Mighty Brokerage (Asia) Limited
敏 哲 証 券 有 限 公 司

Risk Disclosure Statement (Derivative Products)

Account Name : ______________________________
Account Number : ______________________________ Date: __________________________

Risk in relation to index tracking exchange traded fund

1. I/We understand that ETFs are typically designed to track the performance of certain indices, market sectors, or groups of assets such as stocks, bonds, or commodities. I/We acknowledge that ETF managers may use different strategies to achieve this goal, but in general they do not have the discretion to take defensive positions in declining markets. I/We acknowledge that i/we must be prepared and accepted to bear the risk of loss and volatility associated with the underlying index/assets.
2. I/We understand that an ETF may be traded at a discount or premium to its Net Asset Value (NAV). This price discrepancy is caused by supply and demand factors, and may be particularly likely to emerge during periods of high market volatility and uncertainty. This phenomenon may also be observed for ETFs tracking specific markets or sectors that are subject to direct investment restrictions
3. I/We understand that investors trading ETFs with underlying assets not denominated in Hong Kong dollars are also exposed to exchange rate risk. I/We acknowledge that currency rate fluctuations can adversely affect the underlying asset value, also affecting the ETF price.
4. I/We understand that counterparty risk involved in ETFs with different replication strategies. I/We acknowledge that an ETF using a full replication strategy generally aims to invest in all constituent stocks/assets in the same weightings as its benchmark. ETFs adopting a representative sampling strategy will invest in some, but not all of the relevant constituent stocks/assets. I/We acknowledge that ETFs utilising a synthetic replication strategy use swaps or other derivative instruments to gain exposure to a benchmark. Swap-based ETFs are exposed to counterparty risk of the swap dealers and may suffer losses if such dealers default or fail to honor their contractual commitments. Derivative embedded ETFs are subject to counterparty risk of the derivative instruments' issuers and may suffer losses if such issuers default or fail to honour their contractual commitments. I/We acknowledge that even where collateral is obtained by an ETFs, it is subject to the collateral provider fulfilling its obligations. There is a further risk that when the right against the collateral is exercised, the market value of the collateral could be substantially less than the amount secured resulting in significant loss to the ETF.

5. I/We acknowledge that there would be disparity between the performance of the ETF (as measured by its NAV) and the performance of the underlying index. I/We acknowledge that tracking error may arise due to various factors. These include, failure of the ETF's tracking strategy, the impact of fees and expenses, foreign exchange differences between the base currency or trading currency of an ETF and the currencies of the underlying investments, or corporate actions such as rights and bonus issues by the issuers of the ETF's underlying securities. Depending on its particular strategy, an ETF may not hold all the constituent securities of an underlying index in the same weightings as the constituent securities of the index. Therefore, the performance of the securities underlying the ETF as measured by its NAV may outperform or under-perform the index.
6. I/We understand that Listing or trading on the SEHK does not in and of itself guarantee that a liquid market exists for an ETF. Besides, a higher liquidity risk is involved if an ETF uses financial derivative instruments, including structured notes and swaps, which are not actively traded in the secondary market and whose price transparency is not as easily accessible as physical securities. This may result in a bigger bid and offer spread. I/We also understand that these financial derivative instruments also are susceptible to more price fluctuations and higher volatility. Hence, they can be more difficult and costly to unwind early, especially when the instruments provide access to a restricted market where liquidity is limited in the first place.

Risk in relation to Structured Products

1. I/We understand that in the event that a structured product issuer becomes insolvent and defaults on their listed securities, investors will be considered as unsecured creditors and will have no preferential claims to any assets held by the issuer, investors can lose their entire investment. Therefore, I/We acknowledge that we should pay close attention to the financial strength and credit worthiness of structured product issuers and read the listing documents to determine if a product is uncollateralised.
2. I/We understand that structured products such as derivative warrants and callable bull/bear contracts (CBBCs) are leveraged and can change in value rapidly according to the gearing ratio relative to the underlying assets. I/We acknowledge that i/we should be aware that the value of a structured product may fall to zero resulting in a total loss of the initial investment. I/We prepare to accept these risks.
3. I/We understand that structured products have an expiry date after which the issue may become worthless. I/We acknowledge that i/we should be aware of the expiry time horizon and choose a product with an appropriate lifespan for their trading strategy.
4. I/We understand that the price of a structured product may not match its theoretical price due to outside influences such as market supply and demand factors. As a result, actual traded prices can be higher or lower than the theoretical price.
5. I/We understand that if the structured products with underlying assets not denominated in Hong Kong dollars are also exposed to exchange rate risk. I/We further understand that currency rate fluctuations can adversely affect the underlying asset value, also affecting the structured product price.
6. I/We acknowledge that the Exchange requires all structured product issuers to appoint a liquidity provider for each individual issue. The role of liquidity providers is to provide two way quotes to facilitate trading of their products. In the event that a liquidity provider defaults or ceases to fulfill its role, investors may not be able to buy or sell the product until a new liquidity provider has been assigned.

7. I/We understand that even if all things being equal, the value of a derivative warrant will decay over time as it approaches its expiry date. Derivative warrants should therefore not be viewed as long term investments. I/We also understand that prices of derivative warrants can increase or decrease in line with the implied volatility of underlying asset price.
8. I/We understand that investors trading CBBCs should be aware of their intraday “knockout” or mandatory call feature. A CBBC will cease trading when the underlying asset value equals the mandatory call price/level as stated in the listing documents. Investors will only be entitled to the residual value of the terminated CBBC as calculated by the product issuer in accordance with the listing documents. Investors should also note that the residual value can be zero. I/We also understand that the issue price of a CBBC includes funding costs. Funding costs are gradually reduced over time as the CBBC moves towards expiry. The longer the duration of the CBBC, the higher the total funding costs. In the event that a CBBC is called, investors will lose the funding costs for the entire lifespan of the CBBC. The formula for calculating the funding costs are stated in the listing documents.

General Risk Disclosure Statement

1. I/We acknowledge that this risk disclosure statement does not purport to disclosure all the risks and other significant aspects of derivative product. I/We understand that I/We should undertake my/our own research on the trading of derivative product before commending any trading activities.
2. I/We understand that I/We should seek independent professional advice if I/We am/are uncertain of or have not understand any aspect of this risk disclosure statement or the nature and risks involved in trading of derivative product.
3. I/We understand that the signing of this risk disclosure statement is mandatory under the rule of the Exchange. I/We understand that you will not be able to effect my/our instructions to deal in derivative product if this statement is not signed and acknowledged by me/us.
4. This risk disclosure statement has been fully explained to me/us and I/we fully understand the contents hereof.

Client Signature : ______________________________

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(In case of Joint A/C, all account holders should sign. Company A/C should attached resolution of the Board of Director.)