

Provisional Translation for your reference only

### **IBSJ Risk Disclosure for TSE Single Stock Options**

(This document is provided in accordance with Financial Instruments and Exchange Act Article 37-3.)

Please see below regarding the transaction of securities options. This disclosure includes various risks involved in sales and purchase of securities options transactions into markets. Please read carefully the disclosure and please confirm the unknown prior start trading.

- Option trading is to buy and sell rights of buying or selling certain commodities at the price fixed in advance. This trading is done by future day given beforehand and this is not unrelated to market trend at the time. But you can also resell or redeem commodities even if you don't wait until the day.
- Because individual securities are objects of commodities on securities options trading, buying and selling of securities which are objects of options is formed at the price of exercising rights, if exertion of rights is done.
- Securities options trading is the trading which has the possibility that large profits are obtained but then gets large losses. So, in the case where you start or continue this trading, to do this trading on your responsibility is important if only you grasp the systems and risks of this trading well, and regard this trading as appropriate after you consider your funds, purposes and experiments of investment.

#### **Commissions and Other Fees**

- Please refer to "Disclosure of Fees in Relation to Financial Instruments Transactions" for commission and fees.

#### **Margin Requirement**

- Please refer to the below website to find out margin requirement for securities options transactions.

([http://www.interactivebrokers.com/en/pagemap/pagemap\\_fees.ph](http://www.interactivebrokers.com/en/pagemap/pagemap_fees.ph))

#### **The risk of securities options trading**

Because the price of securities options go up and down by the object market price of securities and index or the movement of the price and valuation of assets which is evidence for concerned securities, this may cause losses. And by the change in the confidence conditions of object securities publishers, losses may come up. The term of

being able to exercise options is restricted, so you need to pay attention to this. In addition, because the market price changes according to real that and so on, the volatility of securities options tends to be larger compared with real market price and has possibility to cause large losses in certain cases. Therefore when you start securities options trading, you need to grasp the below content well.

- In market cases, you can't do transaction just as your intended. For example, the case where the market price arrives at the limit of range in price, if you hope to settle accounts by reselling or redeeming, you have possibility not to be able to do that.
- In market cases, the financial instruments exchange in markets may enlarge the limit of range in price. If that happened, losses of a day may exceed your expectation.
- The case where securities which is the object of securities options is delisted, concerned securities options is also delisted and securities options, in consideration for the trading states of securities options, may be delisted.
- In the case, the day of the last trading and exertion of rights may be moved up, and then the opportunity for exertion of rights may be lost.
- The case where object securities become a buy or sell moratorium, concerned securities options may also become trading moratorium.

< The particular risks to buyers on securities options >

- Securities options are products which have a period per contract month, and if a buyer doesn't resell by the day of last trading and conduct the exertion of rights at the day of exercising rights, the rights disappear. In this case, the buyer loses the total amount of funds for investment.

< The particular risks to sellers on securities options >

- Sellers do the trading which exceeds a deposit. When market price changes by contraries, the losses are unlimited.
- When securities options exchange in markets is formed, the seller has to pledge or deposit a deposit. After this, if, due to the change of the market or the fall in price of substitute securities, lack of fund arises, additional pledging or deposit of deposit money is needed.
- When sellers receive allotment of exercising rights, they absolutely have to accept this. Namely, when sellers receive allotment of exercising rights, for in the case of call option, securities are needed and of put option, acquisition costs are needed, to

pay particular attention is important.

- In the case where deposit money is not pledged or deposited by prescribed time limit or where that is applicable to the reason for the lost of profit in other period by the agreement, a part of or all of the open interest may be forcibly settled accounts with the loss remained. Also in this case, the customer is personally responsible for the loss which arises at the settlement.
- In the case where troubles happen to the transaction or there is that fear and where financial commodity clearing organization regards this as necessary in terms of settlement risk management, financial instruments exchange probably conducts control measures such as raising amount of a deposit and restrictions on substituting securities for a deposit. For there is the case where additional pledging or depositing of a deposit, or replacing substitutive securities with cash.

#### **Securities options exchange is not subject of cooling-off**

- Securities option trade is the exclusion from application of the Financial Instruments Exchange Act Article 37-6 (cancellation by Document).

#### **The structure of securities options transactions in markets**

The securities option trade in markets is conducted by the regulations that are decided by each financial instruments exchange. (Terms may be different for each exchange, but basic product structure and rules should be almost the same,)

##### 1. The methods of transactions

###### (1) The objects of transactions

The objects of transactions are below two types concerned with the securities (object securities) chosen by financial instruments exchange.

###### a. put option on securities

The rights of being able to form the sale of the securities which is at exercise price and is the quantity of the trading unit of object securities.

But in the case where the division of stocks (including shares and beneficiary) happens to object securities with regard to brands whose the quantity concerned with buy or sell of object securities formed by exercising rights of minimum unit is changed into the quantity except trading unit of object securities, the sale of the securities which is at exercise price and the quantity after changing is able to be formed.

###### b. call option on securities

The rights of being able to form the buying of the securities which is at exercise price and is the quantity of the trading unit of object securities.

But in the case where the division of stocks (including shares and beneficiary) happens to object securities, with regard to brands whose the quantity concerned with buy or sell of object securities formed by exercising rights of minimum unit is changed into the quantity except trading unit of object securities, the buying of the securities which is at exercise price and the quantity after changing is able to be formed.

(2) Expiration Date

This may vary by each exchange. Please refer to each exchange website for further details.

(3) The change in exercising price and so on

• With regard to object securities, in the case where the changes in the division of stocks, capital increase and trading unit is conducted, there is the case where the quantity of object securities and open interest formed by exercising price and exercising rights of minimum unit is changed on the brands fixed for the previous day of the deadline of ex rights.

(4) Price limit

- In order for investors not to suffer unexpected losses due to abrupt changes in the market, we assign price limit which is the identical limit of the nominal price quotation of object securities on that day.
- There is the case where financial instruments exchange changes price limit of nominal price quotation according to the necessity.

(5) The regulation of trading

In the case where financial instruments exchange considers that trading conditions is abnormal or may be abnormal, the below regulation of trading may be conducted.

- a. The reduction of fluctuation limit
- b. Moving up of the pledging and depositing date of a deposit
- c. The raise of the amount of a deposit
- d. The restriction of substituting securities for a deposit
- e. The reduction of assessment rate of securities which substitute for a deposit
- f. The acceptance of a deposit before the day when the price of transaction is

settled.

g. The restriction or prohibition of securities options exchange in markets

h. Limit position

## **2. The exercise of rights**

(1) The date of exercising rights

Option exercise style can be either American-styled or European styled. Please confirm on the exchange's website for more information.

(2) The instructions to exercise rights

Exercise instruction may be different for each financial exchange in markets. To find out more information, please visit our website at the link below and access to "Option Exercise" page.

<http://www.interactivebrokers.com/en/p.php?f=deliveryExerciseActions>

(2) Assignment of exercising rights

Financial commodity clearing organization allots to financial instruments firm possessing the short-position of concerned brand. Then with the allotted amount, the firm separates self-share from trust-share of customers and inform this.

Financial instruments firm informed of allotment to trust-share of customers allots to them by prescribed means.

## **3. The methods of settling accounts**

The settlement of securities options exchange has two methods. One is the settlement by reselling or buying back, another is by exercising rights.

(1) The settlement by reselling or buying back.(the settlement by reversing trade) The investors possessing long-position (or short-position) with regard to securities options exchange can settle accounts by reselling (or buying back) up to the final date of trading.

In this case, the investors possessing long-position receive proceeds of the sale, and the investors possessing short-position pay acquisition costs.

(2) The settlement by exercising rights

With regard to securities options exchange, a buyer can settle long-position by exercising rights. At this point, the short-position of the seller allotted exercise of rights is also settled accounts.

And with regard to the trading of the object securities formed by exercise of rights or

allotment of exercising rights, margin trading is able to be used.

#### **4. The limit position**

Customers can not possess the sum of the short-position of put-option and the long-position of call-option, or the sum of the long-position of put-option and the short-position of call-option above the quantity financial instruments exchange prescribes.

But by the combination with object securities in open-interest, customers can exclude the open-interest considered to be limited risk from the object of limitation. For more details, please visit each financial exchange website.

#### **5. Delisting**

Reasons and etc for securities options become delisted may vary for each financial exchange in markets. For more details, please visit each financial exchange website.

#### **Summary for securities options transaction in markets**

Interactive Brokers Securities Japan, Inc provides the Brokerage service for transaction into securities options transactions into markets.

#### **Summary of taxes that is related to the financial instrument trade contracts**

- Profit from the transaction of securities option transaction in markets will be taxed as miscellaneous income for individual customers.
- For corporation tax, the calculation of taxation may be differed from above individual case.

Please contact the tax specialist for corporation tax on securities option transactions. Employees of Interactive Brokers LLC, Interactive Brokers Securities Japan, Inc, or its affiliates are not authorized to provide any tax advice.

Please refer to the specialist for any tax related to the financial instruments contracts.

**Corporate Profile**

Company Name: Interactive Brokers Securities Japan, Inc. Kanto Regional  
Finance Bureau (Financial instruments firms) registered  
No.187

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Capital: 1,150,520,000 YEN

Business: Financial instruments business

Established: August, 2006

Customer Service Hotline: 03-4588-9700