



**222 South Riverside Plaza, Suite 1200  
Chicago, IL 60606**

### **DISCLOSURE BOOKLET**

The trading process begins with your completion of at least one set of account forms and your receipt of this disclosure booklet.

Please be sure that you read and understand everything in this disclosure booklet. Otherwise, the opening of your account may be delayed. A new account can be traded only when the complete Application is approved by R.J. O'Brien's Chicago office.

**TRADING CAN BEGIN ONLY WHEN YOUR ACCOUNT IS APPROVED BY R.J. O'BRIEN. PLEASE SEND FUNDS MUST IN THE FORM OF:**

- A) A **bank wire** to the Harris Trust & Savings Bank of Chicago for the account of R.J. O'Brien & Associates, LLC, Customer Segregated Account 367-171-6. The ABA routing number, if necessary, is 071-000-288. (Be sure to include your name as it appears on your account agreement and the complete eight (8) digit account number that has been assigned to you);
- B) A **certified check or cashier's check** made payable to R.J. O'Brien. If this is a new account, personal checks, money market checks and savings and loan checks may require clearance before you can trade. In addition, the originating source of all funds coming into the account must match the name on the account exactly;
- C) **Transfer of funds and/or existing positions** to your account from another firm. When transferring an account, please fill out the Account Transfer Form in the back of the Account Application booklet and return it to R.J. O'Brien with all other required documents (via your Introducing Broker, if any), and R.J. O'Brien will apply positions and funds to your account accordingly.

If you have ANY questions about this disclosure booklet, phone your account representative (broker). If your broker is unavailable, call the R.J. O'Brien Compliance staff in Chicago at 312-548-5000.

**ATTENTION: Please retain a copy of all disclosures for your records.**

## DISCLOSURE TABLE OF CONTENTS

Futures Commission Merchant Material Conflicts of Interest Disclosure.....	3
Electronic Trading and Order Routing Systems Disclosure Statement.....	5
ACH Disclosure.....	6
Uniform Notification Regarding Access To Market Data.....	7
Notice Regarding Average Price System (“APS”).....	9
Disclosure On Payment For Order Flow and Cross Trade Consent.....	10
Direct Order Transmittal Client Disclosure Statement.....	11
Foreign Trader Disclosure Statement.....	12
Notice To Clients Position Limit and Large Open Position Reporting Requirements For Options and Futures Traded On The Hong Kong Exchanges.....	13
ERISA 408(b)(2) Disclosure.....	15
A Guide to the Structure and Market Terminology of the London Metal Exchange.....	17
Options Disclosure Statement.....	24
Exchange For Related Positions.....	25
Risk Disclosure Statement.....	26

## **FUTURES COMMISSION MERCHANT MATERIAL CONFLICTS OF INTEREST DISCLOSURE**

The purpose of this document is to provide you with information about some of the material conflicts of interest that may arise between you and R.J. O'Brien & Associates, LLC ("RJO") in connection with RJO performing services for you with respect to futures, options on futures, swaps (as defined in the Commodity Exchange Act), forwards or other commodity derivatives ("Contracts"). Conflicts of interests can arise in particular when RJO has an economic or other incentive to act, or persuade you to act, in a way that favors RJO or its affiliates.

Under applicable law, including regulations of the Commodity Futures Trading Commission ("CFTC"), not all swaps are required to be executed on an exchange or swap execution facility (each, a "Trading Facility"), even if a Trading Facility lists the swap for trading. In such circumstances, it may be financially advantageous for RJO or its affiliates to execute a swap with you bilaterally in the over-the-counter market rather than on a Trading Facility and, to the extent permitted by applicable law, RJO may have an incentive to persuade you to execute your swap bilaterally.

Applicable law may permit you to choose the CFTC-registered derivatives clearing organization ("Clearing House") to which you submit a swap for clearing. You should be aware that RJO may not be a member of, or may not otherwise be able to submit your swap to, the Clearing House of your choice. RJO consequently has an incentive to persuade you to use a Clearing House of which RJO or its affiliates is a member.

You should also be aware that RJO or its affiliates may own stock in, or have some other form of ownership interest in, one or more U.S. or foreign Trading Facilities or Clearing Houses where your transactions in Contracts may be executed and/or cleared. As a result, RJO or its affiliates may receive financial or other benefits related to its ownership interest when Contracts are executed on a given Trading Facility or cleared through a given Clearing House, and RJO would, in such circumstances, have an incentive to cause Contracts to be executed on that Trading Facility or cleared by that Clearing House. In addition, employees and officers of RJO or its affiliates may also serve on the board of directors or on one or more committees of a Trading Facility or Clearing House.

In addition, Trading Facilities and Clearing Houses may from time to time have in place other arrangements that provide their members or participants with volume, market-making or other discounts or credits, may call for members or participants to pre-pay fees based on volume thresholds, or may provide other incentive or arrangements that are intended to encourage market participants to trade on or direct trades to that Trading Facility or Clearing House. RJO or its affiliates may participate in and obtain financial benefits from such incentive programs.

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When RJO provides execution services to you (either in conjunction with clearing services or in an execution-only capacity), we may direct orders to affiliated or unaffiliated market-makers, other executing firms, individual brokers or brokerage groups for execution. When such affiliated or unaffiliated parties are used, they may, where permitted, agree to price concessions, volume discounts or refunds, rebates or similar payments in return for receiving such business. Likewise, where permitted by law and the rules of the applicable Trading Facility, RJO may solicit a counterparty to trade opposite your order or enter into transactions for its own account or the account of other counterparties that may, at times, be adverse to your interests in a Contract. In such circumstances, that counterparty may make payments and/or pay a commission to RJO in connection with that transaction. The results of your transactions may differ significantly from the results achieved by RJO for our own account, our affiliates, or for other customers.

In addition, where permitted by applicable law (including, where applicable, the rules of the applicable Trading Facility), RJO, its directors, officers, employees and affiliates may act on the other side of your order or transaction by the purchase or sale for an account, or the execution of a transaction with a counterparty, in which RJO or a person affiliated with RJO has a direct or indirect interest, or may effect any such order with a counterparty that provides RJO or its affiliates with discounts related to fees for Contracts or other products. In cases where RJO has offered you a discounted commission or clearing fee for Contracts executed through RJO as agent or with RJO or its affiliates acting as counterparty, RJO or its affiliates may be doing so because of the enhanced profit potential resulting from acting as executing broker or counterparty.

RJO or its affiliates may act as, among other things, an investor, research provider, placement agent, underwriter, distributor, remarketing agent, structurer, securitizer, lender, investment manager, investment adviser, commodity trading advisor, municipal advisor, market maker, trader, prime broker or clearing broker. In those and other capacities, RJO, its directors, officers, employees and affiliates may take or hold positions in, or advise other customers and counterparties concerning, or publish research or express a view with respect to, a Contract or a related financial instrument that may be the subject of advice from RJO to you. Any such positions and other advice may not be consistent with, or may be contrary to, your interests or to positions which are the subject of advice previously provided by RJO or its affiliates to you, and unless otherwise disclosed in writing, we are not necessarily acting in your best interest and are not assessing the suitability for you of any Contract or related financial instrument. Acting in one or more of the capacities noted above may give RJO or its affiliates access to information relating to markets, investments and products. As a result, RJO or its affiliates may be in possession of information which, if known to you, might cause you to seek to dispose of, retain or increase your position in one or more Contracts or other financial instruments. RJO and its affiliates will be under no duty to make any such information available to you, except to the extent we have agreed in writing or as may be required under applicable law.

## **ELECTRONIC TRADING AND ORDER ROUTING SYSTEMS DISCLOSURE STATEMENT**

Electronic trading and order routing systems differ from traditional open outcry pit trading and manual order routing methods. Transactions using an electronic system are subject to the rules and regulations of the exchange(s) offering the system and/or listing the contract. Before you engage in transactions using an electronic system, you should carefully review the rules and regulations of the exchange(s) offering the system and/or listing contracts you intend to trade.

### **Differences Among Electronic Trading Systems**

Trading or routing orders through electronic systems varies widely among the different electronic systems. You should consult the rules and regulations of the exchange offering the electronic system and/or listing the contract traded or order routed to understand, among other things, in the case of trading systems, the system's order matching procedure, opening and closing procedures and prices, error trade policies, and trading limitations or requirements, and in the case of all systems, qualifications for access and grounds for termination and limitations on the types of orders that may be entered into the system. Each of these matters may present different risk factors with respect to trading on or using a particular system. Each system may also present risks related to system access, varying response times, and security. In the case of internet-based systems, there may be additional types of risks related to system access, varying response times and security, as well as risks related to service providers and the receipt and monitoring of electronic mail.

### **Risks Associated with System Failure**

Trading through an electronic trading or order routing system exposes you to risks associated with system or component failure. In the event of system or component failure, it is possible that, for a certain time period, you may not be able to enter new orders, execute existing orders, or modify or cancel orders that were previously entered. System or component failure may also result in loss of orders or order priority.

### **Simultaneous Open Outcry Pit and Electronic Trading**

Some contracts offered on an electronic trading system may be traded electronically and through open outcry during the same trading hours. You should review the rules and regulations of the exchange offering the system and/or listing the contract to determine how orders that do not designate a particular process will be executed.

### **Limitation of Liability**

Exchanges offering an electronic trading or order routing system and/or listing the contract may have adopted rules to limit their liability, the liability of FCMs, and the liability of software and communication system vendors and the amount of damages you may collect for system failure and delays. These limitations of liability provisions vary among the exchanges. You should consult the rules and regulations of the relevant exchange(s) in order to understand these liability limitations.

**Note: Each exchange's relevant rules are available upon request from the industry professional with whom you have an account. Some exchange's relevant rules also are available on the exchange's Internet home page.**

## **ACH DISCLOSURE**

Each time you provide RJO with a check as payment, you authorize RJO either to use information from your check to make a one-time electronic fund transfer from your account or to process the payment as a check transaction. When RJO uses information from your check to make an electronic fund transfer, funds may be withdrawn from your account as soon as the same day we receive your payment, and you will not receive your check back from your financial institution. RJO will not be liable for any transfer errors caused by any inaccurate data you have provided. For inquiries, please contact RJO's Treasury Department at [treasury@rjobrien.com](mailto:treasury@rjobrien.com).

## UNIFORM NOTIFICATION REGARDING ACCESS TO MARKET DATA

As a market user, you may obtain access to Market Data available through an electronic trading system, software or device that is provided or made available to you by a broker or an affiliate of such. Market Data may include, with respect to products of an exchange (“Exchange”) or the products of third party participating Exchanges that are traded on or through the Exchange’s electronic trading platform (“Participating Exchange”), but is not limited to “real time” or delayed market prices, opening and closing prices and ranges, high-low prices, settlement prices, estimated and actual volume information, bids or offers and the applicable sizes and numbers of such bids or offers.

You are hereby notified that Market Data constitutes valuable confidential information that is the exclusive proprietary property of the applicable Exchange and is not within the public domain. Such Market Data may only be used for your firm’s internal use. You may not, without the written authorization of the applicable Exchange, redistribute, sell, license, retransmit or otherwise provide Market Data, internally or externally and in any format by electronic or other means, including, but not limited to the Internet. Further, you may not, without the written authorization of the applicable Exchange, use Exchange Market Data for purposes of determining any price, including any settlement price, for any futures product, options on futures product, or other derivatives instrument traded on any Exchange other than an Exchange or a Participating Exchange; or in constructing or calculating the value of any index or indexed product. Additionally, you agree you will not, and will not permit any other individual or entity to: (i) use Exchange Market Data in any way so as to compete with an Exchange or to assist or allow a third party to compete with an Exchange; or (ii) use that portion of Exchange Market Data which relates to any product of a Participating Exchange in any way so as to compete with that Participating Exchange or to assist or allow a third party to compete with such Participating Exchange.

Upon request of the broker through which your firm has obtained access to Market Data, or the applicable Exchange, we must provide information demonstrating your firm’s use of the Market Data in accordance with this Notification. Each applicable Exchange reserves the right to terminate a market user’s access to Market Data for any reason. You also agree that you will cooperate with an Exchange and permit an Exchange reasonable access to your premises should an Exchange wish to conduct an audit or review connected to the distribution of Market Data.

NEITHER AN EXCHANGE, NOR THE BROKER, NOR THEIR RESPECTIVE MEMBERS, SHAREHOLDERS, DIRECTORS, OFFICERS, EMPLOYEES OR AGENTS, SHALL GUARANTEE THE TIMELINESS, SEQUENCE, ACCURACY OR COMPLETENESS OF THE DESIGNATED MARKET DATA, MARKET INFORMATION OR OTHER INFORMATION FURNISHED NOR THAT THE MARKET DATA HAVE BEEN VERIFIED. YOU AGREE THAT THE MARKET DATA AND OTHER INFORMATION PROVIDED IS FOR INFORMATIONAL PURPOSES ONLY AND IS NOT INTENDED AS AN OFFER OR SOLICITATION WITH RESPECT TO THE PURCHASE OR SALE OF ANY SECURITY OR COMMODITY.

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NEITHER AN EXCHANGE, NOR ANY PARTICIPATING EXCHANGE, NOR THE BROKER NOR THEIR RESPECTIVE MEMBERS, SHAREHOLDERS, DIRECTORS, OFFICERS, EMPLOYEES OR AGENTS, SHALL BE LIABLE TO YOU OR TO ANY OTHER PERSON, FIRM OR CORPORATION WHATSOEVER FOR ANY LOSSES, DAMAGES, CLAIMS, PENALTIES, COSTS OR EXPENSES (INCLUDING LOST PROFITS) ARISING OUT OF OR RELATING TO THE MARKET DATA IN ANY WAY, INCLUDING BUT NOT LIMITED TO ANY DELAY, INACCURACIES, ERRORS OR OMISSIONS IN THE MARKET DATA OR IN THE TRANSMISSION THEREOF OR FOR NONPERFORMANCE, DISCONTINUANCE, TERMINATION OR INTERRUPTION OF SERVICE OR FOR ANY DAMAGES ARISING THEREFROM OR OCCASIONED THEREBY, DUE TO ANY CAUSE WHATSOEVER, WHETHER OR NOT RESULTING FROM NEGLIGENCE ON THEIR PART.

IF THE FOREGOING DISCLAIMER AND WAIVER OF LIABILITY SHOULD BE DEEMED INVALID OR INEFFECTIVE, NEITHER AN EXCHANGE, NOR ANY PARTICIPATING EXCHANGE, NOR THE BROKER, NOR THEIR RESPECTIVE SHAREHOLDERS, MEMBERS, DIRECTORS, OFFICERS, EMPLOYEES OR AGENTS SHALL BE LIABLE IN ANY EVENT, INCLUDING THEIR OWN NEGLIGENCE, BEYOND THE ACTUAL AMOUNT OF LOSS OR DAMAGE, OR THE AMOUNT OF THE MONTHLY FEE PAID BY YOU TO THE BROKER, WHICHEVER IS LESS. YOU AGREE THAT NEITHER AN EXCHANGE, NOR ANY PARTICIPATING EXCHANGE, NOR THE BROKER, NOR THEIR RESPECTIVE SHAREHOLDERS, MEMBERS, DIRECTORS, OFFICERS, EMPLOYEES OR AGENTS, SHALL BE LIABLE TO YOU OR TO ANY OTHER PERSON, FIRM OR CORPORATION WHATSOEVER FOR ANY INDIRECT, SPECIAL OR CONSEQUENTIAL DAMAGES, INCLUDING WITHOUT LIMITATION, LOST PROFITS, COSTS OF DELAY, OR COSTS OF LOST OR DAMAGED DATA.



## NOTICE REGARDING AVERAGE PRICE SYSTEM (“APS”)

You should be aware that certain US and non-US exchanges, including the CME and CBOT, may now or in the future allow a futures commission merchant (“FCM”) such as R.J. O’Brien & Associates, LLC to confirm trades executed on such exchanges to some or all of their customers on an average price basis regardless of whether the exchanges have average price systems of their own. Average prices that are not calculated by an exchange system will be calculated by your FCM. In either case, trades that are confirmed to you at average prices will be designated as such on your daily and monthly statements.

APS enables a clearing firm to confirm to customers an average price when multiple execution prices are received on an order or series of orders for the same accounts. For example, if an order transmitted by an account manager on behalf of several customers is executed at more than one price, those prices may be averaged and the average may be confirmed to each customer. Customers may choose whether to use APS, and may request that APS be used for discretionary or non-discretionary accounts.

An order subject to APS must be for the same commodity. An APS order may be used for futures, options or combination transactions. An APS order for futures must be for the same commodity and month, and for options, it must be for the same commodity, month, put/call and strike.

An APS indicator will appear on the confirmation and monthly statement for a customer whose positions have been confirmed at an average price. This indicator will notify the customer that the confirmed price represents an average price or rounded average price.

The average price is not the actual execution price. APS will calculate the same price for all customers that participate in the order.

APS may be used when a series of orders are entered for a group of accounts. For example, a bunched APS order (an order that represents more than one customer account) executed at 10:00 a.m. could be averaged with a bunched APS order executed at 12:00 p.m. provided that each of the bunched orders is for the same accounts. In addition, market orders and limit orders may be averaged, as may limit orders at different prices, provided that each order is for the same accounts.

The following scenario exemplifies what occurs if an APS order is only partially executed. At 10:00 a.m. an APS order to buy 100 Dec S & P 500 futures contracts is transmitted at a limit price of 376.00; 50 are executed at 376.00, and the balance is not filled. At 12:00 p.m. an APS order to buy 100 Dec S & P 500 futures contracts is transmitted at a limit price of 375.00; 50 are executed at 375.00, and the balance is not filled. Both orders are part of a series for the same group of accounts. In this example, the two prices will be averaged. If the order was placed for more than one account, the account controller must rely on pre-existing allocation procedures to determine the proportions in which each account will share in the partial fill.

Upon receipt of an execution at multiple prices for an order with an APS indicator, an average will be computed by multiplying the execution prices by the quantities at those prices divided by the total quantities. An average price for a series of orders will be computed based on the average prices of each order in that series. The actual average price or the average price rounded to the next price increment may be confirmed to customers. If a clearing member confirms the rounded average price, the clearing member must round the average price up to the next price increment for a sell order. The rounding process will create a cash residual of the difference between the actual average price and the rounded average price that must be paid to the customer.

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APS may produce prices that do not conform to whole cent increments. In such cases, any amounts less than one cent may be retained by the clearing member. For example, if the total residual to be paid to a customer on a rounded average price for 10 contracts is \$83.333333, the clearing member may pay \$83.33 to the customer.

If you would like more information on APS orders, please contact R.J. O'Brien & Associates, LLC's Compliance Department at 312-548-5000.

#### **DISCLOSURE ON PAYMENT FOR ORDER FLOW**

When firms provide execution services to customers, either in conjunction with clearing services or in an execution only capacity, they may, in some circumstances, direct orders to unaffiliated market makers, other executing firms, individual floor brokers or floor brokerage groups for execution. When such unaffiliated parties are used, they may, where permitted, agree to price concessions, volume discounts or refunds, rebates or similar payments in return for receiving such business. Likewise, on occasion, in connection with exchanges that permit pre-execution discussions and "off-floor" transactions such as block trading, exchanges of physicals, swaps or options for futures or equivalent transactions, a counterparty solicited to trade opposite customers of an executing firm may make payments described above and/or pay a commission to the executing firm in connection with that transaction. This could be viewed as an apparent conflict of interest. In order to determine whether transactions executed for your account are subject to the above circumstances, please contact your executing firm account representative.

#### **CROSS TRADE CONSENT**

R.J. O'Brien & Associates, LLC, its officers, its directors, its employees or its affiliates or other customers of R.J. O'Brien & Associates, LLC or of the servicing floor broker(s) may be from time to time on the opposite side of orders for physicals or for purchase or sale of futures contracts and option contracts placed for your Account in conformity with regulations of the Commodity Futures Trading Commission and the by-laws, rules and regulations of the applicable market (and its clearing organization, if any) on which such order is executed.

## DIRECT ORDER TRANSMITTAL CLIENT DISCLOSURE STATEMENT

This statement applies to the ability of authorized customers of R.J. O'Brien & Associates, LLC ("R.J. O'Brien") to place orders for foreign futures and options transactions directly with non-US entities (each, an "Executing Firm") that execute transactions on behalf of R.J. O'Brien's customer omnibus accounts.

Please be aware of the following should you be permitted to place the type of orders specified above:

- The orders you place with an Executing Firm are for R.J. O'Brien's customer omnibus account maintained with a foreign clearing firm. Consequently, R.J. O'Brien may limit or otherwise condition the orders you place with the Executing Firm.
- You should be aware of the relationship of the Executing Firm and R.J. O'Brien. R.J. O'Brien may not be responsible for the acts, omissions, or errors of the Executing Firm, or its representatives, with which you place your orders. In addition, the Executing Firm may not be affiliated with R.J. O'Brien. If you choose to place orders directly with an Executing Firm, you may be doing so at your own risk.
- It is your responsibility to inquire about the applicable laws and regulations that govern the foreign exchanges on which transactions will be executed on your behalf. Any orders placed by you for execution on that exchange will be subject to such rules and regulations, its customs and usages, as well as any local laws that may govern transactions on that exchange. These laws, rules, regulations, customs and usages may offer different or diminished protection from those that govern transactions on US exchanges. In particular, funds received from customers to margin foreign futures transactions may not be provided the same protections as funds received to margin futures transactions on domestic exchanges. Before you trade, you should familiarize yourself with the foreign rules which will apply to your particular transaction. United States regulatory authorities may be unable to compel the enforcement of the rules of regulatory authorities or markets in non-US jurisdictions where transactions may be effected.
- It is your responsibility to determine whether the Executing Firm has consented to the jurisdiction of the courts in the United States. In general, neither the Executing Firm nor any individuals associated with the Executing Firm will be registered in any capacity with the Commodity Futures Trading Commission. Similarly, your contacts with the Executing Firm may not be sufficient to subject the Executing Firm to the jurisdiction of courts in the United States in the absence of the Executing Firm's consent. Accordingly, neither the courts of the United States nor the Commission's reparations program will be available as a forum for resolution of any disagreements you may have with the Executing Firm, and your recourse may be limited to actions outside the United States.

**Unless you object within five (5) days by giving notice as provided in your customer agreement after receipt of this disclosure, R.J. O'Brien will assume your consent to the aforementioned conditions.**

## FOREIGN TRADER DISCLOSURE STATEMENT

In accordance with Rules 15.05 and 21.03 of the Commodity Futures Trading Commission (“CFTC”), 17 C.F.R. §§15.05 and 21.03, R.J. O'Brien & Associates (“RJO”) are considered to be your agent for purposes of accepting delivery and service of communications from or on behalf of the CFTC regarding any commodity futures contracts or commodity option contracts which are or have been maintained in your account(s) with us. In the event that you are acting as agent or broker for any other person(s), we are also considered to be their agent, and the agent of any person(s) for whom they may be acting as agent or broker, for purposes of accepting delivery and service of such communications. Service or delivery to RJO of any communication issued by or on behalf of the CFTC (including any summons, complaint, order, subpoena, special call, request for information, notice, correspondence or other written document) will be considered valid and effective service or delivery upon you or any person for whom you may be acting, directly or indirectly, as agent or broker.

You should be aware that Rule 15.05 also provides that you may designate an agent other than RJO. Any such alternative designation of agency must be evidenced by a written agency agreement which you must furnish to RJO and which RJO, in turn, must forward to the CFTC. If you wish to designate an agent other than RJO, please contact RJO in writing. You should consult 17 C.F.R. § 15.05 for a more complete explanation of the foregoing.

Upon a determination by the CFTC that information concerning your account(s) with RJO may be relevant in enabling the CFTC to determine whether the threat of a market manipulation, corner, squeeze, or other market disorder exists, the CFTC may issue a call for specific information from RJO or from you. In the event that the CFTC directs a call for information to RJO, we must provide the information requested within the time specified by the CFTC. If the CFTC directs a call for information to you through RJO as your agent, RJO must promptly transmit the call to you, and you must provide the information requested within the time specified by the CFTC. If any call by the CFTC for information regarding your account(s) with RJO is not met, the CFTC has authority to restrict such account(s) to trading for liquidation only. You have the right to a hearing before the CFTC to contest any call for information concerning your account(s) with RJO, but your request for a hearing will not suspend the CFTC's call for information unless the CFTC modifies or withdraws the call. Please consult 17 C.F.R. §21.03 for a more complete description of the foregoing (including the type of information you may be required to provide).

Certain additional regulations may affect you. Part 17 of the CFTC Regulations, 17 C.F.R. Part 17, requires each Futures Commission Merchant and foreign broker to submit a report to the CFTC with respect to each account carried by such Futures Commission Merchant or foreign broker which contains a reportable futures position. (Specific reportable position levels for all futures contracts traded on U.S. exchanges are established in Rule 15.03.) In addition, Part 18 of the CFTC Regulations, 17 C.F.R. Part 18, requires all traders (including foreign traders) who own or control a reportable futures or options position and who have received a special call from the CFTC to file a Large Trader Reporting Form (Form 103) with the CFTC within one (1) day after the special call upon such trader by the CFTC. Please consult 17 C.F.R. Parts 17 and 18 for more complete information with respect to the foregoing.

## **NOTICE TO CLIENTS POSITION LIMIT AND LARGE OPEN POSITION REPORTING REQUIREMENTS FOR OPTIONS AND FUTURES TRADED ON THE HONG KONG EXCHANGES**

The Hong Kong regulatory regime imposes position limit and reportable position requirements for stock options and futures contracts traded on the Stock Exchange of Hong Kong and on the Hong Kong Futures Exchange.

These requirements are set out in the Hong Kong Securities and Futures (Contracts Limits and Reportable Positions) Rules (as amended, the "Rules") made by the Securities and Futures Commission ("SFC") under the Securities and Futures Ordinance. The Rules impose monitoring and reporting obligations with regard to large open positions. Where you are holding a reportable position for your client, you must disclose the identity of the client. For the purposes of the Rules, a client is the person who is ultimately responsible for originating instructions you receive for transactions - i.e. the transaction originator.

Further guidance on the Rules and what they require is set out in the SFC's Guidance Note on Position Limits and Large Open Position Reporting Requirements. Copies of the Rules and Guidance Note can be downloaded from the SFC's website ([www.sfc.hk](http://www.sfc.hk)).

### **Purpose of the Rules**

The purpose of the Rules is to avoid potentially destabilizing market conditions arising from an over-concentration of futures/options positions accumulated by a single person or group of persons acting in concert, and to increase market transparency.

Some of the major requirements of the Rules and Guidance Note are summarized below. However, you should review the Rules and Guidance Note in its entirety, and consult with your legal counsel in order to ensure that you have a full understanding of your obligations in connection with trading in Hong Kong.

Please note that the Rules make you responsible for ensuring that you comply with the Rules. Section 8 of the Rules makes it a criminal offence not to comply (subject to a maximum fine of HK\$100,000 and imprisonment for up to two (2) years).

In 2004, the SFC investigated six (6) breaches of the Rules, including a breach by a non-Hong Kong fund manager which was referred to the fund manager's overseas regulator. It should be noted that the SFC has expressly stated that it is not sympathetic to claims by overseas persons that they are not aware of the Hong Kong restrictions, and that a failure to trade within the limits or make reports reflect badly on a firm's internal control measures (which might itself lead to disciplinary action).

### **Position Limits**

The Rules say that you may not hold or control futures contracts or stock options contracts in excess of the prescribed limit, unless you have obtained the prior authorization of the Hong Kong regulators. For example, the prescribed limit for Hang Seng Index futures and options contracts and Mini-Hang Seng Index futures and options contracts is 10,000 long or short position delta limit for all contract months combined, provided the position delta for the Mini-Hang Seng Index futures contracts or Mini-Hang Seng Index options contracts shall not at any time exceed 2,000 long or short for all contract months combined. For many futures contracts and stock options contracts, the position limit is set at 5,000 contracts for any one contract/expiration month.

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***The prescribed limit for each contract traded on the Hong Kong exchanges is set out in the Rules***

**Reportable Positions**

If you hold or control an open position in futures contracts or stock options contracts in excess of the specified level, the Rules require you to report that position in writing to the relevant Hong Kong exchange (i) within one (1) day (ignoring Hong Kong public holidays and Saturdays) of first holding or controlling that position, and (ii) on each succeeding day on which you continue to hold or control that position.

The specified reporting level for each contract traded on the Hong Kong exchanges is set out in the Rules. The report must state:

- a) the number of contracts held or controlled in respect of the position in each relevant contract month; and
- b) if the position is held or controlled for a client, the identity of the client and the number of contracts held or controlled for such person in respect of the reportable position in each relevant contract month.

**Scope of the Rules**

You should note:

- The prescribed limits and reportable position requirements apply to all positions held or controlled by any person, including positions in any account(s) that such person controls, whether directly or indirectly. The SFC takes the view that a person is regarded as having control of positions if, for example, the person is allowed to exercise discretion to trade or dispose of the positions independently without the day-to-day direction of the owner of the positions. (Section 4 of the Rules and Para. 2.6 of the Guidance Note)
- If a person holds or controls positions in accounts at more than one intermediary, the Rules require him to aggregate the positions for the purposes of applying the prescribed limits and reportable position requirements. (Para. 6.1 of the Guidance Note)
- The person holding or controlling a reportable position in accounts at more than one intermediary has the sole responsibility to notify the relevant exchange of the reportable position. The person may request its intermediary to submit the notice of the reportable position. If a firm agrees to submit the notice on his/her behalf, the person should provide to the firm its total positions held at other intermediaries so that the firm can submit the notice of the reportable position. Alternatively, the person should ask all of his/her intermediaries to report the positions in each of the accounts separately to the exchange, even if the positions in the individual accounts do not reach the reportable level. (Paras. 4.6 and 6.2 of the Guidance Note)
- Where you are holding a reportable position for your client, the Rules say that you must disclose the identity of the client. The SFC's view is that, for the purposes of the Rules, a client is the person who is ultimately responsible for originating the transaction instructions - i.e. the transaction originator. (Para. 6.4 of the Guidance Note)
- The Rules apply separately to the positions held by each of the underlying clients of an omnibus account, except where the omnibus account operator has discretion over the positions, in which case the account operator must also aggregate these positions with his/her own positions. Positions held by different underlying clients should not be netted off for purposes of calculating and reporting reportable positions or determining compliance with the prescribed limits. (Para. 6.8 of the Guidance Note)

## **ERISA 408(B)(2) DISCLOSURE**

This disclosure is for those who have, or act on behalf of, pension plans governed by the Employee Retirement Income Security Act of 1974, as amended (“ERISA”) or similar laws.

### **Overview**

ERISA requires that all service arrangements with ERISA plans satisfy certain minimum regulatory requirements. Often service arrangements are structured to comply with the minimum requirements contained in section 408(b)(2) of ERISA. New U.S. Department of Labor rules under section 408(b)(2) require certain service providers to now furnish disclosure about their services and compensation arrangements to the responsible plan fiduciary of their ERISA plan clients. Based on the guidance and interpretations available in respect to the disclosure requirement of 408(b)(2), this document provides a high-level summary and is intended to consolidate those disclosures for all relevant lines of business. It is not intended to provide information specific to any particular plan and should be read in conjunction with other disclosures, notices, agreements and materials furnished by R.J. O'Brien & Associates, LLC (“RJO”) and relevant third parties that will provide further detailed information regarding relevant services, fees and other activities. RJO will modify the 408(b)(2) disclosure to reflect subsequent guidance and interpretation of the disclosure rule, as well as any changes in the contracts and arrangements for services provided. If you have questions or need further information, please contact RJO Compliance.

If you are not the responsible plan fiduciary authorized to engage covered service providers for a plan, please forward this 408(b)(2) disclosure to the appropriate responsible plan fiduciary. In addition, if you are a client of an introducing broker, you should contact your introducing broker for any required disclosures.

### **Regulatory Status of RJO**

RJO is registered with the Commodity Futures Trading Commission (“CFTC”) as a Futures Commission Merchant (“FCM”), is a member of the National Futures Association (“NFA”) and is a member of certain principal U.S. contract markets. RJO does not expect to be acting in an advisory capacity (for purposes of the Investment Adviser Act of 1940 or any state law) or as a fiduciary within the meaning of Section 3 (21) of ERISA with respect to any of the services described below.

### **Disclaimer**

This 408(b)(2) disclosure does not itself constitute an agreement for services; it is not intended to replace or amend any agreement with RJO; it does not constitute a guarantee with respect to the pricing of any services; and is not intended to constitute legal advice. In the event of a discrepancy between the information contained in these materials and any agreement with RJO, the terms of the agreement will govern. We have prepared the foregoing disclosure in good faith and with reasonable diligence.

<b>Service</b>	<b>Description</b>	<b>Compensation</b>
<b>Futures</b>	<p>RJO provides execution and clearing related services in connection with futures, options on futures and other similar transactions. The customer Account Agreement and all applicable amendments thereto, including but not limited to any fee or commission schedule, executed between RJO and a customer or the responsible plan fiduciary describe the terms and conditions governing the execution, clearing and/or carrying by RJO of the purchase or sale of commodity futures and option and forward contracts on commodity futures.</p>	<p>Direct Compensation: RJO generally will receive a commission with respect to any futures or options transaction in which RJO acts as the executing broker or clearing broker. The commissions and other charges RJO may receive in connection with futures and options on futures execution and clearing will be disclosed in the Account Agreement (including any fee or commission schedule related thereto) or otherwise in a written communication, which may be delivered by email, delivered to the customer or its responsible plan fiduciary.</p> <p>Indirect Compensation: As described in the Account Agreement, RJO may have been granted the right to pledge, re-pledge, hypothecate, re-hypothecate, engage in repurchase or reverse repurchase transactions with respect to, invest or loan, either separately or with the property of other customers, to either ourselves as broker or to others, any other property held by us on margin for their accounts or as margin or collateral for futures contracts. Because Commodity Futures Trading Commission (“CFTC”) Regulation 1.25 (which may be amended by the CFTC from time to time) currently limits the instruments in which we can invest collateral, the return that we may earn by investing that collateral will be limited by the nature of those instruments, the returns of which will vary and are generally dependent on prevailing interest rates.</p>
<b>Foreign Exchange Transactions and Certain Other Cleared Products</b>	<p>RJO may act as a clearing agent in connection with foreign exchange and certain other transactions. Such services are described in the foreign exchange give-up agreements or other respective agreements.</p>	<p>Direct Compensation: When acting in this capacity, RJO will earn the fee or compensation that is disclosed in the foreign exchange give-up agreement or other respective agreement, which may include the clearing and administrative fees that are detailed in a fee schedule that is negotiated with and provided to the customer or the responsible plan fiduciary.</p>



## A GUIDE TO THE STRUCTURE AND MARKET TERMINOLOGY OF THE LONDON METAL EXCHANGE (LME)

### INTRODUCTION AND PURPOSE

This document is designed to provide customers of the London Metal Exchange (LME) with an overview of the structure of the LME, market terminology, and order execution. It is not a comprehensive trading guide, nor a complete guide to market terminology. Customers should always ensure that their requirements are explained in detail to the member responsible for order execution.

### THE LME

#### Principal Nature

There are two types of contracts traded on the LME - Exchange Contracts and Client Contracts. Exchange Contracts are contracts between clearing members of the LME. Client Contracts are contracts between customers and ring dealing members (RDMs), or associate broker clearing members (ABCMs), or associate broker members (ABMs). Only RDMs, ABCMs and ABMs may issue Client Contracts. Open Position Statements issued to clients must state clearly '**THIS IS AN LME REGISTERED CLIENT CONTRACT**'. Contract criteria relating to LME contracts, including metal specifications, acceptable currencies, prompt dates, option strike prices for metals etc. are detailed in the LME rulebook and appropriate notices.

Exchange Contracts are traded between members, **matched** in LMEsmart (the LME matching system) and cleared by the Exchange's clearing house. Client Contracts are **registered** in LMEsmart and transmitted to the Exchange's clearing house but clearing arrangements are left to members to agree with their customers (subject to LME rules). Further details as to clearing arrangements are set out below.

All LME contracts are between parties acting as principals. This prevents any party entering into an LME Contract as agent for someone else but does not prevent an agent effecting a contract between two parties if the resulting LME contract is between disclosed parties, each acting as a principal.

For the purposes of this document these categories of members will be referred to as "LME Member(s)", "Member(s)" or by the appropriate abbreviation.

It is an essential requirement of an LME Client Contract that one party must be an RDM, ABCM or ABM. A list of members is available from the LME, and on the LME website: [www.lme.com](http://www.lme.com). A principal relationship does not mean that members do not take on quasi-fiduciary responsibilities when they effect trades for customers. In particular, if a member undertakes to deliver a particular service, for example deal a specific number of lots 'in the Ring' (see below), then it should take care to ensure that it complies with all the terms of such a transaction.

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In respect of Exchange Contracts, an LME broker buying metal under an Exchange Contract from another LME broker cannot do so as agent for his customer. Where an LME broker buys metal under an Exchange Contract with a view to selling that metal to his customer, this is achieved by entering into a back-to-back Client Contract with the customer. Brokers and customers can agree on the conditions that apply to their Client Contracts. For example, a customer may make it a condition of his Client Contract that the broker must enter into a back-to-back Exchange Contract for the metal being bought or sold. This does not make the customer a party to the Exchange Contract, but does create additional duties and obligations owed by the broker under the Client Contract.

Customers should be clear about conditions that apply to their Client Contracts and about the obligations and duties that the broker owes as a result of those conditions.

Brokers should be clear about the duties and obligations they owe as a result of conditions attached to their Client Contracts. They should also be clear about the duties they owe to their customers under the FCA's Conduct of Business Rules ("COB").

### **Dual Capacity**

LME Members may act both in the capacity of market maker and broker. They may act in a particular manner depending on a number of circumstances, including the size of the order, the liquidity of the market at the time the order was placed, and, not least, the customer's instructions. Customer orders may be filled directly from a Member's 'book' or following the purchase/sale of metal in the LME market. Furthermore, customer orders may be offset, amalgamated, broken-up or netted for execution. These methodologies apply equally to orders whether any resulting Exchange Contract is effected in the ring, in the inter-office market, or on LMEselect.

Customers with specific order requirements must make these known to the Member at the time the order is placed. Customers wishing to know how their order was executed should request such information from the Member.

### **Trading on the LME**

Trading takes place on the LME by open outcry in the rings/kerbs, between Members in the inter-office, and over the Exchange's electronic trading system LMEselect.

### **Open Outcry**

Historically, during ring and kerb sessions, the majority of customer business reflects prices traded in the open outcry sessions. Customers can follow the market activity by monitoring quoted and traded prices disseminated via the LME market data dissemination system, or by listening to the simultaneous floor commentary provided by Member(s). The LME market data dissemination system publishes prices traded during ring and kerb times on price vendor information services such as Reuters.

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Members can continue to 'make a market' when requested by a customer during the ring and kerb sessions, although this is entirely at the member's discretion. Alternatively, the customer can decide whether to place an order using the 'order styles' mentioned below.

### **Inter-office**

Inter-office trading is conducted between members by telephone or by electronic means. Upon contacting an LME Member for a quote, customers will usually be provided with the Member's current bid and offer. The customer may trade on this quote, call another Member in an attempt to improve the quote, leave a resting order with a member, or wait and monitor prices on the LME market data dissemination system. If an order cannot be filled from the Member's book, it may be executed via a back-to-back Exchange Contract agreed via a telephone deal with another Member or executed via LMEselect.

### **LMEselect**

LMEselect allows Members to trade LME futures contracts, traded options and traded average price options, LMEswaps, LMEminis and index futures. Some brokers offer their customers an order-routing facility via an API2 where they can view LMEselect prices, execute trades, and place resting orders. All trading on LMEselect is in US dollars.

LMEselect replaces neither inter-office trading nor trading in the ring. Depending on the time of day, it is possible for Members to deal by telephone or electronically in the inter-office, by LMEselect, or in the rings. Customers should specify which mechanism their broker should use to effect an order, where they have a preference.

Information vendors will display, amongst other things, firm prices of the best bid and offer available on LMEselect, the total volumes available at these prices, and the price and volume of each trade. Only LMEselect prices are displayed, not those of other third party electronic trading systems providing LME prices. Only RDMs and ABCMs are eligible to become LMEselect participants and to have direct access to the system. Customers may effect back-to-back Client Contracts with RDMs and ABCMs based upon prices available on LMEselect, whether on the telephone or via electronic order-routing systems.

## **ORDER STYLES**

### **Ring**

**Customer orders are not traded in the rings or kerbs**, so an order using the term 'in/on/during the ring/kerb' will be executed on the basis of the prices traded/quoted during the particular session. If a customer requires their order to be 'shown' or traded across the ring/kerb then they should make this requirement known to their executor, who may or may not accept this as a term of the order. The equivalent Exchange Contract for a customer order may not replicate its terms. As the customer is **not** a party to any Exchange Contracts (i.e. those traded in open outcry between members in the ring/kerb sessions,) in specifying ring/kerb, the customer is merely identifying a pricing mechanism.

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A Member which undertakes to match a price traded in the ring/kerb is not necessarily undertaking that it will trade during that ring/kerb, only that it may do so. However, a customer may place an order with the specific request that the Member trades an Exchange Contract replicating its order in the ring. In such circumstance the RDM can only trade this order by open outcry in the ring.

If a customer trades at the prevailing market quote offered in the ring/kerb, their executor is not necessarily obliged to effect an Exchange Contract at the same price. This can lead to situations where the customer has traded at the prevailing market quote, without that same price trading in open outcry across the floor of the Exchange. However, if the instructions from the customer are to achieve a specific price (i.e. close of ring two) then this is the price that should be given, if that specific order is accepted.

### **Market**

In normal circumstances, a market order is one executed on a timely basis at the prevailing market price. As mentioned above, at certain times of the business day, trading is taking place simultaneously in the ring or kerb, on LMEselect, and in the inter-office market. Traditionally, when open outcry trading is in session, the market is defined by activity within the ring/kerb. At other times, the market is split between inter-office trading and trading on LMEselect. During inter-office sessions, indicative quotes are available on the LME market data dissemination system, firm prices are available on LMEselect, and the LMEselect page on information vendors' systems. The indicative prices might not be available to all parties.

### **Best**

Order styles on the LME using the word 'best' confer some discretion upon the Members when executing the order and requiring them to use their 'best endeavours' on the customer's behalf. The extent of the discretion is fixed by the terms of the order. This type of order is distinct from 'best execution' as defined by the FCA.

Best orders may be executed both in rings/kerbs, inter-office and on LMEselect; Inter-office trades rely upon the Members' skill in determining the level of the market at any particular time. Best orders received during ring/kerb times may not result in the customer receiving the 'best' price achieved during the session if the price improves after the Member has booked the metal intended to fill the order. At any given time, the best price on LMEselect will be displayed on the system and by the information vendors. Customers should be aware that depending on market conditions, the best price may move during the period from when the order was placed and when it was executed.

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**Close**

Most orders placed 'on the close' are either for the close of the second ring (official LME prices) or the final kerb (closing prices). Both these prices are demonstrable because of the publication of official and closing prices. Closing prices for other sessions are harder to determine, although the LME does publish unofficial prices which are established at the close of the fourth ring. In all circumstances, customers and Members need to agree to the style of execution (i.e. bid/offer, mean or traded price.) Members may not always be able to guarantee execution (price or volume) due to prevailing market conditions. A closing price on LMEselect is the last price traded before the system closes.

**Open**

Customers placing orders to trade on the opening of a market session must provide clear instructions to the LME Member which indicate how this order should be activated (i.e. basis the opening bid/offer or basis the first trade in the session.) Customers will also need to inform their executor of their requirements if the executor is unable to fill the order basis the 'opening' price in its entirety due to market constraints such as insufficient liquidity. Customers may place orders with Members for LMEselect that can be placed into the system for activation when the market opens.

**Resting Orders**

When placing resting orders such as 'good 'til cancelled' ('GTC', or any derivations thereof) or stop loss orders, customers should ensure that they are in agreement with their executor's definition of the 'trigger' point of the order. Usually, this is interpreted as being the point when the order price is seen to be trading in the market, but it is possible to request the order be activated when the order level is either bid or offered as appropriate via the prevailing market quote. Stop loss orders become market orders when a trade, or a bid or an offer triggers the stop with members then executing the order at the current market price.

It is possible for a customer not to receive a 'fill' on a resting order despite the 'trigger' point being 'touched'. This could be due to a number of circumstances such as order priority, illiquidity, prevailing market conditions etc. Whatever the reason, the executor should be able to provide the customer with a full explanation of why it was unable to fill the order.

Customers should be aware that resting orders might be activated during periods of illiquidity in the market. As previously mentioned, this could result in the trade not being filled, or for 'stop' orders, a worse fill than anticipated ('slippage'). Customers should ensure the executor is fully aware of their requirements regarding the execution of an order, and adheres to any limitations, especially if the customer is not in contact with the market/Member when the trigger point is reached.

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**LMEselect**

It is possible for customers to ask Members to place resting orders in LMEselect. Where the broker has an order-routing system into LMEselect, customers will be able to place orders directly. The system accepts GTC orders (for Cash and 3 Month prompt dates only) and will also permit other variations such as 'Good for Day'. There are also certain other LMEselect-specific order types such as Iceberg<sup>3</sup>, Discretionary<sup>4</sup>, Scaling<sup>5</sup> and Fill or Kill orders<sup>6</sup>.

**Conclusion**

The above order styles do not represent all possible methods of order execution on the LME. Members and customers should ensure that orders are communicated in meaningful terms that deliver the required execution in accordance with LME rules.

<sup>3</sup>'Iceberg' orders allow a trader to place an order without disclosing the full order quantity to the market. The trader specifies the open quantity amount seen by the market and the subsequent open order amounts at the time of the order placement. Any subsequent amendments to open quantity amount only take affect with the next order quantity to be placed. The current open quantity seen by the market does not change.

<sup>4</sup>A 'discretionary' order allows a trader to place an order with a discretionary price. This discretionary price remains hidden from view by the market. A discretionary Bid order will only trade when an opposing order is placed with an order price equal to or less than the discretionary price. For an Ask order the opposing order price must equal to or exceed the discretionary order price.

<sup>5</sup>A 'scaling order' allows the user to automatically place repeat orders for an outright valid prompt date with a scaled order price. (i.e. scaled down buying or scaled up selling.) Although, the user is not forced to change the order price and therefore can enter repeat order at the same price level. This function will place an order with the same quantity and prompt date with an adjusted order price if desired once the previous order has traded in the LMEselect system.

<sup>6</sup>A 'Fill and Kill' Order is entered at a specific price with the intention to execute immediately and therefore fill all or part of the order and immediately cancel any unfulfilled balance.

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## **CLEARING ARRANGEMENTS**

### **Segregation**

The LME rules specify that Client Contracts must be registered in the Exchange's matching system (LMEsmart) and such registration must align the contract to a specific "omnibus" or "individually segregated" account at the Exchange's clearing house. LME Members are required to offer clients a choice of either type of account. The distinguishing factor between the two is either (i) an "omnibus" account which has assets and positions allocated to it for multiple customers or (ii) an "individually segregated" account which has assets and positions allocated to it for a single customer.

### **Portability**

Where there is an Event of Default (as defined in the LME rules) in relation to an LME Member, and a customer wishes to transfer its positions from an account maintained with the defaulting LME Member to a solvent LME Member, it must notify the Exchange's clearing house in accordance with the procedures set out by the Exchange's clearing house from time to time. Failure to adhere to the procedures of the Exchange's clearing house within the prescribed timescales will result in the positions of a customer being closed out by the Exchange's clearing house.

## OPTIONS DISCLOSURE STATEMENT

BECAUSE OF THE VOLATILE NATURE OF THE COMMODITIES MARKETS, THE PURCHASE AND GRANTING OF COMMODITY OPTIONS INVOLVE A HIGH DEGREE OF RISK. COMMODITY OPTION TRANSACTIONS ARE NOT SUITABLE FOR MANY MEMBERS OF THE PUBLIC. SUCH TRANSACTIONS SHOULD BE ENTERED INTO ONLY BY PERSONS WHO HAVE READ AND WHO UNDERSTAND THIS DISCLOSURE STATEMENT AND WHO UNDERSTAND THE NATURE AND EXTENT OF THEIR RIGHTS AND OBLIGATIONS AND OF THE RISKS INVOLVED IN THE OPTION TRANSACTIONS COVERED BY THIS DISCLOSURE STATEMENT.

BOTH THE PURCHASER AND THE GRANTOR SHOULD KNOW THAT THE OPTION, IF EXERCISED, RESULTS IN THE ESTABLISHMENT OF A FUTURES CONTRACT (AN "OPTION ON A FUTURES CONTRACT").

BOTH THE PURCHASER AND THE GRANTOR SHOULD KNOW WHETHER THE PARTICULAR OPTION IN WHICH THEY CONTEMPLATE TRADING IS SUBJECT TO A "STOCK-STYLE" OR "FUTURES-STYLE" SYSTEM OF MARGINING. UNDER A STOCK-STYLE MARGINING SYSTEM, A PURCHASER IS REQUIRED TO PAY THE FULL PURCHASE PRICE OF THE OPTION AT THE INITIATION OF THE TRANSACTION. THE PURCHASER HAS NO FURTHER OBLIGATION ON THE OPTION POSITION. UNDER A FUTURES-STYLE MARGINING SYSTEM, THE PURCHASER DEPOSITS INITIAL MARGIN AND MAY BE REQUIRED TO DEPOSIT ADDITIONAL MARGIN IF THE MARKET MOVES AGAINST THE OPTION POSITION. THE PURCHASER'S TOTAL SETTLEMENT VARIATION MARGIN OBLIGATION OVER THE LIFE OF THE OPTION, HOWEVER, WILL NOT EXCEED THE ORIGINAL OPTION PREMIUM, ALTHOUGH SOME INDIVIDUAL PAYMENT OBLIGATIONS AND/OR RISK MARGIN REQUIREMENTS MAY AT TIMES EXCEED THE ORIGINAL OPTION PREMIUM. IF THE PURCHASER OR GRANTOR DOES NOT UNDERSTAND HOW OPTIONS ARE MARGINED UNDER A STOCK-STYLE OR FUTURES-STYLE MARGINING SYSTEM, HE OR SHE SHOULD REQUEST AN EXPLANATION FROM THE FUTURES COMMISSION MERCHANT ("FCM") OR INTRODUCING BROKER ("IB").

A PERSON SHOULD NOT PURCHASE ANY COMMODITY OPTION UNLESS HE OR SHE IS ABLE TO SUSTAIN A TOTAL LOSS OF THE PREMIUM AND TRANSACTION COSTS OF PURCHASING THE OPTION. A PERSON SHOULD NOT GRANT ANY COMMODITY OPTION UNLESS HE OR SHE IS ABLE TO MEET ADDITIONAL CALLS FOR MARGIN WHEN THE MARKET MOVES AGAINST HIS OR HER POSITION AND, IN SUCH CIRCUMSTANCES, TO SUSTAIN A VERY LARGE FINANCIAL LOSS.

GAINS AND LOSSES ARE PAID AND COLLECTED DAILY. IF AN OPTION PURCHASER DOES NOT UNDERSTAND HOW TO OFFSET OR EXERCISE AN OPTION, THE PURCHASER SHOULD REQUEST AN EXPLANATION FROM THE FCM OR IB. CUSTOMERS SHOULD BE AWARE THAT IN A NUMBER OF CIRCUMSTANCES, SOME OF WHICH WILL BE DESCRIBED IN THIS DISCLOSURE STATEMENT, IT MAY BE DIFFICULT OR IMPOSSIBLE TO OFFSET AN EXISTING OPTION POSITION ON AN EXCHANGE.

THE GRANTOR OF AN OPTION SHOULD BE AWARE THAT, IN MOST CASES, A COMMODITY OPTION MAY BE EXERCISED AT ANY TIME FROM THE TIME IT IS GRANTED UNTIL IT EXPIRES. THE PURCHASER OF AN OPTION SHOULD BE AWARE THAT SOME OPTION CONTRACTS MAY PROVIDE ONLY A LIMITED PERIOD OF TIME FOR EXERCISE OF THE OPTION.

THE PURCHASER OF A PUT OR CALL SUBJECT TO STOCK-STYLE OR FUTURES-STYLE MARGINING IS SUBJECT TO THE RISK OF LOSING THE ENTIRE PURCHASE PRICE OF THE OPTION—THAT IS, THE PREMIUM CHARGED FOR THE OPTION PLUS ALL TRANSACTION COSTS.



## EXCHANGE FOR RELATED POSITIONS

An Exchange for Related Position (“EFRP”) transaction involves a privately negotiated off-exchange execution of an Exchange futures or options contract and, on the opposite side of the market, the simultaneous execution of an equivalent quantity of the cash product, by-product, related product, or OTC derivative instrument corresponding to the asset underlying the Exchange contract.

EFRPs include:

- EFPs: Exchange for Physical
- EFRs: Exchange for Risk
- EOs: Exchange for Options

Under Rule 538, clearing Futures Commission Merchants (“FCMs”), such as R.J. O’Brien & Associates, LLC (“RJO”) and Introducing Brokers (“IBs”), “are responsible for exercising due diligence as to the bona fide nature of EFRP transactions submitted on behalf of their customers.” Parties to any EFRP transaction must maintain all documents relevant to the Exchange contract and the cash, Over The Counter (“OTC”) swap, OTC option, or other OTC derivatives, and it is the responsibility of the carrying FCM to provide any such requested documentation to the Exchanges at their request.

Rule 538 also requires that the accounts involved on each side of an EFRP be:

- i. independently controlled accounts with different beneficial ownership;
- ii. independently controlled accounts of separate legal entities with the same beneficial ownership, provided that the account controllers operate in separate business units;
- iii. independently controlled accounts within the same legal entity, provided that the account controllers operate in separate business units; or
- iv. commonly controlled accounts of separate legal entities, provided that the separate legal entities have different beneficial ownership.

Examples of EFRPs that are scrutinized include transactions where a customer: rolls positions (i.e. liquidates a position for one delivery month and then reestablishes it for the next delivery month); does not ordinarily engage in EFRPs, executes an EFRP in an unusual amount of contracts, executes an EFRP at a futures price outside the daily range for the relevant contract; executes an EFRP tied to a spread transaction; or executes an EFRP in a product market where EFRP activity is not ordinarily observed. Currently, if a transaction is flagged, both FCMs are required to produce documentation associated with the EFRP transaction by a certain deadline (usually within ten (10) business days). Requested documentation includes trade confirmations, futures account statements, order tickets, and underlying documentation showing the cash leg of the transaction (i.e. cash blotters or cash tickets).

## RISK DISCLOSURE STATEMENT

This brief statement does not disclose all of the risks and other significant aspects of trading in futures and options. In light of the risks, you should undertake such transactions only if you understand the nature of the contracts (and contractual relationships) into which you are entering and the extent of your exposure to risk. Trading in futures and options is not suitable for many members of the public. You should carefully consider whether trading is appropriate for you in light of your experience, objectives, financial resources and other relevant circumstances.

### Futures

#### *1. Effect of "Leverage" or "Gearing"*

Transactions in futures carry a high degree of risk. The amount of initial margin is small relative to the value of the futures contract so that transactions are "leveraged" or "geared". A relatively small market movement will have a proportionately larger impact on the funds you have deposited or will have to deposit- this may work against you as well as for you. You may sustain a total loss of initial margin funds and any additional funds deposited with the firm to maintain your position. If you fail to comply with a request for additional funds within the time prescribed, your position may be liquidated at a loss and you will be liable for any resulting deficit.

#### *2. Risk-reducing orders or strategies*

The placing of certain orders (i.e. "stop-loss" orders, where permitted under local law, or "stop-limit" orders) which are intended to limit losses to certain amounts may not be effective because market conditions may make it impossible to execute such orders. Strategies using combinations of positions, such as "spread" and "straddle" positions, may be as risky as taking simple "long" or "short" positions.

### Options

#### *3. Variable degree of risk*

Transactions in options carry a high degree of risk. Purchasers and sellers of options should familiarize themselves with the type of option (i.e. put or call) which they contemplate trading and the associated risks. You should calculate the extent to which the value of the options must increase for your position to become profitable, taking into account the premium and all transaction costs.

The purchaser of options may offset or exercise the options or allow the options to expire. The exercise of an option results either in a cash settlement or in the purchaser acquiring or delivering the underlying interest. If the option is on a future, the purchaser will acquire a futures position with associated liabilities for margin (see the section on Futures above). If the purchased options expire worthless, you will suffer a total loss of your investment which will consist of the option premium plus transaction costs. If you are contemplating purchasing deep-out-of-the-money options, you should be aware that the chance of such options becoming profitable ordinarily is remote.

Selling ("writing" or "granting") an option generally entails considerably greater risk than purchasing options. Although the premium received by the seller is fixed, the seller may sustain a loss well in excess of that amount. The seller will be liable for additional margin to maintain the position if the market moves unfavorably. The seller will also be exposed to the risk of the purchaser exercising the option and the seller will be obligated to either settle the option in cash or to acquire or deliver the underlying interest. If the option is on a future, the seller will acquire a position in a future with associated liabilities for margin (see the section on Futures above). If the option is "covered" by the seller holding a corresponding position in the underlying interest or a future or another option, the risk may be reduced. If the option is not covered, the risk of loss can be unlimited.

Certain exchanges in some jurisdictions permit deferred payment of the option premium, exposing the purchaser to liability for margin payments not exceeding the amount of the premium. The purchaser is still subject to the risk of losing the premium and transaction costs. When the option is exercised or expires, the purchaser is responsible for any unpaid premium outstanding at that time.

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## **Additional Risks Common to Futures and Options**

### *4. Terms and conditions of contracts*

You should ask the firm with which you deal about the terms and conditions of the specific futures or options you are trading and associated obligations (i.e. the circumstances under which you may become obligated to make or take delivery of the underlying interest of a futures contract and, in respect to options, expiration dates and restrictions on the time for exercise). Under certain circumstances the specifications of outstanding contracts (including the exercise price of an option) may be modified by the exchange or clearing house to reflect changes in the underlying interest.

### *5. Suspension or restriction of trading and pricing relationships*

Market conditions (i.e. illiquidity) and/or the operation of the rules of certain markets (i.e. the suspension of trading in any contract or contract month because of price limits or “circuit breakers”) may increase the risk of loss by making it difficult or impossible to effect transactions or liquidate/offset positions. If you have sold options, this may increase the risk of loss. Further, normal pricing relationships between the underlying interest and the future, and the underlying interest and the option may not exist. This can occur when, for example, the futures contract underlying the option is subject to price limits while the option is not. The absence of an underlying reference price may make it difficult to judge “fair” value.

### *6. Deposited cash and property*

You should familiarize yourself with the protections accorded money or other property you deposit for domestic and foreign transactions, particularly in the event of a firm insolvency or bankruptcy. The extent to which you may recover your money or property may be governed by specific legislation or local rules. In some jurisdictions, property which had been specifically identifiable as your own will be pro-rated in the same manner as cash for purposes of distribution in the event of a shortfall.

### *7. Commission and other charges*

Before you begin to trade, you should obtain a clear explanation of all commission, fees and other charges for which you will be liable. These charges will affect your net profit (if any) or increase your loss.

### *8. Transactions in other jurisdictions*

Transactions on markets in other jurisdictions, including markets formally linked to a domestic market, may expose you to additional risk. Such markets may be subject to regulation which may offer different or diminished investor protection. Before you trade you should inquire about any rules relevant to your particular transactions. Your local regulatory authority will be unable to compel the enforcement of the rules of regulatory authorities or markets in other jurisdictions where your transactions have been effected. You should ask the firm with which you deal for details about the types of redress available in both your home jurisdiction and other relevant jurisdictions before you start to trade.

### *9. Currency risks*

The profit or loss in transactions in foreign currency denominated contracts (whether they are traded in your own or another jurisdiction) will be affected by fluctuations in currency rates where there is a need to convert from the currency denomination of the contract to another currency.

### *10. Trading facilities*

Most open-outcry and electronic trading facilities are supported by computer-based component systems for the order routing, execution, matching, registration or clearing of trades. As with all facilities and systems, they are vulnerable to temporary disruption or failure. Your ability to recover certain losses may be subject to limits on liability imposed by the system provider, the market, the clearinghouse and/or member firms. Such limits may vary. You should ask the firm with which you deal for details in this respect.

*Continued on Next Page.*

### *11. Electronic trading*

Trading on an electronic trading system may differ not only from trading in an open-outcry market but also from trading on other electronic trading systems. If you undertake transactions on an electronic trading system, you will be exposed to risks associated with the system including the failure of hardware and software. The result of any system failure may be that your order is either not executed according to your instructions or is not executed at all.

### *12. Off-exchange transactions*

In some jurisdictions, and only then in restricted circumstances, firms are permitted to effect off-exchange transactions. The firm with which you deal may be acting as your counterparty to the transaction. It may be difficult or impossible to liquidate an existing position, to assess the value, to determine a firm price or to assess the exposure to risk. For these reasons, these transactions may involve increased risks. Off-exchange transactions may be less regulated or subject to a separate regulatory regime. Before you undertake such transactions, you should familiarize yourself with applicable rules and subsequent risks.