

## **Provisional Translation for Reference Purpose Only.**

### **Risk Disclosure for Securities CFD (Japan Stock CFD) Transaction**

( This document is given by Interactive Brokers Securities Japan, Inc. in accordance with the regulation of the Financial Instrument Exchange Act Article 37-3 )

Please see below regarding the transaction of Securities CFD (Japan stock CFD). This disclosure provides various risks involved in conducting the trade of Securities CFD. Please read carefully in advance and confirm unknown prior to start trading.

CFD stands for Contract for Difference and is derivative products. CFD is a contract between two parties to exchange the difference between the opening price and closing price of a contract with a reference price of the underlying asset such as stock, stock index, and index futures by depositing margin.

The IBSJ CFD price reflects the exchange-quoted prices for the underlying shares at the exchanges and PTS using our IB Smart Routing technology.

#### **Important matters for Securities CFD**

##### **About the commission and fees**

Please refer to the “IBSJ Risk Disclosures for Fees” for commission and fees of Securities CFD.

##### **About the margin requirement**

For Japan stock CFD transactions, please refer to the following website to determine the margin requirement for your transactions. Only cash is accepted as margin.

[http://www.interactivebrokers.co.jp/en/p.php?f=marginJP&ib\\_entity=jp](http://www.interactivebrokers.co.jp/en/p.php?f=marginJP&ib_entity=jp)

##### **About the risk of CFD transaction**

###### **1) CFD price movement risk**

**Trading Of CFDs Is Risky And You May Lose More Than You Deposit** Trading Contracts for Differences (“CFDs”) is highly risky due to the speculative and volatile markets in these products and the leverage (margin) involved. Trading these products may result in loss of funds greater than you deposited in the account. You must carefully consider your financial circumstances and risk tolerance before trading CFDs, and you should not trade CFDs unless you are an experienced investor with a high risk tolerance and the capability to sustain losses if they occur.

## **2) Risk Of Capital Loss**

Client trades IBSJ's CFD, which utilizes the price of stocks listed on Tokyo Stock Exchange and indices based on those stocks as an index. While there is a possibility to gain profit due to fluctuation of such prices, there is a possibility for loss, too.

## **3) Termination Of Contract**

When Client does not deposit required trading margin by a predetermined date, or when Client is eligible for the case mentioned in the provisions of Acceleration of Performance of Obligations in IBSJ Customer Agreement for IBCFDs, or when Client is eligible for the cause of contract termination in the provisions of IBSJ Customer Agreement for IBCFDs, IBSJ may close a part or all of Client's open positions in the state that Client is suffering from loss. Client is responsible for the loss generated from such closing transactions.

## **4) End of term for settlement**

There is no end of term for CFDs offered by IBSJ. However if the need arises due to corporate actions for underlying stocks (such as reverse stock split, rights processing, etc) or when IBSJ identifies to be reasonable, IBSJ may set the end of term for settlement.

## **5) Characteristic of CFD trading**

**CFDs Are Not Traded On A Regulated Exchange And Are Not Cleared On A Central Clearing house.** CFDs are contracts with IBSJ as your counterparty, and are not traded on a regulated exchange and are not cleared on a central clearinghouse. IBSJ presents its CFD price by referring to the Level 1 price of underlying asset but it does not guarantee that Client's CFD trade gets executed at this price.

### **a) Risk Of Execution Delay**

In CFD trading, when the price at which Client placed an order deviates from the market rate due to reasons such as market situation, Client's order quantity and telecommunication environment, there is a risk that the execution may delay. Moreover, for Clients who often have such orders described above may experience delay in execution or processing for orders for a period of time.

### **b) Risk Of False Indication Of Price**

When the cover supplier (see below) provides IBSJ with a false price, Client's order may get executed at the invalid price. In that case, IBSJ will cancel such trade or open closing orders for positions resulted from such trade and its execution. Please note that a trade at a false price is invalid.

### **c) Other Important Matters**

CFD trading is an OTC derivative transaction and it is not eligible for the protection of Japan Investor Protection Fund.

## **6) Counterparty Credit Risk on CFD trades**

Since IBSJ is the counterparty to your CFD trades, you are exposed to the financial and business risks, including credit risk, associated with dealing with IBSJ. That is, in the unlikely event that IBSJ or its cover supplier was to become insolvent, IBSJ may be unable to meet its obligations to

you.

## **7) Cover transaction**

IBSJ's counterparty for its cover trade is Interactive Brokers (UK) Limited. When the business or financial situation of IBSJ or the institution where Client's money has been deposited deteriorates, the return of deposit and other Client's money may become difficult, which may cause a loss to Client.

### **【Cover Transaction Partners】**

Name : Interactive Brokers (UK) Limited. Registration 208159)

Business : Financial Services

Regulatory body : England FSA

## **8) Risk In Relation To Cover Transactions**

- When the business or financial situation of IBSJ or its cover supplier deteriorates, the return of Client's deposit or other Client's funds may become difficult or the trade may get restricted and there is a possibility that Client may suffer from a loss.
- At the same time of trading with Client, IBSJ is trading with its cover supplier for the same contract in the same quantity in the opposite direction as the one with Client. This is referred to as cover transaction, which will put IBSJ in a neutral position to the market risk. However due to reasons such as change in credit status of the cover supplier, delay or inability of cash payment, or trade restriction, there is a risk that Client may suffer from a loss.
- When the cover supplier cannot accept trades from IBSJ, IBSJ may take necessary measures such as ceasing CFD trades with Client or forced closing of open positions owned by Client. In that case, there is a possibility that Client may suffer from a loss or refund of money such as margin may become difficult.
- One of the reasons for the case where the cover supplier cannot accept trades from IBSJ would be: A company (a broker) which the cover supplier trades with cannot trade specific contracts due to its own restriction or specific contracts cannot be procured due to low liquidity in the lending market.

## **9) Handling of underlying asset for CFD trades**

A CFD is to secure a profit or avoid a loss by reference to fluctuations in the price of the Underlying Product, rather than by taking delivery of any Underlying Product. No CFD transaction shall confer on you any right, voting right, title or interest in any Underlying Product or entitle or oblige you to acquire, receive, hold, vote, deliver, dispose of or participate directly in any corporate action of any Underlying Product.

## **10) CFD Markets Are Speculative And Volatile**

Derivative markets such as markets for CFDs can be highly volatile. The prices of CFDs and their Underlying Products (shares or indices) may fluctuate rapidly and over wide ranges. The prices of CFDs will be influenced by, among other things, the market price of the Underlying Product of the CFD, the earnings and performance of the company or companies whose shares comprise the Underlying Product or a related index, the performance of the

economy as a whole, the changing supply and demand relationships for the Underlying Product or related instruments and indices, governmental, commercial and trade programs and policies, interest rates, national and international political and economic events and the prevailing psychological characteristics of the relevant marketplace.

### **11) Example of Leverage and Margin Losses on CFDs**

Using leverage or margin means that you may lose more than you have actually deposited in your account if the price of the CFD moves significantly against you. For example, if you purchase a CFD position on shares of ABC and the total value of the CFD position is JPY5,000,000, and if the Margin Requirement is 20%, you will be required to deposit JPY1,000,000 as margin. If the value of the CFD position in ABC then drops to JPY3,500,000, you will have lost your original JPY1,000,000 deposit, plus an additional JPY500,000, which you will be required to pay to IBSJ.

### **12) Risk of Loss Cut Transactions**

- IBSJ has Loss Cut Rules in place in order for Client to avoid a loss which exceeds the amount of margin Client deposited however due to a sudden change of market conditions, Client may suffer from a loss which exceeds the amount of margin Client deposited.
- IBSJ Has the Right to Liquidate Your Positions Without Notice In the Event of a Margin Deficiency (Forced Liquidation).
- You must monitor your account so that at all times the account contains sufficient equity to meet IBSJ's Margin Requirements. IBSJ does not have to notify you of any failure to meet Margin Requirements prior to IBSJ exercising its rights under its Agreement with you, including but not limited to its right to liquidate positions in your account(s). Unlike the practice of some other brokers and dealers who allow "grace periods" for margin compliance, IBSJ generally will not issue margin calls; generally will not allow a grace period for you to meet intraday or other margin deficiencies; and is authorized to liquidate account positions immediately in order to satisfy Margin Requirements, without prior notice. You cannot assume that IBSJ's general policy to liquidate positions with a margin deficiency will prevent you from losing more than you have deposited with IBSJ. Among other things, markets may "gap" down and IBSJ may not be able to close out a position at a price that would avoid losses greater than your margin deposit. If you wish to avoid further losses on any CFD position, you must close out the position yourself and not rely on IBSJ to do so.
- IBSJ applies its own loss cut system and when there is a sudden change of market conditions or when the whole quantity of loss cut order does not get executed, it may not be able to limit Client's loss within a certain range. In that case, the loss within a day may exceed Client's expectation.

### **13) Change Of Margin Requirement**

Margin Requirement in relation to CFD trading may change due to regulatory or institutional changes or reasonable reasons based on IBSJ's judgment. As a result, there may be cases where an additional deposit of margin by Client for trading is required. Please refer to IBSJ's website or trading system screen for margin requirement. If we increase our margin

requirements, it may prevent you from adding positions or hedging existing positions if you have insufficient equity.

#### **14) CFDs Liquidity Risk**

With decreasing liquidity in the underlying asset, the liquidity of CFD trade IBSJ offers may decrease and there is a risk that Client may not be able to trade the CFDs. In addition, there is a risk that IBSJ may cease the CFD trading when the underlying asset is no longer traded due to regulations, announcement of critical corporate information or economic indicators, or statement of prominent people. When there is a sudden change to market conditions, it may take longer than expected until Client's orders get executed. Moreover, there is a risk that certain CFDs may become impossible to trade under special conditions such as natural disaster, wars, terrorism, political upheaval, policy change or corporate bankruptcies.

#### **15) Commissions, Spreads and Other Cost of Trading CFDs**

IBSJ will charge commissions on your CFD trades according to our website and "IBSJ Risk Disclosures for Fees". In addition, you will pay a spread on your CFD transactions, meaning that the price you pay to buy a CFD generally will be some amount higher than the theoretical market value of the CFD and the price you receive when you sell a CFD generally will be some amount lower than the theoretical market value of the CFD. You will also pay financing charges (interest) on your long CFD positions (you may receive a rebate on your short CFDs or pay interest, depending on interest rates). All of these costs will lower the total return (or increase the loss) on your investment in the CFD.

#### **16) Risk of Interest Rate Fluctuation**

Interest rates fluctuate, which will affect the financing charges (*or rebates*) you will pay (*or may receive*) on your long (*or short*) CFD positions. This will also affect your total profits or losses.

#### **17) Risk of Regulatory and Taxation Changes**

Changes in taxation and other laws, government, fiscal, monetary and regulatory policies may have an adverse effect on the value of your CFDs, the tax you pay on your CFDs, and the total return on your CFDs.

#### **18) Restriction To Short CFDs And Forced Closeout Of An Open Short Position**

Depending on regulations, stock loan and borrow market conditions, or other factors, short sales of CFDs may or may not be allowed depending on the Underlying Product. Further, IBSJ reserves the right, at any time in its sole discretion, to close out your open short CFD transaction.

#### **19) Risk In Relation To Trading System**

IBSJ provides CFD trading via internet. IBSJ relies on computer software, hardware and telecommunications infrastructure and networking to provide its services to Clients, and without these systems IBSJ cannot provide the services. These computer-based systems and services such as those used by IBSJ are inherently vulnerable to disruption, delay or failure, which may cause you to lose access to the IBSJ trading platform or may cause IBSJ

not to be able to provide CFD quotations or trading, or may negatively affect any or all aspects of IBSJ's services. Due to malfunction of trading system or telecommunication lines which connect the financial instruments business operator and Client, it may become impossible to place, execute, confirm or cancel orders from Client. Under the IBSJ Trading Agreement, you accept the IBSJ systems and services "As-Is" and our liability to you is limited. You must also maintain alternative trading arrangements in addition to your IBSJ account for execution of your orders in the event that IBSJ's electronic system and services are unavailable.

**20) For CFD transactions, cancellation of orders after such orders have been executed (e.g. cooling-off) is not available to you.**

The regulation of the Financial Instrument Exchange Act Article 37-6 does not apply for this transaction.

## Explanation of Securities CFD

IBSJ will conduct the CFD transactions in compliance with applicable rules and regulations.

### 1 . Summary of Securities CFD transaction

#### (1) CFD product

- IBSJ offers CFD product with underlying asset of single stocks selected by IBSJ out of stocks listed on Tokyo Stock Exchange.

#### (2) Type of Transaction

- CFD trading is a securities OTC derivative trade between IBSJ and Client on the principal to principal basis.

#### (3) CFD trading

- The minimum margin requirement for CFD trading is determined by IBSJ.
- The quotation of CFD will fluctuate with the price of underlying stocks.
- Contract Interest (Interest adjustment) charge is calculated daily on all open CFD positions held at the close of the trading session.
- There is no end of term for the securities CFD. The closing of open CFD positions can be done by off-setting transaction by Client, except for by loss cut transaction or forced liquidation.
- A dividend adjustment is applied when Client owns a position at the time of closing in the underlying market on the record date. In principle, the buyer of the position will receive the dividend adjustment, and the seller of the position will pay the dividend adjustment.

#### (4) Closing of open positions

##### ■ Closing by off-setting transactions

The CFD positions will be closed by Client's off-setting transactions on the open positions.

##### ■ Closing by loss cut transactions

According to IBSJ's loss cut transaction rules, in case of maintenance margin violation in Client's account, open positions will be automatically liquidated in order to satisfy the maintenance margin requirement.

## 2 . Commissions and other fees

### (1) Trading Commissions

IBSJ will charge commissions on CFD trades. Please refer to the “IBSJ Risk Disclosures for Fees” and the website.

The trading commissions will be added to the cost base of the CFD transaction at the time of CFD trade execution.

### (2) Other Fees

Account maintenance fees may be charged to Client when an account was opened to trade CFDs. For details, please refer to “IBSJ Risk Disclosures for Fees” and the website.

## 3 . Notional Principal

Notional principal for CFD trading is as follows.

Notional Principal = Transaction price x Trading unit x Trading quantity

Client shall deposit required margin amount for trading prior to trading.

## 4 . Margin Requirement

### (1) Margin deposit

When Client places new orders, Client shall deposit required margin in advance in an amount which exceeds the margin requirement determined by IBSJ in the way IBSJ designates. The deposit and withdrawal of funds in relation to CFD trading shall only be done in Japanese yen.

### (2) Type of collateral

IBSJ only accepts margin in cash (in JPY). IBSJ does not accept securities in lieu of margin amount.

### (3) Types of margin and its calculation

#### ■Required trading margin (Initial Margin)

Initial margin is an amount of margin required in order to open a new CFD position. The calculation method is as follows.

Initial Margin Requirement = Transaction price x Trading unit x Trading Quantity x Margin Ratio set by IBSJ

#### ■Maintenance margin

Maintenance margin is the minimum level of margin amount required to maintain open positions without triggering loss cut transactions.

Maintenance margin is calculated as follows.

Maintenance margin = Transaction Price x Trading unit x Trading quantity x Margin Ratio  
set by IBSJ

#### **(4) Cash withdrawal**

Withdrawal amount = Settled Cash + Daily P/L – Initial Margin

#### **(5) Process Of Loss Cut Transactions**

Loss cut transaction is an automatic transaction by IBSJ to liquidate Client's open positions in order to prevent a margin deficit. IBSJ monitors Client's open positions, margin level and the status of asset on the system and when Client's margin status reaches below the loss cut line set by IBSJ, loss cut transactions will be automatically triggered in order to maintain the account's maintenance margin set by IBSJ.

The loss cut line IBSJ sets for CFD trading equals the maintenance margin amount. It means that if Client's open positions incur an unrealized loss and the equity with loan value falls below the maintenance margin amount, IBSJ will perform loss cut transactions and liquidate Client's open positions automatically in order to satisfy the maintenance margin.

#### **IMPORTANT**

When there is a sudden change of market conditions or when the whole quantity of loss cut order does not get executed, it may not be able to limit Client's loss within a certain range. In that case, the loss within a day may exceed Client's funds.

#### **(6) Margin Call**

IBSJ generally will not issue margin calls. When Client's account continues to violate the maintenance margin requirement even after loss cut transactions, according to the customer agreement agreed by Client in advance, IBSJ will liquidate Client's other positions than CFDs (such as positions in stocks, futures and options) in order to satisfy the required margin for CFD trading. Client must monitor the account so that at all times the account contains sufficient equity to meet IBSJ's Margin Requirements.

#### **(7) Management Method for Margin**

According to the rules in Financial Instrument Exchange Act, IBSJ segregates the margin deposited by Client from IBSJ's asset in fund trust established at the Sumitomo Mitsui Banking Corporation. IBSJ sets every business days as base date of calculation for Client's asset segregation calculation. IBSJ maintains a balance more than the required segregation amount at Sumitomo Mitsui Baking Corporation by depositing additional cash within 2 business days from the following day of the base date of calculation when further deposit is required.

## 5 . Interest Adjustment

### (1) Contract Interest

Contract Interest (Interest adjustment) charge is calculated daily on all open CFD positions held at the close of the trading session. Contract Interest is determined by IBSJ and it will be credited to or debited from Client's account.

※ Due to changes in interest rate changes, interest adjustment will vary. When it is negative interest on CFD short position, the interest adjustment is payable by Client.

### (2) Stock Borrow Fees

When Client carries over short CFD positions, borrow fees for the underlying asset will be levied. This is referred to as Stock Borrow Fee, which will vary according to the supply and demand situation of the underlying asset and it will be determined by IBSJ's cover supplier.

## 6 . Corporate Actions

In the event of a Corporate Action affecting the Underlying Product of a CFD (e.g. splits, spin-offs, rights offerings, mergers and acquisitions, etc.), IBSJ in its sole discretion will determine the appropriate adjustment or modification or action to take, if any, and when, with respect to the CFD to preserve the economic equivalent of the rights and obligations of the parties. As an addition or alternative to the foregoing, IBSJ reserves the right in its sole discretion to close out your open CFD position in the Underlying Product prior to the Corporate Action.

### (1) Dividends

In CFD Trading, IBSJ will pay to Client an amount of money determined by IBSJ's cover supplier (referred to as "Dividend Adjustment" below) for positions that are open as of the record date when dividends are paid on the underlying stocks. Similarly for short positions, Client needs to pay the dividend adjustment to IBSJ. Dividend adjustment will be processed on the pay date of the relevant stocks dividends. Dividend adjustment equals the dividend paid on the underlying share.

### (2) Stock Split and Reverse Stock Split

When Client owns positions in the securities CFD as of the record date of the underlying asset, IBSJ will perform the process for long and short positions to increase the quantity according to the stock split rate or decrease the quantity according to the reverse stock split rate.

### (3) Other Corporate Actions

For corporate actions other than the ones mentioned in the preceding paragraphs, IBSJ will apply the process which is identified to be reasonable by IBSJ.

## **7. Straddling positions**

Client is not able to hold a short position and a long position for the same CFD contract at the same time. When an order in the opposite direction is placed against open positions, all or a part of the open positions will be closed. When the quantity of such closing order is larger than the one for open positions, all the open positions will be closed and new positions will be created with the remainder.

## **8 . Trading Hours**

CFD trading hours schedule is in principle in accordance with Tokyo Stock Exchange's trading hours. As the trading hour schedule is subject to change without notice, please check IBSJ' website and notifications shown on the trading system.

## **9 . Rollover Process**

In CFD trading, open positions will be in principle rolled over after 15:00 JST of the trading date and settles on T+3. The process details are as follows.

- The positions closed during the day will be cleared and P/L for the day will be realized. The profit will be added to the account cash and the loss will be deducted from it on T+3.
- Interest adjustment, dividend equivalent and borrowing interest will be calculated.

## **10 . Method of settlement of obligation**

The method to settle the obligation arising from the CFD transaction by Client is only to deposit the margin requirement in Japanese yen.

## **11 . Method of margin deposit and reimbursement**

The margin deposit and reimbursement for the Securities CFD between Client and IBSJ is only conducted in JPY and it cannot be conducted in non JPY currency. In addition, collateral securities in lieu of margin money cannot be accepted.

## **12 . Taxes**

Any gain (gain from trading, swap points, funding costs and dividend adjustments) arising from the over-the-counter CFD Trading entered into by you on or after January 1, 2012 is subject to the separate income tax declaration as "miscellaneous income". The gain or loss can be aggregated with the p/l of other futures products and when the aggregation resulted in a loss, under certain conditions, the loss amount can be carried over for three years from the following fiscal year. For a corporate customer, a tax return must be filed in accordance with the corporate tax law. Japan FSA registered brokers are in principle required to submit to the local fax office, the payment record with customer name, address, the payment amounts etc for the securities CFD transaction the customer conducted.

IBSJ's officers are not allowed to give tax advices. Please consult with the relevant tax authority or professionals such as tax advisors for details in relation to taxes.

## Securities CFD Trading Procedures

Please refer to IBSJ's web pages or contact IB Customer Services at TEL: 03-4588-9700 for details of Trading Procedures.

## Corporate Profile

|                                 |  |
|---------------------------------|--|
| <b>Company Name</b>             | Interactive Brokers Securities Japan, Inc.<br>Director of Kanto Local Finance Bureau (Financial Instruments Firm) No.187 |
| <b>Head Office</b>              | 4 <sup>th</sup> Floor Tekko Kaikan, 3-2-10 Nihonbashi Kayabacho Chuo-ku, Tokyo<br>103-0025 Japan                         |
| <b>Member Association</b>       | Japan Securities Dealers Association   |
| <b>Arbitration Organization</b> | ADR FINMAC   |
| <b>Capital</b>                  | JPY 1,150,520,000 (As of 01 April 2011)  |
| <b>Business</b>                 | Financial Instruments Business (Type 1 Financial Instruments Firm)   |

**Established** August 2006

**Contact** Tel: 03-4588-9700 (Customer Service)

**The contents of dispute resolution measures and complaint handling measures** IBSJ will resolve complaints and disputes in relation to financial instruments exchange business by utilizing Financial Instruments Mediation Assistance Center (Tel: 0120-64-5005), which is commissioned by Japan Securities Dealers Association for resolution of complaints and disputes.

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