<u>Risk Disclosure of Selling (writing) Forex Options</u>

There are special risks associated with forex option selling that may expose investors like yourself to significant losses. Therefore, this type of strategy may not be suitable for all customers, as it is meant primarily for sophisticated and well experienced clients.

Kindly note the following scenarios:

- An option seller may be short on a contract and then experience a rise in demand for contracts, which, in turn, inflates the price of the premium and <u>may cause large losses</u>, <u>even if the underlying has not moved</u>

- The seller of the option <u>may incur large losses</u> if the price of the options increases due to but not restricted to the followings:
    - Price of the underlying
    - Strike price
    - Time until expiration
    - Volatility of the underlying

- All options are marked to market in real time. This means that when selling options:
    - The cash balance on your account increases
    - The unrealized value of positions will be decreased accordingly according to the real time offer price of the option
    - There is hence <u>no increase in account value</u> when initiating a new short contract options trade

- There is generally <u>more risk and generally less reward</u> involved in selling options than in purchasing options

- Selling options naked (not covered or hedged) involves the risk of an <u>unlimited loss</u>
    - When selling a naked CALL option, the underlying can theoretically rise to an infinite price level, resulting in infinite losses on your trading account
    - When selling a naked PUT option, the underlying can theoretically fall to zero, resulting in massive losses on your trading account

- The seller of a European-style option is subject to exercise assignment only during the exercise period

- In the case of a **<u>margin stop out</u>** where the required margin on the account exceeds the net equity for margin
    - ALL margin positions (<u>including bought only options</u>) will be forced closed by the system.
    - In view of our self-directed trading business model, we make <u>no commitment</u> to contact you by phone and/or email before the forced closure of your positions by the system

- Your positions may have been forced closed by the system even if you may have initiated a transfer of funds

- Losses on a short Option position can be substantial when the market moves against the position, and can result in a deficit balance on the account - which is immediately due and payable

Forex option selling is suitable only for the highly experienced and sophisticated investor who understands the risks, has the financial capacity and willingness to incur potentially substantial losses, and has sufficient liquid assets to meet applicable margin requirements. In this regard, if the value of the underlying instrument moves against an uncovered seller's options position, Saxo may request significant additional margin payments, or close positions in the investor's account with little or no prior notice in accordance with the General Business Terms.

Please also refer to the risk disclosure statement in our General Business Terms, which is also available at

http://hk.saxomarkets.com/en/support/legal-documentation/