSTRUMENTS (SHARES, SHARE-RELATED INSTRUMENTS, BONDS AND MUTUAL FUNDS).

#### 3.1 Options

An **option** is a contract which involves one party (the issuer (writer) of the option contract) undertaking to buy or sell the underlying asset to the other party (the holder of the contract) at a predetermined price (the exercise price). The date when the holder can exercise the right may depend on the type of option in question. An **American option** may be

exercised at any time during the maturity period while a **European option** may only be exercised on the expiry date. The holder pays a premium to the writer and is then entitled to exercise the rights stated in the contract but has no obligation to do so. The writer, however, is obliged to fulfil the contract if the holder so wishes. The price of the option normally follows the price of the underlying asset. The risk run by the party buying an option is that it will be reduced in value or be worthless by the expiry date. The writer of an option runs a risk which, unless special precautions are taken, may be unlimited.

### 3.1.1 Call options

The **buyer** of a call (purchase) option obtains a **right** to buy an underlying asset at a future date at a predetermined price. The buyer of a call option pays an option premium and costs related to selling and administering the option contract.

The maximum amount the holder of a call option can lose is limited to the option premium and the costs paid. The maximum loss arises when the price of the underlying financial instrument remains lower than or equal to the exercise (strike) price. The potential for gain is in theory unlimited. The gain is the value of the underlying financial instruments on the exercise date minus the strike price and option premium including costs.

The **writer/seller** of a call option incurs a **duty** to sell (if the option holder so requires and buys) the underlying assets at a future date at a predetermined price. The seller of a call option receives an option premium minus costs relating to selling and administering the option contract.

The potential for gain on the issuance of a call option is limited to the net option premium. If the strike price remains higher than or equal to the market price of the underlying financial instrument, the writer is allowed to keep the option premium without the holder normally demanding to be allowed to buy the securities.

If the writer has hedged his/her interests by owning the underlying financial instruments, the writer does not incur a loss if the price rises but misses out on the increase in value in excess of the option premium. In the case of a fall in price, the writer incurs a loss if the price of the underlying security falls below the cost price of the security minus the option premium received.

If the writer has not hedged his/her interests by owning the underlying financial instruments, he/she has an unlimited loss potential if the price rises. If the holder demands to exercise the option, the writer must buy the financial instruments in the market at the market price. The loss is calculated as the market value of the underlying financial instruments minus the strike price and option premium.

### 3.1.2 Put options

The **buyer** of a put (sell) option obtains a **right** to sell underlying assets at a future date at a predetermined price. The buyer of a put option pays an option premium as well as costs related to selling and administering the option contract.

The maximum amount that the holder of a put option can lose is limited to the option premium and the costs paid. The maximum loss arises when the price of the underlying financial instrument remains higher than or equal to the strike price.

The potential for gain is limited to the strike price minus the option premium including costs. The gain is the strike price minus the value of the underlying financial instrument on the exercise date and the option premium including costs.

The **writer/seller** of a put option incurs a **duty** to buy (if the holder demands to sell) the underlying asset at a future date at a predetermined price. The seller of a put option receives an option premium minus costs related to selling and administering the option contract.

The potential for gain on the issuance of a put option is limited to the net option premium. If the strike price remains lower than or equal to the price of the underlying financial instrument, the writer is allowed to keep the option premium without the holder normally demanding to be allowed to sell the securities.

In the case of a fall in price, a loss arises when the value of the underlying financial instruments is lower than the strike price minus the net option premium. The loss is limited to the strike price minus the net option premium.

## 3.2 Forward/futures contracts

A **forward/futures contract** means that the parties enter into a mutually binding contract to purchase/sell the underlying asset at a predetermined price, with delivery or other performance of the contract on a further agreed date.

No premiums are paid for forward/futures contracts but the agreed forward/futures price will normally be stipulated to be the spot price (the current market price) of the underlying financial instrument plus interest costs until the forward/futures settlement date. In addition, the costs of trading and administering the forward/futures contract must be paid.

Under a forward/futures contract, the **buyer** has assumed the entire price risk relating to the underlying financial instrument. If the price falls, a loss arises which is equal to the difference between the value of the underlying financial instrument and the forward/futures price. If the price rises, a

corresponding gain arises, equal to the difference between the value of the underlying financial instrument and the forward/futures price. In addition, the buyer runs a credit risk related to the seller delivering the agreed financial instruments on the settlement date.

A **seller that owns** the underlying financial instruments bears no risk relating to developments in the price of the underlying financial instrument, he/she only runs a credit risk related to the buyer being able to settle the agreed amount on the settlement date.

If the **seller does not own** the underlying financial instruments, he/she has in principle an unlimited potential for loss if the price rises. The loss is calculated as the value of the underlying financial instruments minus the agreed forward/futures price. Correspondingly, in the case of a fall in price, the seller has a potential for gain which is calculated as the forward/futures price minus the value of the underlying financial instruments. The seller also runs the credit risk relating to the buyer being able to settle the agreed amount on the settlement date.

### 3.3 Swap agreements

A **swap agreement** means that the parties agree to make payments to each other on a regular basis, for example calculated at a fixed or floating interest rate (interest swap), or to swap some form of asset with each other, for example different kinds of currencies (currency swap), at a certain point in time.

## 4. Characteristic properties of derivative instruments

Trading in derivative instruments can be described as trading in, or the transfer of, risk. For example, a party that expects prices to fall in the market can buy put (sell) options which increase in value if the market falls. In order to reduce or avoid the risk involved in a fall in price, the buyer pays a premium, ie, what the option costs. Trading in derivatives is in many cases not advisable for clients with little or limited experience of trading in financial instruments, since such trading often requires specialised knowledge. It is important that those intending to trade in derivative instruments are aware of the following characteristic properties of these instruments.

The structure of derivative instruments is such that the price developments in the underlying asset are reflected in the price of the derivative instrument. The change in price is often greater in relation to the amount invested than the change in the value of the underlying asset. The change in price is therefore referred to as a leverage/gearing effect and can lead to a larger profit on the invested capital than if the investment had been made directly in the underlying asset. On the other

hand, the leverage effect may result in a greater loss on the derivative instrument compared to the change in value of the underlying asset if the price of the underlying asset develops differently to that expected. The leverage effect, i.e. the possibility of making a profit or risk of suffering a loss, varies depending on the derivative instrument's structure and scope. Monitoring the price developments in the derivative and underlying asset is therefore of the utmost importance. The client should, in his/her own interests, be prepared to act swiftly, often that same day, should the derivative instrument start developing in an unfavourable direction.

A party that assumes an obligation by writing an option or entering into a futures contract is required to provide collateral for his/her position from the outset. The collateral requirements vary in step with upward or downward movements in the price of the underlying asset that lead to the value of the derivative instrument increasing or decreasing. Further security in the shape of supplementary collateral may therefore be required. Thus, the leverage effect also has an impact on the collateral requirement, which can change quickly and radically. If the client fails to provide enough collateral, the clearing organisation or investment firm is entitled to terminate the placement (close out the position), without the client's permission, in order to reduce the loss. Clients should therefore carefully monitor price developments and collateral requirements in order to prevent an unwanted closing out of their positions.

The maturity period for derivative instruments can vary from a very short period to up to several years. The relative price changes are often greatest for instruments with a short (remaining) maturity period. The price of a held option, for example, generally decreases more and more quickly towards the end of the maturity period due to the fact that the time value decreases. Clients should therefore carefully monitor the maturity periods of their derivative instruments as well.

## 5. Standardised and non-standardised derivative instruments

Derivative instruments are traded in standardised and non-standardised forms.

### 5.1 Standardised derivative instruments

Trading in **standardised** derivative instruments takes place in regulated markets and complies with contracts and conditions which have been standardised by a stock exchange or a clearing organisation. In the Norwegian derivatives market, for example, the Oslo Stock Exchange offers trading in standardised options and forward/futures contracts. The following regulated markets in Norway offer trading in standardised derivative instruments:

**Oslo Børs ASA\*** – (Oslo Stock Exchange) trading in standardised options and futures

**NASDAQ OMX Oslo ASA** – commodity derivatives including financial power contracts

**Fish Pool ASA\*\*** – trading in salmon contracts

\* All trades on Oslo Stock Exchange are cleared by VPS Clearing ASA.

\*\* All trades on Fish Pool ASA are cleared by NOS Clearing ASA.

Trading in foreign standardised derivative instruments normally complies with the rules and conditions of the country where the stock exchange trading and clearing are organised. It is important to note that these foreign rules and conditions do not need to be the same as those which apply in Norway.

## 5.2 Non-standardised derivative instruments

Some investment firms offer different forms of derivative instruments which are not traded in regulated markets. These are called non-standardised derivative instruments (OTC derivatives). A party wishing to trade in this type of derivative instrument should examine the contracts and conditions which regulate trading in these particularly carefully.

## 6. Clearing

When clearing derivatives, clearing institutions become the contracting party between the buyer and seller of derivatives contracts and guarantee for the settlement of the contract. The clearing institution acts as the seller in relation to the buyer and as the buyer in relation to the seller. In the standardised derivatives market, derivatives contracts are often cleared by a licensed clearing institution. In the OTC market, it is often the investment firm that has this role.

## 7. Definitions

**Option:** a contract giving one party (the Holder) for a specific period a right, but not a duty, to buy (Call Option) or sell (Put Option) an agreed quantity of financial instruments at a predetermined price from/to the other party (the Writer).

**Forward/futures contract:** a contract according to which both the buyer and seller are tied to an agreed quantity of financial instruments being transferred from the seller to the buyer at an agreed price on an agreed date which is further into the future than the normal settlement date for the underlying financial instrument covered by the contract.

**Option with a variable strike price:** This is in principle a forward/futures contract but the margin security is paid in the form of an option premium. In addition to the purchase of an American call option, the purchase of the product includes the sale of a European put option with the same strike price. The European put option lapses if the call option is exercised or closed out. In addition, the product contains an option for the seller, in the case of a specified fall in the price of the underlying financial instrument, to demand the closing out of the option in return for the simultaneous issuance of a new option with a lower strike price and correspondingly higher premium.

**Index option/Index futures contract:** a contract where the underlying asset is an index value, not a security. Such a contract is settled not by delivering financial instruments but by calculating the contract's value in money.

**Price swap:** a contract that, from a risk point of view, is completely equivalent to a forward/futures contract but where the underlying financial instruments are not to be delivered on the expiry date. On the expiry date, a monetary settlement is carried out based on the difference between the swap price and the market price on the expiry date.

**Short sale:** the sale of financial instruments that a party does not own but has borrowed to carry out correct settlement. The financial instruments must be bought at a later date and handed back to the lender.

**Securities swap:** a combination of (at least) two financial instruments, in which a party buys one instrument (the long position) and sells the other short (the short position).

**Underlying financial instrument(s):** this is the financial instrument(s) that the option entitles the Holder to sell or buy, or the financial instrument(s) that it has been agreed to trade in a forward/futures contract or the financial instrument(s) that it has been agreed are to be the basis of a price swap settlement.

**Exercising an option:** this means demanding the trading of the underlying financial instrument in accordance with the option contract. Normally, the Holder may demand the partial exercise of the option while the option is maintained for the residual quantity.

**The expiry date:** the date when either a demand to exercise the option must be put forward or the option lapses as being worthless. The expiry date for a forward/futures contract is the date when the contract is settled by being changed into a trade with an ordinary settlement deadline for the delivery of an underlying financial instrument in return for payment of a purchase price.

**The settlement date:** the date when a forward/futures contract, option or price swap is finally

concluded by the underlying financial instruments being delivered in return for the agreed purchase price or the monetary settlement falling due for payment. The settlement date is normally three stock exchange days after the expiry date.

**American option or forward/futures contract:** an option or forward/futures contract that the Holder may demand to exercise, in whole or in part, at any time prior to the agreed time on the expiry date.

**European option or forward/futures contract:** an option or forward/futures contract that the Holder may only demand to exercise on the expiry date.

**Spot price/Spot rate:** the price at which the security is traded for normal delivery on the third stock exchange day after the trading date.

**Strike price/Strike rate:** the agreed price for the exercise of an option.

**Forward/futures price/Forward futures rate:** the agreed price for the settlement of a forward/futures contract.

**Swap price/Swap rate:** the agreed price to be used when settling a price swap.

**Option premium:** the amount the Holder has paid the Writer for the purchase of the option.

**Hedge shares/Hedge:** if a seller of an option or forward/futures contract or swap does not want to run any price risk, he/she buys or short sells a quantity of the underlying security so that any increase in the value of the sold derivative is offset against a corresponding increase in the value of the underlying securities. The securities that in this way protect the issuer against a price risk are often called hedge shares or a hedge.

This document is a translation of the Norwegian original. The Norwegian original shall be the sole authentic version and shall prevail in the event of discrepancies.



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