InteractiveBrokers

General Terms of Business - Risk Disclosures

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InteractiveBrokers

Introduction

This Risk Disclosure Notice ("**Notice**") applies to persons who open an account with Interactive Brokers (U.K.) Limited ("**IBUK**") governed by the IBUK General Terms of Business. The Notice is intended to give you a general description of the nature and risk inherent to a range of financial instruments and services that may be available to you as a client of ours, as well as more general risks associated with investment markers.

If you are classified as a Retail Client, please pay close attention to this Notice. Retail Clients typically have less experience, knowledge, and expertise than Professional Clients or Eligible Counterparties. It is essential that you carefully read and fully understand the risks described below.

Part A: General Risks

Investing involves risks. The value of your investments and any income they generate can go up or down. This means you might not get back the full amount you originally invested.

<u>Key points to understand</u>:

No Guarantees: There is no guarantee that your investment will make a profit.

Market Changes: The value of investments can change for reasons beyond your control, including (but not limited to):
- Changes in demand or supply for the investment.
- Shifts in how people view the investment.
- Changes in the prices of related investments.
- Major political or economic events.

Past Performance: Just because an investment did well in the past does not mean it will do well in the future.

Concentration Risk: If your IBUK account is not well-diversified, you may face concentration risk. This means your portfolio could become overly dependent on one or a small number of investments, which may increase the overall risk of loss. Diversifying your investments can help reduce this risk.

Correlation Risk is the chance that the relationship between two assets or variables might not be what you expect. Correlation shows how the price of one asset changes in relation to another. If this relationship changes, your portfolio could become riskier than planned. It is important to understand how assets in your portfolio are linked to manage risk.

Volatility is a statistical measure of how much an investment's value fluctuates over time. Investments with higher volatility are typically riskier, as their values are subject to larger and more frequent price swings.

Regulatory and Legal Risks happen when laws or rules change in ways that affect your investment. These changes could make an investment illegal or change how it is taxed, which might lower your returns or increase your losses. These risks are hard to predict and can be caused by politics, the economy, or other circumstances beyond your or our control.

Additionally, there are three general types of risks you should understand before investing in financial instruments: **Market Risk**, **Liquidity Risk**, and **Credit and Default Risk**. These categories represent broad areas of potential exposure and should be carefully considered when managing your portfolio.

A.1 Market Risk Overview

Market risk refers to the potential for financial loss due to adverse movements in market prices and rates. This includes fluctuations in equity prices, interest rates, currency exchange rates, and commodity prices.

Risk Type	Description	Potential Impact
Interest Rate Risk	The risk that changes in interest rates will affect the value of investments.	○ Decrease in bond prices when interest rates rise. ○ Potential losses if bonds are sold during rising rate periods. ○ Indirect effects on other financial instruments.
Inflation Risk	The risk that inflation erodes the real value of investment returns. If inflation outpaces returns, purchasing power declines.	○ Reduced real returns on investments. ○ Loss of purchasing power over time.
Exchange Rate Risk	The risk that currency fluctuations affect the value of investments when concerted back to the base currency.	○ Unfavourable exchange rate movements can reduce profits. ○ Potential for gains or losses due to currency volatility.
Emerging Markets Risk	The risk associated with investing in emerging markets, which typically	○ Higher price volatility due to geopolitical events and market reactions.

	have less transparency, lower liquidity, and weaker regulatory frameworks than developed markets.	○ Increased exposure to political and economic instability.

A.2 Liquidity Risk Overview

Liquidity risk is the risk of being unable to buy or sell an investment when desired or trade an instrument. Delays in executing trades can impact the price at which an asset is bought or sold. Additionally, illiquid, or low-volume instruments can be complex to value or lack reliable pricing information. The risk may exist at the time of investment or develop over time.

Risk Type	Description	Potential Impact
Instrument Terms	Specific terms and conditions of certain instruments may limit tradability.	○ Difficulty selling the asset when needed. ○ Potential delays in trade execution.
Lack of Public Listing	Instruments not publicly traded or listed on an exchange are harder to sell.	○ Limited market access. ○ Reduced opportunities to exit positions.
Negative Market Developments	Adverse market conditions can lead to decreased trading activity and reduced liquidity.	○ Difficulty executing trades. ○ Widened bid-ask spreads leading to unfavourable pricing.
Concentrated Ownership	Investments held by a small number of investors can be hard to sell without affecting market price.	○ Large sales by major holders can trigger price drops. ○ Limited market for selling the asset.
Limited Market Makers	Few market makers reduce liquidity. For some securitised derivatives, the issuer may be the only market maker with limited obligations.	○ Limited trading opportunities. ○ Inability to sell at desired prices.
Market Crowding	A surge in simultaneous selling by many participants may overwhelm available buyers.	○ Price drops due to oversupply. ○ Inability to exit positions in a timely manner.

A.3 Credit and Default Risks Overview

Counterparty or credit risk arises when a party involved in a transaction cannot meet its financial obligations. In certain situations, this may result in the loss of your invested capital or anticipated returns.

Risk Type	Description	Potential impact
Insolvency Risk	The risk that we or other parties involved in your transactions become insolvent or default.	○ Your positions may be liquidated without your consent. ○ You may not recover collateral and receive cash instead.
Bail-in Risk	The risk that regulatory authorities act against certain issuers (e.g. banks, investment firms) during financial distress or crises.	○ Bonds/debentures could be reduced in value or written off entirely. ○ Bond/debentures could be converted into equity, diluting ownership. ○ Terms of bonds/debentures (e.g. maturity, interest) may be changed. ○ Shareholders could lose their shares.

Part B: Risks relevant to certain types of transactions and arrangements

B.1 Gearing or Leverage

Leverage amplifies both potential gains and potential losses. By borrowing money or using derivatives, small price movements can lead to substantial changes in the value of your investment.

Key Risks:
- **Increased price volatility**: your investment may experience larger price fluctuations.
- **Sudden and large losses**: the potential for significant losses if the market moves unfavourably.
- **Risk of losing more than the initial investment**: if leverage magnifies losses, you may owe more than you invested.

B.2 Suspension of Trading

Under certain trading conditions it may be difficult or impossible to liquidate a position. This may occur, for example, at time of rapid price movement if the price rises or falls in one trading session to such an extent that under the rule of the relevant exchange trading is suspended or restricted.

Key Risks:
- **Inability to buy or sell positions:** difficulty to manage risk with losses that may exceed expectations.
- **Stop-loss orders are not executed at the intended price:** even protective strategies like stop-loss orders may fail during extreme market conditions, potentially leading to larger-than-expected losses.

Part C: Special Risks

C.1 Special Risks of Electronic Trading and System Failures

Trading on a digital platform and using automated systems involve significant risks included but not limited to device malfunctions, weak or unstable internet or mobile connections, device or system incompatibility with the trading platform, failures or malfunctions of the trading platforms or automated systems, interruptions caused by maintenance, technical issues, or circumstances beyond our/your control.

We do not guarantee uninterrupted service. In case of a disruption, we will act promptly to restore services, but we recommend establishing alternative trading arrangements to mitigate risks.

Key Risks	Description	Potential Impact
System Failures and Downtime	Electronic trading platforms may experience technical failures, outages, or connectivity issues.	○ Inability to open, modify, or close positions. ○ Missed market opportunities or inability to manage risk.
Lack of Alternative Trading Options	If the system fails, there may be no alternative method to place, adjust, or cancel trades.	○ Limited ability to manage or hedge portfolio risks. ○ Exposure to increased and uncontrolled losses.
Delayed or Failed Order Execution	High system traffic or technical issues can delay or prevent order execution.	○ Orders may execute at unfavourable prices or not at all. ○ Stop-loss and other protective orders may fail.
Data Feed Errors	Inaccurate or delayed market data due to system errors can impact decision-making.	○ Trading decisions based on incorrect data can lead to unexpected losses.
Cybersecurity Risks	Electronic systems are vulnerable to cyberattacks, hacking, or unauthorised access.	○ Potential for data breaches, account compromise, or monetary loss due to malicious activities.

⚠ **Key Takeaway**
Reliance on electronic trading platforms carries significant risks, including the inability to access markets during critical times. Always have a risk management strategy in place, acknowledging that system failures may prevent timely actions to protect your investments.

C.2 Special Risks of Algorithmic Orders

Algorithmic trading uses computer programs to automatically buy and sell based on set rules. While it can make trading faster and more efficient, it also comes with certain risks that you should be aware of. These risks include the complexity of the system, potential technical or software failures, and unexpected market changes that could negatively affect trades. It is important that you understand how these automated systems work and their limitations before using them. Additionally, if losses occur due to algorithmic trading, options to recover funds may be limited. To help manage these risks, you should ensure that you have clear guidelines in place for your trades, set limits on potential losses, and regularly review your strategy to make sure it stays aligned with your goals.

Key Risks	Description	Potential Impact
Complexity of Algorithmic Orders	Algorithmic orders involve setting various automated trading conditions.	○ Misunderstanding how these orders work can lead to unexpected trading outcomes.
Technical and Software Errors	Algorithms may have design flaws, bugs, or technical issues.	○ Orders may execute incorrectly or at unintended times. ○ Potential for rapid and significant losses.

Adverse Market Impact	High-speed automated trades can unintentionally affect market prices.	○ Algorithms may trigger price swings, amplifying market volatility.
Responsibility to Understand	Users are responsible for understanding the functionality of algorithmic orders.	○ Failure to fully understand order mechanics can result in monetary loss.
Limited recourse for losses	Users of algorithmic orders will be liable for losses related to such orders.	○ Limited recourse for losses due to algorithmic errors.

Key Takeaway
Algorithmic trading can be powerful but carries significant risks. It is crucial to fully understand how these orders operate and acknowledge that you bear responsibility for their outcomes.

C.3 Special Risks of After-hours Trading

Trading options, futures or other financial products outside regular market hours is speculative and carries significant risks. After-hours trading presents unique challenges including those summarised below.

For more details, please review the Risk of After-Hours Trading Disclosure.

Key Risks	Description	Potential Impact
Lower liquidity	Trading volumes are typically lower after regular market hours, making it harder to execute trades efficiently.	○ Difficulty entering or exiting positions. ○ Less competitive pricing.
Higher volatility	Prices often fluctuate more during extended hours, resulting in greater price swings compared to regular market hours.	○ Increased risk of rapid price changes. ○ Higher potential for losses.
Price discrepancies	After-hours prices may differ from market close prices or next day opening prices.	○ Less favourable execution prices. ○ Potential misalignment with regular market valuations.
Unlinked markets	After hours trading platforms may not be connected, causing price differences across platforms for the same securities.	○ Inconsistent pricing across trading venues. ○ Reduced price transparency.
New announcements	Companies often release important news after-market hours, which can trigger sharp price movements.	○ Sudden and unpredictable price swings. ○ Increased difficulty reacting to market-moving events.
Wider bid-ask spreads	Lower liquidity and higher volatility can widen the gap between bid and ask prices.	○ Higher trading costs. ○ More expensive to enter or exit trades.
Lack of Updated Index Values or Intraday Indicative Values (IIV)	Derivative securities may lack updated index values or IIVs after hours.	○ Difficulty assessing true market value. ○ Challenges in pricing derivative products accurately.
No Index Value Reporting	Exchanges typically do not provide updated index values during after-hours trading.	○ Lack of key pricing benchmarks for index-linked products. ○ Uncertainty in pricing decisions.

Key Takeaway
After-hours trading can offer flexibility but comes with heightened risks due to lower liquidity, increased volatility, and reduced-price transparency. These conditions can result in wider bid-ask spreads, unfavourable pricing, and challenges in managing positions during unexpected market events. You should carefully evaluate your risk tolerance and trading strategies before engaging in after-hours trading and remain aware that rapid market movements may limit your ability to react effectively.

Part D: Financial Instruments Risks

D.1 Broad Range of Financial Instruments

Equities or Shares, Mutual Funds, Fixed Income Products are a broad range of financial instruments that investors use to build and diversify their portfolios. Each of these products offers distinct characteristics, with values influenced by factors such as market performance, economic conditions, or specific underlying assets.

While these instruments offer diverse ways to gain exposure to markets, they also come with specific risks, and it is crucial that you understand the potential for both rewards and losses before engaging in any of these products.

Key Takeaway
- Always ensure you fully understand the risks involved before making an investment.
- Refer to our detailed **Risk Disclosure Documents** for each instrument for more details on specific risks.

Instrument Type	Description	Key Risks
Equities or Shares	Shares represent ownership in a company, allowing you to benefit from price increases and dividends (though neither is guaranteed). Dividends are paid at the company's discretion. If a company goes bankrupt, you could lose most or all your investment.	**Market Fluctuations:** share prices are influenced by company performance, market conditions, and industry trends. **Insolvency Risk**: if a company goes bankrupt, you could lose most or all your investment. **Volatility**: shares are generally more volatile than other investments like bonds, meaning their price can fluctuate significantly.
Fractional Shares	Fractional shares allow you to own a portion of a stock or ETF, providing flexibility in investment size.	**Liquidity**: fractional shares cannot be traded on public exchanges and can only be bought or sold through our platform. **Transferability**: these shares cannot be transferred to another broker unless sold first. **Ownership & Custody**: you own fractional shares, and we act as the custodian. No physical certificates are provided. **Dividends & Corporate Actions**: you receive dividends based on fractional ownership, but you cannot vote on corporate actions. **Tax Considerations**: consult a tax advisor regarding taxation on gains from fractional shares.
Important Information: Before trading Fractional Shares, make sure you fully understand the risks involved and refer to the **Fractional Share Trading Disclosure**.		

Instrument Type	Description	Key Risks
Money Market Instruments	Money-market instruments involve short-term loans (often to governments) with fixed interest rates, usually lasting 6 months or less.	Although low risk, they are sensitive to changes in interest rates and liquidity.
Mutual Funds	Mutual funds pool assets from multiple investors and invest in a variety of securities (e.g., stocks, bonds, or real estate).	**Asset-Specific Risks**: the risk depends on the underlying investments and the level of diversification. **Market Risk**: the value of the fund can go up or down depending on how the underlying assets perform.
Important Information: Before trading, make sure you fully understand the risks involved and refer to the **Interactive Brokers General Disclosure on Mutual Funds.**		
Exchange Traded Funds (ETFs) **Exchange Traded Products (ETP)**	ETFs and ETPs are investment funds traded like shares, typically tracking a benchmark index. They can invest in a variety of assets, such as stocks, bonds, and commodities.	**Market fluctuations**: the value of ETFs and ETPs can fluctuate with market movements. **Complexity**: some ETFs and ETPs employ complex strategies and may invest in riskier assets.
Important Information: Before trading, make sure you fully understand the **Risk Disclosure for Trading Leveraged, Inverse, and Volatility-Based ETPs**.		

Instrument Type	Description	Key Risks
Fixed Interest or Bonds	Bonds are debt securities issued by a borrower (issuer), promising to pay back the nominal value at maturity.	**Market Fluctuations**: bond prices fluctuate daily, but if held to maturity, they typically return the nominal value, unless the issuer defaults. **Interest Rate Risk**: rising interest rates can cause bond prices to fall. **Inflation Risk**: inflation can erode the purchasing power of bond returns. **Credit & Default Risk**: if the issuer defaults, repayment may be delayed or reduced.

Important Information: Before trading, make sure you fully understand the **Risk Disclosure Statement for Trading Bonds**.