

Provisional Translation for Reference Purposes Only

Risk Disclosure for Index Futures /Options Transactions

(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 index future/option. This disclosure provides various risks involved in conducting the trade of index futures/option into domestic markets.

Please read carefully in advance and confirm unknown prior to start trading.

- Futures trade is the trade that contracts to buy and sell based on the agreed price that is set at the current point. However, it is possible to cancel the contract by conducting the closing trade (In case of the buy side, resale, In case of the sell side, buyback)
- Option trade is the trade to buy and sell the right to buy or sell at the specific price that is decided in advance and it is regardless of the market trend at that time. However, it is possible to conduct the resale or buyback not waiting until the due date.
- Index Futures/Option Trade is targeted for the products of abstract index, and it is not possible to conduct the actual delivery, so that in case that it is not settled by the closing trade until the due date, for the index futures trade, by receiving and paying the balance of agreed price and Final Settlement Value at the time of contract, for index option trade, by receiving and paying the balance of right enforcement price and final clearance number (Final Settlement value), net settlement is conducted.
- Index Futures Trade and Index Option Trade are the trades that have the possibility to gain a lot of profit, but there is a possibility to emerge a lot of loss. Therefore, when you begin the trade or continue conducting it, fully understand the system of trade and risks, and it is important to conduct on your own responsibility in case that you judge that it is appropriate to refer the financial investors, investment objective, and investment experience, and so on.

About the commission and fees

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

About the margin requirement

- For Index futures/option transactions, please refer to the following website to determine the margin requirement for your transactions. (www.interactivebrokers.com/jp)
- ***In the case where we accept your stock as a collateral for your derivatives transaction, we will apply hair-cut ratio specified by JSCC. Hair-cut ratio may be changed.***

About the risk of index futures trade

The price of index futures fluctuate by the change of targeted index so that the loss could be emerged by this. Also, the index futures trade could conduct the trades that exceed the amount of margin money by the small amount of margin money. So, it is possible to emerge huge loss in some cases. Therefore, upon beginning the index futures trade, it is necessary to fully understand the contents that are written below.

- When the market price changed for the direction that is opposite of prediction, within the short term period, you might lose the majority or all of margin money. Also, the loss is not limited to the amount of margin money.
- When the amount deficiency is emerged by the market change of index futures trade or the price down of replacement securities, it is necessary to submit or deposit additional margin money.
- In case that you do not submit or deposit the margin money until the set time period, or in case that it is classified as the reason of profit loss for other due date by the decision of agreement, part or all of purchase or sales contract might be forcibly settled under the situation that is damaged by the loss. Further in this case, the customer is responsible for the loss that is emerged by the settlement.
- The Financial Instrument Exchange could take the restrictive measure, such as the increase of margin money amount or restriction of substitution by the securities of margin money. Therefore, it might be necessary to conduct the additional submission or additional deposit of margin money, or exchange of substitute securities and cash.
- Depends on the market situation, it might not be possible to trade as you intend. For example, in case that the market price reached the price limit, even though you hope to conduct the settlement by resale or buyback, it might not be able to do it.
- Depends on the market situation, the financial instrument exchange could expand the price limit. In that case, the loss in one day could exceed the prediction.

About the risk for index option trades

The price for index option trade fluctuates by the change of targeted index so that the loss could be emerged from it. It is necessary to understand that there is the restriction for the term that could enforce the options. Also, for the index options, the market price could be changed by the stock index, so that the change rate tends to be bigger than the actual stock index. Depends on the cases, it is possible to emerge the big loss. Therefore, upon the index option trade, it is necessary to fully understand the contents below.

- Depends on the market situation, you could not be able to trade as you intend. For example, in case that the market price reaches the price limit, you could not be able to do it even though you hope to settle by the resale or buyback.
- Depends on the market situation, the exchange may expand the limit price. In that case, a loss will be increased than your expectation.
- Depends on the market situation, the financial instrument exchange could expand the price limit. In that case, the loss of one day could exceed the forecast.

The risk of buy side for index option

- The index option is the term product that has the different due month, and in case that the buy side do not conduct the right enforcement or resale until the due date, the right disappears. In this case, the buy side loses all amounts for the investment fund.

The risk of sell side for index option

- The sell side conducts the huge amount of trade that exceeds the margin money, and the loss is not limited when the market price changed for the opposite direction as you forecasted.
- For the sell side, when you want to establish the index option trade, you have to submit or deposit the margin money. After that, when the shortage of amount emerged by the market change or price drop of substitute securities, it is necessary to submit additional margin money or additional deposit.
- In case that you do not submit or deposit the margin money until the set due date, or in case that it is classified as the reason of profit loss for other due date by the decision of agreement, it might be forcibly settled the part or all of the sales or purchase contract by the situation that is damaged by the loss. Further in this case, the customer is responsible for the loss that is emerged by the settlement.
- The financial instrument exchange, in case that the trouble emerged for the trade or there is a possibility of it, or in case it is necessary from the view point of settlement risk management for the financial instrument trade clearance institution, could take the restrictive measure, such as the price increase of the margin money, or the restriction on substitution by the securities of margin money. Therefore, it might be necessary to submit or deposit additional margin money or the replacement of the substitute securities and cash.
- The sell side has to comply when a customer accepts the share of right enforcement. That is, the sell side, when he/she receives the share of right enforcement, it is necessary to pay the balance for the right enforcement price and final clearance number (Final Settlement Value), so that it is necessary to pay attention.

The index futures/option trade is not covered by the cooling off.

Regarding the index futures/option trade, the regulation of the Financial Instruments Exchange Act Article 37-6 (Cancellation by Document) is not applicable.

About the system for index futures trade and index option trade

The index futures trades are conducted by the regulations that are decided by financial product exchange. To find out details, please visit financial product exchange's website.

1. About the structure of index futures trade

The procedure of trades

(1) Target index

The target of index future trade is decided by financial instruments exchange.

(2) Trading Term

The trading term of index future trade may vary by exchange. To find out details, please visit financial products exchange's website.

(3) Evening Session

Some of the index futures products have the evening session and it is possible to trade after the daytime trade. Mark-to-Market that is related to the trade that is conducted at the evening session or the submission or deposit of the margin money may be differed for exchange. For more details, please refer to Financial Instrument Exchange website.

(4) Delivery months spread trades

Some index futures trades, except the part of index that exchange decides, the trades (delivery months spread trades) that conduct the sales of delivery month trade at one side and the purchase of delivery trade at the other side within two delivery trades at the same time. For more details, please visit exchange website.

(5) Price limit

Exchange has its own policy to set the price limit (price range that could be changed in one day). The financial instrument exchange could change the price limit of quote when it needs. For more details, please refer to each exchange website.

(6) Trade regulation

In case that there is a problem for trades at the Financial Instrument Exchange or there is a possibility of it, the restrictive measure that is stated below is taken.

- a. Reduction of price limit
- b. Submission date for collaterals or round up of depository date
- c. The increase of the margin money
- d. The restriction of substitute by the securities of margin money
- e. The decrease of margin for substitute securities of the margin money
- f. limit or prohibition of the index futures trades
- g. limit for the sales or purchase contract

The procedure for delivery

(1) Settlement by resale or buyback (Settlement by closing trade)

About the index futures trade, the investors who hold the purchase contract (or the sales contract) conduct the resale (or buyback) till the final day of trade. The investors could settle by receiving or giving the money that is the same amount as the difference between the agreed numbers when they conducted the new purchase (or sales) with the agreed numbers when they conducted the resale (or buyback).

(2) The settlement (final settlement) by the final clearance number (Final Settlement Value)

The purchase or sales contract that is not settled by the closing trade till the final day of trade, is settled by giving or receiving the money that is the same amount as the difference between the agreed number when the new sales or purchase is conducted and the final clearance number (The special index that is calculated based on the starting price of index structural brands on the next day of the last day of the final trading day.)

2. About the system of index option trade

Index option transaction is in accordance with product exchange's rules and policies. (Terms may differ, but the structure of transaction is almost the same.)

The procedure of trades

(1) The target of trades

The target of trades are the two types that are shown below.

a. Index put option

The right that could establish the trades that accept the amount that is gained by multiplying the difference by the number that is decided by Financial Instrument

Exchange in case the number of target index lowered the right enforcement price.

b. Index call option

The right that could establish the trade that accept the amount that is gained by multiplying the difference by the number that is decided by each financial instrument exchange in case that the number of index exceeded the right enforcement price.

(2) Due date for trades

Due date of transaction may vary by exchange. For further details, please refer to each product exchange's website.

(3) Evening Session

Some of the index option trades have the evening session and it is possible to trade after the daytime trade. Mark-to-Market that is related to the trade that is conducted at the evening session or the submission or deposit of the margin money may be differed for exchange. For more details, please refer to exchange website.

(4) Price limit

Exchange has its own policy to set the price limit (price range that could be changed in one day). The financial instrument exchange could change the price limit of quote when it needs. For more details, please refer to each exchange website.

(5) Regulation for Trade

In case that the financial instrument exchange admit that there is a problem for trades, or there is a threat of it, the restrictive measure that is shown below is taken.

- a. The deduction of price limit
- b. Submission date or round up of deposit date for the margin money
- c. Increase of the margin money amount
- d. The limitation of the substitution by the securities for margin money
- e. The decrease of margin for the substitute securities of the margin money
- f. Accepting the deposit prior to the settlement day for the trade expense.
- g. Restriction or prohibition of the index option trades
- h. Restriction of the purchase or sales contract

Option Exercise

(1) Exercise Date

Option exercise style can be either American-styled or European-styled. To find details, please visit the website of each exchange.

(2) Order for right enforcement

In case the buy side customer conducts the right enforcement, until the time period that is decided by financial instrument exchange for right enforcement day, to the financial instrument traders, you have to order the right enforcement.

At the right enforcement day, about the brands of In The Money, even though there is an order of right enforcement from the buy side customers until the time period that is mentioned above, we treat that the orders of right enforcement are conducted from the buy side customers.

(Note) In The Money is, about put option, for the case that the right enforcement price exceeds the final clearance number, about call option, for the case that the right enforcement price lowers the final clearance number.

(3) Allocation of right enforcement

The financial instrument trade clearance institution (State below as "Clearance Institution".) conducts the allocation for the financial instrument traders that have the sales contract of the classified brands if there is an apply for the right enforcement from the financial instrument traders, and it reports the allocated number that is classified as the elf part and customers' commission part.

The financial instrument traders, who received the reports of allocations for the commission part of customers, by the set procedures, allocate to the customers.

(The clearing institution of the index futures trades and the index option trades at Exchange is Nihon Securities Clearing Institution.)

The procedure of settlement

For the settlement of the index option trades, there are two ways of settlement by the resale or buy back, or the right enforcement.

(1) The settlement by resale or buy back (settlement by closing trade)

For the index option trades, the investors who have the purchase contract (or sales contract) could settle by conducting the resale (or buy back) till the final trading day.

In this case, the investors (buy side) who have the purchase contract receive the sales expense and the investors (sell side) who have the sales contract pay the purchase expense.

(2) Settlement by the right enforcement

For the index option trades, the buy side could conduct the settlement of the purchase

contract by conducting the right enforcement. At this time, the sales contract of the sales side that accepted the allocation of the right enforcement.

The sales side that accepted the right enforcement allocation has to pay the amount that is equivalent for the difference of the right enforcement price and the final clearing price.

The major terms those are related to the futures/option trades and their commission.

The margin money

It is the guarantee money that is submitted or deposited to secure the execution of contract duties of the futures/option trades.

The sales or purchase contracts

Within the futures/option trades, the trades that the settlements have not been completed are called the sales or purchase contracts. Also, within the purchase, the trades that the settlements have not been completed are called the purchase contracts. Within the sales, the trades that the settlements have not been completed are called the sales contracts.

Buy back

It is the purchase that is conducted to settle (decrease the sales contracts) the sales contracts.

Resale

It is the sales that is conducted to settle (decrease the purchase contracts) the purchase contracts.

Delivery months

They are the months that belong to the settlement due date for trades. For the futures/option trades, multiple delivery months are set for the same products and the trades are conducted for each delivery month.

Summary of index futures/option trades

- All transactions in index futures/options are done through Interactive Brokers Securities Japan, Inc.
- Intermediary, brokerage or agency service of index futures/options transactions into domestic markets.

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

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

IB representatives are not authorized to provide any tax advice.

Please refer to a specialist tax advisor for any tax related advice in regards to the financial instruments contracts.

Corporate Profile

Company Name: Interactive Brokers Securities Japan, Inc.

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Associations in which a Member: Japan Securities Dealers Association

Capital: 1,150,520,000 YEN

Business: Financial instruments business

Established: August, 2006

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