

# Investment Concepts – Costs and risks of derivatives

There are certain risks involved in investing and trading Derivatives. You should carefully consider these risks before proceeding with a Derivatives strategy. You should only invest in Derivatives if you understand the nature of the investment, your rights and obligations and the extent of your exposure to risk.

The general risks associated with using Derivatives include:

- **Issuer risk** – Each Derivative is a contract between the Derivative issuer and you. You are therefore exposed to the risk that the issuer will not perform its obligations as outlined in the PDS.
- **General market risks** – The risk that the value of the Derivative will decrease due to movements in domestic and international markets, investor sentiment, interest rates and exchange rates.
- **Limited life** – Derivatives have maturity dates and on expiry, they cease trading and can no longer be exercised. It is important that you select the most appropriate Derivative for your investment time horizon.
- **Leverage risk** – In addition to magnifying your gains, Derivatives can also magnify the percentage of your losses.
- **Currency risk** – If the Derivative is held in a foreign currency, you will be exposed to the risk of that currency fluctuating in value against the local currency.
- **Liquidity risk** – The risk that you may not be able to sell your Derivative investment for a reasonable price in the market.
- **Suspension from trading** – The Australian Stock Exchange (ASX) may suspend or remove a Derivative investment from trading. For example, if the issuer is unwilling, unable or fail to comply with the ASX Operating Rules.
- **Early termination or expiry** – A Derivative investment may terminate or lapse before the expiry date due to an extraordinary event occurring such as the suspension of trading in the Derivative, the de-listing of the underlying company or a compulsory takeover of the underlying securities.
- **National guarantee fund (NGF)** – The NGF provides compensation to investors in meeting valid claims arising from dealings with brokers and Licensees. Not all dealings are covered and you should check under which situations you may be able to claim for compensation as a result of a loss created by transacting in Derivatives on the secondary market.
- **Taxation considerations** – If a capital protection facility applies, the interest expense may not be fully tax-deductible. A registered tax agent will be able to assist in determining the tax deductibility for your circumstances.

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