



## Attachment B - Draft Guidance Note - Derivatives Risk Disclosure Statement



# IIROC NOTICE

## Rules Guidance Guidance Note IIROC Rules

*Please distribute internally to:*

Credit  
Institutional  
Internal Audit  
Legal and Compliance  
Operations  
Registration  
Regulatory Accounting  
Retail  
Senior Management  
Trading Desk  
Training

*Contact:*

Richard J. Corner  
Vice President and Chief Policy Advisor, Member Regulation  
416-943-6908  
[rcorner@iiroc.ca](mailto:rcorner@iiroc.ca)

Phil Devault  
Senior Counsel Derivatives Regulation  
514-392-3412  
[pdevault@iiroc.ca](mailto:pdevault@iiroc.ca)

**20-xxxx**  
**Xxxxxxx xx, 2020**

## Derivatives Risk Disclosure Statement

IIROC Rule section 3254 provides that a Dealer Member must provide each client with the current derivatives risk disclosure statement approved by IIROC before accepting an initial derivatives order from a client. The text of the new derivatives risk disclosure statement approved by IIROC is found below.



---

---

## **Derivatives Risk Disclosure Statement**

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

### ***You may lose more than the amount of funds deposited***

A characteristic of many derivatives is that you are only required to deposit funds that correspond to a portion of your total potential obligations and yet your profits or losses are based on changes in the total value of the derivative. This inherent leverage characteristic means that losses incurred can greatly exceed the amount of funds deposited. A relatively small market movement will have a proportionately larger impact on the funds you have deposited or will have to deposit. Your dealer may require you to deposit additional funds on short notice to maintain your position as the value of the derivative changes. If you fail to deposit these funds, your dealer may close out your position at a loss without warning and you will be liable for any resulting deficit in your account.

### ***Using borrowed funds carries greater risk***

Using borrowed funds to finance a derivatives transaction involves greater risk than using cash resources only. If you borrow money, your responsibility to repay the loan and pay interest as required by its terms remains the same even if the value of the derivative declines.

### ***Deposited cash and property***

You should familiarize yourself with the protections accorded to 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.

### ***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.

### ***Hedging and risk management strategies***

Hedging transactions may require constant monitoring. A failure to adjust your hedging transaction in light of changing market conditions may result in the position becoming either under-hedged or over-hedged and losses can ensue.

The placing of certain orders (e.g. "stop-loss" 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.

### ***Listed derivatives***

Under certain market conditions, you may find it difficult or impossible to liquidate or offset an existing position on a marketplace (e.g. buy-to-close or sale-to-close order). This can occur, for example, when the market reaches a daily price fluctuation limit ("daily price limit" or "circuit breakers").

You should ask your dealer about the terms and conditions of the specific derivatives which you are trading and associated obligations. Under certain circumstances the specifications of outstanding contracts may be modified by the marketplace or clearing house to reflect changes in the underlying interest.

### ***Over-the-counter derivatives***

Over-the-counter derivatives (OTC derivatives) trading is not done on a marketplace. Your dealer is your trading counterparty. When you sell, your dealer is the buyer and when you buy, your dealer is the seller. As a result, when you lose money trading, your dealer may be making money on such trades, in addition to any fees, commissions, or spreads it may charge.

An electronic trading platform for trading OTC derivatives such as contracts for difference and foreign exchange contracts is not a marketplace. It is an electronic connection for accessing your dealer. You are accessing that trading platform only to transact with your dealer. You are not trading with any other entities or clients of the dealer by accessing such platform. The availability and operation of any such platform, including the consequences of the unavailability of the trading platform for any reason, is governed only by the terms of your account agreement with the dealer.

You are limited to your dealer to offset or liquidate any trading positions since the transactions are not made on a marketplace. As such, it may be difficult or impossible to liquidate an existing position, to assess the value, to determine a fair price or to assess the exposure to risk. The customized nature of certain OTC derivatives may also add to illiquidity.

#### **Question #7**

In an effort to provide clients with one disclosure document that summarizes the important risks that are generally applicable to transacting in derivatives, we have eliminated the discussion of risks specific to options, futures and futures contract options and have instead included a general discussion of the important risks relevant to transacting in all types of derivatives. Have we captured all of the important risks relevant to derivatives in this proposed revised Derivatives Risk Disclosure Statement? If not, please provide details of other risks we should discuss.