

# Exchange Traded Derivatives Module

This Module supplements and forms part of the Customer Agreement entered into between you and Morgan Stanley from time to time. If you require a further copy of the General Terms, please contact your MSWM financial adviser. The terms in this Module apply, except to the extent inconsistent with Applicable Regulations, to Exchange Traded Derivative Transactions.

## 1. Risk Warnings

Certain risk warnings relevant to transactions in derivatives are contained in Appendix I to this Module entitled “Warrants and Derivatives Warning Notice” and Appendix II to this Module entitled “Additional Risk Disclosure for Futures and Options Trading”, which you should read carefully.

## 2. Contingent Liability

Where Morgan Stanley effects or arranges an Exchange Traded Derivative Transaction you should note that, depending upon the nature of the Exchange Traded Derivative Transaction, you may be liable to make further payments when the Exchange Traded Derivative Transaction fails to be completed or upon the earlier settlement or closing out of your position. You will be required to make further variable payments by way of margin against the purchase price of the Investment, instead of paying (or receiving) the whole purchase (or sale) price immediately. The movement in the market price of your Exchange Traded Derivative Transaction will affect the amount of margin payment you will be required to make. Morgan Stanley will monitor your margin requirements on a daily basis and inform you as soon as it is reasonably practicable of the amount of any margin payment required under this Module.

## 3. Off-exchange Derivative Transactions

This Module applies to Exchange Traded Derivative Transactions only. Where Morgan Stanley enters into off-exchange derivatives transactions with you, Morgan Stanley will enter into further Modules or other documentation evidencing those transactions.

## 4. Exchange Traded Derivative Transactions

### 4.1 APPLICATION

**4.1.1** For the purposes of this Module, Exchange includes an association of dealers in any part of the world (and includes any successor body) on or through which investments or currencies or assets underlying, derived from or otherwise related directly or indirectly to investments or currencies, are bought and sold and any automated trading system administered by an exchange, market or association of dealers.

**4.1.2** This Module applies to futures, options and other derivative transactions traded on an Exchange. Some futures and options Exchanges only allow dealings to be undertaken between members of that Exchange. If Morgan Stanley is not a member of that Exchange, Morgan Stanley will need to execute your transaction through an intermediate broker who is a member. Where Morgan Stanley is a member, or Morgan Stanley deals through a broker who is, the contract on the Exchange or with the broker (a “**Contract**”) will be between Morgan Stanley and the Exchange, Clearing House or broker. In order to pass the benefit of that Contract to you, Morgan Stanley will need to enter into a matching contract (a “**Client Contract**” or “**Exchange Traded Derivative Transaction**”) with you under which you are entitled to the same rights and subject to the same obligations as Morgan Stanley is under the Contract with the Exchange, Clearing House or broker. For convenience all dealings will be on this basis whether or not the Exchange or Clearing House requires it, except in the case of certain Exchanges or Clearing Houses which prohibit that relationship and require members to trade as agent.

**4.1.3** This Module applies to each Exchange Traded Derivative Transaction entered into or outstanding between you and Morgan Stanley on or after the date the Customer Agreement takes effect. Before Morgan Stanley enters into any Exchange Traded Derivative Transaction with you, Morgan Stanley may require that you have entered into the Credit Module and applied for, and been granted, a Credit Facility thereunder.

**4.1.4** You should be aware that Applicable Regulations may prescribe limits on the size and/or number of Contracts Transactions entered into by you or for your behalf and/or require you to notify the relevant Exchange or applicable regulator of any reportable position held or controlled by you. You acknowledge that it is your responsibility to observe any applicable position limits and to make any required reports.

**4.1.5** In this Module, “**Base Currency**” means USD or such other currency as agreed between you and Morgan Stanley from time to time.

## **4.2 ACCEPTANCE AND EXECUTION OF ORDERS**

**4.2.1** Every Client Contract made will be entered into on the basis that Morgan Stanley contracts with you only as a principal and not as agent for you, unless otherwise required by market requirements or agreed in writing in relation to a particular Exchange and/or Clearing House.

**4.2.2** You agree to be bound by all market requirements of the relevant Exchange and Clearing House and you agree to sign and deliver to Morgan Stanley any further documents that Morgan Stanley may require. Unless Morgan Stanley otherwise requires, the market requirements of that Exchange and Clearing House will be incorporated herein and in the relevant Client Contracts.

## **4.3 CONTRACTS AND CLIENT CONTRACTS**

**4.3.1** If Morgan Stanley carries out an Exchange Traded Derivative Transaction on your request, Morgan Stanley will make or place an equivalent Contract on the market operated by the relevant Exchange or Morgan Stanley will have entered into an equivalent Contract with or through an intermediate broker (who may be an Associated Firm) on a principal-to-principal basis or will have accepted the designation of such a Contract, and so Morgan Stanley will have an interest in the transaction. If the closing out of the Contract results in a sum of money being due to the Exchange or Clearing House or the broker by Morgan Stanley, Morgan Stanley will notify you of that amount which will be immediately payable by you to Morgan Stanley under the corresponding Client Contract.

**4.3.2** To enable Morgan Stanley to settle, deliver or, in the case of options, exercise or allocate a Contract you will give Morgan Stanley such instructions and take such action as Morgan Stanley reasonably requires. So that Morgan Stanley can communicate such instructions to the relevant Exchange, Clearing House or Broker, or take any other action that is necessary to effect such instructions, you must give Morgan Stanley your instructions within any time limit Morgan Stanley notifies to you.

**4.3.3** If you fail to give Morgan Stanley any instructions or to take any actions that Morgan Stanley has required pursuant to paragraph 4.3.1 above, Morgan Stanley may:

- (a) close out any relevant open positions;
- (b) make or receive delivery of any underlying Investment or asset; and
- (c) take action to cover, reduce or eliminate any potential losses or liabilities in respect of the relevant Contract, on such terms and in such manner as Morgan Stanley in our commercially reasonable discretion deems necessary or appropriate.

For the avoidance of doubt Morgan Stanley shall not be under any obligation to exercise its rights under this paragraph.

**4.3.4** A corresponding Client Contract will be deemed made upon the purchase or sale of a Contract or exercise and allocation of an option Contract in respect of which the underlying asset is a futures Contract, as the case may be. The Client Contract will terminate when the Contract is closed out, settled or delivered.

**4.3.5** You will take any action and give Morgan Stanley, in relation to the corresponding Client Contract, any information that Morgan Stanley asks for in relation to the delivery, settlement, and, if a purchased option Contract, the exercise or allocation, of any Contract which has not been closed out.

**4.3.6** In respect of an option Client Contract matching a Contract:

(a) If you are a buyer, you will pay to Morgan Stanley on demand any premium payable under the rules of the relevant Exchange or clearing house (the “premium”); and

(b) If you are a seller, when Morgan Stanley receives premium from the relevant Exchange, clearing house or broker Morgan Stanley will pay it into an appropriate account as margin, for your account.

**4.3.7** Under the rules of the relevant Exchange or Clearing House, or the terms of business of a broker, the Exchange, Clearing House or broker may have the power to require any terms or conditions of any Contract matching a Client Contract (including the assets subject to it) to be altered. If they do so, then it may be appropriate to make a corresponding amendment to the Client Contract. If Morgan Stanley determines that this is appropriate, Morgan Stanley may take all actions that it decides in its absolute discretion are necessary, desirable or expedient to comply with such requirements or to avoid or mitigate any loss resulting from any alteration. All actions taken by Morgan Stanley will be binding on you, and any alteration will be deemed incorporated into the corresponding Client Contract. Morgan Stanley will notify you of any alteration (in advance, where reasonably practicable).

**4.3.8** Morgan Stanley will not be liable to you under any relevant Client Contract, any matching Contract or otherwise if the relevant Exchange, Clearing House and/or broker has ceased for any reason (including netting-off Morgan Stanley’s positions with it) to recognise the existence of any Contract or fails to perform or close out any Contract or defaults in respect of margin or collateral. This will not affect your obligations and liabilities in respect of Contracts which you have instructed Morgan Stanley to open and which have not been closed out.

## **4.4 CROSSING OF ORDERS**

Morgan Stanley may arrange for transactions to be executed either in whole or in part, by selling an investment to you from another client, or a client of another Morgan Stanley Company or an Associated Firm, or vice-versa. Morgan Stanley will not give you prior notice if it arranges for an Exchange Traded Derivative Transaction to be executed in this manner.

## **4.5 CLOSING OUT**

**4.5.1** At maturity (or, in the case of an option, upon its exercise), delivery obligations will arise. Frequently those trading for investment purposes will not wish to deliver or receive delivery of the underlying asset but prefer to take their profit or loss in cash. This can be achieved by “closing-out” the Contract, that is to say buying or selling (as the case may be) an equal and opposite contract. Subject to the Customer Agreement, market requirements and any further requirements Morgan Stanley notifies to you, you may at any time before the date for performance of a Client Contract request Morgan Stanley to close out the matching Contract or, if a purchased option Contract, exercise that Contract in accordance with its terms.

**4.5.2** Unless Morgan Stanley in its absolute discretion determines otherwise or Morgan Stanley accepts instructions from you to do otherwise, equal and opposite Contracts and Client Contracts

(closing out being determined on a “first in, first out” basis) will automatically fix the amount of profit or loss in relation thereto.

**4.5.3** Unless otherwise agreed in writing, or the rules of any relevant Exchange or Clearing House provide otherwise, if Morgan Stanley enters into any Exchange Traded Derivative Transaction with you in order to close out any existing Exchange Traded Derivative Transaction, then respective obligations under both such Exchange Traded Derivative Transactions shall automatically and immediately be terminated upon entering in to the second Exchange Traded Derivative Transaction, except for any settlement payment due from one of Morgan Stanley to the other in respect of such close-out.

**4.5.4** Morgan Stanley does not have to close out Contracts or Client Contracts or take any other action in respect of open Contracts or Client Contracts acquired on your instructions. In particular, no failure by you to pay margin when demanded will require Morgan Stanley to close out any relevant Contract or Client Contract.

#### **4.6 SETTLEMENT OF CONTRACTS**

**4.6.1** If the relevant Exchange, Clearing House or broker does not allocate long open Contracts when making a delivery or exercising an option direct to a specific account of Morgan Stanley’s or to short Client Contracts (or vice versa), Morgan Stanley may allocate those Contracts at random or in a way which seems to Morgan Stanley to be most equitable as between clients. If dealings on Morgan Stanley’s own account are involved at the same time, allocation will be to all clients first, and Morgan Stanley will receive no allocation until all relevant Client Contracts have been satisfied.

**4.6.2** When Morgan Stanley receives any amounts and/or assets (including documents of title) pursuant to a Contract, provided you have fulfilled all your obligations under the Customer Agreement and subject to the Customer Agreement, Morgan Stanley will deliver such amounts and/or assets to you in respect of the corresponding Client Contract, after deduction of any charges and taxes.

#### **4.7 CASH SETTLEMENT**

**4.7.1** This paragraph 4.7 relates to any Exchange Traded Derivative Transaction entered into by you with Morgan Stanley pursuant to the terms of which you would have the right to require physical settlement thereof (a “**Physically Settled Contract**”), were it not for this paragraph 4.7. This paragraph 4.7 shall override the terms of any such Physically Settled Contract.

**4.7.2** Notwithstanding the terms of any Physically Settled Contract, you irrevocably agree that Morgan Stanley may, at its absolute discretion, take such steps as Morgan Stanley considers appropriate to ensure that each such Physically Settled Contract shall be settled by way of cash settlement only, or closed out prior to settlement in order to achieve a broadly similar economic result and that you shall have no right to require physical settlement thereof. You hereby irrevocably appoint Morgan Stanley to act as your agent in taking any such steps.

**4.7.3** You acknowledge that where you enter into a Physically Settled Contract, you will have no right against Morgan Stanley to demand physical delivery to you of the underlying assets.

#### **4.8 DESIGNATION**

In respect of every Exchange Traded Derivative Transaction that is designated to be cleared by another broker or dealer as specified by you:

**4.8.1** if such broker or dealer accepts the designation, Morgan Stanley shall (without prejudice to any claim Morgan Stanley may have for commission or other payment) upon such acceptance cease to be a party to the Exchange Traded Derivative Transaction and shall have no obligation to you for its performance;

**4.8.2** if such other broker or dealer declines to accept the designation, Morgan Stanley shall be entitled at our option either to confirm the Exchange Traded Derivative Transaction with you or to liquidate it by such sale, purchase, disposal or other transaction or cancellation as Morgan Stanley may in its discretion determine, whether on the relevant Exchange or by private contract or any other feasible method (including taking it over ourselves or transferring it to an associate); and any balance resulting from such liquidation shall be promptly settled but without prejudicing Morgan Stanley’s rights under the Customer Agreement or otherwise.

#### **4.9 EXCHANGE TRADED DERIVATIVE TRANSACTION GIVEN UP TO MORGAN STANLEY FOR CLEARING**

Subject to the rules of any relevant Exchange, this term applies where there is a give-up agreement between you, Morgan Stanley and a third party executing broker, and the reference number or mnemonic applicable to you is quoted by such executing broker when a Exchange Traded Derivative Transaction is submitted to Morgan Stanley for clearing. Where the executing broker is based overseas, only Morgan Stanley’s services and not those of the executing broker, are regulated under FSMA. Notwithstanding any provision contained in the relevant give-up agreement, if Morgan Stanley accepts such Exchange Traded Derivative Transaction for clearing, such Exchange Traded Derivative Transaction shall be binding and conclusive on you immediately on its acceptance for clearing by Morgan Stanley whether or not the details of such Exchange Traded Derivative Transaction have previously been confirmed to Morgan Stanley by you. Morgan Stanley shall not be liable to you for any losses, costs, expenses or damages arising from any discrepancy between details in your instructions to such executing broker and details of Exchange Traded Derivative Transactions submitted to Morgan Stanley for clearing. Any dispute relating to a Exchange Traded Derivative Transaction given up or attempted to be given up to Morgan Stanley for clearing shall be determined under applicable arbitration rules of the relevant Exchange.

#### **4.10 FEES PAID TO EXECUTING BROKER**

Subject to the rules of any relevant Exchange, if a give-up agreement between you, Morgan Stanley and a third party executing broker provides that the executing broker will invoice Morgan Stanley directly for its commissions in relation to the execution of an order, then Morgan Stanley shall be entitled to rely on the details specified in any invoice presented to Morgan Stanley by such executing broker and, notwithstanding that the amounts specified in the invoice may be incorrect, you shall fully reimburse Morgan Stanley for any sum paid to the executing broker in respect of that invoice. Morgan Stanley shall have no liability to you for any losses, costs, expenses or damages incurred or suffered by you as a result of an incorrect amount being specified in an invoice.

#### **4.11 EXERCISE OF OPTIONS**

**4.11.1** You understand that Exchanges have established exercise cut-off times for the tender of exercise instructions in relation to options and that options will become worthless in the event

that you do not deliver instructions by such expiration time. You also acknowledge that Morgan Stanley may establish exercise cut-off times which may be earlier than the exercise cut-off times established by the relevant Exchange, and you shall have no claims against Morgan Stanley arising out of the fact that an option was not exercised, save in circumstances where the option was not exercised as a direct result of our negligent failure to inform you of our own exercise cut-off time in respect of the particular option.

**4.11.2** You agree that, where by virtue of the rules of any relevant Exchange an option is exercised automatically under a matching Contract, the corresponding Exchange Traded Derivative Transaction to which you and Morgan Stanley are both party will be deemed to have been automatically exercised at the same time.

#### **4.12 CORRECTION OF ORDER**

You understand that Exchanges may from time to time sanction the making of contracts by Morgan Stanley off-exchange in order to satisfy your order, where there has been an error in the execution of your order on-exchange. Where a better price (an improvement) can be obtained, Morgan Stanley may seek to secure and offer that improvement to you. Where, in response to your order, Morgan Stanley has bought or sold in accordance with the instruction in your order to buy or, as the case may be, to sell but have traded the wrong delivery/expiry month or wrong exercise price of the relevant contract, then Morgan Stanley may in accordance with the rules of any relevant Exchange offset any loss arising from that trade against any improvement achieved for you in the course of correctly satisfying your order, thus offering you only the net improvement, if any.

#### **4.13 MARKET INTERVENTION**

You understand that business on a market operated by an Exchange may from time to time be suspended or restricted, or the market may from time to time be closed for a temporary period or for such longer period as may be determined in accordance with the rules of any relevant Exchange on the occurrence of one or more events which require such action to be taken in the interests of maintaining a fair and orderly market. Any such action may result in our being unable, and through Morgan Stanley, you being unable to enter into Exchange Traded Derivative Transactions in accordance with the rules of the relevant Exchange. Furthermore Morgan Stanley, and through Morgan Stanley, you may from time to time be prevented from or hindered in entering into contracts in accordance with the rules of the relevant Exchange as a result of a failure of some or all market facilities. Morgan Stanley shall have no liability to you for any losses, costs, expenses or damages incurred or suffered by you as a result of any of the circumstances or occurrences referred to above.

#### **4.14 POSITION LIMITS**

**4.14.1** Morgan Stanley may require you to limit the number of open positions which you may have with Morgan Stanley at any time and Morgan Stanley may in our sole discretion close out any one or more Exchange Traded Derivative Transactions in order to ensure that such position limits are maintained.

**4.14.2** You acknowledge that it is your responsibility to observe position limits and to make reports where applicable, although Morgan Stanley may, at our discretion, monitor your positions and make such reports on your behalf.

#### **4.15 MARGIN**

**4.15.1** You agree to pay Morgan Stanley on demand such sums by way of margin as are required from time to time under the rules of any relevant Exchange (if applicable) or as Morgan Stanley may in its discretion require under Clause 21.3 (*Undertaking to Pay Margin*) of the General Terms for the purpose of protecting ourselves against loss or risk of loss on present, future or contemplated Exchange Traded Derivative Transactions under the Customer Agreement.

**4.15.2** If you fail to meet any margin calls when due, such failure will constitute an Event of Default and Morgan Stanley may close out your position unless Morgan Stanley has previously granted you a loan or credit in accordance with Applicable Regulations.

**4.15.3** Unless otherwise agreed, margin must be paid in cash. The currency of the cash margin you pay to Morgan Stanley shall be the currency of the relevant underlying Exchange Traded Derivative Transaction (if applicable) or as Morgan Stanley may in its discretion reasonably decide from time to time. Where Morgan Stanley agrees to accept non-cash collateral, it must be in a form acceptable to Morgan Stanley. The value of the collateral and the proportion of that value to be taken into account for margin purposes shall be determined by Morgan Stanley in its absolute discretion.

**4.15.4** Subject to the FCA Rules where they apply, any loss incurred on default by any Exchange, Clearing House or broker in respect of margin paid by Morgan Stanley will be borne by all of its clients at the date of that loss in proportion to their respective entitlement to monies in the account from which those sums were paid at that time.

**4.15.5** Morgan Stanley may, without prior notice, free of any interest therein of yours, any client of yours or any other person for whom you are trustee or agent:

(a) deposit or create security over the assets deposited as margin with, to the order of or in favour of any Exchange, clearing house or broker on any terms Morgan Stanley considers fit, including that the broker may deal with those assets in accordance with market requirements. The relevant Exchange, clearing house or broker may retain those assets to satisfy any obligations of yours or Morgan Stanley's to it; and

(b) register, sell, realise, charge or otherwise deal with the assets deposited as margin on such terms (including as to the consideration received for them) as Morgan Stanley may in its absolute discretion think fit (without being responsible for any loss or diminution in price). Any consideration received will be credited to an appropriate account.

## **5. Termination**

### **5.1 TERMINATION OF EXCHANGE TRADED DERIVATIVE TRANSACTIONS**

Subject to paragraph 5.2 below, at any time following the occurrence of an Event of Default, Morgan Stanley may, by notice to you, specify a date (the "**Liquidation Date**") for the termination and liquidation of Exchange Traded Derivative Transactions in accordance with the provisions of this paragraph 5.

### **5.2 AUTOMATIC TERMINATION**

Unless Morgan Stanley specify otherwise, the date of the occurrence of an Event of Default specified in Clause 26.3 (*Act of Insolvency*) of the General Terms shall automatically constitute a Liquidation Date, without the need for Morgan Stanley to give any notice and the provisions of this paragraph 5 shall then apply.

### 5.3 CALCULATION OF LIQUIDATION AMOUNT

Upon the occurrence of a Liquidation Date,

**5.3.1** neither you nor Morgan Stanley shall be obliged to make any further payments or deliveries under any Exchange Traded Derivative Transactions which would, but for this term, have fallen due for performance on or after the Liquidation Date and such obligations shall be satisfied by settlement (whether by payment, set-off or otherwise) of the Liquidation Amount;

**5.3.2** Morgan Stanley shall (on, or as soon as reasonably practicable after, the Liquidation Date) determine (discounting if appropriate), in respect of each Exchange Traded Derivative Transaction referred to in paragraph 5.3.1 above, its total cost, loss or, as the case may be, gain, in each case expressed in the currency specified by Morgan Stanley as such in the Customer Agreement or otherwise in writing or, failing any such specification, the Base Currency (and, if appropriate, including any loss of bargain, cost of funding or, without duplication, cost, loss or, as the case may be, gain as a result of the termination, liquidation, obtaining, performing or re-establishing of any hedge or related trading position) as a result of the termination, pursuant to the Customer Agreement, of each payment or delivery which would otherwise have been required to be made under such Exchange Traded Derivative Transaction (assuming satisfaction of each applicable condition precedent and having due regard, if appropriate, to such market quotations published on, or official settlement prices set by the relevant Exchange as may be available on, or immediately preceding, the date of calculation); and

**5.3.3** Morgan Stanley shall treat each cost or loss to it, determined as above, as a positive amount and each gain by it, so determined, as a negative amount and aggregate all of such amounts to produce a single, net positive or negative amount, denominated in the Base Currency (the “**Liquidation Amount**”).

### 5.4 PAYER

If the Liquidation Amount determined pursuant to paragraph 5.3 above is a positive amount, you shall pay it to Morgan Stanley and if it is a negative amount, Morgan Stanley shall pay it to you. Morgan Stanley shall notify you of the Liquidation Amount, and by whom it is payable, immediately after the calculation of such amount.

### 5.5 PAYMENT

The Liquidation Amount shall be paid in the Base Currency by the close of business on the business day following the completion of the termination and liquidation under this paragraph 5 (converted as required by Applicable Regulations into any other currency, any costs of such conversion to be borne by you, and (if applicable) deducted from any payment to you). Any Liquidation Amount not paid on the due date shall be treated as an unpaid amount and bear interest in accordance with Clause 15.2 (*Rate of Interest*) of the General Terms. Interest will accrue on a daily basis and will be due and payable by you as a separate debt.

### 5.6 BASE CURRENCY

For the purposes of any calculation hereunder, Morgan Stanley may convert amounts denominated in any other currency into the Base Currency at such rate prevailing at the time of the calculation as Morgan Stanley shall reasonably select.

### 5.7 PAYMENTS

Unless a Liquidation Date has occurred or has been effectively set, Morgan Stanley shall not be obliged to make any payment

or delivery scheduled to be made by Morgan Stanley under an Exchange Traded Derivative Transaction for as long as an Event of Default or a potential Event of Default with respect to you has occurred and is continuing.

### 5.8 ADDITIONAL RIGHTS

Morgan Stanley’s rights under this Module shall be in addition to, and not in limitation or exclusion of, any other rights which Morgan Stanley may have (whether by agreement, operation of law or otherwise).

### 5.9 SINGLE AGREEMENT

The Customer Agreement, the particular terms applicable to each Exchange Traded Derivative Transaction, and all amendments to any of them shall together constitute a single agreement between you and Morgan Stanley. You and Morgan Stanley both acknowledge that all Exchange Traded Derivative Transactions entered into on or after the date the Customer Agreement takes effect are entered into in reliance upon the fact that the Customer Agreement and all such terms constitute a single agreement between you and Morgan Stanley.

### 5.10 OTHER AGREEMENTS

The provisions of this Module shall not apply to any Exchange Traded Derivative Transaction which is subject to liquidation and termination under another agreement. However, any sum resulting from a liquidation and termination under another agreement may be set-off against the Liquidation Amount.

## 6. Additional Provisions for ASX traded derivatives

You acknowledge and agree that upon request you will take all reasonable steps to deliver information or documentation or cause to be delivered such information or documentation to Morgan Stanley, and promptly execute and sign any further documentation and do all other acts as may be reasonably required by Morgan Stanley concerning its obligations pursuant to any applicable Exchange, Clearing House or any Exchange Traded Derivative Transaction related thereto.

## 7. Additional Provisions for Equity Options Traded on the Stock Exchange of Hong Kong Limited (the “SEHK Special Terms”)

### 7.1 DEFINITIONS

(a) Terms defined in these SEHK Special Terms have the same meanings as in the Customer Agreement or the rules (including the Options Trading Rules) of the Stock Exchange of Hong Kong Limited (“SEHK”) unless stated otherwise.

(b) “**Options Trading**” means the purchase, closing, exercise, settlement and discharge of long options transactions and include writing of options or otherwise creating any short open position.

(c) “**Client Contract**” has the meaning as defined in the Options Trading Rules of SEHK which means a contract validly made at the time when an order in respect of an option series is matched by the Options System with another order in respect of that option series and incorporates the terms and conditions of the Standard Contract for a particular option series.

## 7.2 LAWS AND RULES

You agree that the terms of the Standard Contract for the relevant options series shall apply to each Client Contract between you and Morgan Stanley, and that all Client Contracts shall be created, exercised, settled and discharged in accordance with all Applicable Regulations.

## 7.3 MARGIN

(a) You agree to provide Morgan Stanley with cash and/or securities and/or other assets (“**Margin**”) as may be agreed from time to time, as security for your obligations to Morgan Stanley under these SEHK Special Terms. Such Margin shall be paid or delivered as demanded by Morgan Stanley from time to time. The amounts required by way of Margin shall not be less than, but may exceed, the amounts as may be required by the Applicable Regulations in respect of your open positions and delivery obligations, and further Margin may be required to reflect changes in market value.

(b) You shall on request provide Morgan Stanley with such authority as Morgan Stanley may require under the Applicable Regulations or otherwise to authorise Morgan Stanley to deliver such securities, directly or through an Options Exchange Participant, to SECH as SECH Collateral in respect of Exchange Traded Options Business resulting from your instructions to Morgan Stanley; and Morgan Stanley does not have any further authority from you to borrow or lend your securities or otherwise part with possession (except to you or on your instructions) of any of your securities for any other purpose.

## 7.4 CLIENT DEFAULT

(a) If you fail to comply with any of your obligations and/or to meet your liabilities under these SEHK Special Terms, including failure to provide Margin, this will be treated as an Event of Default and in addition to the actions Morgan Stanley may take under the Customer Agreement, Morgan Stanley are further authorised to:

- (i) decline to accept further instructions from you in respect of Exchange Traded Options Business;
- (ii) close out some or all of your Client Contracts with Morgan Stanley;
- (iii) enter into Contracts, or into transactions in securities, futures or commodities, in order to settle obligations arising or to hedge the risks to which Morgan Stanley are exposed in relation to your default; or
- (iv) dispose of Margin, and apply the proceeds thereof to discharge your Liabilities to Morgan Stanley.

Any proceeds remaining after discharge of all your Liabilities to Morgan Stanley shall be paid to you.

(b) You agree to pay interest on all overdue balances (including interest arising after a judgment debt is obtained against you) at such rates and on such other terms as Morgan Stanley may have notified you from time to time.

## 7.5 CONTRACTS

(a) Morgan Stanley shall cause and control the execution of your orders on SEHK through Morgan Stanley Hong Kong Securities Limited, an Options Trading Exchange Participant or through any other Options Exchange Participant (in either case, the “**Broker**”) and any reference in these SEHK Special Terms to execution by Morgan Stanley or the performance by Morgan Stanley of any of its obligations hereunder shall be construed accordingly.

(b) In respect of all Options Contracts effected on your instructions, you will pay Morgan Stanley, within the time period notified by Morgan Stanley, premium, our commission and any other charges, and applicable levies imposed by SEHK, as have been notified to you. Morgan Stanley may deduct such premium, commissions, charges and levies from any account of yours with it or an Associated Firm.

(c) The Broker may place limits on the open positions or delivery obligations that you may have which will be notified by Morgan Stanley to you from time to time.

(d) On exercise of a Client Contract by or against you, you shall perform your delivery obligations under the relevant contract, in accordance with the Standard Contract and as notified by Morgan Stanley.

## 7.6 ADDITIONAL RISK DISCLOSURE STATEMENT

Please refer to the additional risk disclosure statements set out in Appendix II to this Module.

## 7.7 CONFIRMATIONS

(a) You confirm that:

- (i) the account opened pursuant to these SEHK Special Terms is operated solely for your account and benefit, and not for the benefit of any other person;
- (ii) you have disclosed to Morgan Stanley in writing the name of the person(s) for whose benefit the account opened pursuant to these SEHK Special Terms is being operated; and
- (iii) if relevant, you have requested that Morgan Stanley operates the account opened pursuant to these SEHK Special Terms as an Omnibus Account, and will immediately notify Morgan Stanley, on request, of the identity of any person(s) ultimately beneficially interested in Client Contracts.

(b) You confirm that you have read, understood and agreed to these SEHK Special Terms, which have been explained to you in a language that you prefer.

## 7.8 GENERAL

(a) Morgan Stanley shall provide you, upon request, with the product specifications for Options Contracts.

(b) Morgan Stanley will notify you of material changes in respect of its business which may affect the services Morgan Stanley provide to you.

(c) You agree to indemnify Morgan Stanley, and its employees and agents, against all losses and expenses resulting from breach of your obligations under these SEHK Special Terms, including costs reasonably incurred in collecting debts from you, and in closing the account opened pursuant to these SEHK Special Terms.

(d) Morgan Stanley will keep information relating to the account opened pursuant to these SEHK Special Terms confidential, but may provide such information to the SFC to comply with its requirements or requests for information.

## 7.9 GOVERNING LAW AND JURISDICTION

(a) These SEHK Special Terms shall be governed by, and construed in accordance with, the laws of the Hong Kong Special Administrative Region of the People’s Republic of China (“**Hong Kong**”) and may be enforced in accordance with the laws of Hong Kong.

(b) You hereby irrevocably submit to the non-exclusive jurisdiction of any court in Hong Kong in any action or proceeding arising out of or relating to these SEHK Special Terms and hereby irrevocably agree that all claims in respect of such action or proceeding may be heard and determined in such court in Hong Kong, provided that nothing herein shall effect our right to bring any action or proceeding against you or your property in the courts of any other jurisdiction.

## **8. Additional Provisions for Futures Contracts and/or Options Contracts Traded on the Hong Kong Futures Exchange Limited (the “HKFE Special Terms”)**

### **8.1 DEFINITIONS**

Terms defined in these HKFE Special Terms have the same meanings as in the rules of the Hong Kong Futures Exchange Limited (the “HKFE”) unless stated otherwise.

### **8.2 SCOPE OF HKFE SPECIAL TERMS**

Transactions related to exchange traded futures and options shall be subject to the rules of the relevant markets and exchanges. You may have varying levels and types of protection in relation to transactions on different markets and exchanges.

### **8.3 PRELIMINARY AND GENERAL MATTERS**

(a) Morgan Stanley may, subject to the provisions of the SFO and any Applicable Regulations, take the opposite position to your order in relation to any exchange traded futures and options contracts, whether on Morgan Stanley’s own account or for the account of its Associated Firms or Morgan Stanley’s other customers, provided that such trade is executed competitively on or through the facilities of the HKFE in accordance with its rules or the facilities of any other commodity, futures or options exchange in accordance with the rules and regulations of such other exchange.

(b) You hereby acknowledge that in the case of a default committed by Morgan Stanley and your having suffered pecuniary loss thereby, the liability of the Investor Compensation Fund will be restricted to valid claims as provided for in the SFO and will be subject to the monetary limits specified in the Securities and Futures (Investor Compensation Limits) Rules and accordingly there can be no assurance that any pecuniary loss sustained by reason of such a default will necessarily be recouped from the Investor Compensation Fund in full, in part or at all.

(c) Morgan Stanley shall cause and control the execution of your orders on HKFE through Morgan Stanley Hong Kong Securities Limited, a HKFE Exchange Participant or through any other HKFE Exchange Participant (in either case, the “HKFE Broker”) and any reference in these HKFE Special Terms to execution by Morgan Stanley or the performance by Morgan Stanley of any of its obligations hereunder shall be construed accordingly.

(d) You hereby acknowledge that the HKFE Broker is bound by the Rules of the HKFE which permit the HKFE to take steps to limit the positions or require the closing out of Contracts on behalf of such persons who in the opinion of the HKFE are accumulating positions which are or may be detrimental to any particular Market or Markets or which may be capable of adversely affecting the fair and orderly operation of any Market or Markets as the case may be.

### **8.4 AUTHORITY**

Morgan Stanley or its HKFE Broker are required, upon the request of the HKFE or the SFC, to disclose the name, beneficial identity and such other information concerning you as the HKFE or the SFC may require. You agree to provide such information as may be required in order for Morgan Stanley or its HKFE Broker to comply with this requirement.

### **8.5 DELIVERY**

You shall promptly deliver any monies, securities, financial instruments, documents or other property deliverable by you under any HKFE Contract in accordance therewith and with any instructions given by Morgan Stanley to meet margin calls and demands for variation adjustments.

### **8.6 MARGIN AND DEPOSIT**

You shall on demand pay to or deposit with Morgan Stanley as margin, and/or variation adjustments for your account or accounts with Morgan Stanley such amount of money, and/or other security as contemplated in paragraph 5 above, as Morgan Stanley may from time to time at its absolute discretion require together with such documents as Morgan Stanley may at its absolute discretion require. Morgan Stanley may be required to report to the HKFE and the SFC particulars of all open positions in respect of which two successive margin calls and demands for variation adjustments are not met within the period specified by Morgan Stanley. Morgan Stanley may require more margin or variation adjustments than that specified by the HKFE and/or the Clearing House and may close out open positions in respect of which any margin calls or demands for variation adjustments are not met within the period specified by Morgan Stanley or at the time of making such call(s) or demand(s).

### **8.7 ADDITIONAL RISK DISCLOSURE STATEMENT**

Please refer to the additional risk disclosure statements set out in Appendix II to this Module.

### **8.8 FEES AND CHARGES**

Every HKFE Contract shall be subject to the charge of an Investor Compensation Fund levy and a levy pursuant to the SFO, the cost of both of which shall be borne by you.

### **8.9 GOVERNING LAW AND JURISDICTION**

(a) These HKFE Special Terms shall be governed by, and construed in accordance with, the laws of Hong Kong and may be enforced in accordance with the laws of Hong Kong.

(b) You hereby irrevocably submit to the non-exclusive jurisdiction of any court in Hong Kong in any action or proceeding arising out of or relating to these HKFE Special Terms and hereby irrevocably agree that all claims in respect of such action or proceeding may be heard and determined in such court in Hong Kong, provided that nothing herein shall effect Morgan Stanley’s right to bring any action or proceeding against you or your property in the courts of any other jurisdiction.

## 9. Notice relating to Position Limit and Large Open Position Reporting Requirements for Equity Options and Futures Traded on the Hong Kong Exchanges

Your attention is drawn to the requirements set out in the Hong Kong Securities and Futures (Contracts Limits and Reportable Positions) Rules (the “**Contract Limit Rules**”) made by the SFC under the Securities and Futures Ordinance. The Contract Limit Rules impose monitoring and reporting obligations with regard to large open positions. Where you are holding a reportable position for a client, you must disclose the identity of the client. For the purposes of the Contract Limit 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 Contract Limit 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 Contract Limit Rules and Guidance Note can be downloaded from the SFC’s website (www.sfc.hk).

### 9.1 PURPOSE OF THE CONTRACT LIMIT RULES

The purpose of the Contract Limit 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 Contract Limit Rules and Guidance Note are summarised below. However, you should review the Contract Limit Rules and Guidance Note in their 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 Contract Limit Rules make you responsible for ensuring that you comply with the Contract Limit Rules. Section 8 of the Contract Limit Rules makes it a criminal offence not to comply (subject to a maximum fine of HK\$100,000 and imprisonment for up to two years).

### 9.2 POSITION LIMITS

The Contract Limit 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 authorisation 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 contract 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/expiry month.

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

### 9.3 REPORTABLE POSITIONS

If you hold or control an open position in futures contracts or stock options contracts in excess of the specified level, the Contract Limit Rules require you to report that position in writing to the relevant Hong Kong exchange

(a) within one day (ignoring Hong Kong public holidays and Saturdays) of first holding or controlling that position; and

(b) 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 Contract Limit Rules. Please note that the reportable position limits for certain contracts have changed. For example, the reportable limits for Hang Seng Index futures and options contracts have been increased from 250 open contracts to 500 open contracts.

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.

### 9.4 SCOPE OF THE CONTRACT LIMIT RULES

You should note:

(a) 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. (Section 4 of the Contract Limit Rules and Para. 2.6 of the Guidance Note);

(b) If a person holds or controls positions in accounts at more than one intermediary, the Contract Limit 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);

(c) 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 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 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);

(d) Where you are holding a reportable position for your client, the Contract Limit Rules say that you must disclose the identity of the client. The SFC’s view is that, for the purposes of the Contract Limit Rules, a client is the person who is ultimately responsible for originating the transaction instructions - i.e., the transaction originator. (Para. 6.3 of the Guidance Note); and

(e) The Contract Limit Rules apply to the aggregate positions held in an omnibus account and to the positions held by each of the underlying clients of an omnibus account. Positions held by an intermediary (other than an exchange participant) in its proprietary accounts and customer accounts must be aggregated by the intermediary for position limit purposes. (Para. 6.7 of the Guidance Note).

## 10. Additional Provisions for US Equity Option Contracts under the Rules of The Options Clearing Corporation

**10.1** In effecting US equity options transactions through Morgan Stanley, you are aware of and agree to be bound by the rules of The Options Clearing Corporation (“**OCC**”), the Securities and Exchange Commission, the various securities exchanges and



securities associations, the Board of Governors of the Federal Reserve Board and other securities self-regulatory organizations having jurisdiction over options transactions. Without limiting the foregoing, you agree not to violate, either acting by yourself (through Morgan Stanley as broker or otherwise) or in concert with others, directly or indirectly, the rules of such organizations regarding position limits and/or exercise limits. You further expressly authorize Morgan Stanley to liquidate any of your US equity options positions and foreclose on and apply collateral without notice to you and without your consent, in our sole and absolute discretion, if and when your open positions exceed applicable position limits so as to reduce such open positions to a level that is in compliance with such limits or if you fail to fulfill any of your obligations hereunder or under any other agreement with Morgan Stanley. You will bear and be solely responsible for any losses associated with such a reduction or liquidation or foreclosure.

**10.2** You understand that you are fully responsible for taking action to exercise your US equity option contracts. You hereby agree to waive any and all claims for damages or loss, which you might have against Morgan Stanley because a US equity option was not exercised. You understand that your US equity options will become worthless if you do not deliver instructions to exercise by your established exercise cut-off times, which may be different than exercise cut-off times established by the exchanges, markets and clearing houses. You are aware that the OCC has established thresholds for equity option contracts whereby all expiring contracts at or above the \$.01 threshold will be automatically exercised and for index option contracts whereby all expiring contracts at or above the \$.01 threshold will be automatically exercised unless Morgan Stanley, at your direction, instructs the OCC otherwise. You hereby instruct Morgan Stanley to automatically exercise expiring equity option positions in your Account(s) that are equal to or greater than \$.01 in-the-money at expiration, and expiring index options that are \$.01 or more in-the-money at expiration. These standing instructions will remain in full force and effect until they are either withdrawn or amended by you.

**10.3** You understand that Morgan Stanley randomly assigns exercise notices to all customers. All American-style (an option that may be exercised at any time) short option positions are subject to assignment at any time, including positions established on the same day that exercises are assigned, while European-style (an option that may be exercised only on a specified exercise date) short option positions are only subject to assignment upon expiration. Exercise assignment notices are allocated randomly from among all of our customers' short option positions, which are subject to exercise. A more detailed description of our random method for allocating assignment notice is available from your MSWM financial adviser upon request.

## 11. Additional Provisions for Exchange Traded Derivatives Transactions Subject to the Rules of NYSE LIFFE

**11.1** The terms set out in this paragraph 11 shall apply in respect of Exchange Traded Derivatives Transactions subject to the rules of NYSE LIFFE (the "**Rules of LIFFE**") from time to time in force. Such terms cover matters that (i) Morgan Stanley are required to deal with pursuant to LIFFE General Notice 399 issued on 6 March 1992 and (ii) other LIFFE related terms. Terms defined

in the Rules of LIFFE shall have the same meanings in all parts of this paragraph 11.

**11.2** All contracts in the terms of an Exchange Contract made on NYSE LIFFE shall be subject to the Rules of LIFFE as from time to time in force. As a member of NYSE LIFFE, Morgan Stanley contracts only as a principal in respect of contracts in the terms of an Exchange Contract. In the event of a conflict between the Rules of LIFFE and the terms of this Module and the Customer Agreement, the Rules of LIFFE as from time to time in force, shall prevail.

**11.3** Without prejudice to the generality of 4.3.1, in respect of every contract made between Morgan Stanley subject to the Rules of LIFFE, Morgan Stanley shall have made an equivalent contract on the floor of the market for execution by open outcry or in the market conducted on the automated trading central processing system, or shall have accepted the allocation of any such contract.

**11.4** Pursuant to the exclusion of liability provisions contained in the Rules of LIFFE, as amended from time to time by General Notice(s) issued by LIFFE, you understand that business on the LIFFE market (the "**Exchange**") operated by LIFFE (Administration and Management) ("**LIFFE**") may from time to time be suspended, restricted or closed for such period as may be determined in the interests of maintaining a fair and orderly market in accordance with the Rules of LIFFE. Any such action may result in our, and through Morgan Stanley, you being prevented from or hindered in entering into contracts in accordance with the Rules of LIFFE. Furthermore, failures or malfunction of LIFFE communications or equipment, market facilities or the automated trading central processing system, or software provided by LIFFE may result in our being hindered in or prevented from entering into contracts in the terms of Exchange Contracts, or may result in errors in orders or in contracts in the terms of Exchange Contracts. Morgan Stanley and LIFFE wish to draw the following exclusion of liability to your attention:

*Unless otherwise expressly provided in the Rules of LIFFE or in any other agreement to which LIFFE is party, Morgan Stanley and LIFFE shall not be liable to you for any loss, damage, injury or delay, whether direct or indirect, arising from any of the circumstances described above or any failure of some or all market facilities or from any act or omission of LIFFE, its officers, employees, agents or representatives under the Rules of LIFFE or pursuant to the LIFFE's obligations under statute or from any breach of contract by or any negligence howsoever arising of LIFFE, its officers, employees, agents or representatives.*

**11.5** Notwithstanding any other agreement between you and Morgan Stanley, any dispute arising from or relating to this Agreement, insofar as it relates to contracts made subject to the Rules of LIFFE, and any dispute arising from or relating to any such contract, unless resolved between you and Morgan Stanley, be referred to arbitration under the Rules of LIFFE, or to such other organisation as LIFFE may direct before either of you and Morgan Stanley resort to the jurisdiction of the courts (other than to obtain an injunction or an order for security for a claim).

# Appendix I

## Warrants and Derivatives Warning Notice

Where you are a Retail Client or Elective Professional Client, this notice is provided to you as required by the FCA Rules. This notice cannot disclose all the risks and other significant aspects of warrants and/or derivative products such as futures, options, and contracts for differences. You should not deal in these products unless you understand their nature and the extent of your exposure to risk. You should also be satisfied that the product is suitable for you in the light of your circumstances and financial position. Certain strategies such as a 'spread' position or a 'straddle', may be as risky as a simple 'long' or 'short' positions.

Although warrants and/or derivatives can be utilised for the management of investment risk, some of these products are unsuitable for many investors. Different instruments involve different levels of exposure to risk and in deciding whether to trade in such instruments you should be aware of the following points.

### 1. Warrants

A warrant is a time-limited right to subscribe for shares, debentures, loan stock or government securities and is exercisable against the original issuer of the underlying securities. A relatively small movement in the price of the underlying security results in a disproportionately large movement, unfavourable or favourable, in the price of the warrant. The prices of warrants can therefore be volatile.

It is essential for anyone who is considering purchasing warrants to understand that the right to subscribe which a warrant confers is invariably limited in time with the consequence that if the investor fails to exercise this right within the predetermined time scale than the investment becomes worthless.

You should not buy a warrant unless you are prepared to sustain a total loss of the money you have invested plus any commission or other transaction charges.

Some other instruments are also called warrants but are actually options (for example, a right to acquire securities which is exercisable against someone other than the original issuer of the securities, often called a 'covered warrant').

## 2 Off-exchange Warrant Transactions

An off-exchange warrant transaction involves the trading of warrants that are not listed on any exchange. Transactions in off-exchange warrants may involve greater risk than dealing in exchange traded warrants because there is no exchange market through which to liquidate your position, to assess the value of the warrant or the exposure to risk. Bid and offer prices need not be quoted, and even where they are, they will be established by dealers in these instruments and consequently it may be difficult to establish what is a fair price. Further general information on off-exchange transactions is set out under paragraph 7 (*Off-exchange Transactions in Derivatives*) below.

### 3. Futures

Transactions in futures involve the obligation to make, or to take, delivery of the underlying asset of the contract at a future date, or in some cases to settle your position with cash. They carry a high degree of risk. The "gearing" or "leverage" often obtainable in futures trading means that a small deposit or down payment can lead to large losses as well as gains. It also means that a relatively small market movement can lead to a proportionately much larger movement in the value of your investment, and this can work against you as well as for you. Futures transactions have a contingent liability, and you should be aware of the implications of this, in particular the margining requirements, which are set out under paragraph 9 (*Contingent Liability Investment Transactions*) below.

### 4. Options

An option is a financial derivative which represents a contract sold by one party (the one writing the option) to another (the one buying the option). The option buyer has the right, but not the obligation, to buy or sell a security or other financial asset at an agreed upon price during a certain period of time or on a specific date.

There are many different types of options with different characteristics subject to different conditions.

**BUYING OPTIONS.** Buying options involves less risk than selling options because, if the price of the underlying asset moves against you, you can simply allow the option to lapse. The maximum loss is limited to the premium, plus any commission or other transaction charges. However, if you buy a call option on a futures contract and you later exercise the option, you will acquire the future. This will expose you to the risks described under “futures” and “contingent liability transactions”.

**WRITING OPTIONS.** If you write an option, the risk involved is considerably greater than buying options. You may be liable for margin to maintain your position and a loss may be sustained well in excess of any premium received. By writing an option, you accept a legal obligation to purchase or sell the underlying asset if the option is exercised against you, however far the market price has moved away from the exercise price. If you already own the underlying asset which you have contracted to sell (known as “covered call options”) the risk is reduced. If you do not own the underlying asset (known as “uncovered call options”) the risk can be unlimited. Only experienced persons should contemplate writing uncovered options, and then only after securing full details of the applicable conditions and potential risk exposure.

**TRADITIONAL OPTIONS.** A particular type of option called a “traditional option” is written by certain London Stock Exchange firms under special exchange rules. These may involve greater risk than other options. Two way prices are not usually quoted and there is no exchange market on which to close out an open position or to effect an equal and opposite transaction to reverse an open position. It may be difficult to assess its value or for the seller of such an option to manage his exposure to risk. Certain option markets operate on a margined basis, under which buyers do not pay the full premium on their option at the time they purchase it. In this situation you may subsequently be called upon to pay margin on the option up to the level of your premium. If you fail to do so as required, your position may be closed or liquidated in the same way as a futures position.

## 5. Securitised Derivatives

It may not always be apparent whether or not a particular derivative is effected on exchange or in an off-exchange (over-the-counter) derivative transaction. While some off-exchange markets are highly liquid, transactions in off-exchange or ‘non transferable’ derivatives may involve greater risk than investing in on-exchange derivatives because there is no exchange market on which to close out an open position. It may be impossible to liquidate an existing position, to assess the value of the position arising from an off-exchange transaction or to assess the exposure to risk. Bid and offer prices need not be quoted, and, even where they are, they will be established by dealers in these instruments and consequently it may be difficult to establish what is a fair price.

## 6. Contracts for Differences

Futures and options contracts can also be referred to as a contract for differences. These can be options and futures on the FTSE 100 index or any other index, as well as currency and interest rate swaps. However, unlike other futures and options, these contracts can only be settled in cash. Investing in a contract for differences carries the same risks as investing in a future or an option and you should be aware of these as set out in paragraphs 3 (*Futures*) and 4 (*Options*) above respectively. Transactions in

contracts for differences may also have a contingent liability and you should be aware of the implications of this as set out in paragraph 9 (*Contingent Liability Investment Transactions*) below.

## 7. Off-exchange Transactions in Derivatives

It may not always be apparent whether or not a particular derivative is effected on exchange or in an off exchange derivative transaction. Morgan Stanley will make it clear to you if you are entering into an off exchange derivative transaction.

While some off-exchange markets are highly liquid, transactions in off-exchange or ‘non transferable’ derivatives may involve greater risk than investing in on-exchange derivatives because there is no exchange market on which to close out an open position. It may be impossible to liquidate an existing position, to assess the value of the position arising from an off-exchange transaction or to assess the exposure to risk. Bid and offer prices need not be quoted, and, even where they are, they will be established by dealers in these instruments and consequently it may be difficult to establish what is a fair price.

## 8. Foreign Markets

Foreign markets will involve different risks from the UK markets. In some cases the risks will be greater. On request, your MSWM financial adviser will provide an explanation of the relevant risks and protections (if any) which will operate in any foreign markets, including the extent to which it will accept liability for any default of a foreign firm through whom it deals. The potential for profit or loss from transactions on foreign markets or in foreign denominated contracts will be affected by fluctuations in foreign exchange rates.

## 9. Contingent Liability Investment Transactions

Contingent liability investment transactions, which are margined, require you to make a series of payments against the purchase price, instead of paying the whole purchase price immediately.

If you trade in futures, contracts for differences or sell options, you may sustain a total loss of the margin you deposit with Morgan Stanley to establish or maintain a position. If the market moves against you, you may be called upon to pay substantial additional margin at short notice to maintain the position. If you fail to do so within the time required, your position may be liquidated at a loss and you will be responsible for the resulting deficit. Even if a transaction is not margined, it may still carry an obligation to make further payments in certain circumstances over and above any amount paid when you entered the contract.

Save as specifically provided by the FCA, Morgan Stanley may only carry out margined or contingent liability transactions with or for you if they are traded on or under the rules of a recognised or designated investment exchange. Contingent liability transactions which are not so traded may expose you to substantially greater risks.

## 10. Limited Liability Transactions

Before entering into a limited liability transaction, you should obtain from your MSWM financial adviser a formal written statement confirming that the extent of your loss liability on each transaction will be limited to an amount agreed by you before you enter into the transaction.

## 11. Collateral

If you deposit collateral as security with MSIP, the way in which it will be treated will vary according to the type of transaction and where it is traded. There could be significant differences in the treatment of your collateral depending on whether you are trading on a recognised or designated investment exchange, with the rules of that exchange (and the associated clearing house) applying, or trading off exchange. Deposited collateral may lose its identity as your property once dealings on your behalf are undertaken. Even if your dealings should ultimately prove profitable, you may not get back the same assets, which you deposited and may have to accept payment in cash. You should ascertain from your MSWM financial adviser how your collateral will be dealt with.

## 12. Commissions

Before you begin to trade, you should obtain details of all commissions and other charges for which you will be liable. These charges will affect your net profit (if any) or increase your loss. If any charges are not expressed in money terms (but, for example, as a percentage of contract value), you should obtain a clear and written explanation, including appropriate examples, to establish what such charges are likely to mean in specific money terms. In the case of futures, when commission is charged as a percentage, it will normally be as a percentage of the total contract value, and not simply as a percentage of your initial payment.

## 13. Suspensions of Trading

Under certain trading conditions it may be difficult or impossible to liquidate a position. This may occur, for example, at times of rapid price movement if the price rises or falls in one trading session to such an extent that under the rules of the relevant exchange trading is suspended or restricted. Placing a stop-loss order will not necessarily limit your losses to the intended amounts, because market conditions may make it impossible to execute such an order at the stipulated price.

## 14. Clearing House Protections

On many exchanges, the performance of a transaction by MSIP (or third party with whom he is dealing on your behalf) is 'guaranteed' by the Exchange or Clearing House. However, this guarantee is unlikely in most circumstances to cover you, the customer, and may not protect you if Morgan Stanley or another party defaults on its obligations to you. On request, Morgan Stanley will explain any protection provided to you under the clearing guarantee applicable to any on-exchange derivatives in which you are dealing. There is no Clearing House for traditional options, nor normally for off-exchange instruments which are not traded under the rules of a recognised or designated investment exchange.

## 15. Insolvency

Morgan Stanley's insolvency or default, or that of any other brokers involved with your transaction, may lead to positions being liquidated or closed out without your consent. In certain circumstances, you may not get back the actual assets which you lodged as collateral and you may have to accept any available payments in cash. On request, Morgan Stanley will provide an explanation of the extent to which Morgan Stanley will accept liability for any insolvency of, or default by, other firms involved with your transactions.

# Appendix II

## Additional Risk Disclosure for Futures and Options Trading

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.

### 1. Futures

**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 MSIP to maintain your position. If the market moves against your position or margin levels are increased, you may be called upon to pay substantial additional funds on short notice 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.

**RISK-REDUCING ORDERS OR STRATEGIES.** The placing of certain orders (e.g. “stop-loss” orders, 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.

### 2. Options

**VARIABLE DEGREE OF RISK.** Transactions in options carry a high degree of risk. Purchasers and sellers of options should familiarise 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 futures contract, 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 unfavourably. 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 futures contract, the seller will acquire a position in a futures contract 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 futures contract 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.

### 3. Additional Risks Common to Futures and Options

**TERMS AND CONDITIONS OF CONTRACTS.** You should ask your MSWM financial adviser about the terms and conditions of the specific futures or options which you are trading and associated obligations (e.g. the circumstances under which you may become obliged to make or take delivery of the underlying interest of a futures contract and, in respect of 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.

**SUSPENSION OR RESTRICTION OF TRADING AND PRICING RELATIONSHIPS.** Market conditions (e.g. illiquidity) and/or the operation of the rules of certain markets (e.g. 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 futures, 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”.

**DEPOSITED CASH AND PROPERTY.** You should familiarise yourself with the protections given 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. 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.

**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.

**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 enquire 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 your MSWM financial adviser for details about the types of redress available in both your home jurisdiction and other relevant jurisdictions before you start to trade.

**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.

**TRADING FACILITIES.** 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 clearing house and/or participant firms. Such limits may vary: you should ask your MSWM financial adviser for details in this respect.

**ELECTRONIC TRADING.** Trading on an electronic trading system may differ 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.

**OFF-EXCHANGE TRANSACTIONS.** In some jurisdictions, and only then in restricted circumstances, firms are permitted to effect off-exchange transactions. Morgan Stanley 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 fair 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 familiarise yourself with applicable rules and attendant risks.

I/we have read, understood and agree to this Exchange Traded Derivatives Module.

### For Individuals in all Jurisdictions

[Signature Line]			
NAME			
[Signature Line]			
ADDRESS			
[Signature Line]	[Signature Line]	[Signature Line]	[Signature Line]
SUBURB	STATE	POSTCODE	COUNTRY
[Signature Line]		[Signature Line]	
SIGNATURE		DATE	

### For Joint Accounts in all Jurisdictions

#### First joint account holder

[Signature Line]			
NAME			
[Signature Line]			
ADDRESS			
[Signature Line]	[Signature Line]	[Signature Line]	[Signature Line]
SUBURB	STATE	POSTCODE	COUNTRY
[Signature Line]		[Signature Line]	
SIGNATURE*		DATE	

and

#### Second joint account holder

[Signature Line]			
NAME			
[Signature Line]			
ADDRESS			
[Signature Line]	[Signature Line]	[Signature Line]	[Signature Line]
SUBURB	STATE	POSTCODE	COUNTRY
[Signature Line]		[Signature Line]	
SIGNATURE*		DATE	

\* All joint account holders to sign, unless signatories have express authority by deed to sign on behalf of all other parties. Please request additional signature pages from your MSWM financial adviser if more than two joint account holders need to sign.

### Office Use Only

ACCOUNT NUMBER	ACCOUNT NAME	RR CODE
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I/we have read, understood and agree to this Exchange Traded Derivatives Module.

### For Partnerships in all Jurisdictions

Signed for and behalf of

[Signature Line]			
NAME OF CUSTOMER			
[Signature Line]			
ADDRESS OF CUSTOMER			
[Signature Line]	[Signature Line]	[Signature Line]	[Signature Line]
SUBURB	STATE	POSTCODE	COUNTRY
[Signature Line]		[Signature Line]	
SIGNATURE OF PARTNER(S)*		SIGNATURE OF PARTNER(S)*	
[Signature Line]		[Signature Line]	
NAME OF PARTNER		NAME OF PARTNER	
[Signature Line]		[Signature Line]	
DATE		DATE	

\* All partners to sign, unless signatories have express authority by deed to sign on behalf of all other parties. Please request additional signature pages from your MSWM financial adviser if more than two partners need to sign.

### For Companies, Foundations and Other Legal Persons

Signed for and behalf of

[Signature Line]			
NAME OF CUSTOMER			
[Signature Line]			
ADDRESS OF CUSTOMER			
[Signature Line]	[Signature Line]	[Signature Line]	[Signature Line]
SUBURB	STATE	POSTCODE	COUNTRY
[Signature Line]		[Signature Line]	
SIGNATURE OF DIRECTOR/ COMPANY SECRETARY/ ALTERNATE DIRECTOR /CHAIRMAN / AUTHORISED SIGNATORY*		SIGNATURE OF DIRECTOR/ COMPANY SECRETARY/ ALTERNATE DIRECTOR /CHAIRMAN / AUTHORISED SIGNATORY*	
[Signature Line]		[Signature Line]	
NAME		NAME	
[Signature Line]		[Signature Line]	
DATE		DATE	

\* For Australian incorporated companies, execution must be effected pursuant to section 127 of the Corporations Act 2001 (Cth) which requires execution by two directors, a director and a company secretary, or for a proprietary company that has a sole director who is also the sole company secretary, that director. Please request additional signature pages from your MSWM financial adviser if more than two persons need to sign.

### Office Use Only

ACCOUNT NUMBER	ACCOUNT NAME	RR CODE
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I/we have read, understood and agree to this Exchange Traded Derivatives Module.

### For Trustees in all Jurisdictions

NAME OF TRUST			
ADDRESS OF TRUST			
SUBURB	STATE	POSTCODE	COUNTRY
NAME OF TRUSTEE (IF A COMPANY)			
SIGNATURE OF TRUSTEE/DIRECTOR/ COMPANY SECRETARY*		SIGNATURE OF TRUSTEE/DIRECTOR/ COMPANY SECRETARY*	
NAME		NAME	
DATE		DATE	

\* All individual trustees must sign. In the case of a corporate trustee that is an Australian incorporated company, execution must be effected pursuant to section 127 of the Corporations Act 2001 (Cth) which requires execution by two directors, a director and a company secretary, or for a proprietary company that has a sole director who is also the sole company secretary, that director. Please request additional signature pages from your MSWM financial adviser if more than two trustees need to sign.

#### Office Use Only

ACCOUNT NUMBER

ACCOUNT NAME

RR CODE

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