



Provisional Translation for your reference only

**Risk Disclosure for Foreign Bond Futures and Option Transactions on IBLLC Account**

(This document is provided by Interactive Brokers Securities Japan, Inc as an intermediary in accordance with the regulation in Financial Instruments Exchange Act Article 37-3)

Please see below regarding foreign bond futures and option transactions. This disclosure provides various risks involved in conducting the trade of Foreign Bond Future and Option into foreign markets.

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

- Futures trades are the trades that contracts to trade based on the agreed price that is decided at the current moment for the set days in the future for the targeted commodities. However, not waiting till the due date, it is possible to cancel the contracts by conducting the closed trades (in case of the buying side, resell, in case of selling side, short cover)
- Futures option trades are, the futures that are targeted as the right enforcement, until the due date that is decided in the future in advance, the trades that buy the buying rights or selling rights by the specific price that is set in advance regardless of the market trends. However, it is possible to conduct the resale or the short cover not waiting till the due date.
- Future bond transactions are for the targeted commodities of abstract financial commodities (standard products), in case of not settling by the closing trade till the due date, the sales or purchase contract depends on the all transfer ratio and conducts the settlement by the actual delivery of stock sold, actual receipt of stock purchased for the delivery eligible brands.
- Foreign bond futures option trades are targeted for the bond futures. In case of conducting the right enforcement until the due date, at the right enforcement price, the futures trades that are targeted are concluded.
- Foreign bond futures trades and foreign bond futures option trades could gain a lot of profits. On the other hand, it is possible to cause a lot of losses. Therefore, in case of starting the trades or continuing them, as well as fully understand the structures and risks of the trades and only in the case that it is appropriate for your financial ability, investment purpose, and investment experience, conduct the trade on your own responsibility.

**Commissions and Other Fees**

- Please refer to the “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 Foreign Bond Futures and Options transactions.

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

### **Risks for the Foreign Bond Futures Trades in Foreign Markets**

The price of foreign bond futures fluctuates by the influence of changes of interests, because of this, losses could be generated. Also, the foreign bond futures trades could conduct the trades that exceed the margin money by small amount of margin money. In some cases, there is a possibility that could cause huge loss. Therefore, upon the beginning of the futures bond trades, it is necessary to fully understand the contents below.

- When the market price changed to the opposite direction of the expectation, within the short term period, major part of margin money or all of them could be lost. Also, the loss is not limited for the amount of margin money.
- When the amount of deficiency is emerged by the market change for the futures bond trades and the price down for the substitute securities, it is necessary to submit additional margin money or the additional deposits.
- In case that the margin money is not submitted or deposited until the set time period, or in case that it is classified as the reason of deprivation of profits by the decision of agreement and consent, part or all of sales or purchase contract could forcibly be settled in the situation that the loss is incurred. Further in this case, about the loss that is generated by the settlement, the customers are responsible for it.
- The financial instrument exchange in foreign markets takes the restrictive procedures, such as the increase of margin amount or restrictions of replacement by securities of margin money, in case
- trouble is generated for the trades, in case there is a threat for it, or in case that it is necessary to authorize from the view point of settlement risk management for the financial instrument transaction clearance institution. For the reason, there could be a case that it is necessary to submit additional margin money, or the replacement of additional deposits or substitute securities and cash.
- Depends on the market condition, the trades as you intended could not be conducted. For instance, in case the market price is reached to the daily price limit, if you hope to settle by the resale or the short cover, it is not possible to conduct it.

- Depends on the market condition, the financial instrument exchange in foreign markets could expand the daily price limit. In that case, the loss in a day could exceed the expectation.

### **Risks for the Foreign Bond Futures Option Trades**

The price of the foreign bond futures option fluctuates by the influence of the changes of the interests, this could cause the loss. It is necessary to pay attention to the term that could enforce the option. Also, in the bond futures option, the market price is changed by the price of the bond futures that is the target of right enforcement, the changing rate has the tendency to be bigger than the futures bond price, in some cases, and it is possible to cause a big loss. Therefore, upon starting the bond futures option trade, it is necessary to fully understand the contents below.

- Depends on the market condition, the trades as you intended could not be conducted. For example, in case that the market price reaches the daily limit, even though you hope to settle by the resale or the short cover, there are cases that you could not conduct
- Depends on the market condition, the financial instrument exchange in foreign markets could expand the daily price limit. In that case, the loss in a day could exceed the expectation.

### **<Risks of Purchase Side for the Bond Futures Option in Foreign Markets>**

- Bond futures option has a limitation of its term and the right is extinguished if the buy side does not conduct the right enforcement or resale by the due date. In this case, the buy side loses all amounts of the investment funds.

### **<Risk of Sales Side of the Bond Futures Option>**

- For the sales side, the transactions is done with exceeding the margin money, and the loss, when the market price changed to the opposite direction as the expectation, is not limited.
- For the sales side, when the bond futures option trades are established, the margin money has to be submitted or deposited. After that, when the shortage amount is generated by the market change, it is necessary to submit the additional margin money or the additional deposits.
- In case the margin money is not submitted or deposited until the set time period, in case it is classified as the reason of loss of profit of the due date by the agreement and consent, there could be a case that is forcibly settled the part or the all of sales contract in the situation that the loss is incurred.
- Further in this case, about the loss that is generated by the settlement, the customers are responsible for it.
- The financial instrument exchange in foreign markets takes the restrictive procedures, such as

the increase of warrant amount or restrictions of replacement by securities of margin money, in case trouble is generated for the trades, in case there is a threat for it, or in case that it is necessary to authorize from the view point of settlement risk management for the financial instrument transaction clearance institution. For the reason, there could be a case that it is necessary to submit additional margin money, or the replacement of additional deposits or substitute securities and cash.

- The sales side, when the allocation of right enforcement is received, has to respond to this.

**Foreign Bond Future trade and Foreign Bond Future Option trade are not subject to the cooling-off.**

Foreign bond future trade and foreign bond future option trade in foreign markets are the exclusion from application of the Financial Instruments and Exchange Act Article 37-6 (Cancellation by Document).

**About the Structure of Foreign Bond Futures Trades and Foreign Bond Futures Option Trades**

Foreign bond futures trades and foreign bond futures option trades in foreign markets are conducted by the regulations that are decided by each financial product exchange in foreign markets. To find out details, please visit each financial product exchange's website.

**1. About the Structure of Foreign Bond Futures Trades**

○ **The Procedures of Trades**

(1) Targeted issue

The transaction target is the standard product that is set by each financial product exchange.

(2) Delivery eligible issue

The delivery eligible products may be different depending on each financial product exchange. To find out details, please visit each financial product exchange's website.

(3) Trading Term

The trading term of bond future trading may be different depending on the financial product exchange you choose. To find out details, please visit each financial product exchange's website.

(4) Evening session

The evening session is established for some of the foreign bond futures trades, and it is possible to trade after the end of daytime trades. To find out details, please visit each financial product exchange's website.

(5) Calendar spread transactions

Foreign bond futures trades could conduct the trades (calendar spread transactions) that conduct the sales of contract month trades and the purchase of contract months within two contract month trades at the same time.

#### (6) Daily price limit

By the rapid change of the market, not to incur the unpredicted losses to the investors, from the standard price (as a general rule, accounting price of the former trading day or the final agreed spread price, things below are the same), set daily price limit (difference in price that could change in 1 trading day) is established.

The financial instrument exchange could change the daily price limit of the bidding price depends on the need.

#### (7) Trade regulations

In case the financial instrument exchange authorizes that there is a trouble for trades or there is a threat of it, the restrictive measure, such as control measures below could be taken.

- a. Reduction of daily price limit
- b. Moving forward the submission date of margin money or raising the deposit
- c. Increase of margin money
- d. Restriction of substitutes by the securities of margin money
- e. Decrease of margin of substitute securities for margin money.
- f. Restriction or prohibition of bond futures securities
- g. Open interest restriction

### ○ **Procedure of Settlements**

Settlement by resale or short cover (settlement by closed trades)

About the bond futures trades, the investors that have the purchase contract (or the sales contract) could conduct resale (or short cover) until the final day of trading, and can settle by giving and receiving the difference of the purchase contract (or sales contract) price and resale (or short cover) price.

## **2. About the Structure of the Foreign Bond Futures Option Trades**

### ○ **Procedure of Trades**

#### (1) Trade target

Trade targets are 2 types in the next line.

- a. Foreign Bond futures put option
- b. Foreign Bond futures call option

(2) Trading term

The trading term of bond futures options may be different depending on each financial product exchange in foreign markets. To find out details, please visit each financial product exchange's website.

(3) Evening Session

For some of the bond futures option trades, the evening session is established at a few foreign markets and it is possible to trade after the end of daytime trades. To find out details, please visit each financial product exchange's website.

(4) Daily price limit

Not to incur the unpredicted losses for investors by the rapid changes of the market, the daily limit (as a general regulation, clearance price of the day before trading day) from the standard price (price range that could change in one trading day) is established.

The financial instrument exchange could change the daily price limit of bidding price depends on the need.

(5) Trade restrictions

In case the financial instrument exchange admits problems for trades or the possibility of it, the restrictive measures, such things as below are taken.

- a. Reduction of restrictive price range
- b. Submission date of margin money or raising of depository date
- c. Increase of margin amount
- d. Restrictions of substituting margin money by securities
- e. Decrease of margin of substitute securities for margin money
- f. Acceptance of depository at the day before settlement for trade payment
- g. Restrictions or abolitions of bond futures option trades
- h. Restrictions of the purchase or sales contract

○ **Option Exercise**

(1) Exercise period

Exercise period of bond options may be different for each financial product exchange in foreign markets. To find out more information, please visit each financial product exchange's website.

(2) Order of right enforcement

In case the buy side customers conduct the right enforcement, until the time period that is decided by each foreign financial instrument exchange of the day that conducts the right enforcement, to the financial instrument traders or the financial institution, the right enforcement has to be ordered.

### (3) Allocations of right enforcement

Clearance institution, if there is a declaration of right enforcement from the financial instrument traders or financial institutions, conduct the allocation to the financial instrument traders or the financial institution that hold the sales contract of the brands.

The financial instrument traders or the financial institutions that received the reports of allocations to the commission part of the customers, by the way that is decided, allocates to the customers.

### ○Procedure of Settlements

Settlement by resale or short cover (settlement by closed trade)

About the bond futures option trades, the investors that hold the purchase contract (or sales contract) could settle by reselling (or short covering) till the final day of trades.

In this case, the investors (buy side) that hold the purchase contract receive the sales payment and the investors (sales side) that hold the sales contract are supposed to pay the purchase payment.

### **Summary of financial instrument trade operations that are related to the bond futures/option trades**

All transactions in foreign securities options are done through Interactive Brokers LLC.

Interactive Brokers Securities Japan, Inc provides the intermediary service into foreign securities options transactions into foreign markets.

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

- Profit from the transaction of foreign bond future/option transaction in foreign 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 foreign bond future/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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Membership: Japan Securities Dealers Association

Capital: 1,150,520,000 YEN

Business: Financial instruments business

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