Provisional Translation for your reference only

Risk Disclosure for Commodity Futures/Option Transactions in Foreign Markets through local intermediator

(This document is provided by Interactive Brokers Securities Japan, Inc. ("IBSJ"), acting as an intermediary in accordance with the Article 217 of the Commodity Exchange Law between clients (excluding individuals) and local broker in Foreign Market, Interactive Brokers LLC)

This document is an explanatory sheet of commodity futures transactions in foreign markets and should be provided in accordance with Japanese laws and regulations before executions of contracts of commodity futures and futures option contracts in foreign markets. IBSJ will act as an intermediary as a foreign commodity futures and futures option trade operator. There may exist some differences in structures and features of the product, compared with Japanese local products. When you are to start trading, please read the contents of this document carefully and understand the structures and risks of this product. If you have any questions, you are requested to confirm with Interactive Brokers LLC, which is your broker, before you place orders to the institution.

<u>**Risks for commodity futures contracts**</u>

The price of commodity futures may fluctuate by the influence of changes of underlying commodity price, and because of this, losses could be raised. Also, the commodity futures transactions will allow you to trade leveraged transactions that enable investors to trade the margin trade by placing small amount of margin deposits. In some cases, there are some possibilities that could cause huge loss. Therefore, at the beginning of the commodity futures transactions, it is necessary to fully understand the contents below.

- When the market price moved to the adverse from what you expected, you may lose most or all of your margin within the short term period. Also, the loss is not limited for the amount of margin you placed.
- When the shortage of margin arises by the fluctuation of the futures market or the drop down the price of the pledged securities, you are required to submit additional margin or collaterals.
- In case that required margin is not placed or deposited by the cut off time, or in case that it confirmed as the forfeit of time profits as defined in the Agreement, some part or all of your existing

contract could be liquidated with carrying loss. Further in this case, about the loss that is generated by this compulsory settlement, the Provisional customers are responsible for the loss caused.

□ The commodity futures exchange, in case an issue is raised for the trades or in case there is a possibility for it, or in case that there are necessities to judge as indispensable from the viewpoint of settlement risk management by the commodity trade clearing institutions, there may happen the cases such as the increase of margin amount or collaterized securities replacement. For this reason, there are necessities to judge as indispensable to increase margin money or submit additional collaterals.

□ Depending on market condition, the trades you intended execute cannot be filled.

For instance, the market price is reached to the daily price limit, and you hope to execute for sell close or for buy close, it may be not possible to execute it.

□ Under certain market condition, the commodity futures exchange in foreign markets can expand the price limit. In that case, the loss in a day could become larger than what you estimated.

<u>Risks for commodity futures options contracts</u>

The price for commodity futures option may fluctuate by the price movement of targeted commodity so that the loss could be raised from it. It is necessary to understand that there are restrictions for the term you could enforce the options. Also, for the commodity futures options, the market price could be changed by the commodity price,so the percentage of the fluctuation tends to become bigger than the actual commodity price. Depends on the cases, it is possible to rise big loss. Therefore, upon the commodity futures option trade, it is necessary to fully understand the contents below.

□ Depending on market condition, the commodity exchange may change its price range restriction. In such case the loss in a day could become larger than you estimated. For instance, the market price reaches the daily price limit and you hope to execute for the sell close or by close order, it may be not possible to execute it.

<u>The risk of buy side for commodity futures options</u>

□ The commodity futures option is the term product that has each different contract month, and in case that the buy side does not exercise the option or not place sell close transaction until the due date, the option right will be expired. In this case, the buy side will lose all amounts invested.

<u>The risk of sell side for commodity futures options</u>

□ The sell side conducts will conduct larger amount of trade that exceeds the margin amount and the loss is not limited when the market price changed for the adverse direction that you estimated.

□ For the sell side, when you sell the commodity futures options contracts, you have to submit collaterals or deposit margin cash. After that, when the shortage of margin requirement caused by the market fluctuation or decrease value of collateral securities, it is a requirement to submit additional margin or collaterals.

□ In case that you do not submit additional margin or deposit collaterals, until the due date, or in case that it is applied as the forfeit of time profit in accordance with the agreement , you may be enforced to settle the part or all of the position that may cause actual losses. In this case, the customer is responsible for the loss that is generated by the settlement.

□ The commodity futures option exchange, in case an issue is raised for the trades or in case there is a possibility for it, or in case that there are necessities to judge as indispensable from the viewpoint of settlement risk management by commodity trade clearing institutions, there may happen the cases such as the increase of margin amount or restrictions on pledged securities replacements. For this reason, there are necessities to judge as indispensable to increase margin money or submit additional collaterals.

□ The sell side has to comply when a option exercise notice is allocated. That is, the sell side, when you receive the allocation, it is necessary to pay the difference between the exercise price and final settlement quotation ("SQ"), so that it is necessary to pay attention.

<u>About the limitation of your order</u>

According to the Article 8 of the Consignment and Other Matters Relation to Futures transaction in Foreign Commodity Markets, a foreign commodity market operator cannot accept any customer's order before 14 days passes from the day of execution the commodity futures transaction contract (so called "cooling off"). However, this regulation excludes the case if the customer order is made at the office of the foreign commodity market dealer. Thus, this rule is not applied to all contracts which are conducted by customers in person when using our trading system.

1) Name, address of foreign commodity operator, and name of representative for a company.

(address) 4th Floor Tekko Kaikan 3-2-10 Nihonbashi Kayabacho Chuo-ku Tokyo, Japan 103-0025

(name) Interactive Brokers Securities Japan, Inc. ("IBSJ")

(representative' s name) Representative director Yasuaki Hayashi

(contact) TEL : (03) 4588－9700 (customer service)

(Registration No.): NorinSuisanShirei22SougouDai1352Goh / Heisei22.12.22ShouDai6gou

2) The name, trade name or name of the representative person, address of the person who conducts the purchase or sell under the Foreign futures Contract, in the case the foreign futures operator conducts intermediary, brokerage or agency service for entrustment of your order.

IBSJ will act as an intermediary for entrustment as a Foreign Commodity Futures Operator.

The name of the person who conducts the purchase or sell under the Foreign futures Contract : Interactive Brokers LLC

(address) One Pickwick Plaza Greenwich, CT 06830

(representative' s name) Thomas Peterffy, Chairman of the Board of Directors, Chief Executive Officer and President

3) The name and address of a company who establishes a Commodity Market, and the kind of products and due date of future/option contracts in the Foreign Commodity Market.

Please refer to the following websites to check the exchanges and kind of commodities on the foreign commodity futures and options.

Exchanges : http://www.interactivebrokers.com/en/p.php?f=exchanges

Commodities handled : http://www.interactivebrokers.com/en/p.php?f=products

4) The matters relating to your instruction as to the order of purchase or sell

IBSJ will act as an intermediary for entrustment as a Foreign Commodity Futures and Futures Option Operator, but IBSJ will not accept any orders for sale or purchase of the instruments. You are required to place orders through the workstation software "Trader Workstation". For further details, please refer to each item at the screen where you will place orders through the station.

6) The moneys and , securities, etc which you should deposit under the Contract of Foreign Futures (hereinafter referred to as "margin"), and the procedure for refunding your margin.

IBSJ will act as an intermediary for entrustment as a Foreign Commodity Futures Operator, but IBSJ will not receive, refund or have the custody of your margin for you or Interactive Brokers LLC. For further, please refer to the relevant details described in our software "Trader WorkStation"

7) Rates of commission and the procedure to receive it,

IBSJ will act as an intermediary for entrustment as a Foreign Commodity Futures Operator, but we would not collect the commission on the intermediary from you directly. Please refer to the following website about the rates of commission required for your orders by Interactive Brokers

LLC.
http://www.interactivebrokers.com/en/p.php?f=commission

8) Restriction on trade

According to the laws on foreign commodity futures and the regulations of the commodity exchange, the following measures such as temporally suspension or restriction may be taken in general. For further, please refer to Interactive Brokers LLC.

a) In case foreign commodities exchanges judge it difficult to open the market opening due to emergency events, they may suspend part or all of commodities affected or all commodities on a temporary basis.

b) In case foreign commodities exchanges judge it difficult to keep normal market activities due to emergency events, the exchanges will announce formally and they may introduce "Tokeai" (that is, in case some market condition has fluctuated due to natural disaster and it is very difficult to conduct clearance, or some market is totally messed up, to avoid market to be confused, there would be cases that buying and selling contract is liquidated at a regular price with consultation of buying and selling parties concerned, order from the competent authorities or resolution of exchange's board of directors).

c) Range in limit price and foreign range in limit price may be changed.

d) The number of trades or open position may be limited.

e) Depending on the market, amount of margin requirement may be changed

9) The matters about prohibited activities on contracts etc. of futures in foreign commodity market

IBSJ will act as an intermediary for entrustment as a Foreign Commodity Futures Operator, but IBSJ will not accept any entrustments or the broking service on for sale and purchase of instruments or not conduct any solicitation.

10) Restriction of implementation of a Contract of Foreign Commodity on Foreign Exchange and Foreign Trade Act (Act No. 228 of 1949) or any on implementation of a Contract of Foreign Commodity.

IBSJ will act as an intermediary between the customer and Interactive Brokers LLC for entrustment as a Foreign Commodity Futures option Operator, but IBSJ will not implement any contract of trade execution with customers.

11) The matters about procedures on entrustment with futures in foreign commodity market

IBSJ will act as an intermediary between you and Interactive Brokers LLC as a foreign commodity contract operator, but we would not accept any entrustments for sale and purchase of Securities or do any solicitation to you directly. IBSJ will not accept any entrustment or its broking on sell and purchase of instruments or not conduct any solicitation.

IBSJ conducts an order intermediary between the customer and Interactive Brokers LLC for entrustment as a Foreign Commodity Futures Operator, but we would not accept an entrustment for sale and purchase of Securities or solicit the customer.

12) Principal terms for trustees of futures transactions in foreign commodity markets and other fundamental matters on entrustment of futures transactions in foreign commodity markets.

1. about the structure of commodity futures trade

○ **The procedures of trades**

(1) Targeted products

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

(2) Trading Term and Unit

The trading term and unit of commodity futures contract is different depending on each commodity futures exchange. To find out details, please visit each commodity futures exchange's website.

(3) Evening session

For some of the commodity futures exchanges, the evening session is established 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) Price range limit

By the fluctuation of the market, to avoid unpredicted losses to the investors, each commodity exchange has set daily price limit (difference in price that could change in 1 trading day). To find out details, please visit each financial product exchange's website.

(5) Trade restrictions

In case the commodity futures exchange confirms that there are extraordinary events for trades or there is a possibility of it, the restrictive measure, such as below could be taken.

a. Minimize Price limit range

b. Accelerate submission date of margin or the depository date of collaterals

c. Increase of the amount of margin requirements

d. Restriction of accepting substitute securities as collateral.

e. Decrease of assessment rate of substitute securities for a collateral.

f. Restriction or prohibition of commodity futures transactions

g. Limit open positions held

○ **Procedure of settlement**

(1) Settlement by sell close or buy close (settlement by reversing the position)

About the commodity futures trades, a party that have the long position (or short position) could conduct sell close(or buy close) until the final day of trading, and could settle by giving or receiving the difference of the purchase contract (or sales contract) price and sell close (or short cover) price.

(2) Settlement by cash products

It is possible to settle by delivery of underlying commodity's products at the final day of trading.

<u>**Principal terms on futures transactions**</u>

- Margin

  The amount that must be submitted or deposited to ensure the participants' obligations under a futures contract

- Open position

  Futures which are not under the completion of the settlement. Buy open position means having future long position that is not closed and Sell open position means short position that is not closed.

- Covering

  Purchasing to close the selling open position (reduce the sell open position)

- Sell close

  Selling to close the buying open interest (reduce the buying open position)

- Contract month

  The month in which settlement date of transaction belongs to. In futures contracts, more than one contract months on the same underlying are set in each exchange.

2. About the structure of commodity futures option trade

Commodity futures option transaction is subject to each exchange's rules and policies. (Terms may differ.)

○ **The procedure of trades**

(1) The type of trades

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

a. Put option

An option contract that entitles the taker (buyer) to sell targeted contract of commodity futures at a stated price on or before the expiry date.

b. Call option

An option contract that entitles the taker (buyer) to buy targeted contract of commodity futures at a stated price on or before the expiry date.

(2) Expiry date

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

(3) Evening Session

Some of the commodity futures 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 of the collateral or deposit of the margin may be differed for each exchange. For more details, please refer to each exchange website.

(4) Price range limit

Each exchange cans change the price limit of quotation when necessary and avoid unpredicted losses to the investors. For more details, please refer to each exchange website.

(5) Trade Restriction

In case that the exchange confirms that there is an extraordinary issue for trades, or there is an possibility of it, the following restrictive measure could be taken.

a. Minimize Price limit range

b. Accelerate submission date of margin or the depository date of collaterals

c. Increase of the amount of margin requirement

d. Restriction of accepting substitute securities as a collateral.

e. Decrease of assessment rate of securities for margin collaterals.

f. Restriction or prohibition of commodity futures transactions

g. Limit open positions held

○ **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) Instructions for exercising option rights

In case the buy side customer exercise the option, you have to instruct the commodity futures options operator to exercise the option until the time set by each exchange on the expiry day. At the option enforcement day, if the contract is “in the money” status, even though there is not an instruction of option exercise from the buy side customers until the time period above, the operator will treat that the deemed instructions of the option exercise are made from the buy side customers. However, even this is the case, the buy side customers are not able to exercise the option by indicating not conducting option exercise to the operator.

(Note) “in the money” status is, regarding put option, for the case that the exercise price exceeds the final settlement quotation (SQ), concerning call option, for the case that the execution price becomes lower than the said SQ.

(3) Allocation of option enforcement

The commodity futures option trade clearance institution (State below as “Clearance Institution”.) will conduct the allocation of the exercised positions if there is an notice for the exercise from the commodity futures option traders, the Clearance Institution will make allocation to the option seller and it reports the details by prop portion and customer portion. The commodity futures option traders, who received the reports of allocations for the commission part of customers, allocate the position to the customers in a pre-agreed way.

○ The procedure of settlement

There are two ways for settlement of commodity futures option trades. Those are the settlement by placing sell order (sell close) / placing buy order (buy close) or the settlement by exercising options.

(1) The long/short position settlement by sell close/buy close transaction (settlement by closing transaction)

For the commodity futures option trades, the investors who have the long position (or short position) can settle by conducting the sell close deal or buy close deal by the final exercise day.

In this case, the investors (buy side) who have the long position will receive the monies raised from the difference and the investors (sell side) who have the short position should pay the monies raised from the difference.

(2) The settlement by exercising rights

At the final exercise date, option holders can settle the contract by exercising options. At this time, short position that option writers who will receive the exercised allocation will be automatically settled.

The option seller who is received allocation of option execution has to pay the equivalent amount which is the difference of the option execution price and the SQ price.

Important terms on futures option transactions and its entrustment

・ Margin

The amount that must be submitted or deposited to ensure the participants' obligations under an option contract

・ Open Position

Options which are not under the completion of the settlement. Buy open position means having option long position that is not closed and Sell open position means short position that is not closed.

・ Covering

Purchasing to lose the sell open position (reduce the selling open position)

・ Sell close

Selling to close the buying open position (reduce the buying open position)

・Contract month

The month in which each settlement date of transaction belongs to. In option contracts, m ore than one contract months on the same underlying are set in each exchange.

End