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**BOND RISK DISCLOSURE NOTICE**

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*This Notice is intended solely to inform you about the risks associated with the debt financial instrument (the “Instrument”) described below, and to ensure that you’re aware of its nature and risks so that you are able to make informed decisions. We do not intend to provide any investment, legal, financial, tax or other advice through this Notice, and you should not rely on this Notice as a recommendation to enter into the transaction with the Instrument. Nothing in this Notice amends or supersedes the express terms of the transaction with the Instrument between you and us or any related governing documentation<sup>1</sup>.*

*We are acting solely as an arm’s length contractual counterparty in connection with the Instrument, and not acting as your advisor, representative and/or fiduciary. Despite any communications between you and us in connection with or with respect to the transaction with the Instrument (before or after its settlement), SIB (CYPRUS) LIMITED (“SIB”) neither provides any guarantees, representations or warranties, nor accepts any liability whatsoever, for any actual financial results, intentions or expectations you may have in connection with the Instrument or its conformity with any specific goals.*

*Notwithstanding any other provision herein, you may refer to your professional financial, legal and/or tax advisers for a full and comprehensive analysis of the economic and legal nature of the Instrument, as well as its tax and/or accounting impact.*

*This Notice contains five sections, and will take you through the nature of bond products (the “Bond”), descriptions of the associated risks and volatility, the impediments to divestment of debt products, the commitments or obligations of the investor arising from a transaction, and any margin requirements, associated with transaction.*

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<sup>1</sup> In this notice,

- “we”, “us” refer to SIB;
- “you”, “your” refer to each person to whom this Notice is delivered or addressed in connection with entering into, executing or agreeing upon the terms of, transactions with the Instrument and any/or of associated or affiliated companies and their directors, officers, employees and agents.

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## 1. NATURE OF THE PRODUCT

The following section defines what a Bond is, and describes its key characteristics and the legal nature of the Bonds contract.

### 1.1. Key characteristics

A Bond is a negotiable debt financial instrument, representing a loan made by the investor (the “Investor”) to the entity issuing the bond (the “Issuer”), with its face value being the amount of principal (the “Principal”) borrowed by the Issuer. The Principal shall be repaid on a given future date (the “Maturity Date”), and interest payments (the “Coupon”), which are determined by a fixed or floating interest rate (the “Interest Rate”), shall be paid to the Investor on a regular basis during the whole life of the Bond, as specified in the Bond agreement (“Bond Agreement”). Debt repayment terms are determined by the Bond Agreement. Key terms of the Bond include Principal, Interest Rate and Maturity Date.

Unless stated otherwise, the Bond shall be repaid either on the Maturity Date, or by means of annual payments, or at different Interest Rates which are determined according to the Bond Agreement. The Coupon payments may be either: (i) fixed for the entire duration or (ii) variable and linked to reference rate.

The following is a discussion of certain material risks, terms and characteristics of some common types of Bonds. The categories used below are illustrative only, and are intended to assist you in understanding key features of Bonds. The information below should not be viewed as a comprehensive description of any particular Bond. Due to the nomenclature being neither standardized nor sufficiently descriptive in terms of the Bonds to capture all important transaction features and variations, a particular instrument may (despite the same name) carry additional or different risks, terms and/or characteristics than described herein.

### 1.2. Legal nature of the instrument

In legal terms, transaction with debt financial instruments arises when the Investor acquires a Bond issued by the Issuer from SIB. Bond, described below, is a non-perpetual debt financial instrument. Bonds are subject to title transfer, meaning that at the time of acquisition, Investor receives all the rights and obligations connected to the Instrument, and holds them as long as Investor owns the Instrument.

The following paragraph provides the general notion of Bond and obligations of the involved parties. We do not intend to provide any legal advice through the following paragraph. You should be aware that particular Bonds may have additional terms and characteristics other than described below; therefore, additional review of the particular transaction and its specifics may be required.

The general mechanism of a Bond is as follows:

- I. at Bond acquisition, Investor shall pay the price of the Bond to SIB and receive ownership over the Bond, including rights to claim embedded cash flows and risks associated with holding the Bond;
- II. during Bond ownership, Issuer shall make Coupon payments to Investor as and when specified by the Bond agreement (except for zero-coupon bonds);

- III. upon Bond expiration, the Principal of the Bond shall be repaid by Issuer to Investor; upon repayment, Investor no longer holds rights of claim nor bears risks associated with the Bond;
- IV. Bond may be subject to early redemption, i.e. return of the Investor's Principal prior to the Maturity Date (specifically the "Callable Bonds"<sup>2</sup> and "Puttable Bonds"<sup>3</sup>) by Issuer or by Investor, as set out in the Bond Agreement;
  - In the event of early redemption by Issuer, Investor shall turn in the Callable Bond to receive the Principal; no further Coupons are paid;
  - In the event of early redemption by Investor, Issuer shall repurchase the Puttable Bond as and when specified in the Bond Agreement; no further Coupons are paid;
- V. SIB acts solely as an independent counterparty and does not bear any responsibility for Issuer fulfilling the obligations described above, including providing payments in full and on time and granting any other benefits, and for future performance of the Bond.

Investor should not enter into a transaction with the Bond if its economic and legal essence, documentation, conditions and/or risks remain unclear or do not correspond to the purposes, intentions and expectations of Investor.

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<sup>2</sup> Callable bonds can be redeemed by the Issuer prior to the bond's Maturity Date.

<sup>3</sup> Puttable bonds allow the Investor to force the Issuer to repurchase the security prior to Maturity Date.

## 2. DESCRIPTION OF RISKS AND VOLATILITY

This section describes the risks and volatility characterizing Bonds and will take you through the different types of risk involved, impact of leverage usage, price volatility and its causes, feasible scenarios and their impact, and capital protections or guarantees embedded in Bonds.

### 2.1. Types of risks included

Not all Instruments are suitable or appropriate for all Investors. Specific risks of each Instrument depend largely on its terms, as well as on the financial position of counterparties. Bearing in mind your circumstances, objectives and expectations, financial position and level of expertise, you should be comfortable that your chosen Instrument is appropriate and suitable for you and, where necessary, you should seek appropriate independent advice in advance of any decisions.

Debt financial instruments may involve a certain degree of risk and are intended for counterparties that are willing to accept such risks and that are able to absorb the losses that may occur. You should not acquire Bond unless you understand the nature of the Instrument and the extent of your exposure to risk. Whenever you have doubts about the meaning of any of the disclosures or warnings described below, it is recommended to seek independent legal, financial, and/or tax advice.

Bonds may be subject to the risk of the Issuer's inability to meet Principal and/or Coupon payments, the risk of market interest rate movements, and price volatility due to, but not limited to, factors such as interest rate sensitivity, market perception of the Issuer's creditworthiness, overall market liquidity, and other economic factors.

Please be aware that risk factors may occur simultaneously and/or may compound each other resulting in unpredictable impact on the value of the Bond.

#### 2.1.1. Insolvency and Credit Risk

A major risk inherent in Bonds is the risk of loss caused by the Issuer's failure to fulfil obligations (e.g. because of mismatch between Issuer's liabilities and assets, which is insolvency), or the risk of deterioration of the Issuer's creditworthiness and/or financial situation, which is an event of credit risk. Default of the Issuer may lead to termination of the Bond Agreement without your consent and/or high risk of the Issuer's obligations to you not being fulfilled.

The Issuer's credit risk may relate to its credit rating change; if the Issuer's credit rating is downgraded by one of the rating agencies, the price of the Bond may decrease as investors associate the Issuer's securities with higher credit risk.

Another form of credit risk event is the Issuer's default. The event of default shall be defined by the Issuer in the Bond agreement. Along with the credit rating downgrade, default announcement causes the Bond price to decrease. It also challenges the cash stream offered to the Issuer under the terms of the Bond Agreement.

Generally, the higher the Interest Rate (that is, relative to the interest rate on a risk-free security of similar maturity and interest rate structure), the higher the perceived credit risk of the Issuer.

The Issuer may recover from financial distress independently or with the involvement of a third party. As a result, the debt obtained through Bond may be restructured, and the Issuer may negotiate new terms of the Bond Agreement, such as reduced Principal and/or Coupon amount and/or postponed Maturity Date, with the Investor. Another way of restructuring is the exchange of debt for equity (bail-in). In this case, the value of the equity offered to the Investor may be substantially lower than the value of cash flows that were initially offered under the Bond Agreement.

If the Issuer cannot recover from financial distress, it might proceed to bankruptcy. The Investor may receive proceeds from sale of the Issuer's assets during bankruptcy proceedings. The probability of receiving such compensation and its amount depends on the ranking of the Investor among other claimers.

Investor shall constantly monitor the creditworthiness/solvency of Issuer. The Investor shall also note that there are different methodologies that can be used to assess creditworthiness/solvency of the Issuer. It is up to the Investor to choose a specific methodology, however we strongly encourage the Investor to have professional financial advisors assessing creditworthiness/solvency of the Issuer prior to Bond acquisition. The Investor shall not rely exclusively on the opinion of rating agencies or other institutions (including analytical units or their representatives) which may publish their assessment of creditworthiness/solvency of the Issuer.

### 2.1.2. Interest Rate Risk

Market interest rates may rise as well as fall. Interest rate risk connected to Bonds is a risk of relative Bond price deterioration due to market interest rates increase.

Changes in market interest rates have a substantially stronger impact on the price of zero coupon Bonds than on the price of ordinary Bonds, as the discounted Bond price is substantially below the Principal amount. If market interest rates increase, zero coupon bonds can suffer higher price losses than other bonds with similar terms.

If the Bond Agreement specifies frequent Coupon payment dates, the Investor is exposed to the reinvestment risk in case of market interest rates decline. That is, the Investor may only reinvest received interest income at a lower interest rate.

There are additional interest rate risks connected to Bonds with floating rate Coupons as interest income on floating rate Coupons cannot be anticipated. Due to floating interest income, the Investor is not able to determine the yield of a floating rate instrument at the time of investment, and return on investment of floating rate Bonds cannot be compared with that of instruments with fixed rates.

### 2.1.3. Operational Risk

Operational risk is the risk of loss to the Investor arising from inadequacies in, or failures of, processes, procedures, systems and/or controls for conducting transactions, including (i) recording, monitoring and quantifying the risks and contractual obligations associated with transactions, (ii) recording and valuing transactions, (iii) making payments or deliveries, (iv) exercising rights before they expire, including option exercise rights, in a manner that complies with the terms of the relevant transactions, (v) meeting regulatory filing, reporting and other requirements, or (vi) detecting human error or systems failures, including disaster recovery procedures. Losses from operational risks can be substantial, including the loss of the entire value of an Instrument.

#### 2.1.4. Regulatory/Legal/Tax Risks

When acquiring a Bond, the Investor should consider the regulatory, legal, tax and/or accounting consequences of the transaction. Obtaining qualified advice from legal, tax and/or other professionals may be necessary for the Investor to understand and assess regulatory, legal and/or tax risks inherent in such transactions, as well as treatment of the transaction in accounting and reporting. Such consultations should be conducted before Bond acquisition.

Markets are subject to ongoing and substantial regulatory changes. Regulatory or legal actions and changes can, amongst other issues, alter the economic effect of any transaction. Legal changes could even have the effect of making a previously acceptable debt instrument illegal or not legally enforceable.

Due to the complexity of tax laws and different considerations applicable to each market participant, you should also consider your tax consequences of acquiring certain debt instruments. It is possible that the current interpretation of tax laws or understanding of practice may change, or even that the law in some countries may be changed with retrospective effect.

In some areas, legislation and regulations governing transactions with debt instruments may be absent or subject to inconsistent or arbitrary interpretation. Accordingly, it is possible that the legal and tax implications may differ significantly from the original assumptions of the Investor, so the tax and legal consequences of the transaction will be different to those the Investor has assumed will occur.

Such risks are unpredictable and can depend on numerous political, economic and other factors. Note that legal terms and conditions of a transaction may contain provisions which could operate against your interests. For example, they may permit early redemption at a time which is unfavorable to you. Where you are unclear as to the technicality of legal documentation or any expressions which are used to reflect terminology used in the debt products market, we would strongly recommend that you seek independent legal advice.

#### 2.1.5. Type-specific risks

Bonds of different types, e.g. redeemable, floating rate (bond with variable interest rates and fluctuating interest amounts as a result), zero coupon, foreign currency, convertible (bonds that can be converted into a pre-determined amount of an underlying company's equity), indexed (bond where the payment of Coupons is related to a specific price index e.g. CPI for inflation), subordinated (bond with lower priority than other bonds during liquidation), collateralized (investment-grade bond backed by a pool of junk bonds), and asset backed bonds, may incur additional risks to the Investor.

For example, under a callable Bond, Issuer may include a provision for allowing early redemption of the Bond if market interest rates fall in the certain range, specified in Bond agreement. Such early redemption may result in a change to the expected yield for the Investor.

In the case of subordinated Bonds, you are advised to enquire about the ranking of the Bond compared to the Issuer's other liabilities; this is because in case of the Bond Issuer's bankruptcy, subordinated Bonds will only be redeemed after repayment of all higher ranked liabilities, so there is a high risk that you will not be reimbursed.

As for bonds with specific characteristics, we recommend you to refrain from purchasing these securities if you do not fully understand the inherent risks and consequences of risk events. We encourage you to seek professional advice on these bonds whenever you lack relevant experience.

## **2.2. Leverage**

Although no leverage<sup>4</sup> is embedded in Bond, you should remember that the use of leverage (which has the effect of magnifying potential positive or negative outcomes) may significantly increase the impact of any of the risks described.

## **2.3. Price volatility**

Bond prices can be volatile; the main factors influencing Bond prices are market interest rates, credit rating of the Issuer, and evaluation of the Issuer's business prospects.

Overall Bond price volatility – especially in emerging markets – can be extreme. Price discrepancies, low trading volumes and wide pricing spreads are widespread, and unpredictable price movements are not uncommon in these markets. Additionally, as news about a country becomes available, the financial markets may react with dramatic price increases and/or decreases within a very short period of time. Emerging markets generally lack the level of transparency, liquidity, efficiency, market infrastructure, legal certainty, and regulation found in more developed markets. For example, these markets might not have regulations governing the market, and/or price manipulation, and/or insider trading, and/or other provisions with respect to the availability of information and the use or misuse thereof in such markets. The risks associated with nationalization or expropriation of assets, the imposition of confiscatory or punitive taxation, restrictions on investments by foreigners in an emerging market, sanctions, war and revolution shall also be considered.

Moreover, as for unlisted Bonds, no centralized pricing source exists (as exists for exchange traded instruments), so such Bonds may be difficult to evaluate. Different pricing formulas and financial assumptions may yield different values, and different financial institutions may quote different prices for the same Bond.

Please note that neither we nor you can predict the future performance of the Bond price based on historical performance. The price of the Bond during the life of the transaction may bear little or no relation to the historical price.

Potential outcomes of risk events and price volatility are illustrated below.

## **2.4. Scenario analysis**

Financial risks of Investor connected to Bond ownership are related to changes of market interest rates and/or change of the Issuer's creditworthiness.

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<sup>4</sup> Leverage is any technique involving the use of borrowed funds for the purchase of an asset, with the expectation that the after tax income from the asset and asset price appreciation will exceed the borrowing cost.



Below are some scenarios for market interest rates movements and changes in the Issuer's creditworthiness, and their impact on the payments received by Investor.

The list of scenarios below is not exhaustive and aims to demonstrate the economic effect of Bond ownership in relation to the movements of market interest rates and changes in the Issuer's creditworthiness. It is important for Investor to acknowledge that there is no limit to the possible scenario variations. The list of scenarios below is provided for illustrative purposes only. Past performance is no guarantee of future performance, and the highlighted scenarios may or may not occur. Note that the actual values will differ depending on terms of the Bond, and this analysis should not be considered as an indicator of future performance.

Probability of each scenario could differ and depends on political situation, government trade, fiscal and monetary programs, exchange rate policies, the state of the market and industries, as well as the external environment, etc.

### 2.4.1. Change in market interest rates

#### ***Scenario 1: Favorable scenario for Investor***

Consider the following scenario. Issuer issues a zero coupon Bond with Principal of 1000, Interest Rate of 10% per annum, and Maturity of 2 years. The price of the bond is equal to 826.45 (determined by dividing 1000 by 110% raised to the power of 2), as payment of 1000 will secure 10% return annually. Investor assumes that the Interest Rate of the Bond corresponds to the risk level of the Issuer and purchases the bond.

After Bond acquisition the conditions change, and companies with comparable risk levels issue bonds with Interest Rates of 5% per annum. In this case, other investors aiming to acquire Issuer's Bond from Investor are forced to acquire the Bond at higher price. Otherwise, Investor will prefer to keep the existing bond, due to lower reinvestment Interest Rate. The price of the Bond will change to 907.02 (determined by dividing 1000 by 105% raised to the power of 2), and Investor will be able to sell the Bond with a premium of  $(907.02 - 826.45) = 80.57$ .

#### ***Scenario 2: Unfavorable scenario for Investor***

Consider the same scenario; Issuer issues a zero coupon Bond with Principal of 1000, Interest Rate of 10% per annum, and Maturity of 2 years.

In this case, companies with comparable risk level issue Bonds with Interest Rates of 20% per annum. In this case Investor, aiming to sell the Bond of Issuer to reinvest in a newly issued Bond, is forced to sell it at a lower price. Otherwise, potential buyers of the bond will prefer to purchase newly issued Bonds of other companies. To offer a competitive price, Investor must sell the Bond with discount. Thus, Investor will be able to sell the Bond at 694.44 (determined by dividing 1000 by (120%) raised to the power of 2). Investor's net loss will equal  $(826.45 - 694.44) = 132.01$

### 2.4.2. Change in credit rating of the Issuer

#### ***Scenario 1: Favorable scenario for Investor***

Consider the following scenario; Issuer with credit rating B issues a Bond with Principal of 1000, Interest Rate of 10% per annum, and Maturity of 2 years. After that the company is upgraded to rating A by a rating agency. According to market situation, A-level companies offer 2% less annual

return than B-level companies, as investors believe they bear less risk. The difference of 2% in returns is referred as credit spread. Therefore, Investor can sell the Bond for a higher price of 857.34 (determined by dividing 1000 by 108% raised to the power of 2) and receive its premium of 30.89.

***Scenario 2: Unfavorable scenario for Investor***

Consider the same scenario - Issuer with credit rating B issues a Bond with Principal of 1000, Interest Rate of 10% per annum, and Maturity of 2 years. If Issuer receives a downgrade in credit rating to C after Bond issue, market participants expect to get 2% additional return from it compared to companies with rating B. Therefore, the seller of the bond has to adjust the bond price to 797.19 (determined by dividing 1000 by 112% raised to the power of 2) and can only sell the bond with a loss of 29.25.

## **2.5. Capital protection or guarantees**

No capital protection or guarantees are embedded into Bonds, so neither Issuer, nor SIB can guarantee that the Investor will get back any part of the amount invested.

### 3. IMPEDIMENTS FOR DIVESTMENT

This section deals with divestment of Bonds, describing the barriers and illustrating the possible exit methods.

#### 3.1. Barriers to divestment

Illiquidity of Bonds may prevent divestment; liquidity of the Bond is directly affected by the supply and demand for that Bond and also indirectly by other factors, including market disruptions (for example a disruption on the relevant exchange) and infrastructure issues. Under certain trading conditions it may be difficult or impossible to liquidate or acquire a position. Bonds of certain Issuers or with certain characteristics may stay illiquid for a long time because of lack of investors' interest to these assets.

Additionally, over-the-counter Bonds do not circulate on exchanges or among bidding process organizers; they allow for a variety of customization options aimed at achieving specific financial or managerial objectives and risk mitigation which, however, may or may not be achieved.

Customization of Bond terms entails a serious risk of loss/lack of liquidity of such a Bond as well as other complex risks. If the market is not sufficiently liquid, you may be unable to liquidate your position at the desired time.

#### 3.2. Illustration of possible exit methods

The risks of the Instruments may be managed or exited by means of:

- **Holding to Maturity**

An Investor may hold the Bond until its Maturity Date. In this case the Investor receives Coupon payments prior to the Maturity Date and the Principal amount at the Maturity Date. After final settlement, the Investor no longer holds claims nor bears risks associated with the Bond.

According to accounting standards, a held-to-maturity bond, i.e. a bond purchased with the intention of holding the investment to maturity, is recorded at cost (purchase price plus commissions/fees). This type of security is reported at amortized cost in a company's financial statements. For such type of securities, temporary price changes are not shown in accounting statements and the interest income/loss received from a held-to-maturity security is run through the income statement.

- **Sale**

Investor may sell the Bond on the market prior to the Maturity Date. In this case the Investor hands over the rights for the subsequent Coupon and Principal payments and risks to the buyer. Investor may sell the Bond with gain or loss, depending on current market conditions.

According to accounting, held-for-trading debt securities, i.e. debt securities purchased with the intent of selling them within a short time period of usually less than one year, are reported at fair value, and unrealized gains and/or losses are included in the income statement as earnings. They are classified as unrealized holding gains or losses.

Available-for-sale debt securities, i.e. debt securities purchased with the intent of selling before it reaches maturity, are reported at fair value, and changes in value between accounting periods are included in unrealized gain/loss in other comprehensive income accounts in shareholders' equity until the securities are sold.

- Early redemption

Specific types of Bonds include provisions that provide either the Issuer or the Investor with additional exit methods. For example, redeemable Bonds allow the Issuer to redeem the Bond at a specific date or allow the Investor to force the Issuer to repay the Bond prior to maturity. Convertible Bonds allow the Investor to exchange debt for equity.

For example, a Callable Bond is a Bond that can be redeemed by the Issuer prior to its Maturity Date. If market interest rates have declined since the company first issued the Bond, the Issuer will most likely be willing to refinance this debt at a lower Interest Rate. In this case the Issuer calls its current bonds and reissues them at a lower Interest Rate. The Issuer can call a Bond at a price below the market price. The Investor is obliged to turn in the Bond to get back the Principal; no further Coupons are paid. The Investor may reinvest at a lower Interest Rate and lose potential income. Terms and conditions of redemption are usually described in the Bond Agreement.

#### 4. INVESTOR COMMITMENTS OR OBLIGATIONS

When acquiring a Bond issued by Issuer, Investor bears in full all of the relevant obligations and commitments, according to the nature of the Instrument described in Paragraph 1.

As described in the scenario analysis in Paragraph 2.4, movements in market interest rates and change of Issuer's creditworthiness may considerably affects the gain/loss of Investor.

## 5. MARGIN REQUIREMENTS

Margin requirement refers to the percentage of marginable securities that the Investor must pay for with his/her own money. It can be further broken down into initial margin requirement and maintenance margin requirement.

An initial margin requirement generally refers to the percentage of securities required to be provided when the Investor opens a position. When the Investor holds securities bought on margin, in order to allow some fluctuation in price, there are certain minimum margin requirements. This is generally called the maintenance margin requirement. When the Investor is unable to maintain assets above the maintenance margin requirement, a margin call occurs.

If the Investor is subject to margin requirements, we will require you to provide assets as margin that are related to you and to ensure that we have as much margin as required at any time.

The arrangements between you and us relating to how the margin calls will be funded will be set out in our client clearing agreement.

If the Investor is not subject to margin requirements, no margin requirements or similar obligations are applicable.