



**General Terms and Conditions of Business,  
Order Execution Guidelines, Special Terms and Conditions  
relating to Internet Trading and  
Information pertaining to Financial Instruments and shares  
in limited partnerships or internal partnerships**

Effective from 3 July 2017\*

\*Replaces version of 10 February 2017

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# Part A – General Terms and Conditions of Business

These General Terms and Conditions of Business (the "Terms and Conditions of Business") of Pareto Securities AS and Pareto Securities AB, NUF (together "Pareto") have been drafted pursuant to Act of 29 June 2007 No. 75 relating to Securities Trading (the "Securities Trading Act") and Regulations No. 876 of the same date (the "Securities Trading Regulations"), and replace previous versions of the Terms and Conditions of Business in their entirety.

The Terms and Conditions of Business are based on a template prepared by the Norwegian Securities Dealers Association, with adaptations.

The Terms and Conditions of Business applicable at any given time are deemed to have been accepted by the client each time the client submits orders to, or trades with, Pareto.

Any terms defined in the Securities Trading Act shall have the same meaning whenever used in the Terms and Conditions of Business.

## 1. Pareto in brief

### 1.1 Contact details

Pareto Securities AS Company registration no. 956 632 374 Dronning Mauds gate 3, 0250 Oslo, P.O. Box 1411 Vika, 0115 Oslo Telephone +47 22 87 87 00 Telefax +47 22 87 87 10 info@paretosec.com	Pareto Securities AB, NUF Company registration no. 917 566 267 Dronning Mauds gate 3, 0250 Oslo, P.O. Box 1411 Vika, 0115 Oslo Telephone +47 22 87 87 00 Telefax +47 22 87 87 10
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See Clause 27 for further details concerning communications directly with Pareto.

### 1.2 Client relation

The client agreement will state if the client relation has been established with Pareto Securities AS on a standalone basis or jointly with Pareto Securities AB, NUF. In cases where a joint client agreement has been agreed, the trading note will state if the trade has been entered into with Pareto Securities AS or Pareto Securities AB.

### 1.3 Tied agents

Pareto has the tied agents listed on the Pareto website; [www.paretosec.com](http://www.paretosec.com).

### 1.4 What services Pareto is licensed to provide

#### 1.3.1 Pareto is licensed to provide the following investment services:

1. reception and transmission, on behalf of clients, of orders in relation to one or more financial instruments;
2. execution of orders on behalf of clients;
3. dealing in financial instruments on own account;
4. investment advice; and
5. placing of public offerings as mentioned in Chapter 7 of the Securities Trading Act, placing of issues, as well as underwriting of issues or offers to acquire financial instruments.

#### 1.3.2 Pareto will offer the following ancillary services

1. safekeeping and administration of financial instruments;
2. granting credits or loans;<sup>1</sup>
3. advice to undertakings on capital structure, industrial strategy and related matters, as well as advice and services relating to mergers and the purchase of undertakings;

<sup>1</sup> Granting credits or loans for the purchase of, and subscription for, financial instruments

4. foreign exchange services;
5. preparation and provision of investment recommendations, financial analyses and other forms of general recommendation relating to transactions in financial instruments;
6. services related to underwriting; and
7. services related to the underlying of commodity derivatives and derivatives as mentioned in Section 2-2, Sub-section, No. 5, of the Securities Trading Act when these services are connected to investment services or ancillary services as mentioned in the present provision.

#### **1.4 Supervisory authority**

Pareto Securities AS is under the supervision of the Financial Supervisory Authority of Norway. Pareto Securities AB, NUF is under supervision of the Financial Supervisory Authority of Sweden and the Financial Supervisory Authority of Norway.

## **2. Scope of the Terms and Conditions of Business**

The Terms and Conditions of Business govern the investment services and ancillary services provided by Pareto to the extent applicable, as well as any services relating to transactions in instruments that are similar to financial instruments.

The Terms and Conditions of Business shall apply as a supplement to any specific agreements concluded between Pareto and the client. Such agreements shall take precedence over the Terms and Conditions of Business in case of conflict.

Trading and clearing may also be governed by specific trading rules/standard terms and conditions in the regulated markets and clearing centres where trading and settlement/clearing take place. In case of conflict between the Terms and Conditions of Business and/or any agreements as mentioned in the preceding paragraph and such trading rules/standard terms and conditions, the trading rules/standard terms and conditions of each individual regulated market or clearing centre shall take precedence.

In addition to the abovementioned, the services may be governed by the Securities Trading Act, the Securities Depository Act, the Stock Exchange Act, the Limited Companies Acts, the Sale of Goods Act, the Contracts Act and other relevant legislation (the "Regulatory Framework").

In addition, Pareto is required to comply with conduct of business rules applicable to each of the respective markets, hereunder the Ethical Norms adopted by the Norwegian Securities Dealers Association. The Ethical Norms and the Rules for Dealing with Matters in accordance with the Ethical Norms are available at [www.nfmf.no](http://www.nfmf.no).

## **3. Client classification**

### **3.1 Classification**

Pareto is required to classify its clients into different categories on the basis of their degree of professionalism, as non-professional clients, professional clients or eligible counterparties, respectively.

The statutory protection afforded to clients depends on their category. A presentation of the main features of the investor protection afforded to each client category follows below. The presentation is not exhaustive and must be read in conjunction with the remainder of the Regulatory Framework (see, in particular, Sections 10-11 to 10-14 of the Securities Trading Act, as well as Sections 10-8 to 10-30 of the Securities Trading Regulations) and the Terms and Conditions of Business (see, *inter alia*, provisions on conflicts of interest, best outcome requirement with regard to order execution and the handling of client orders, reporting of trading, etc.)

### **3.2 Non-professional client**

#### **3.2.1 Degree of investor protection**

Clients who do not meet the requirements applicable to professional clients or eligible counterparties will be classified into this category, which offers the highest degree of investor protection.

Pareto is subject to a general requirement that it carry on its business activities in accordance with the conduct of business rules, and it shall hereunder safeguard the interests of clients and the integrity of the market in the best possible manner, cf. Section 10-11 (1) of the Securities Trading Act. This requirement applies with regard to all clients, but is more comprehensive in relation to non-professional clients.

Pareto shall give clients and potential clients relevant information, in an understandable form, as specified in Section 10-11 (2) of the Securities Trading Act and Section 10-10 to 10-16 of the Securities Trading Regulations. Such information is presented in Parts A and C of the present document.

This information material, as well as any marketing material used by Pareto and not specifically limited to professional clients, is intended to be understandable to non-professional clients. Clients who do not understand the content of such material, or who have questions, need to approach their Pareto Client Liaison Officer.

Pareto shall, prior to providing investment services to clients, assess whether the investment service or investment product envisaged is appropriate for the client, given Pareto's information regarding the client's knowledge of, and experience from, the relevant investment field (the "appropriateness test"), cf. Section 10-11 (5) of the Securities Trading Act. If Pareto finds that the service or product is not appropriate, Pareto shall warn the client accordingly. Such warning shall also be given if the client fails to provide Pareto with the information necessary to perform the test. Any warning will be given orally or as otherwise determined by Pareto. The investment service may nevertheless be provided if thus desired by the client despite the warning. The client acknowledges that Pareto is entitled to base its assessment on the information disclosed by the client, without conducting its own checks. No appropriateness test will be performed if the service only consists of transmission and/or execution of orders relating to non-complex instruments, when the order has its origin in the client's initiative, cf. Section 10-11 (6) of the Securities Trading Act, cf. Section 10-19 of the Regulations.

If Pareto provides the client with investment advice, Pareto shall also assess whether the investment services and financial instruments offered are suitable for the client (the "suitability test"), cf. Section 10-11 (4) of the Securities Trading Act. Pareto shall in such cases assess whether the product is compatible with the client's investment objectives, whether the client is in a financial position to handle the risk, and whether the client has the necessary experience and knowledge to understand the risk associated with the product, cf. Section 10-16 (1) of the Securities Trading Regulations.

It is specifically noted that status as a non-professional client may imply that certain investment services and financial instruments are not presented to the client.

### **3.2.2 Scope for reclassification as a professional client**

Non-professional clients may request reclassification as professional clients if they meet at least two of the following criteria:

1. the client has carried out transactions of significant volume in the relevant market 10 times per quarter on average in the four preceding quarters;
2. the size of the client's financial portfolio, defined to include liquid assets and financial instruments, exceeds a Norwegian kroner amount equivalent to EUR 500,000.
3. the client works or has worked in the financial sector for at least one year in a professional position that requires knowledge of the planned transactions and investment services.

The client must notify Pareto if the client wishes to be classified as a professional client, and must document that the requirements are met. Reclassification is conditional upon the approval of Pareto, and may be limited to certain investment services and products.

After approval has been granted, the client must declare, in a separate document, to Pareto that the client is aware of the implications of losing the protection afforded to non-professional clients.

## **3.3 Professional client**

### **3.3.1 Degree of investor protection**

The requirements for classification as a professional client are set out in Sections 10-2 and 10-4 of the Securities Trading Regulations. Professional clients enjoy less protection than non-professional clients, cf. Section 10-7 (1) to (3) of the Securities Trading Regulations.

The general conduct of business rules, and hereunder the duty of Pareto to safeguard the interests of clients and the integrity of the market in the best possible manner, apply with regard to professional clients as well, but the scope of such duty will be reduced.

Pareto will, for purposes of the appropriateness and suitability tests, assume that professional clients generally have the experience and knowledge required for the investment services and products offered by Pareto, and are in a financial

position to handle the risk, cf. Section 10-7 of the Securities Trading Regulations. As far as reclassified clients are concerned, this will apply to the products in relation to which such clients are classified as professional.

Professional clients will, like other clients, receive relevant marketing material from Pareto, but are expected to be able to obtain any supplementary information themselves.

### **3.3.2 Reclassification**

Professional clients are responsible for the investment firm being kept informed on an ongoing basis of any changes to matters of relevance to their classification, and will be reclassified if Pareto is informed in writing by the client that the requirements are no longer met.

Professional clients that are legal entities and that meet two out of three criteria in Clause 3.2.2 above may request classification as an eligible counterparty. This shall be subject to an explicit confirmation from the client to the effect that it consents to being classified as an eligible counterparty.

## **3.4 Eligible counterparty**

### **3.4.1 Degree of investor protection**

Eligible counterparties are those contracting parties that meet the requirements in Section 10-14 of the Securities Trading Act or Section 10-3 of the Securities Trading Regulations.

The requirements in Sections 10-11, 10-12 and 10-13 (1) of the Securities Trading Act concerning conduct of business rules, information to clients, appropriateness tests, suitability tests, best outcome with regard to order execution and certain rules in relation to the processing of orders, as well as certain other rules, are not applicable as far as eligible counterparties are concerned, cf. Section 10-14 of the Securities Trading Act and Section 10-7 (4) of the Securities Trading Regulations.

### **3.4.2 Scope for reclassification**

Eligible counterparties may submit a written request for classification as a professional client if they want a higher degree of investor protection. Such a request is not deemed to have been received until Pareto has confirmed receipt thereof.

## **4. Responsibility of the client for information and authorisations, etc.**

### **4.1 Information**

Pareto is under a statutory obligation to gather information from clients. The client undertakes to provide, upon request, Pareto with adequate and correct information concerning its financial position and investment experience, etc., and shall notify Pareto immediately in case of any material changes to any information previously disclosed.

Pareto will gather information about the financial position of the client from credit rating agencies, etc. In addition, accounting information will be gathered in respect of legal entities. The client must notify Pareto in writing if the client is of the view that such information does not convey a correct impression of the financial position of the client.

### **4.2 Internal authorisations**

The client warrants that its own trading and settlement are in compliance with, and within the scope of, any licences and authorisations governing the client's trading in financial instruments. The client shall document, at the request of Pareto, such licences and authorisations. Pareto reserves the right, if the client is a foreign undertaking, to request the submission, for the account of the client, of reasoned legal opinions concerning the licences and authorisations of the client with regard to participation in the relevant trading.

The client shall provide Pareto with an overview of the person or persons authorised to submit orders, engage in trading, conclude other agreements in relation to financial instruments and other products, or accept trades on behalf of the client. Trades or acceptances from such person or persons are binding on the client, unless Pareto did not act in good faith as far as the authorisation of any such person was concerned. The client is responsible for keeping Pareto updated at all times with regard to any person or persons authorised to submit orders or accept trades on behalf of the client.

Pareto will not accept any authorisations that specify limits in respect of the trading of each individual client, other than by prior written agreement.

The client undertakes to ensure that the funds and financial instruments encompassed by each individual assignment are free of encumbrances of any nature, such as mortgages, security interests (rights of retention), attachments, etc. The same applies in those cases where the client trades as the authorised representative of a third party.

#### **4.3 The investment objective of the client, etc.**

Pareto's services primarily comprise trading in equities and bonds, with a special focus on Norwegian securities and industries in which Norway enjoys special advantages, as well as transactions relating to foreign exchange.

Pareto offers a limited range of investment products and services. Pareto does not, for example, offer bank deposits, money market funds, equity funds, hedge funds or active management, which may, depending on the investment objective and risk profile of the client, form part of an investment portfolio. Any advice is limited to the small number of investment products offered by Pareto, and consequently is not product-independent advice.

Nor do Pareto's business activities include advice to the client with regard to the establishment of investment objectives and detailed investment limits (asset allocation principles, portfolio composition to achieve the desired diversification, etc.). Consequently, clients wanting assistance on this need to contact another service provider that offers such a service.

Pareto's investment products aim to achieve positive yields/gains, and are generally characterised by medium/high risk, whilst their recommended investment horizons vary depending on, *inter alia*, liquidity.

### **5. At the risk and responsibility of the client**

The client acknowledges that investment and trading in financial instruments, foreign exchange and other related instruments are associated with risk of loss. The value of the invested capital may increase or decrease. The value of the financial instruments depends, *inter alia*, on general fluctuations in the financial markets. Historical capital gains and yields cannot be used as a reliable indicator of future capital gains and yields on financial instruments.

Reference is made to Part D of the present document for more information about characteristics and risks associated with the various products.

The client must him- or herself evaluate the risk associated with the relevant product and market. All trades carried out by the client are at the risk and responsibility of the client him- or herself, and at the discretion and will of the client him- or herself. Pareto does not guarantee any specific outcome of any investment.

The client should refrain from making investments and trading in financial instruments and other products unless the client is aware of the risks associated with such investments or trading. The client is encouraged to seek supplementary information in the market prior to making his or her decision.

The client is him- or herself responsible for ensuring that he or she is at all times in compliance with all requirements stipulated in the Regulatory Framework and the Terms and Conditions of Business. The client must assume a special responsibility for ensuring that his or her business activities are not in violation of provisions relating to insider trading, market manipulation and conduct of business rules.

Pareto assumes no responsibility for disclosure obligations, notification obligations or information to stock exchanges or government bodies, unless agreed in writing.

### **6. Trading through Pareto**

#### **6.1 Introduction**

The provisions of the present Chapter 6 govern order transmission and order execution through Pareto, hereunder trading with Pareto as a counterparty.

The provisions govern both subscription and secondary trading, unless otherwise specified.

The provisions govern all client categories (including eligible counterparties), unless otherwise specified.

#### **6.2 Submission of orders and acceptances**

Trading through Pareto may be effected through the submission of orders to Pareto's trading desk or as otherwise determined by Pareto for each individual transaction (for example through the submission of a subscription form).

The same shall apply upon the client's acceptance of an offer made by Pareto. When the client accepts an offer made by Pareto without any basis in an order or indication from the client, it is deemed to constitute an acceptance, and not the submission of an order.

Orders and acceptances from the client may be submitted by telephone to Pareto's trading desk or to a mobile phone that is connected to audio recording equipment, by SMS to a mobile phone that is connected to recording equipment, by e-mail or via Bloomberg. Subscription to issues may also be effected through the submission of a subscription form/power of attorney to Pareto.

Orders and acceptances are binding on the client when the order is received by Pareto, unless otherwise specifically agreed. Confirmation of receipt from Pareto is required before an order is deemed to have been received. Pareto is deemed to have confirmed an order or acceptance when it has been submitted by telephone, unless otherwise specified during the telephone conversation. Upon the submission of orders or acceptances in writing, via Bloomberg or via e-mail, an order is deemed to be binding when Pareto has confirmed receipt by telephone, via Bloomberg or via e-mail.

Pareto will make audio recordings of all orders and indications submitted by telephone. The undertaking is unable to execute orders or indications submitted to telephones that are not connected to audio recording equipment. Audio recordings and other documentation of any agreements, orders and indications submitted by other means will be kept by Pareto in accordance with the Regulatory Framework.

Audio recordings with individual clients can be retrieved by searching, *inter alia*, on the basis of the timing of the conversation, the telephone number called and the Pareto employee who received the order. Pareto may be ordered to hand over audio recordings to government bodies and others entitled to request these pursuant to statute. In addition, audio recordings may be handed over to the Ethics Council of the Norwegian Securities Dealers Associations in the context of, *inter alia*, the processing of a complaint from the client, cf. Clause 24 of the Terms and Conditions of Business.

Pareto is not obliged to transmit or execute any orders that Pareto assumes may entail an infringement of the Regulatory Framework or any rules adopted for the relevant regulated market or markets. Pareto may, correspondingly, disregard any acceptances if such circumstances are assumed to prevail.

### 6.3 Conditional orders

In general, Pareto will accept orders where no price limit is stipulated, as well as those types of limit orders, etc., specified under litra a) to j) below.

Pareto may in certain cases refuse to accept a limit order for reasons to do with the market situation or similar.

- a) *Limit order.* A limit order shall specify the volume, as well as the highest price at which a purchase order may be executed or the lowest price at which a sales order may be executed. All or part of orders are executed at limit or better as soon as possible.
- b) *Top limit/low limit.* Orders are executed within limit over time at higher/lower levels at best discretion. The client must be aware that the order may be partially executed.
- c) *At market orders.* Orders shall state a specific volume, and are executed at best discretion at market prices over a short period of time.
- d) *Careful at market orders.* Orders shall state a specific volume. The order is executed at best discretion at market prices over a longer period of time, in a manner that has no material impact on the market price.
- e) *Share of traded volume.* The client specifies what share of the traded volume in the relevant trading system during a specified period the order shall represent. The order may be submitted with or without a maximum volume, and with or without any limit.
- f) *Volume-weighted price.* The order is specified with a volume and, if applicable, a top/low limit, and shall be sought executed at an average price equal to the volume-weighted average of the trades over the period during which the order is executed.
- g) *Carefully over the day.* The order is specified with a volume and, if applicable, a top/low limit, and shall be sought executed reasonably evenly over the opening hours of the regulated market on the relevant day.



- h) *Swap orders.* Purchase of a stock is conditional upon the simultaneous sale of another stock, and vice versa. The order may specify a limit on the spread between the prices of the two stocks.
- i) *Fill and kill.* Fill and kill may in special cases be used for limit orders. Orders must be executed when registered in the trading system of the relevant regulated market offering the service. Any part of such an order not executed at such point of time will be deleted.
- j) *Fill or kill.* Fill or kill may in special cases be used for limit orders. Orders must be executed, in respect of the entire volume specified, when registered in the trading system of the relevant regulated market offering the service, or there may be agreed a total volume that needs to be achieved before the order is binding. If the total volume specified cannot be executed, the order will be deleted and no trade will take place. Fill or kill orders require a specific agreement between Pareto and the client.

#### **6.4 Order validity period**

For any orders pertaining to transferable securities and derivatives contracts with transferable securities as underlying instruments, the order shall remain valid until the end of the order date or until closure of the regulated market on which the order has been submitted, and shall thereafter lapse, unless otherwise follows from the following paragraph, is agreed or specified for the relevant order type or order specification.

For orders pertaining to shares in project finance companies the order shall remain valid for two weeks, unless otherwise specifically agreed between the client and Pareto.

The duration of other assignments shall be agreed specifically.

The order date is the date on which the client's order to Pareto for the purchase or sale of a product has been received by Pareto. In the event that Pareto initiates a trade, the order date is deemed to be the date on which Pareto approaches the client and the client accepts the assignment for the purchase or sale of the relevant products.

The order may be revoked by the client to the extent not executed by Pareto.

#### **6.5 Order Execution Guidelines**

Pareto's transmission of orders and execution of orders are governed by Part B of the present document (the "Order Execution Guidelines").

#### **6.6 The trading rules of the relevant regulated market**

For trades executed on Norwegian or foreign regulated markets or multilateral trading facilities, the Terms and Conditions of Business are also supplemented by the trading rules of the relevant market or trading facility.

As far as the trading rules governing trading on the Oslo Stock Exchange and Oslo Axess are concerned, reference is made to [www.oslobors.no](http://www.oslobors.no).

The Oslo Stock Exchange/Oslo Axess may, pursuant to the trading rules, cancel orders and trades under certain circumstances. Such cancellation will be binding on the client.

The same may apply to cancellation of orders and trades on other regulated markets or trading facilities.

#### **6.7 Short sales**

The client must give notice upon order submission if submitting sales orders without being the owner of, or having other secure access to, the relevant financial instruments ("short sales").

The client can only sell, and Pareto can only transmit or execute the order, if the client achieves the access required to guarantee timely delivery as per the time of concluding the agreement, and borrowing of financial instruments may hereunder be agreed in each individual case.

## **6.8 Derivatives trading**

### **6.8.1 Introduction**

Trading in options and futures that are subject to clearing in a clearing centre is governed by the rules of the relevant clearing centre. Trading in options and futures that are not subject to clearing is governed by the rules below. Such trading shall be documented by way of a contract note.

### **6.8.2 Collateral**

A client issuing an option shall furnish collateral to secure performance by granting a security interest in underlying equities, with regard to a call option, cash payment of a cash margin or granting a security interest in transferable securities registered with the Norwegian Central Securities Depository by specific approval from Pareto.

Collateral must be furnished by 11:00 a.m. on the first banking day after the options were issued, unless otherwise agreed. The issuer required to furnish collateral by granting a security interest in transferable securities shall transfer these to a Norwegian Central Securities Depository account secured in favour of Pareto. Pareto determines the value to be attributed to transferable securities in which a security interest is granted.

The cash margin represents a percentage of the closing price of the underlying equities plus the difference between the closing price and the strike price. Pareto may decide that collateral must be furnished by granting a security interest in underlying equities. Pareto is entitled to adjust the cash margin (hereunder the percentage) on a daily basis. Additional collateral must in such case be furnished by 11:00 a.m. on the following stock exchange day. Pareto may, in case of inadequate furnishing of collateral, retain the option premium and cover purchase a corresponding option for the account and risk of the issuer.

A seller or purchaser of futures must furnish satisfactory collateral pursuant to similar rules.

### **6.8.3 Exercising of options**

An option must be exercised by the purchaser as against Pareto by 5:30 p.m. on the expiry date, and will otherwise expire.

The right to exercise an option is conditional upon the option premium having been paid.

The client is him- or herself responsible for exercising as against Pareto, which does not engage in any automatic exercising or assume any notification obligation towards the purchaser in respect of any options about to expire. If the option is subject to clearing, through Oslo Clearing, it will be executed automatically if the option is 1% or more ITM. If the client does not want the option to be exercised, the client must contact Pareto and request non-exercise.

Pareto shall, by 7:00 p.m. on the day on which the purchaser exercised as against Pareto, inform the issuer that Pareto exercises its option as against the issuer. The option is validly exercised when Pareto has notified the issuer by telefax on the number provided, or notified or attempted to notify the issuer on the telephone number provided. This shall apply correspondingly if Pareto is the purchaser.

Pareto shall confirm the exercise through the issuance of a contract note to the purchaser and the issuer, documenting the trade. Any lack of confirmation has no bearing on the validity of the exercise of the option.

Settlement shall take place on the second stock exchange day after the exercise of the option. The issuer of a call option/purchaser of a put option shall be credited with the strike price in return for transferring the underlying equities to Pareto's Norwegian Central Securities Depository account, unless the equities have already been furnished as collateral – in which case Pareto shall transfer these. If the option is subject to clearing through Oslo Clearing, settlement shall take place on the second stock exchange day following the exercise of the option. If the option is subject to clearing through another clearing house, the settlement rules under the relevant regulatory framework shall apply.

The purchaser of a call option/issuer of a put option shall have the underlying equities transferred to him- or herself in return for paying the strike price. Pareto is responsible for settlement as against the purchaser and the issuer, respectively. The provisions below shall apply if the underlying equities are suspended from stock exchange listing.

### **6.8.4 Contract adjustments**

If, subsequent to the issuance of an option or a future, any changes are made to the share capital of the company having issued the underlying equities, or the occurrence of other circumstances that give rise to contract adjustment for options or futures under the "Standard Terms and Conditions for Clearing in Oslo Clearing ASA", a corresponding adjustment shall be

made to the terms of the options and the futures traded through Pareto. The decisions to be made by the stock exchange or clearing centre under the said rules shall be made by Pareto, which may hereunder decide that options shall be subject to cash settlement if thus implied by the said provisions.

### **6.9 Trades mediated by transmitters of orders**

Pareto has agreements with other investment firms governed by Section 10-15 of the Securities Trading Act (transmitters of orders). The rules in Chapter 6 apply correspondingly to such trading, provided, however, that it is the submission of orders to Pareto by the transmitter of orders that determines the rights and obligations of the client as against Pareto.

The relevant clients will be registered as clients with both Pareto and the relevant transmitter of orders. However, responsibility pursuant to Section 10-11 of the Securities Trading Act lies exclusively with the transmitter of orders, and Pareto is consequently not responsible for information to, or appropriateness tests for, the relevant client, and may rely entirely on the information and the instructions rendered by the transmitter of orders. Consequently, the establishment of a client relationship with Pareto for trading with Pareto through the transmitter of orders implies that the client appoints the transmitter of orders as its authorised representative as against Pareto.

### **6.10 Orders transmitted to another investment firm**

Pareto and the client may agree that the client's orders shall be transmitted to another investment firm if it would not be straightforward for Pareto to execute the order, typically with regard to foreign regulated markets of which Pareto is not a member. Pareto will in these cases be the client of the foreign broker, unless otherwise agreed with the client.

### **6.11 Foreign exchange transactions, as well as other derivatives**

#### **6.11.1 Relevant definitions**

By "LIBOR" is meant the interest rate applicable in the interbank market in London at approximately 11:00 a.m. (London time) two working days prior to the relevant interest period for loans in the relevant foreign currency (other than NOK and SEK) for a period corresponding to the interest period, as the said interest rate is published by Telerate, p. 3750 ("BBAIRS"), or through another corresponding system or another corresponding reference that replaces the said system or reference.

By "NIBOR" is meant the interest rate published by the Reuters information system, screen "NIBO", or through another corresponding system or screen that replaces the said system or screen and is based on the mean of the interest rates quoted by banks in Norway in the interbank market in Oslo at approximately 12:00 noon (Oslo time) two working days prior to the relevant interest period for loans in NOK for a period corresponding to the interest period.

By "borrowing rate" is meant the interest rate corresponding to the borrowing cost of the parties for the relevant currency and period in respect of outstanding amounts, with NIBOR (for amounts denominated in NOK), STIBOR (for amounts denominated in SEK) and LIBOR (for amounts denominated in another relevant currency), respectively, providing guidance.

By "benchmark rate" is meant NIBOR when settlement is to be effected in NOK, STIBOR when settlement is to be effected in SEK or LIBOR for another currency when settlement is to be effected in such other currency, provided that no other benchmark rate has been agreed.

By "interest period" is meant the period for which interest amounts shall be calculated under the terms of the agreed trade.

By "STIBOR" is meant the interest rate published by the Reuters information system, screen "SIOR", or through another corresponding system or screen that replaces the said system or screen and is based on the mean of the interest rates quoted by banks in Sweden in the interbank market in Stockholm at approximately 11:00 a.m. (Stockholm time) two working days prior to the relevant interest period for loans in SEK for a period corresponding to the interest period.

#### **6.11.2 Margin collateral requirements and information, etc.**

A client approved as a "credit client foreign exchange" is, as a main rule, not required to furnish collateral in respect of foreign exchange transactions within the established credit limit. Pareto may nevertheless, if there is an elevated risk of default or if deemed necessary pursuant to statute or government orders or for other special reasons, require the client to furnish margin collateral in respect of the market value of concluded contracts, as calculated by Pareto, as well as any supplementary margin determined by Pareto. A client not approved as a "credit client foreign exchange" shall furnish margin collateral as decided by Pareto in respect of foreign exchange transactions.

Pareto stipulates collateral requirements in respect of derivatives and other transactions.

Collateral under margin requirements shall be furnished by payment in NOK into the NOK account of the client, unless otherwise agreed.

Pareto may require clients that are party to transactions in foreign exchange and/or derivatives to provide Pareto with updated financial and other information, as well as to provide, in connection with trades, a legal opinion confirming the right of the client to conclude contracts and to perform its obligations pursuant thereto.

## **7. Storage and safekeeping of communications between the client and Pareto**

The Securities Trading Regulations require Pareto to store all client communications relating to the provision of investment services. Pareto therefore makes audio recordings of all telephone conversations and SMS made with clients via landline and mobile telephones. All Bloomberg communications and e-mails are stored on a non-manipulable medium. The documentation will be stored in accordance with the requirements in the Securities Trading Act and the Personal Data Act. The minimum storage period is three years.

Audio recordings of conversations and SMS with any given client can be retrieved through searches based on, *inter alia*, the time of the conversation, the telephone number called and the Pareto employee who participated in the conversation. E-mails and Bloomberg communications can be retrieved on the basis of time, name, user identities and words featured in the message.

The client communications may be reviewed by the Pareto Compliance department for control purposes.

Pareto may be ordered to disclose client communications to government bodies and others authorised by statute to order such disclosure. In addition, audio recordings and electronically recorded communication may be handed over to the Ethics Council of the Norwegian Securities Dealers Association in connection with, *inter alia*, the deliberation of client complaints, cf. Clause 25 of the General Terms and Conditions of Business.

## **8. Conclusion of a trade - Reporting to the client**

### **8.1 Formation of an agreement**

A trade has been concluded as soon as the client's order has been executed, or the client has accepted an offer from Pareto.

Pareto and the client will be counterparties when trading in the secondary market, unless Pareto and the client have otherwise agreed or the client has approved the other party in advance.

When trading in shares in project finance companies the client's counterparty will always be the other counterparty to the trade, owing to that all trades in such instrument presupposes that the parties have pre-approved one another as counterparties in the trade prior to a binding agreement of trade is entered into. Pareto is not responsible for the settlement towards the parties and thus not responsible for any breach of contract related to the completion of the trade, cf the Securities Trading Act Section 12-1. The parties to the trade are mutually and directly responsible towards the other party for just delivery of financial instruments/shares and monies on the agreed settlement date. The parties' pre-approval of each other also imply that secondhand trade through Pareto will not be carried out anonymously, and that the buyer and seller by submitting an order are considered to consent to that their identity is revealed to the counterparty.

The client and the issuing undertaking are counterparties upon subscription for transferable securities, unless otherwise agreed between the client and Pareto, and Pareto consequently has no responsibility for the settlement of such transactions.

### **8.2 Reporting to the client (contract note, etc.)**

Pareto will report, in the form of a contract note, to the client with regard to the trades concluded for the account of the client in the secondary market, as well as transactions in foreign exchange and derivatives. The contract note will, to the extent relevant, include information about costs associated with the trade carried out for the client.

When trading in shares in limited partnerships or in internal partnerships Pareto will report to the client in the form of a sale and purchase agreement.

Notification of allotment in issues will be given in the form of a letter of allotment. The rules governing contract notes shall apply correspondingly to letters of allotment.

A contract note/sale and purchase agreement for shares in limited partnerships or in internal partnerships will be sent electronically to all clients who have specified an e-mail address for this purpose, and otherwise by mail or telefax or as otherwise agreed. Clients who receive an electronic contract note/sale and purchase agreement for shares in limited partnerships or in internal partnerships will not receive a contract note/sale and purchase agreement for shares in limited partnerships or in internal partnerships in any other format, unless otherwise specifically agreed.

Confirmations to be signed by the client, hereunder sale and purchase agreement for shares in limited partnerships or in internal partnerships, shall be endorsed immediately upon receipt, and shall thereafter be returned to Pareto as specified in the confirmation or otherwise agreed with the client.

Pareto reserves the right to correct any obvious errors in the contract note/sale and purchase agreement for shares in limited partnerships or in internal partnerships. Such correction shall be made immediately upon the discovery of the error, and no later than by the end of the same stock exchange day.

Delivery of any financial instruments registered with the Norwegian Central Securities Depository may be confirmed in the form of a notification of change from the Norwegian Central Securities Depository to the extent that the client has agreed with the account operator that he or she shall receive such confirmations.

The client acknowledges that transactions will also be reported to the relevant authorities, cf. Section 10-18 of the Securities Trading Act.

## **9. Notification of contract note/sale and purchase agreement defects**

### **9.1 Absence of contract note/sale and purchase agreement**

If the client can be furnished with contract notes by e-mail and the client has not received a contract note on the first stock exchange day after the agreement was concluded or the assignment period expired, the client must notify Pareto thereof as soon as possible and no later than by the end of the second stock exchange day after the agreement was concluded or the assignment period expired. The same applies if the client shall receive a sale and purchase agreement for shares in limited partnerships or in internal partnerships.

If the client is only to be furnished with contract notes by ordinary mail, the final deadline for notification pursuant to the previous paragraph shall be the third stock exchange day after the agreement was concluded or the assignment period expired, provided however that it shall be the seventh stock exchange day if the mailing address of the client is located abroad. The same applies if the client shall receive a sale and purchase agreement for shares in limited partnerships or in internal partnerships.

The trade shall not be binding on Pareto if the client has failed to notify Pareto of the absence of a contract note within the above deadlines.

The notification deadlines shall be determined by reference to banking days, and not stock exchange days, as far as foreign exchange trading (foreign exchange spot) is concerned.

### **9.2 Errors in contract notes/sale and purchase agreements**

The client shall check any contract note/sale and purchase agreement immediately upon the receipt thereof. The client must notify Pareto as soon as possible, and no later than by the end of the following stock exchange day if notification could not be submitted by the end of regular office hours on the day of receipt, if anything reflected in the contract note/sale and purchase agreement is contrary to the order, the assignment or the concluded trade.

If the client fails to notify Pareto of any error in a contract note/sale and purchase agreement as specified above, the trade as reflected in the contract note/confirmation/sale and purchase agreement will be binding on the client, even if it is not in conformity with the order/acceptance.

The general rules on the invalidity of agreements shall apply correspondingly to the relationship between the purchaser and the seller upon the purchase and sale of financial instruments or shares in limited partnerships or in internal partnerships through Pareto. If the client wants to argue that an agreement is not binding on grounds of invalidity, the client must make an objection to such effect immediately after the facts invoked as a basis for invalidity came, or ought to have come, to his or her knowledge. In any event, such objection must be made no later than six months after the conclusion of the agreement.

Any oral notification or objection shall immediately be confirmed in writing to the Pareto Clearing Department.

The notification deadlines shall be determined by reference to banking days, and not stock exchange days, as far as foreign exchange trading (foreign exchange spot) is concerned.

## **10. Delivery and payment (settlement)**

### **10.1 Settlement deadlines**

The ordinary settlement deadline for secondary trading in transferable securities, securities fund units and standardised derivatives listed on the Oslo Stock Exchange or Oslo Axess shall be three stock exchange days (T+2), unless otherwise agreed. The same shall apply to the settlement of option premiums.

By stock exchange day is meant any day on which a Norwegian stock exchange is open for business. The settlement period runs from the trading day until the settlement date, inclusive.

A corresponding settlement deadline applies to trading in unlisted transferable securities in the Norwegian market, unless otherwise agreed between Pareto and the client.

The settlement deadline for notes listed on the Oslo Stock Exchange or Oslo Axess shall be three stock exchange days (T+2), unless otherwise agreed.

The ordinary settlement deadline for foreign exchange trading (spot) is three banking days (T+2), unless otherwise agreed. By banking day is meant any day on which banks in the relevant market are open for business. The settlement period runs from the trading day until the settlement date, inclusive.

Financial instruments traded in a foreign regulated market are subject to the settlement deadlines stipulated in the rules governing the relevant market.

The ordinary settlement deadline for secondary trading in shares in project finance companies is seven weekdays (T+7), unless otherwise agreed.

The settlement deadline will be specified in the contract note.

Settlement in respect of foreign exchange trades shall be effected by way of Pareto crediting or debiting, respectively, the NOK account of the client or, if settlement is taking place in a foreign currency, a foreign currency account designated by the client, in respect of the relevant amount in NOK or foreign currency, no later than 11:00 (Oslo time) on the payment date, unless another settlement time is agreed.

### **10.2 Settlement process**

Timely settlement is conditional upon the client making the necessary funds and financial instruments available to Pareto no later than the settlement date.

Unless otherwise specifically agreed, the client permits and authorises Pareto, on the terms of each individual trade or transaction, to debit the client's bank account or to submit a request for the client's bank account to be debited, unless the relevant bank requires a specific written debit authorisation to be submitted by the client.

The client is deemed to have delivered financial instruments registered with the Norwegian Central Securities Depository to Pareto when the financial instruments have been credited to one of Pareto's accounts with the Norwegian Central Securities Depository or to another Norwegian Central Securities Depository securities account specified by Pareto.

The client shall, no later than the settlement date, deliver any financial instruments sold to Pareto or release the financial instruments sold from his or her securities account with the Norwegian Central Securities Depository or another corresponding register. Submission of an order for the sale of financial instruments or acceptance of a sales offer implies, unless otherwise agreed in writing, that Pareto is authorised to request the client's account operator to release the relevant financial instruments, and to request that such release be registered with the Norwegian Central Securities Depository immediately.

Delivery of physical financial instruments shall take place by specific agreement with Pareto.

Partial delivery to the client shall not authorise him or her to terminate the agreement for breach unless the client has explicitly made execution conditional upon delivery in full.

The client is deemed to have paid the purchase price to Pareto when it has been credited to Pareto's bank account with effect from the settlement date at the latest.

When settling shares in project finance companies the seller shall make available the agreed number of financial instruments/shares in limited partnerships or in internal partnerships free of liens on the settlement date. The placing of an order to sell shares in a project finance company or acceptance of a sales offer implies, unless otherwise agreed upon in writing, that Pareto is authorised to request transfer the relevant shares/partnership shares to the buyer. Buyer shall pay the purchase price and commission to Pareto's client account with value per settlement date. Pareto will to the extent timely delivery takes place by both buyer and seller assist with technicalities related to the completion of the settlement. Preconditioned that the purchase price and the commission is paid to Pareto's client account with value per settlement date Pareto will instruct the transfer of the relevant shares or partnership shares to the buyer.

### **10.3 Notification of no settlement or incorrect settlement**

If delivery to the client of financial instruments registered with the Norwegian Central Securities Depository has not taken place on the settlement date, and the client has made the necessary funds available to Pareto, the client must contact Pareto immediately and, if applicable, declare termination for breach if the client wishes to invoke the delay as grounds for terminating the agreement for breach.

A declaration of termination for breach shall under any circumstance have no effect if the client obtains delivery within two stock exchange days after such a declaration of termination for breach has been received by Pareto. The client shall during such period have no right to conclude any cover agreement for the account and risk of Pareto.

By "immediately" in the above paragraph is meant the same day or, at the latest, the end of the following stock exchange day if notification or objection could not be submitted by the end of regular office hours. The deadline shall run from the earlier of:

- the time when the client became aware, or ought to have become aware, that delivery has not taken place, by accessing the Norwegian Central Securities Depository account, by way of an electronic confirmation system, by notification from a nominee or otherwise; and
- the time when notification of change from the Norwegian Central Securities Depository reached or ought to have reached, based on ordinary mail delivery routines, the address submitted by the client.

If payment to the client has not taken place by the time stipulated in the agreement, and the client has delivered the relevant financial instruments or made these available to Pareto, the client shall contact Pareto immediately once he or she becomes aware, or ought to have become aware, that settlement has not been received and, if applicable, declare termination for breach if the client wants to invoke the delay as grounds for terminating the agreement for breach. The client may only terminate the agreement for breach if the delay is material.

The notification deadlines shall be determined by reference to banking days, and not stock exchange days, as far as foreign exchange trading (foreign exchange spot) is concerned.

Pareto has no responsibility or liability for timely settlement of secondhand trades in which the parties have pre-approved of one another, and the Client is itself responsible for bringing forth its claim directly against its counterparty.

### **10.4 No access to settlement system**

If the settlement date of a transaction is not a working day, the settlement date shall be the first working day subsequent thereto, unless such day is in a new calendar month, in which case the settlement date shall be the last working day prior thereto. By "working day" is meant, in relation to payment, any day on which the banks in Oslo are open for business and, if settlement is to be effected in foreign currency, the banks in the relevant financial centre are open for business. For purposes of the determination of any benchmark rate, "working day" shall mean any day on which the banks in Oslo (NIBOR), Stockholm (STIBOR) and London (LIBOR), respectively, are open for business.

If settlement cannot take place as the result of any Norwegian or foreign statutory prohibition or other similar circumstances outside the control of the parties, settlement shall instead be effected on such subsequent date as shall be communicated by Pareto and which shall be the first available working day after the relevant obstacle has been removed. The parties shall not be entitled to invoke the default provisions under such circumstances. Unless otherwise agreed, interest shall be calculated on the relevant amount from the payment date until the date on which payment is actually



made, at an interest rate specified below. No other compensation shall be provided as the result of a party being prevented from making payment or delivery for the abovementioned reasons.

If the benchmark rate is not determined or not published for a relevant interest period due to circumstances as mentioned in the previous paragraph, the benchmark rate for such an interest period shall instead be deemed to be the interest rate corresponding, according to a notification from Pareto, to the mean of the last published benchmark rate quote (for the relevant period) prior to the occurrence of such circumstances and the first corresponding quote after these had come to an end. If the benchmark rate is not determined or not published for a relevant interest period for any other reason, the benchmark rate shall instead be deemed to be the interest rate corresponding, according to a notification from Pareto, to Pareto's borrowing rate.

If new or amended rules are applied to Pareto with regard to capital adequacy, reserve requirements or other framework conditions, or if Pareto is otherwise subjected to, or complies with, framework conditions imposed or recommended by the authorities in Norway or other countries, and this results in a cost increase or an income reduction on the part of Pareto in respect of one or more foreign exchange contracts and other contracts, Pareto shall be entitled to terminate such contract after prior notification of the client, with settlement on the date specified in such notification. The provisions concerning close-out netting in Clause 12 shall apply in the event of termination, and Pareto shall perform the necessary calculations.

If payment in a specific currency cannot take place as the result of any Norwegian or foreign statutory prohibition, any measures adopted by Norwegian or foreign authorities or other similar circumstances, payment of the relevant amount on the payment date shall be effected in NOK or – if NOK is not available – in EUR or USD as specified by Pareto. Conversion shall take place at an exchange rate determined by Pareto. However, the present provision shall not apply if a specific currency is replaced by "euro".

## 11. No cooling-off period for transactions in financial instruments

There is no cooling-off period under the Distance Selling Act with regard to the services and transactions in financial instruments or shares in limited partnerships or in internal partnerships governed by the Terms and Conditions of Business.

## 12. Trading abroad, hereunder safekeeping of client assets

Trading in, and settlement of, foreign financial instruments is governed by the trading rules and settlements or delivery terms stipulated in the country, or by the regulated market or the trading facility, where the financial instruments are purchased or sold.

If financial instruments, shares in limited partnerships or in internal partnerships or client funds are kept in another jurisdiction in connection with the provision of investment services or ancillary services, Pareto will notify the client thereof. The client acknowledges that the rights of the client as far as such assets are concerned may differ from those applicable in Norway. The client also acknowledges that settlement and the furnishing of collateral in foreign markets may imply that those assets of the client that are allocated to settlement or to the furnishing of collateral are not kept separate from the own funds of the foreign investment firms and/or clearing representatives used by Pareto.

The client acknowledges that he or she carries the risk associated with his or her own assets transferred to foreign banks, investment firms, clearing agents, clearing centres, etc., for purposes of settlement or the furnishing of collateral, and that Pareto's liability as against the client with regard to such assets is limited under statutes and rules applicable in the relevant country or the relevant market. Pareto shall under no circumstance assume any liability over and above that applicable under Norwegian law, cf. Clause 18, unless otherwise agreed in writing with the client.

## 13. Breach of contract

The client is deemed to be in breach of his or her obligations under the Terms and Conditions of Business when, *inter alia*, delivery of financial instruments, shares in limited partnerships or in internal partnerships or money does not take place within the settlement deadline or the client fails to perform any other material obligation under the Terms and Conditions of Business, or if the client concludes a specific agreement with his or her creditors for the postponement of payments, becomes insolvent, engages in debt settlement proceedings of any type, suspends his or her payments, or if his or her estate is placed under public administration as an estate in bankruptcy or otherwise.

Upon breach of contract, Pareto shall be entitled, but not obliged, to:

- (i) Declare all unsettled trades to be in default and all non-executed orders to be null and void.



- (ii) Exercise its security interest under Section 12-2 of the Securities Trading Act, pursuant to which Pareto has the right to retain, and obtain settlement from, the financial instruments or the shares in limited partnerships or in internal partnerships Pareto has purchased for the client. If the client has failed to pay the purchase price within three days after the settlement deadline, Pareto may, unless otherwise agreed in writing, and without further notice, sell the financial instruments or the shares in limited partnerships or in internal partnerships for the account and risk of the client to satisfy Pareto's claims. Such a sale shall normally take place at the stock exchange price or at a price that is reasonable given market conditions. If the relevant financial instruments have been transferred to the client's securities account with the Norwegian Central Securities Depository or another corresponding financial instrument register, the client shall be deemed to have released the financial instruments or to have authorised such release in order to implement a sale for purposes of satisfying Pareto's claims.
- (iii) Realise other assets than those referred to in (ii) above, to the extent that Pareto holds a security interest or other right to obtain settlement from such assets. The client accepts, and is deemed to have consented to, a forced sale being effected through an independent broker, cf. Section 1-3, Sub-section 2, of the Act relating to Enforcement.
- (iv) Close all positions that are subject to the furnishing of collateral and/or margin requirements, as well as perform close-out netting of outstanding transactions in foreign currency and derivatives.
- (v) Set off any amounts that are, or may become, owing to Pareto or any other undertaking forming part of the same group as Pareto from the client, hereunder any claims for brokerage fees, tax disbursements, interest claims, etc., as well as any expenses or losses resulting from the client's breach of one or more of his or her obligations towards Pareto, against any amounts that are owing to the client from Pareto or any other undertaking forming part of the same group as Pareto, irrespective of whether the claims are in the same or different currencies. Foreign currency claims shall be converted to NOK at the market rate as per the date of the breach of contract.
- (vi) Take any steps, for the account and risk of the client, that Pareto deems necessary to meet or reduce any loss or liability resulting from agreements concluded for or on behalf of the client, hereunder the reversal of transactions.
- (vii) If the client fails to deliver the agreed instruments or amounts, hereunder fails to deliver the financial instruments or the shares in limited partnerships or in internal partnerships to Pareto at the agreed time, Pareto may immediately make cover purchases or borrow financial instruments or shares in limited partnerships or in internal partnerships for the account and risk of the client in order to meet its delivery obligation towards the purchaser. Pareto may likewise take any measures Pareto deems necessary to reduce the loss or liability resulting from the client's breach of any agreement concluded with Pareto, and may hereunder take any measures to reduce the risk of loss relating to changes in foreign exchange rates, interest rates, as well as other rates or prices to which the client's trading relates. The client shall reimburse any loss incurred by Pareto, with the addition of late payment interest and any fees and expenses.
- (viii) Pareto shall, for issues where Pareto is a place of subscription, have the right to pay to the issuer any subscription amount on which the client has defaulted. Pareto shall in such cases hold a security interest in the securities subscribed and paid for, and may retain and sell such securities for the account and risk of the client.
- (ix) Pareto may claim the reimbursement of all costs and losses incurred by Pareto as the result of the breach of contract on the part of the client, hereunder, but not limited to, any trading loss from cover transactions or transaction reversals, any expenses incurred in the borrowing of financial instruments, any interest, any loss resulting from changes in foreign exchange rates, interest rates, etc., as well as any other late payment or delivery penalties.

The provisions of the Sale of Goods Act relating to anticipated breach of contract, hereunder termination for breach, shall also apply to any such breach of contract.

As far as concerns any cover transactions resulting from breach of contract or anticipated breach of contract on the part of the client, the client shall carry the risk of any price or market changes until such cover transactions have been completed, provided however that no gain, if any, shall accrue to the client, unless the client is able to document that he or she could have settled his or her obligations as per the settlement date, and that he or she is not to blame for the fact that settlement did not take place.

Close-out netting implies that all outstanding transactions in foreign exchange or derivatives are converted to an aggregate net amount in NOK based on relevant market values, and the sum total of the market values is set off against any other amounts outstanding between the parties. Market values and outstanding amounts in foreign currency shall be converted to NOK at the exchange rate that applied at approximately 12:00 (Oslo time) on the same date. If Pareto is entitled to receive an aggregate net payment, the client shall make such payment to Pareto within three working days. If the client is entitled to receive an aggregate net payment, Pareto shall make such payment to the client within three working days. The amount shall in both cases accrue interest at the borrowing rate from the calculation date until actual payment is made. The above represents a close-out netting agreement, as well as an agreement for the furnishing of financial collateral with attendant close-out netting, as described in Chapter 14 of the Act relating to Securities Trading and in the Act relating to the Furnishing of Financial Collateral.

## 14. Late payment interest

In case of payment default on the part of Pareto or the client, interest shall be charged at the statutory late payment interest rate applicable at any given time, cf. the Late Payment Interest Act<sup>1</sup>, unless otherwise specifically agreed.

## 15. Remuneration

Pareto's remuneration in the form of brokerage fees, bid-offer spreads, underwriting commission, etc., with the addition of any trading and clearing fees, etc., if applicable, will be determined on an individual basis.

Should a trade not be concluded because the buyer and/or seller do not accept each other as contract partners, cf. clause 8.1, and the buyer and/or seller or their close associates enter into agreement regarding the transfer of shares in the same company (more, less or the same number of shares as originally brokered by Pareto) within 6 months from the repeal of the order as a consequence of the non-acceptance of the buyer/seller, Pareto is entitled to full brokerage fee from the buyer and seller in accordance with the sale-/purchase order previously submitted to Pareto. The term "close associate" with regard to this paragraph shall be understood as the term at any time is defined in the Securities Trading Act Section 2-5.

Brokerage fee is a commission (remuneration) added to or deducted from the value of the financial instruments purchased or sold by the client. Brokerage fees are normally quoted as a percentage. For equities these will normally constitute up to 2.5 %.

Bid-offer spread is a commission (remuneration) computed as an increase in the bid price or a reduction in the offer price. For bonds this will normally range between 0.2 % and 1.0 %, calculated on the basis of the nominal value of the bond. For foreign exchange the bid-offer spread will normally range between 0.2 % and 1.0 %. For freight derivatives and commodity derivatives, the bid-offer spread will normally range between 0.2 % and 2.0 %.

For trades in shares in project finance companies the seller and buyer are normally charged a brokerage fee of 1 % each, based on the gross value of the company's asset(s) or vessel(s) charged on a pro-rata basis.

Trading in freight derivatives and commodity derivatives may, in addition to the bid-offer spread, be subject to a commission to cover the direct trading costs of Pareto.

No brokerage fee or bid-offer spread is paid directly from the client to Pareto upon subscription under an issue. The company making the issue pays a predetermined commission to the manager/place of subscription. Consequently, upon the client making a subscription under the issue, the client is indirectly charged such commission in his or her capacity of holder of equities issued by the company.

The client will normally pay a specific minimum brokerage fee up and until a certain investment amount.

There may be incurred other charges and/or costs that are not paid or imposed through Pareto.

Pareto reserves the right to make deductions in amounts owing to the client to cover costs as mentioned in the first paragraph of the present Clause, as well as any value added tax or other taxes, etc.

Pareto will not claim any remuneration in those cases where no trade is effected, unless otherwise specifically agreed.

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<sup>1</sup> Act No. 100 of 17 December 1976

## **16. Keeping of accounts with the Norwegian Central Securities Depository and safekeeping/custodianship**

Pareto will, unless otherwise agreed, establish an account with the Norwegian Central Securities Depository in the client's name and serve as the client's Account Operator Investor in the Norwegian Central Securities Depository. Pareto is authorised to effect any registrations in the account with the Norwegian Central Securities Depository that fall within the scope of the client's instructions, including the transfer of any securities registered with the Norwegian Central Securities Depository that are encompassed by sales orders submitted to Pareto. Furthermore, Pareto is authorised to transfer securities from the account with the Norwegian Central Securities Depository at the instruction of anyone holding a security interest therein. The client acknowledges that any securities which are purchased or subscribed for will be registered in the client's account with the Norwegian Central Securities Depository as established by Pareto, unless another account is specified in the order. Pareto is authorised to access any information concerning the client's holdings in its account with the Norwegian Central Securities Depository. Moreover, the client acknowledges that Pareto's registrations in such account with the Norwegian Central Securities Depository will be made in compliance with the provisions set out in the Regulations on the Registration of Financial Instruments with Verdipapirsentralen ASA, which are available on the website of the Norwegian Central Securities Depository, as well as any other statutes and regulations applicable at any given time.

Pareto may, unless otherwise agreed, conclude an agreement with another custodian with regard to safekeeping or custodianship for the client. Such custodian will be chosen at the best discretion of Pareto, and the client is deemed to have accepted the choice of custodian unless otherwise stipulated in the specific safekeeping and custodianship agreement with Pareto. Pareto assumes no liability for any breach of contract on the part of such custodian in handling or safekeeping the assets of the client.

## **17. Authorised representatives, nominees and clearing agents**

If the client submits an order or assignment as an authorised representative, nominee, clearing agent, etc., for a third party, the Terms and Conditions of Business shall be binding on the client and the party on whose behalf he or she acts. The client shall be jointly and severally liable to Pareto for the obligations of such third party to the extent that such obligations result from the order or assignment submitted by the client.

If the client uses a nominee, clearing bank or other intermediaries, it is a requirement that such relationship be governed by a separate agreement. The use of such intermediaries shall not exempt the end client from his or her liability under the Terms and Conditions of Business.

## **18. Safekeeping of client assets – client accounts**

Pareto will ensure that the assets of the client are kept separate from Pareto's own assets and protected against Pareto's other creditors to the extent possible. The client will be credited with interest on his or her cash deposits on the general terms and conditions offered by Pareto.

Cash held by Pareto on behalf of the client will be deposited in Pareto's client account with a bank<sup>2</sup>. This account will normally be a general client account for cash deposits held by Pareto on behalf of several clients. If the bank is bankrupted, the account may be protected under the guarantee scheme applicable to the relevant bank at any given time. The guarantee scheme for Norwegian banks offers up to MNOK 2 in compensation per account. If the client's cash is deposited in a general client account, the aggregate compensation available to clients will be MNOK 2, thus implying that the right of each individual client to compensation will be curtailed. If a deposit is made with a credit institution that is not a member of the Norwegian guarantee scheme, the protection will be determined by the rules governing the guarantee scheme of which such credit institution is a member in the relevant country.

The financial instruments of the client will, if these are registered with the Norwegian Central Securities Depository or a similar securities register, be transferred to the client's account with such register. If the financial instrument is not registered, it will be left in the custody of a bank or other custodian. If a register, bank or other custodian is bankrupted, the financial instruments of the client will normally be protected by a right to separate such instruments out of the estate in bankruptcy.

Pareto has no liability towards the client in respect of any assets transferred to a client account with a bank or other third party (hereunder general client accounts), provided that Pareto has exercised due and reasonable care. This shall also apply if such third party becomes insolvent or is bankrupted. See Clause 18 for additional information concerning liability waivers.

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<sup>2</sup> Currently DNB Bank ASA and Nordea Bank ASA.

Pareto will, unless information is otherwise provided, furnish the client with a statement of the assets held by Pareto on behalf of the client at least once a year, unless such information is included in other periodical statements.

Pareto shall not use any financial instruments held by Pareto on behalf of the client unless otherwise specifically agreed.

## **19. Liability and exclusion of liability**

Pareto is liable to the client for the implementation of purchases or sales it has concluded on behalf of, or with, the client. This shall nevertheless not apply if the client has in advance approved the other party as a counterparty to the trade.

Pareto assumes no liability for settlement if the client fails to make the agreed funds and/or financial instruments available to Pareto on the settlement date at the latest.

Nor shall Pareto be liable for the provision of an inappropriate service as the result of the client having furnished Pareto with incomplete or incorrect information, cf. Clause 3.

Pareto assumes no liability for any indirect damage or loss incurred by the client as the result of the client's agreement(s) with any third party lapsing, in full or in part, or not being correctly implemented.

Moreover, Pareto and its employees shall not be liable for any loss incurred by the client as long as Pareto and its employees have exercised due and reasonable care.

In the event that Pareto has made use of credit institutions, investment firms, clearing centres, nominees or other similar Norwegian or foreign service providers, Pareto and its employees shall only be liable for the actions or omissions of such service providers if Pareto has failed to exercise due and reasonable care in the selection of said service providers. Pareto assumes no liability for any error or breach of contract on the part of any service providers as mentioned in the previous sentence if these are used at the order or request of the client.

Pareto shall not be liable for any damage or loss caused by any obstacle or other circumstances outside the control of Pareto, hereunder electrical power failure, error or shutdown in computer systems or telecommunications networks, etc., fire, water damage, strike, statutory amendments, government orders or similar.

When a trade is executed in a Norwegian or foreign regulated market at the order or request of the client, Pareto assumes no liability for any error or breach of contract on the part of such regulated market or any related clearing centre. The client is hereby deemed to have acknowledged that each individual regulated market or each individual clearing centre may have adopted its own rules pertaining to its liability to members of the regulated market or clearing centre, clients, etc., involving liability waivers of varying scope.

Pareto shall not be liable for any instance of delayed performance or non-performance caused by cash or security settlement having been suspended or discontinued as the result of circumstances outside the control of Pareto.

Limitations in the liability of Pareto that are additional to those specified above may follow from any specific agreement with the client.

## **20. Withholding of taxes, etc.**

Trading in foreign markets may involve Pareto being required, pursuant to statutes, regulations or tax treaties, to withhold certain amounts to pay various types of direct and indirect taxes. The same may apply to trading in Norway on behalf of foreign clients.

Pareto may, where such withholding of taxes is required, perform a preliminary calculation of the relevant amount and withhold such amount. Any excess tax withheld shall be paid to the client as soon as possible after a final calculation is available from the competent authority. The client shall be obliged to gather the necessary documentation with regard thereto, and to ensure that such documentation is correct.

## **21. Termination of the business relationship**

Trades awaiting settlement upon the termination of the business relationship shall be implemented and completed as soon as possible. Pareto shall, upon the termination of the business relationship, perform a final settlement in which Pareto is entitled to set off any amount owing to Pareto in respect of brokerage fees, taxes, charges, interest, etc., against any amount owing to the client.

## 22. Conflicts of interest – Policy

Pareto will take reasonable measures to prevent the occurrence of any conflicts of interest between Pareto and its employees and companies within the same group as Pareto, and Pareto's clients with regard to clients' orders to, and trading with, Pareto, as well as between Pareto's clients with regard to their orders to, and trading with, Pareto. Pareto has hereunder prepared internal guidelines with the purpose of uncovering, and reducing the scope for, any conflicts of interest.

Section 10-10 of the Securities Trading Act requires Pareto to inform the client of potential conflicts of interest to the extent that internal measures are insufficient to safeguard the interests of the client. Against that background, the clients are informed of the following with regard to potential conflicts of interest:

- Pareto and other companies within the same group as Pareto may have their own interests in relation to the financial instruments in which the client wishes to trade. Furthermore, Pareto's employees may hold their own positions in, or orders for, such financial instruments. The positions of Pareto and its employees in financial instruments covered by its research efforts are disclosed on [www.paretosec.com](http://www.paretosec.com).
- Pareto's clients may have conflicting interests with regard to the relevant financial instruments, and Pareto may hereunder have accepted assignments from the issuer of financial instruments or have received orders or indications from other clients, which assignments, orders or indications are not in the public domain.
- Pareto has established Chinese walls between departments, which restrict internal information flows. This may result in the Pareto employee who is in contact with a client having no knowledge of the conflict of interest with another client.
- The prohibition against the disclosure of insider information in Section 3-4 of the Securities Trading Act and Pareto's general duty of confidentiality under Section 10-9 of the Securities Trading Act implies that Pareto will normally be legally prevented from informing clients of specific conflicts of interest with other clients, etc. Consequently, clients cannot expect any other information about conflicts of interest than that provided above.
- On occasion the client's contact person(s) in Pareto may not have the opportunity to render investment advice with respect to certain assets. Pareto may in such case not justify why it may not render investment advice or execute a certain order.

## 23. Furnishing of collateral

Pareto is a member of the Norwegian Investor Compensation Scheme, cf. Section 9-12 of the Securities Trading Act.

The Compensation Scheme shall cover claims resulting from the inability of its members to repay money or return financial instruments that are held, kept and managed by its members in connection with the provision of investment services and/or certain ancillary services. The maximum cover is NOK 200,000 per client.

The Compensation Scheme does not cover any claims originating from transactions that are subject to a final and binding money laundering conviction, or any clients who are responsible for, or have benefitted from, circumstances pertaining to Pareto, when such circumstances have caused financial difficulties on the part of Pareto or contributed to a deterioration in the financial position of Pareto. Nor does the Compensation Scheme cover any claims from financial institutions, credit institutions, insurance companies, investment firms, securities funds and other collective investment undertakings, pension schemes and pension funds, as well as any companies within the same group as Pareto.

The foreign exchange activities operated by Pareto under Section 4a-1, Sub-section 3, of the Financial Institutions Act fall outside the scope of the Compensation Scheme.

## 24. Anti-money laundering measures

The client shall upon the establishment of a client relationship document his or her identity through identity verification, etc., as well as specify and document any authorisation or representation arrangements, thus enabling Pareto to meet, at all times, its obligations under any rules pertaining to anti-money laundering measures, as applicable at any given time.

The client acknowledges that Pareto is or may be obliged to disclose all relevant information relating to the client relationship or individual transactions to government authorities. This may take place without the client being informed that such information has been disclosed.

## **25. Duty of disclosure to government bodies, appellate bodies, etc.**

Pareto will, irrespective of any statutory duty of confidentiality, disclose information about the client, the client's transactions, funds deposited in the client account, etc., to any government bodies requesting such information pursuant to applicable law.

The client accepts and is deemed to have consented to any information subject to a duty of confidentiality also being disclosed to any regulated markets, clearing centres, etc., requesting such information pursuant to statutes, regulations or other rules laid down by such bodies. Likewise, the client is deemed to have accepted and consented to such information being disclosed to the Ethics Council of the Norwegian Securities Dealers Associations when required for the processing of complaints.

## **26. Amendments**

Pareto reserves the right to amend the Terms and Conditions of Business.

Any amendments shall take effect upon being published on the Pareto website, [www.paretosec.com](http://www.paretosec.com), unless otherwise specified in connection with the amendment.

Any important amendments to Parts B and C will be communicated to the client in writing, or by e-mail if the client has provided Pareto with an e-mail address.

Any amendments to the Terms and Conditions of Business will have no effect on any orders, trades, transactions, etc., submitted or carried out prior to the communication of such amendments, unless said amendments are caused by statutory amendments or orders imposed by any courts of law or government authorities.

## **27. Notices, languages and authorisations**

Any written notices from the client may be sent by letter, telefax or, by agreement, via SWIFT or other electronic means of communication. Any notices sent by telefax shall be confirmed by forwarding the original letter, unless otherwise specified in these terms and conditions. To the extent that the client knows or ought to have known what unit within Pareto is the appropriate addressee, such notice shall be sent to the relevant unit, and shall in the opposite case be deemed not to have been received by Pareto. The client may use the Norwegian or English language in communications with Pareto.

The client shall, upon the establishment of the business relationship, inform Pareto of his or her social security number/enterprise registration number, address, telephone and telefax number, any electronic addresses, as well as any authorised representatives. The same shall apply to bank accounts and securities accounts with the Norwegian Central Securities Depository or another similar register. Any changes shall immediately be notified to Pareto in writing.

## **28. Interpretation**

The Terms and Conditions of Business shall take precedence and apply in full in case of conflict with any non-mandatory legislation.

Any reference to legislation, other rules or these Terms and Conditions of Business shall mean such legislation, other rules and Terms and Conditions of Business as applicable at any given time.

Reference is made to Clause 1 concerning the relationship between the Terms and Conditions of Business and other agreements concluded between Pareto and the client.

## 29. Venue – Governing law – Dispute resolution

Any disputes in the relationship between the client and Pareto, hereunder any disputes relating to the Terms and Conditions of Business, shall be governed by Norwegian law, with the Oslo District Court as (non-exclusive) venue.

Clients whose permanent address is located abroad waive any right to object to legal action relating to the Terms and Conditions of Business being brought before the Oslo District Court. Pareto may, irrespective of the above, bring legal action, against clients whose permanent address is located abroad, in the relevant judicial district abroad if Pareto so wishes.

If the client is not satisfied with how Pareto handles a complaint, the client may bring issues concerning the interpretation of the Terms and Conditions of Business and matters relating to Pareto before the Ethics Council of the Norwegian Securities Dealers Associations pursuant to the Ethical Norms and the Rules for Dealing with Matters in accordance with the Ethical Norms.

Foreign clients, hereunder Norwegians domiciled abroad, who may invoke statutes or rules offering protection against legal proceedings from Pareto in relation to their obligations towards Pareto, waive any such rights to the extent doing so would not represent a direct violation of the relevant statutes or rules.

## 30. The Personal Data Act

Pareto is defined as a controller for purposes of the Personal Data Act.

Personal data will be processed in accordance with applicable statutes and regulations. The purpose of the processing of personal data is the implementation of the agreements concluded between Pareto and the client, administration, invoicing/settlement, as well as the marketing of investment products and services.

Personal data may be disclosed to government authorities pursuant to a statutory duty of disclosure.

The client may request information about the kind of processing of personal data Pareto is performing, and what information is registered, cf. Section 18 of the Personal Data Act. The client may request rectification of inaccurate or incomplete information, and may request the erasure of information when the purpose of the processing has been realised and the information cannot be used/archived for other purposes, cf. Sections 27 and 28 of the Personal Data Act.

## 31. Language

The Terms and Conditions of Business are available in Norwegian and English language versions. In case of discrepancies between the two versions, the English version shall prevail.

## 32. Access to audio recordings

The client may request access to audio recordings in the form of release of a copy of the audio file or a written transcript of such audio file. The client shall specify which conversations are wanted; i.e. are these conversations relating to a specific transaction, a specific date or with a specific broker. (We note, in this context, the duty of storage under [Section 10-33, Sub-section 1, of the Securities Trading Regulations](#) and [Section 9-11, Sub-section 1, No. 7, of the Securities Trading Act](#), which applies for a period of 3 and 5 years, respectively, as well as the subsequent duty of deletion implied by [Section 28 of the Personal Data Act](#)).

The client may also listen to the audio files on the premises of Pareto.



## Part B - Guidelines for the Execution of Client Orders

### 1. Introduction

Upon the execution of client orders, Pareto shall, pursuant to Section 10-12 (1) of the Securities Trading Act, take all reasonable measures to achieve the best possible outcome for the client with regard to price, costs, speed, likelihood of execution and settlement, volume, type and other relevant considerations. Sections 10-25 to 10-27 of the Securities Trading Regulations also stipulate more detailed rules. Section 10-12 (2) of the Securities Trading Act requires Pareto to have effective systems, procedures and arrangements to ensure compliance with the above, and shall hereunder establish guidelines for the execution of client orders, cf. also Section 10-12 (3) of the Securities Trading Act. Such guidelines are set out in the present Part B.

Section 10-12 (1) of the Securities Trading Act applies to all categories of client with the exception of eligible counterparties, provided however that the requirements shall also apply to eligible counterparties if these have requested such protection in writing.

Section 10-12 of the Securities Trading Act and the provisions of the present Part B shall only apply to the execution of orders, and consequently not to the client's acceptance of an offer from Pareto when such offer is made without a basis in an order or indication from the client.

By placing an order with Pareto, the client is deemed to have accepted the order being executed in accordance with the guidelines below. This shall also apply to eligible counterparties.

### 2. Specific instructions from the client

If the client renders specific instructions as to how an order shall be executed, such order will be executed in accordance with those instructions to the extent possible, following which this shall be deemed to constitute best execution under the applicable provisions, cf. Section 10-25 (3) of the Securities Trading Regulations. This may, however, prevent Pareto from implementing the measures stipulated below for purposes of ensuring the best possible outcome.

Specific instructions include, *inter alia*, the order types mentioned in Clause 6.3, litra a) and c) to j), of the Terms and Conditions of Business, as well as electronic trading in electronic trading solutions mentioned in Part C of the Terms and Conditions of Business.

Upon the receipt of limit orders that cannot be immediately executed in the market, Pareto may decide at its own discretion whether to publicise the order in the market, unless Pareto received other instructions from the client.

If a client asks for a price and accepts the price offered, or is quoted a price by Pareto that he or she then accepts, the execution is deemed to be in accordance with specific instructions, and is consequently always deemed to be in compliance with the requirement stipulated in Section 10-12 (1) of the Securities Trading Act.

A separate agreement may be concluded between the client and Pareto to the effect that orders received in special situations will be dealt with as specific instructions.

### 3. General order execution guidelines

It is emphasised that Section 10-12 (1) of the Securities Trading Act only requires Pareto to take reasonable measures to achieve the best possible outcome for its clients, and Pareto is consequently not required to ensure that the client always achieves the best possible outcome. It is also emphasised that the provision does not define best possible outcome as being only a matter of price/cost, but specifies that such considerations must be balanced against, *inter alia*, the likelihood that the trade will be executed.

Section 10-25 (4) of the Securities Trading Regulations requires Pareto, upon the execution of orders for non-professional clients, to, *inter alia*, take into consideration the total consideration to be paid by the client in connection with the execution of the order, hereunder any costs and charges payable to regulated markets, clearing systems and securities registers.



Section 10-25 (1) of the Securities Trading Regulations requires Pareto to attach weight to the following considerations to determine the relative weights of the factors mentioned in Section 10-12 of the Securities Trading Act (price, costs, speed, likelihood of execution and settlement, volume, type and other relevant considerations):

- The characteristics of the client, hereunder whether the client is classified as a non-professional or a professional;
- The nature of the order;
- The characteristics of the financial instruments encompassed by the order; and
- The characteristics of the trading systems into which the order may be submitted.

Pareto will upon the receipt of client orders conduct an assessment with regard to how the order shall be executed to achieve the best possible outcome. Order execution shall be premised on best discretion to the extent that the present guidelines leave room for discretion. Pareto aims to always ensure that the client achieves the best possible outcome, and the guidelines have been drafted with this in mind, but represent, at the same time, a standardisation of the execution of orders through Pareto that the client is deemed to have accepted, with the consequence that the execution of orders is deemed to comply with the requirements under Section 10-12 (1) of the Securities Trading Act if Pareto is able to document compliance with the guidelines.

#### 4. Trading in financial instruments listed on a regulated market

Clause 4 applies to financial instruments that are traded through Pareto.

Pareto is a member of several regulated markets as specified on [www.paretosec.com](http://www.paretosec.com). Moreover, Pareto has direct access to a number of market places in addition to those mentioned. These are chosen in those cases where Pareto believes that this will result in best execution of clients' orders.

Pareto will execute orders for the client in one of the following ways:

- (i) The order will normally be entered on the market that Pareto expects to give the best possible outcome. This may result in Pareto entering the order on another market than those of which Pareto is a member and that Pareto deems to be more liquid as far as the relevant financial instrument is concerned.
- (ii) If the order is of such magnitude that Pareto deems it likely that it may influence price formation in the market, Pareto may execute the order over time and in such parts as Pareto deems most appropriate for purposes of achieving the best outcome for the client. This will typically be of benefit to the client, but may also have the consequence that the client is unable to complete the trade or achieves an inferior price, for example because the market changes in the meantime.
- (iii) If Pareto has received orders from clients for the purchase and sale of the same financial instrument, Pareto will normally enter both (all) orders in the relevant trading system for matching at market price. Pareto may conclude a trade between the clients ("internal matching") provided that the price is at or between the best bid and offer price in the relevant trading system at the time of matching or, if such prices are not available, results in a price that is reasonable given the market position.
- (iv) Pareto may, with regard to large orders and/or particularly sensitive orders, and depending on the circumstances, propose that the order be executed by transmitting it to a larger or smaller group of other clients/potential counterparties ("block trading"). Such order execution will to the extent practicable take place in close dialogue with the client.
- (v) Pareto may in special cases assume the role of counterparty to a client order ("broker as counterparty"), provided that the conditions in (iii) above are met. It is emphasised that Pareto does not engage in systematic internalisation as mentioned in Section 10-19 of the Securities Trading Act, and that broker as counterparty is the exception, rather than the rule. Broker as counterparty will, if applicable, be specified in the contract note.
- (vi) An order may be executed against another investment firm, typically if such investment firm is not a member of the relevant regulated market and such execution is assumed to result in the best outcome. Such execution, if any, will take place at a price that at least matches the best price achievable in the relevant trading system.
- (vii) The price achieved upon the execution of large orders otherwise than by entering them in the relevant trading system may be less favourable to the client than the stock exchange price prevailing at the time, since the stock exchange price typically applies to a smaller volume.

It is specifically emphasised that order execution as mentioned in Clause (iii) to (vi) above represents order execution outside a regulated market, and that such execution is deemed to have been accepted by the client upon the client's submission of orders to Pareto, provided that the execution is in accordance with the stated conditions. Consequently, the fact that the trade is being executed outside any regulated market will not be presented to the client in advance in each individual case.

## 5. Financial instruments not listed on a regulated market and shares in limited partnerships and in internal partnerships

Clause 5 applies to financial instruments and shares in limited partnerships or in internal partnerships that are not traded in a regulated market. These include, *inter alia*,

- Unlisted equities, primary capital certificates, depositary receipts, warrants and derivatives
- Unlisted bonds, including convertible bonds
- Notes
- Foreign exchange and foreign exchange derivatives
- Structured products
- Unlisted fund units
- Other unlisted financial instruments by specific agreement

Orders for such instruments will be executed in one of the following ways:

- (i) If a financial instrument is registered on the Norwegian OTC list, Pareto will enter the order as an interest in the OTC system and establish contact with another investment firm that has indicated a matching interest in the OTC system. Pareto may nevertheless conclude a trade with another Pareto client (internal trading) or with another investment firm without entering the interest in the OTC system. The price must be at a level that is reasonable given the market position.
- (ii) As far as other financial instruments or and shares in limited partnerships or in internal partnerships are concerned, Pareto will conclude a trade with another Pareto client (internal trading) or with another investment firm. Pareto will seek to achieve a price that is reasonable given the market position.
- (iii) Pareto may in special cases assume the position of the client's counterparty (own-account trading by the broker acting as counterparty), but only if the client is informed thereof prior to the matching of the trade. Pareto shall in such case offer a price that is reasonable given the market position.
- (iv) When trading in foreign exchange, Pareto will conduct benchmarking against two or more commercial banks that are leading in Norway, and offer the client a rate that is at least as attractive as that offered by such banks.

## 6. When will orders be executed?

Unless otherwise agreed or evident from specific instructions, Pareto will commence the execution of the order immediately after the receipt thereof. If the order is received outside the opening hours of the regulated market, the order will first be sought executed when the relevant regulated market reopens.

Pareto will prioritise comparable client orders in the order in which they have been received, unless (i) the nature of the orders or the current market terms render this impossible or would be contrary to the interests of the client, and the client is informed thereof, or (ii) Pareto is of the view that the best possible outcome will be achieved by aggregating the order with other orders pursuant to the rules set out below in the present Clause.

Pareto reserves the right to aggregate the client's orders with orders from other clients, persons or undertakings that are not associated with Pareto. Aggregation of orders will not take place unless it is improbable that aggregation in general will disadvantage any of the clients. The client is deemed to acknowledge and accept that aggregation of orders may be disadvantageous.

Orders from a client that are normally traded for the account of a third party, i.e. his or her employer or another natural person or legal entity, will be rejected if the client fails to clearly specify, upon the submission of such orders, for whose account such orders are to be executed. If the client simultaneously submits orders both for his or her own account and for

the account of his or her employer or another natural person or legal entity, Pareto will prioritise those submitted for the account of a third party.

## **7. Subscription to issues**

Upon subscription to issues, Pareto will transmit the client's subscription/order to the issuing undertaking or to the designated place of subscription if Pareto is not a place of subscription, as well as subscribe as an authorised representative of the client in accordance with any authorisations rendered. Subscription and allotment will take place on the terms and conditions stipulated for the issue. Allotment in accordance with the terms and conditions stipulated for the issue shall always be deemed to constitute a best possible outcome for the client.

## **8. Trading in markets of which Pareto is not a member**

Trading in regulated markets and multilateral trading facilities of which Pareto is not a member will be effected by specific agreement, typically by the order being transmitted to a member of the relevant market. Pareto assumes no liability for ensuring that the execution of orders complies with the requirements under Section 10-12 of the Securities Trading Act.

## **9. Market disturbances and extraordinary circumstances**

In the event of suspensions or annulations or other circumstances that disturb the trading system or the trading method typically used, Pareto may use other methods than those outlined above, provided that Pareto deems it reasonably likely that such other methods will result in the best possible outcome for the client.

In those cases where the trading system cancels or modifies trades executed in its system, such cancellations or modifications will be binding on Pareto and its clients, even if Pareto has confirmed completion of such trade in the meantime.

## **10. Amendments to the guidelines**

Pareto may amend the guidelines with effect for subsequently submitted orders. The updated guidelines applicable at any given time are posted on [www.paretosec.com](http://www.paretosec.com) and are deemed to have been accepted by the client upon the subsequent submission of orders.

## Part C – Special Terms and Conditions relating to Electronic Trading

### 1. General provisions

Pareto offers electronic trading solutions enabling the client to carry out trades by registering orders and acceptances in the associated trading systems without the assistance of Pareto's employees.

The provisions in Part C of the General Terms and Conditions of Business shall apply in addition to the remainder of the General Terms and Conditions of Business as far as clients accessing such a trading solution are concerned, unless it follows from the context that Part C shall replace such other provisions.

### 2. Electronic trading solutions

The client is granted a non-exclusive and non-transferable right to use Pareto's trading solutions, and the client is hereunder granted licence rights and access to software for Pareto's electronic trading solutions as per specific agreement.

The client shall not be entitled to copy, modify or use the software otherwise than described in the Terms and Conditions of Business. The client shall not be entitled to decompile or deconstruct the software. Nor shall the client be entitled to permit or facilitate any of the abovementioned actions with regard to the software by any unauthorised person. The client shall not be entitled to transfer its licence rights, grant any sub-licences or otherwise dispose of or use the software otherwise than described in the Terms and Conditions of Business or the applicable statutory framework. The client shall install the software in accordance with the Pareto guidelines applicable at any given time. The client shall immediately inform Pareto of any defects in the software. In case of defects in the software, Pareto shall be entitled to choose between delivering a new copy of the software or terminating the client relationship with immediate effect if delivering a new copy would entail a disproportionate burden on the part of Pareto. If Pareto fails to deliver new software, the client shall have the right to terminate the client relationship with immediate effects. The client undertakes to immediately install any new or modified versions of the software made available by Pareto. Pareto shall not be liable to the client as the result of defects in the software (loss of data, non-access to the trading service, virus, etc.).

The use of the software shall be governed by the terms and conditions issued together with the software, or incorporated into the software, as applicable at any given time.

The client shall him- or herself be responsible for familiarising him- or herself with, and understanding, the relevant trading solution used by the client at any given time. Any loss resulting from bugs or defects in the client's hardware/software or network shall be the responsibility of the client. The client is itself responsible for securing its network against unauthorised access.

The client will, through the trading solution, obtain access to the trading system of one or more regulated markets and trading facilities. The client is, through Pareto's membership, subject to restrictions with regard to the use of the trading system, as set out in the membership and trading rules of the relevant market.

### 3. Username and password

The client will, upon being approved for trading, receive a username and password for logging on to Pareto's electronic trading solution.

All assignments and instructions (including orders and acceptances) submitted to Pareto by using the client's password shall be binding on the client as from submission, irrespective of who has submitted such assignment or instruction. The same shall apply to the conclusion of agreements with Pareto's cooperation partners. An order will be binding on the client unless it can be revoked prior to the execution of such order or otherwise as described in the Terms and Conditions of Business, and will form the basis for the electronic conclusion of an agreement. The electronic conclusion of an agreement is verified by the client's password, alternatively Bank ID or similar solutions, and will be clearly presented to the client in Pareto's electronic trading solution.

The username and password may be changed by Pareto, in which case such change will be communicated to the client. Pareto shall not be liable for any direct or indirect damage suffered by the client or any other party as the result of such change.

#### **4. Available funds, etc.**

The submission of an order is conditional upon sufficient cash or credit (upon purchase) or securities (upon sale) to execute the order, and pay brokerage fees, being available in the client's account/depository ("Sufficient Assets") before such order is entered into the electronic trading solution. Pareto may refrain, in full or in part, from implementing any order if Sufficient Assets to execute the order are not available in the depository/account.

Any initiated order shall be binding on the client, even if Sufficient Assets are not available in the client's account/depository. Pareto's electronic trading solution includes barriers that seek to prevent such orders from being implemented, but no assurance can be given that these will be effective.

Failure to make available Sufficient Assets to execute an order will be deemed to constitute material breach of the agreement, and shall entitle Pareto to terminate the contractual relationship with immediate effect. Pareto shall be entitled to reduce or revoke any credit granted.

The client him- or herself is responsible for his or her own affairs, and for any orders submitted, hereunder for ensuring that the client is in possession of any financial instruments sold.

#### **5. Submission of orders**

The client may use Pareto's electronic trading solution to submit orders by entering his or her username and password to log in. Information on Pareto's electronic trading solutions is available on [www.paretosec.com](http://www.paretosec.com). Any order submitted by entering the client's password is deemed to have been submitted by the client or a person with the necessary authorisation to submit orders on behalf of the client, and the order will consequently be binding on the client.

If the client submits, in addition, orders via the telephone, these will be construed by Pareto to constitute different orders/subscriptions for each submission of an order. The same shall apply if the client submits several orders electronically. An order submitted by telephone shall not be deemed to have been submitted until Pareto has confirmed the receipt of such order.

Norwegian Central Securities Depository Investor Services shall, for purposes of the electronic submission of orders and the electronic confirmation of orders, be deemed to be a service delivered by Pareto.

The client shall not engage in program trading against or via Pareto unless specifically approved by Pareto. The client shall in advance inform Pareto in writing about the systems (software, trading strategies and algorithms, etc.) the client wants to utilise via Pareto's electronic trading solutions. The client shall not change these systems without the approval of Pareto. Pareto may at any given time request access to the client's program trading systems.

Any use of information systems (Excel) as the basis for the client's submission of orders shall require the approval of Pareto.

#### **6. Special considerations relating to the use of the electronic trading solutions**

Pareto's electronic trading solutions enable the client to effect trades by registering orders in the associated trading systems without any assistance from Pareto's employees. This solution imposes special requirements on the client, who will him- or herself assume responsibility for compliance with the relevant regulatory framework.

Each individual trading system will be governed by specific rules, and offer a specific technical functionality. Detailed information about rules and functionalities is available on the website of each regulated market and multilateral trading facility.

Trading in financial instruments is governed by the Securities Trading Act with appurtenant regulations, hereunder the prohibition against insider trading and market manipulation, cf. Sections 3-3 and 3-8 of the Securities Trading Act. Market manipulation includes, *inter alia*, orders and transactions that give, or are likely to give, false, incorrect or misleading signals as to the supply of, the demand for, or the price of, financial instruments. These rules apply directly to the client. One of the requirements when trading on the Oslo Stock Exchange is that orders and trades shall reflect the current market value, and

that one shall not engage in conduct that may impair the integrity of the market. Other regulated markets and trading facilities have similar rules.

The client shall familiarise him- or herself with the rules governing trading, and assumes a special responsibility for ensuring that there is no market manipulation or other violations of rules in connection with the trading activities of the client. As far as clients that are enterprises are concerned, the client shall ensure that only those of the employees of the client with sufficient knowledge about trading functionalities and rules are permitted to carry out trades in the electronic trading solution.

The client must contact Pareto in advance if the client is in doubt as to whether an order or trade or strategy is lawful. If the client becomes aware that it has entered incorrect or unlawful orders or trades, the client shall notify Pareto thereof as soon as possible.

Pareto has introduced a manual and/or electronic order filter to identify any orders that deviate materially from the last official trade in the instrument. The order filter will also identify orders that are obviously incorrect or orders that are suspected of forming part of price manipulation, etc. Pareto will normally attempt to establish contact with the client for specific instructions, but will otherwise cancel the order.

Pareto's order filters will not necessarily identify all orders that are incorrect or unlawful, and this will not release the client from his or her responsibility for compliance with applicable rules. It should also be noted that Pareto's order filters may deviate from the restrictions applied by the regulated market.

Pareto shall under no circumstance be obliged to accept any order that Pareto assumes may result in a violation of public law statutes or rules laid down for the relevant regulated market or markets, and may cancel all such orders, irrespective of whether said order was intercepted by Pareto's order filters. Pareto may, correspondingly, disregard any acceptances if such circumstances are assumed to prevail.

Pareto may execute transactions on behalf of the client without the consent of the client to the extent that Pareto is ordered to do so by government authorities pursuant to statutes, regulations or administrative decisions.

If the client violates any statutes or rules in the context of electronic trading, and this results in any fines, penalties or other costs being imposed on Pareto, the client shall reimburse these. This shall apply irrespective of whether the client is to blame for negligence or intentional violation as far as the relevant matter is concerned.

Pareto may, without further notice, suspend or close access to the electronic trading solution for the client if requested by government authorities or any regulated market, or if Pareto deems it to be necessary based on the conduct of the client or for other reasons.

## **7. Depository/account information**

The client is granted access to electronic information about the available portfolio. This shows the financial instruments registered in the client's depository account, adjusted for purchases and sales executed through Pareto, but not necessarily reflected in the client's account. The available portfolio is not updated automatically upon the implementation of issues, splits, transfers and similar corporate events that may affect the number of financial instruments.

## **8. Incorrect registration with depositories, etc.**

If Pareto incorrectly registers securities with a depository or incorrectly deposits funds in an account, Pareto shall be entitled to correct the erroneous registration or erroneous deposit. The client shall have no claim against Pareto in connection with such an error. If the client accesses such erroneously registered securities or erroneously deposited funds, the client shall return these to Pareto as soon as possible. If the client accesses the erroneously registered securities and fails to meet its said obligations, Pareto shall be entitled to purchase the relevant securities and debit the client's account with the amount required to cover Pareto's claim in relation thereto, and if the client accesses the erroneously deposited funds and fails to meet its said obligations, Pareto shall be entitled to debit the client's account with the relevant amount. If Pareto has made any corrections as described above, Pareto shall inform the client thereof.

The above shall also apply if Pareto has, in any other context, registered securities with a depository or deposited funds in an account, and the client is not the rightful owner of such securities or funds.



## 9. Information services

The client may also be granted access to information obtained from various information sources offered electronically by Pareto to its clients at any given time. The information is based on information from independent content providers. This may take the form of stock exchange notifications, company notifications, price information, etc. Pareto assumes no liability for such information.

The client shall pay the prices applicable at any given time for the various chargeable services the client has chosen to utilise. The prices applicable at any given time will be available via [www.paretosec.com](http://www.paretosec.com) or as otherwise suitable.

## 10. Information dissemination

The client shall not use the electronic trading solution for anything other than trading. The client shall not be entitled to disseminate to any third party any of the information obtained from the services offered by Pareto, irrespective of whether such information is disseminated in a processed or non-processed form. As far as clients that are enterprises are concerned, the information may be used by those of the employees or representatives of the client who are involved in financial instrument trading, hereunder risk management and analysis. The client shall maintain a list of internal users, which list shall be forwarded to Pareto upon request.

## 11. Control and suspension, changes

Pareto reserves the right to suspend the services offered in case of technical error, security problems or other circumstances on the part of Pareto, of clients, of cooperation partners or elsewhere.

The Oslo Stock Exchange and other regulated markets and trading facilities have the right, pursuant to specific trading rules governing the relevant market or trading facility, to stop the automatic transmission of orders from Pareto and/or other stock exchange members.

The client acknowledges that there may occur operational interruptions or other disturbances to the client's, Pareto's or third parties' computer systems (software or hardware), telecommunications systems or electrical systems used under the present agreement, and that such faults/interruptions may, for example, result in:

- the client being unable to submit orders;
- the client's orders not reaching Pareto, or reaching it too late, or the transmission thereof being delayed;
- the client's orders not being executable as intended; or
- any information (for example on order status, depository/account information and price information) offered by Pareto not being available to the client, or being incorrect.

Pareto shall not be liable for any direct or indirect damage resulting from any fault referred to above.



## Part D - Information to Clients concerning the Characteristics of, and Risks associated with, Financial Instruments and shares in limited partnerships and in internal partnerships

**The client shall be aware that:**

- trading in financial instruments or shares in limited partnerships and in internal partnerships takes place at the client's own risk
- the client must carefully study the Terms and Conditions of Business and other relevant information on the relevant financial instrument or on the relevant shares in limited partnerships or in internal partnerships and its characteristics and risks prior to the commencement of trading in financial instruments or in shares in limited partnerships or in internal partnerships
- the client must immediately check the contract note/the sale and purchase agreement and give immediate notice of any error
- the client must monitor, on a continuous basis, changes in the value of the financial instruments or of the shares in limited partnerships or in internal partnerships in which the client holds positions
- the client must him- or herself react by selling his or her positions if necessary to reduce the risk of loss on his or her own investments

### 1. General information

#### 1.1 Introduction

Part D provides a description of various financial instruments and of a project finance company and the partnership structures there used, their characteristics and the risks associated with such instruments, as well as a brief description of how trading in the various instruments takes place.

Pareto has based this description on documents prepared by the Norwegian Securities Dealers Association, with certain adaptations.

It is specifically noted that the below description is not exhaustive with regard to the characteristics of the financial instruments, and that the descriptions of risks are kept at a general and non-specific level. The purpose of the document is to provide clients with an introduction to the financial instruments and shares in limited partnerships and in internal partnerships it describes, and clients wishing to invest in the instruments must study marketing materials and other relevant documentation.

The information is prepared against the background of the information requirements under Section 10-11 (2) of the Securities Trading Act and Section 10-13 of the Securities Trading Regulations. The document does not represent investment advice from Pareto and shall under no circumstance be considered any other form of advice or service provided by Pareto.

#### 1.2 Trading in financial instruments etc.

Trading in financial instruments, such as equities, primary capital certificates, bonds, notes, financial derivative instruments or other rights and obligations intended for trading in the securities market, normally takes place in an organised form in a trading system. By trading system<sup>3</sup> is meant a regulated market, a systematic internaliser (SI)<sup>4</sup>, a market maker<sup>5</sup> or another guarantor of liquidity.

<sup>3</sup> Section 10-25 (2) of the Securities Trading Regulations

<sup>4</sup> Section 2-4 (4) of the Securities Trading Act

<sup>5</sup> Section 2-4 (4) of the Securities Trading Act – several investment firms act as guarantors of liquidity as far as selected companies are concerned.

Trading takes place through the investment firm using the trading system. As a client you must normally contact such an investment firm in order to purchase or sell financial instruments. There are also investment firms that transmit orders to an investment firm that again uses the trading system. Trading may also take place internally within an investment firm, for example by the firm assuming the position of counterparty to the trade, or by trading with another client of the firm (internal trading).

Different types of financial instruments are traded in a regulated market (hereunder a stock exchange). Equities, primary capital certificates, bonds, notes, certain fund units and a number of different financial derivative instruments are traded on the Oslo Stock Exchange. More detailed information concerning where and how these instruments are traded will be presented below.

Price information for the financial instruments traded in a regulated market is published on a regular basis via the relevant market's website, in newspapers or via other media.

Trading in shares in limited partnerships and in internal partnerships takes place outside the regulated market and other trading systems.

## 2. Risks associated with trading in financial instruments and shares in limited partnerships and in internal partnerships

### 2.1 General information about risk

Financial instruments and shares in limited partnerships and in internal partnerships will normally offer a yield in the form of dividends (equities and fund units) or interest (interest-bearing instruments). In addition, the price of financial instruments or in shares in limited partnerships and in internal partnerships may increase or decrease relative to the price prevailing at the time when the investment was made. The description below uses the word investment to also denote any negative positions in an instrument (short positions; see Clause 7 below). The total yield is the sum of any dividends/interest and any change in the price of the instrument.

An investor is of course seeking a total yield that is positive, i.e. one that results in a profit. But there is also a risk that the total yield will be negative, that the investment will produce a loss. The risk of loss varies between different instruments. The scope for profit on an investment in a financial instrument or in shares in limited partnerships and in internal partnerships is usually linked to the risk of loss. In investment contexts one often uses the word risk to denote both the risk of loss and the scope for profit. In the below description, however, the word risk is only used to describe the risk of loss.

Trading in foreign financial instruments also involves a foreign exchange risk.

Investments in financial instruments and in shares in limited partnerships and in internal partnerships are associated with a financial risk, which will be described in more detail below. The client must understand such risk and must therefore familiarise him- or herself with the terms, prospectuses, etc., pertaining to trading in such instruments and the specific risks and characteristics of such instruments. The client must also monitor his or her investments in such instruments on a continuous basis. This shall apply irrespective of whether the client has received individual advice in connection with the investment. Information for use in monitoring prices, and thereby developments in the value of one's own investments, is available from price lists published through the mass media, such as for example newspapers, the Internet, teletext and in some cases from the investment firm itself. If necessary, the client should act swiftly in his or her own interest, for example by disposing of investments that undergo negative developments or by furnishing additional collateral in respect of investments funded by borrowing if the value of collateral is declining.

### 2.2 Different types of risk concepts

In connection with the risk assessment an investor should carry out when investing and trading in financial instruments or in shares in limited partnerships and in internal partnerships, and thereafter continuously throughout the entire investment period, there are many different types of risk and other factors of which the client should be aware. Some of the most important types of risk are as follows:

**Market risk** – the risk that the market as a whole, or certain parts of the market, in which the client has made his or her investment, slumps (for example the Norwegian stock market).

**Credit risk** – the risk that the issuer or a counterparty will become unable to pay.

**Price volatility risk** – the risk that large fluctuations in the price of a financial instrument will have a negative impact on the investment.

**Price risk** – the risk that the price of a financial instrument falls.

**Tax risk** – the risk that tax rules and/or tax rates are unclear or may be amended.

**Foreign exchange risk** – the risk of depreciation in the value of a foreign currency to which the investment is related (for example will fund units in a securities fund invested in US securities listed in USD be exposed to loss upon a decline in the US dollar exchange rate).

**Leverage effect risk** – a structure of a derivative instrument implying that there is a risk that price developments for the underlying assets will have an exaggerated relative effect in terms of the amount invested in the derivative instrument. Example: The client spends NOK 10,000 on purchasing put options relating to underlying equities with a market value of NOK 100,000. If the market price of the stock declines or remains stable, the entire investment in the call option is lost. A corresponding risk may be incurred if the investment is funded by borrowing.

**Legal risk** – the risk that relevant statutes and rules are unclear or may be amended.

**Company-specific risk** – the risk that a company is less successful than expected or that the company suffers from a negative event that may result in a decline in the value of the financial instruments associated with such company.

**Industry-specific risk** – the risk that a specific industry is less successful than expected or suffers from a negative event that may result in a decline in the value of the financial instruments associated with companies in the relevant industry.

**Liquidity risk** – the risk that the client may be unable to sell a financial instrument at a time when the client may wish to do so, because turnover and purchaser interest in the financial instrument is low.

**Interest rate risk** – the risk that the value of the financial instrument in which the client invests will decline due to changes in the market interest rate.

**Information risk** – the risk that not all relevant information is known in the market.

### 3. Equities and equity-related instruments

#### 3.1 General information concerning equities (shares/stock)

##### 3.1.1 Shares and limited companies

Shares of a limited company entitle their holder to a portion of the share capital of such company. If the company makes a profit, the company will normally declare dividends on the shares. Shares will as a main rule also carry voting rights in the shareholders' meeting, which is the supreme decision-making body of the company. The more shares a person holds, the larger a portion of the capital, dividends and voting will normally accrue to such shareholder. The voting rights may vary depending on the category of shares. Norway has two types of limited company, public limited companies (ASA) and private limited companies (AS).

##### 3.1.2 The share price

The price of a share is in large part determined by the future prospects of the company. A share price may rise or fall depending on players' analyses and assessments of the company's prospects for future gains. Future external developments in business cycles, technology, legislation, competition, etc., determine the demand for the products or services of the company, and are therefore also of fundamental importance to developments in the price of the company's shares.

The general interest rate level (the market interest rate) is also of decisive importance to price developments. If the market interest rate increases, interest-bearing financial instruments issued at the same time may offer a better yield. Normally there will then be a reduction in the prices of listed shares and already outstanding interest-bearing instruments with a lower interest rate. The reason is that the higher yield on newly issued interest-bearing instruments may relatively speaking be more attractive than the yield on shares, and on already outstanding interest-bearing instruments. Besides, the share price is negatively affected by the increase in the interest rate on the company's debt, which reduces the prospects for future gains on the part of the company.

Other factors relating directly to the company, e.g. changes to the company's management and organisation, production stops, etc., may also influence the future ability of the company to generate gains, both in the short and the long run. Companies may in the worst case perform so weakly that they have to be declared bankrupt. The share capital, i.e. the capital invested by the shareholders, has the lowest priority when it comes to receiving any payment from the estate in bankruptcy. All other liabilities of the company must first be paid in full. This will usually result in there being no funds left in the company after the payment of liabilities, thus implying that the shares of the company become worthless.

Price developments for financial instruments listed on major foreign regulated markets and other trading systems also influence price developments in Norway because, *inter alia*, several Norwegian companies are also listed on foreign regulated markets or traded in other trading systems. Price equalisation (arbitrage) will in such cases take place between the markets. The price of the shares of a company that belongs to the same industry/sector will often be influenced by changes in the share prices of other companies within the same industry/sector. Such influence can also extend to companies in different countries.

The players in the financial market often have different views about future share price developments. These factors, which also include how the company is valued, contribute to there being both purchasers and sellers. If the investors are of the same view as far as price developments are concerned, they will either purchase, in which case there is purchase pressure from the many purchasers, or they will sell, in which case there is sales pressure from the many sellers. The price will increase in case of purchase pressure, and decrease in case of sales pressure.

Trading, i.e. how much a specific share is purchased or sold, influences the share price. High trading volumes reduce the difference, also called the spread, between the price the purchasers are willing to pay (the bid price) and the price the sellers demand (the offer price). A share with a high trading volume, where large holdings may be traded without much impact on the price, are characterised by good liquidity and are therefore easy to purchase and sell.

Business framework conditions, both nationally and internationally, may also influence the share prices. Changes in the level of direct and indirect taxes nationally and in other countries influence the cost level of companies, and thereby the competitive situation. International agreements between countries concerning customs and duties upon the import and export of goods and services affect the competitive situation between companies, and thereby the share prices. Dramatic events like disasters, terrorist actions and war may have a major impact on share prices on stock exchanges all over the world.

Daily key figures for the prices at which the shares are traded, like "day high", "day low" and "closing", as well as information on trading volumes, are published, *inter alia*, in most major daily newspapers, by teletext and on various websites operated by regulated markets, investment firms and media businesses. How up to date such price information is may vary depending on the way in which it is published.

### **3.1.3 Stock trading – hereunder trading systems**

Only shares issued by public limited companies (ASA) or corresponding foreign companies can be listed on a regulated market (hereunder a stock exchange) in Norway. In addition, there are requirements with regard to the size, business history and ownership dispersion of the company, as well as the disclosure of information relating to the company's earnings, financial position and business activities in general.

Norway currently has two regulated markets for trading in equities; the Oslo Stock Exchange and Oslo Axess. Only the Oslo Stock Exchange is licensed as a stock exchange ([www.oslobors.no](http://www.oslobors.no)). Oslo Axess ([www.oslobors.no](http://www.oslobors.no)) is for all intents and purposes subject to the same rules as the Oslo Stock Exchange with regard to follow-up, monitoring and sanctioning of infringements of the regulatory framework governing trading in a regulated market. Trading in Norwegian equities may also take place in regulated markets abroad, and on multilateral trading facilities.

Trading in equities that are not listed on a regulated market takes place in the so-called OTC market. Trading in this market is partly based on information about prices and interests the brokerage houses present to each other. A brokerage house may, *inter alia*, enter purchase or sales interests in a trading support system operated by NOTC. See [www.vpff.no](http://www.vpff.no) for more information about the OTC list.

Generally speaking, investment in OTC equities is associated with considerable risk, hereunder liquidity risk and informational risk.

If a share is neither listed on a regulated market or traded on a multilateral trading facility, trading will normally take place by the brokerage house seeking to assist the client by contacting potential clients that may be interested in assuming the position of counterparties. This may also occur when trading in listed shares.

Trading in a regulated market or other trading facilities or through the broker network constitutes the secondary market in shares, primary capital certificates and bonds already issued by a company. If the secondary market works well, i.e. it is easy to identify purchasers and sellers, whilst bid prices from the purchasers and offer prices from the sellers are quoted on a continuous basis, together with closing prices for executed trades, the companies will benefit inasmuch as it becomes easier to issue new shares, and thereby raise more capital to fund the business activities of the company.

The primary market is the market for subscription to new shares (or primary capital certificates or bonds) issued by companies.

Shares registered in a regulated market or a trading facility are normally grouped into different segments depending on the market value of the company or the liquidity of the stock. These segments are typically published on the website of the relevant trading system, in newspaper and via other media. The companies listed on the Oslo Stock Exchange are grouped into four different segments depending on the liquidity of the stock; OBX 25, OB Match, OB Standard and OB New, respectively. Different shares may during the course of a day or longer periods be characterised by different degrees of price stability (volatility), i.e. frequency and magnitude of price changes. Shares in segments with high liquidity are normally assumed to entail less risk than shares in segments with less liquidity.

#### **3.1.4 Different classes of shares**

Shares may be available in different classes, usually Class A and Class B shares, which normally affect the exercise of voting rights at the shareholders' meetings of the company. Only a small number of the Norwegian companies listed on a stock exchange issue more than one class of shares. Class A shares will normally carry one vote, whilst Class B shares will normally carry limited or no voting rights. The difference in voting rights may reflect, for example, a desire to protect the original founders and the influence of the existing owners over the company by reinforcing their voting rights upon the dispersion of ownership.

#### **3.1.5 Nominal value, split and reverse split of shares**

The nominal value of a share is the amount of the share capital of a company represented by each share. The total number of shares of company multiplied by the nominal value of each share is the share capital of the company. A company may change the nominal value of its shares at times, e.g. because there has been a significant increase in the market price of such shares. By dividing each share into two or more shares, a so-called split, the nominal value of each share and the price of each share will be reduced at the same time. However, the capital of the shareholder remains unchanged after a split, although it is divided into a larger number of shares, each with a lower nominal value and a lower price.

A reverse split may be effected if, for example, there is a significant reduction in the share price. This involves combining two or more shares into one share. However, the capital of the shareholder remains unchanged after a reverse split, although it is divided into a lesser number of shares, each with a higher nominal value and a higher price.

#### **3.1.6 Initial public offerings, privatisations and takeovers**

An initial public offering involves the shares of a limited company becoming listed on a regulated market (hereunder a stock exchange), with the general public being offered an opportunity to subscribe for (purchase) shares of the company on the occasion of such listing. It will in most cases be an existing company, which has not previously been listed on any stock exchange, the owners of which have decided to increase the number of shareholders and, at the same time, facilitate trading in the shares of the company. An initial public offering by a government-held company is termed a privatisation or partial privatisation, depending on what ownership stake in such company the government is offering to sell to the general public.

A takeover will normally be effected by one or more investors offering the shareholders of a company the opportunity to sell their shares on certain terms. If the purchaser obtains more than 90% of the share capital and the voting rights of the company, the purchaser may effect a mandatory acquisition of the remaining shares held by those shareholders who have not accepted the takeover bid.

#### **3.1.7 Share issues**

If a limited company wishes to expand its business activities, it will often need additional capital. The company may raise such capital by, *inter alia*, issuing new shares. The existing shareholders will in most cases be granted pre-emptive rights to subscribe for shares under the issue. The number of shares one may subscribe for will in such case be determined by the number of shares already held by the relevant shareholder. The subscriber must pay a price (the issue price) for the newly issued shares that may be less than the market price. The price of the shares will usually fall immediately after the separation of the pre-emptive rights – which normally have a certain market value – from the shares. Those shareholders who hold pre-emptive rights, but who do not wish to subscribe for new shares, may during the subscription period (which often lasts for a few weeks) sell their pre-emptive rights in the regulated market on which such pre-emptive rights are listed. The pre-emptive rights will lapse upon the expiry of the subscription period and the allotment of shares, thus implying that they become unusable and of no value.

If the share premium reserve of a limited company has increased a lot in value, the company may assign part of such value to the shareholders through a so-called bonus issue. A bonus issue will be based on the number of shares already held by

each shareholder. The number of new shares offered to a shareholder under the bonus issue is determined by the number of shares previously held by such shareholder. The shareholder will be allotted more shares through the bonus issue, but the shareholder's portion of the share capital of the company will remain unchanged. The price per share will decline on the occasion of a bonus issue, but the increase in the number of shares results in the market value of the capital invested by a shareholder remaining unchanged.

Limited companies may also conduct a so-called private placement, which is implemented as a share issue, but only targeted at a limited group of investors. A private placement involves a so-called dilution of the voting rights and the share capital held by the existing shareholders of the company to the extent that such shareholders do not participate in the private placement, but the number of shares held will not be affected, nor will the market value of the invested capital normally be affected to the extent that the issue price is deemed to reflect the market value.

### **3.2 General information concerning equity-related instruments**

Instruments closely related to equities include primary capital certificates, convertible bonds, equity index-linked notes/index warrants, equity options and equity index options, as well as depositary receipts. Trading in such instruments normally takes place in a regulated market (hereunder a stock exchange), but these types of financial instrument may also be subject to OTC trading.

#### **3.2.1 Primary capital certificates**

Primary capital certificates share a number of similarities with equities. The differences have primarily to do with the right of ownership of the company assets and influence in the decision-making bodies of the issuer. There are also certain restrictions with regard to the distribution of dividends. The listed primary capital certificates in Norway are issued by savings banks. More information about primary capital certificates is available on [www.egenkapitalbevis.no](http://www.egenkapitalbevis.no).

#### **3.2.2 Convertible bonds**

Convertible bonds are interest-bearing securities that may, during a certain period of time, be converted into shares at a conversion rate/subscription price determined in advance. The interest rate on the convertible bonds is normally higher than the cash dividends on the shares into which the loan may be converted, but conversion offers the holder the possibility of a price gain if the share can be sold at a price higher than the conversion price. The price of the convertible bonds will normally fluctuate with the share price, and is expressed as a percentage of the nominal value of the convertible bond.

#### **3.2.3 Equity index-linked notes/other index-linked notes**

Equity index-linked notes/other index-linked notes are notes whose yield is not a specific interest rate, but depend on developments in an equity index or index basket or other benchmark. If there is a positive development in the index, this will be mirrored by the yield. A negative development in the index may result in a zero yield. The nominal value of the note will always be repaid on the maturity date, and consequently entails a limited risk of loss compared to equities and fund units. The risk associated with an investment in an equity index-linked note may (apart from any premium payable) be defined as the risk of loss of the alternative interest income one would have received if the money had instead been deposited in a bank account or invested in ordinary bonds, and materialises in case the underlying index does not develop positively to a sufficient extent.

#### **3.2.4 Equity options and equity index options**

There are different types of equity options. Acquired (purchased) call options give their owner the right to purchase, within a certain period of time, already issued shares at a predetermined price. Acquired (purchased) put options give their owner the right to sell, within a certain period of time, shares at a predetermined price. Each acquired option is matched by an issued (sold) option.

Index options and index warrants generate gains or losses depending on developments in the underlying index.

The price of an option (the option premium) will normally fluctuate in line with developments in the price of the relevant underlying shares or index. The instrument may embody leverage effects that further increase the risks and the potential gains. See below for more detailed information about derivatives.

#### **3.2.5 Warrants**

Trading also takes place in certain call and put options of longer duration than the standardised call options, usually called warrants. Warrants may confer a right to purchase underlying equities at a predetermined price, or entitle their holder to cash settlement if the price of the underlying equities exceeds the agreed future call price/exercise price.

### **3.2.6 Depository receipts**

Depository receipts are receipts confirming that shares are held in a depository, and confer, in principle, the same rights on their owner as does ownership of the actual shares. Depository receipts are traded like shares, and price developments will normally trace price developments in the regulated market abroad in which the share is traded.

## **4. Interest-bearing financial instruments (bonds)**

### **4.1 General information concerning bonds and notes**

An interest-bearing financial instrument is a right to payments from the issuer of a loan. The yield normally takes the form of interest (coupon). There are different forms of interest-bearing instruments, depending on who is the issuer, the collateral furnished by the issuer to secure the loan, the term until the maturity date and the form of interest payment. A distinction is also usually made between bonds, which have a term of 12 months or more, and notes, which are instruments with a term of up to 12 months.

The interest (coupon) is normally paid at either a fixed or a floating rate. On certain loans, no interest is paid, with only the nominal value being paid on the maturity date of the loan (zero-coupon loans). The purchase of zero-coupon instruments takes place at a significant discount, which results in the effective interest rate being similar to that on instruments offering continuous coupon payments.

The risk associated with an interest-bearing instrument is partly the risk that the price may change during its term because the market interest rate changes, and partly the risk that the issuer is unable to repay the loan. Consequently, loans for which repayment is secured by adequate collateral are less risky than loans without collateral.

It may be said, as a general observation, that the risk of loss on interest-bearing instruments is deemed to be less than on equities. However, there are significant differences in the risks associated with different bonds, with government-guaranteed bonds and unsecured high yield bonds (junk bonds) representing two extremities.

The market interest rate is determined in the money markets every banking day. The market interest rate is influenced by analyses and assessments made by Norges Bank and other large institutional market players with regard to future developments in financial factors like inflation, business cycles, and interest rates in Norway and in other countries in the short and the long run. Norges Bank also conducts operations in the money and foreign exchange markets for the purpose of managing developments in the market interest rate in such a way that inflation does not increase above, or decrease below, a certain defined target.

If the market interest rate increases, the price of debt instruments with a fixed interest rate will typically fall since new loans will then be issued at an interest rate that reflects the current market interest rate, thus offering a higher interest rate than does the instrument issued previously. Conversely, the price of previously issued instruments will rise when the market interest rate declines.

Loans issued by central government, regional government or local government (or guaranteed by them) are held to be virtually risk free when it comes to repayment at the predetermined value as per the maturity date.

### **4.2 Trading in bonds**

Some bonds are listed, and these financial instruments are consequently traded, in the same way as listed equities, in a regulated market. In addition, the Oslo Stock Exchange offers an alternative market place for trading in bonds and notes – the Alternative Bond Market (ABM). The ABM is a separate market place that is neither regulated pursuant to, nor subject to the licence requirements of, the Stock Exchange Act, although it is administrated and organised by the Oslo Stock Exchange. Besides, there is considerable trading in unlisted bonds through investment firms.

Trading in bonds may in practice differ from stock trading, inasmuch as the interest rate and foreign exchange markets are, to a larger extent, quote-driven markets, unlike the stock market, which is typically an order-driven market. This reflects the fact that there is traditionally more market making and own-account trading with clients on the part of banks/investment firms in the interest rate and bond markets, but this varies from product to product.



Generally speaking, there are no market makers quoting prices for the bonds and notes typically offered by Pareto, and Pareto will normally not be trading on its own account, but will broke trades between clients/others at a brokerage fee in the form of a spread.

## 5. Derivative instruments

Derivative instruments, like options, futures, etc., are issued by reference to various forms of underlying assets, for example equities, bonds, commodities and foreign exchange.

Trading in derivative instruments is associated with special risks, which will be described in more detail below.

Certain derivatives trades may result in the client having to furnish separate collateral (margin requirements), for example upon the sale of options without owning the underlying equity, as well as the purchase and sale of futures, forwards and swap agreements. The margin requirements will vary depending on, *inter alia*, the underlying security, the type of instrument, the term and volatility of the instrument, and may vary considerably from day to day. If the client does not satisfy the margin requirements, a forced sale will typically be executed for all the derivatives positions of the client, which may result in a considerable loss for the client. The client must therefore act swiftly and furnish additional collateral or close positions in the event of uncovered margin requirements.

### 5.1 Use of derivative instruments

Derivative instruments are a form of agreements (contracts), with the actual agreement being traded in the capital market for financial instruments. The derivative instrument relates to an underlying asset or to an underlying parameter. This asset or parameter (in the following only called asset) may be another financial instrument, another asset of financial value (for example foreign exchange or commodities) or a form of value barometer (e.g. an index). Derivative instruments may be used to protect against expected unfavourable price developments for the underlying asset.

They may also be used to achieve a gain or yield with a smaller capital investment than would be required to make a corresponding trade directly in the underlying asset ("leveraged investment"). Derivative instruments may also be used for other reasons.

The use of derivative instruments is premised on a certain expectation as to how the price of the underlying asset will develop over a certain period of time. It is important that the client is aware, prior to the commencement of trading in derivative instruments, of the purpose thereof and what price developments may be expected for the underlying asset, and select, on the basis hereof, the appropriate derivative instrument or combination of such instruments.

### 5.2 Various types of derivative instruments

The main types of derivative instruments are options, futures and swap agreements.

#### 5.2.1 Option

An option is an agreement implying that one party (the issuer of an options contract) undertakes to purchase or sell the underlying asset to the other party (the holder of the contract) at a predetermined price (the exercise price/strike price). When such right may be exercised depends on what type of option is involved. An American option allows the right to be exercised throughout its term. A European option only allows the right to be exercised on the expiry date.

The holder pays a premium to the issuer and becomes entitled to exercise the rights under the contract, but is under no obligation to do so. The issuer, on the other hand, is obliged to perform the contract if requested by the holder.

The price of the option will normally trace the price of the underlying asset.

#### Call options

By purchasing a call option, one obtains a right to purchase underlying assets at a future date at a predetermined price (the exercise price, also called the strike price). When purchasing a call option, one pays an option premium, as well as costs in relation to trading and administration of the option agreement.

The maximum potential loss for the holder of a call option is the option premium and the costs paid. The maximum loss will be incurred if the price of the underlying financial instrument remains below or equal to the strike price. The potential gain is, in theory, unlimited. The gain is the value of the underlying financial instrument as per the exercise date, less the strike price and the option premium, including costs.



By issuing/selling a call option, the issuer assumes an obligation to sell (if the holder exercises his or her right to purchase) the underlying assets at a future date at a predetermined price. When selling a call option, one receives an option premium, less costs in relation to trading and administration of the option agreement.

The potential gain for the issuer is limited to the net option premium. If the strike price remains higher or equal to the market price of the underlying financial instrument, one gets to keep the option premium without the holder normally requesting the purchase of the securities.

If the issuer has hedged his or her position by owning the underlying financial instruments, no loss is incurred in case of a price increase, but one loses out on any increase in value over and above the option premium. In case of a price reduction there will be incurred a loss on the underlying instruments, but this is compensated by the option premium. The position comprising underlying instruments and an issued call option will incur an overall loss if the market value of the underlying instruments falls more than the option premium.

If the issuer has not hedged by owning the underlying financial instruments, the potential loss of the issuer is unlimited in case of a price increase. If the holder exercises the option, the issuer must purchase the financial instruments in the market at market price. The loss is calculated as the market value of the underlying financial instruments, less the strike price, less the option premium.

#### Put options

By purchasing a put option, one obtains a right to sell underlying assets at a future date at a predetermined price (the exercise price/strike price). When purchasing a put option, one pays an option premium, as well as costs in relation to trading and administration of the option agreement.

The maximum potential loss for the holder of a put option is the option premium and the costs paid. The maximum loss will be incurred if the price of the underlying financial instrument remains above or equal to the strike price.

The potential gain is limited to the strike price, less the value of the underlying financial instrument as per the exercise date and the option premium, including costs. If the holder of a put option is the owner of the underlying instruments, this gain will provide him or her with a price hedge against loss on the underlying investment.

By issuing/selling a put option, the issuer assumes an obligation to purchase (if the holder exercises his or her right to sell) the underlying assets at a future date at a predetermined price. When selling a put option, one receives an option premium, less costs in relation to trading and administration of the option agreement.

The potential gain for the issuer is limited to the net option premium. If the strike price remains lower or equal to the market price of the underlying financial instrument, the issuer gets to keep the option premium without the holder normally requesting the sale of the securities.

The issuer of the option will incur a loss in case of price reduction if the value of the underlying financial instruments falls below the strike price. The loss is limited to the difference between the strike price and the market value of the underlying instruments, less the net option premium.

#### 5.2.2 Futures

A future involves the parties concluding a mutually binding agreement on the purchase or sale of the underlying assets at a predetermined price and with delivery or other implementation of the agreement at a specified time.

Futures trades do not involve the payment of any option premium, but the agreed futures price will normally be determined as the spot price (current market price) of the underlying financial instrument, plus the interest cost until the settlement date of the future. In addition, one needs to pay costs in relation to trading and administration of the futures contract.

In futures trading, the purchaser assumes all price risk associated with the underlying financial instrument. If the price decreases, there is incurred a loss equal to the difference between the value of the underlying financial instrument and the futures price. If the price increases, there will accrue a corresponding gain equal to the difference between the value of the underlying financial instrument and the futures price. In addition, the purchaser assumes a credit risk with regard to whether the seller delivers the agreed financial instruments on the settlement date.

A seller who owns the underlying financial instruments assumes no risk in relation to price developments for the underlying financial instruments, only a credit risk with regard to whether the purchaser is able to pay the agreed amount on the settlement date.

If the seller does not own the underlying financial instruments, his or her potential loss is, in theory, unlimited in case of a price increase. The loss is calculated as the value of the underlying financial instruments, less the agreed futures price. Correspondingly, a gain will accrue on the part of the seller in case of a price reduction, calculated as the futures price less the value of the underlying financial instruments. The seller also assumed a credit risk with regard to whether the purchaser is able to pay the agreed amount on the settlement date.

### **5.2.3 Swap agreement**

A swap agreement involves the parties agreeing to make payments to each other on an ongoing basis, for example calculated on a fixed or a floating interest rate (interest rate swap), or to swap, at a specific point of time, certain assets with each other, for example different currencies (currency swap).

## **5.3 Defining characteristics of derivative instruments**

One may describe trading in derivative instruments as the trading in, or the transfer of, risk. Those expecting, for example, a price reduction in the market, may purchase put options that increase in value if the market slumps. In order to reduce or avoid the risk of a price reduction, the purchaser pays a premium, i.e. the cost of the option.

Trading in derivatives can in many instances not be recommended for clients with little or limited experience from trading in financial instruments, as such trading often requires special knowledge. It is important for those intending to trade in such instruments to be aware of the following defining characteristics of derivative instruments:

The structure of a derivative instrument implies that price developments for the underlying assets are reflected in the price of the derivative instrument. This knock-on effect on prices will typically result in a change in the value of the derivative instrument that is relatively larger than the change in the value of the underlying assets. The knock-on effect on prices is therefore called the leverage effect, and may result in a larger gain on the invested capital than if the investment had been made directly in the underlying assets. On the other hand, the leverage effect will result in a higher risk of loss than would be associated with an investment in the underlying assets.

The leverage effect varies depending on the structure and area of use of the derivative instrument. Certain derivative instruments may involve a multiplier effect, for example with the cash amount to be paid under the derivative instrument being calculated as the change in the price of the underlying instrument or index multiplied by 2, 5 or another number larger than 1. For certain derivative instruments the multiplier may, however, be less than 1.

There are consequently strict requirements with regard to the monitoring of price developments for the derivative instrument and the underlying assets. The client should be prepared, in his or her own interest, to act swiftly, often on the same day, if the investment in the derivative instrument takes an unfavourable turn.

The party assuming an obligation by issuing an option or concluding a futures contract, is required to furnish collateral in respect of his or her position from the very start. The collateral requirement will change in response to increases or decreases in the price of the underlying assets, and consequently in response to increase or decreases in the value of the derivative instrument. Additional collateral in the form of supplementary collateral may therefore be required. If the client fails to furnish sufficient collateral, the clearing organisation or the investment firm will be entitled to terminate, without the consent of the client, the investments (closing all derivative positions) in order to curtail the loss. A client should thus closely monitor price developments and collateral requirements in order to avoid the involuntary closure of the position.

The term of derivative instruments may vary from a very short period to several years. The relative price change is often most pronounced for instruments with a short (remaining) term. The price of, for example, a held option will generally fall more steeply towards the end of its term as its time value declines. The client should therefore also closely monitor the term of the derivative instruments.

## **5.4 Standardised and non-standardised derivative instruments**

Derivative instruments are traded in standardised and non-standardised forms.

### **Standardised derivative instruments**

Trading in standardised derivative instruments takes place in regulated markets and according to agreements and terms that are standardised by a stock exchange or a clearing organisation. In the Norwegian derivatives market, for example, the Oslo Stock Exchange offers trading in standardised options and futures. The following regulated markets in Norway offer trading in standardised derivative instruments:

- Oslo Børs ASA\* – trading in standardised options and futures
- Nord Pool ASA\*\* - trading in, and clearing of, financial energy contracts
- Imarex ASA\*\*\* – trading in, and clearing of, freight derivatives, etc.
- FishEx ASA\*\* – trading in salmon contracts
- Fish Pool ASA\*\*\* – trading in salmon contracts

\*All trades on the Oslo Stock Exchange are cleared by Oslo Clearing ASA.

\*\*All trades on Nord Pool ASA and FishEx ASA are cleared by Nord Pool Clearing ASA.

\*\*\*All trades on Fish Pool ASA and Imarex ASA are cleared by NOS Clearing ASA

Trading in foreign standardised derivative instruments will normally be governed by the rules and terms of the country in which the stock exchange trade and clearing are organised. It is important to note that such foreign rules and terms will not necessarily coincide with those applicable in Norway.

#### Non-standardised derivative instruments

Some investment firms offer their own forms of derivative instruments, which are not traded in regulated markets. Such derivative instruments are referred to as non-standardised derivative instruments (OTC derivatives). Those wishing to trade in this type of derivative instruments should study the agreements and terms governing the trading therein with particular care.

### 5.5 Clearing

The clearing of derivatives involves clearing institutions assuming the role of counterparty between the purchaser and the seller of derivatives contracts, and guaranteeing the settlement of the contract. The clearing institution acts as seller in relation to the purchaser and as purchaser in relation to the seller. In the standardised derivatives market, derivatives contracts tend to be cleared by a licensed clearing institution. In the OTC market it is the investment firm that will typically assume this role.

### 5.6 Definitions

Please note that the below definitions are base definitions, and that the form of settlement (delivery of underlying instruments or cash settlement or combinations thereof) and other terms and conditions may vary from one derivative to another. Different markets also use, to some extent, different definitions, and the trading rules governing each individual derivative instrument must always be consulted.

**Option.** An agreement granting one party (the “Holder”) a right, without any obligation, during a specified period of time, to purchase (“Call Option”) or sell (“Put Option”) an agreed quantity of financial instruments at a predetermined price from/to the other party (the “Issuer”).

**Future.** An agreement under which both the purchaser and the seller has agreed that financial instruments shall be transferred from the seller to the purchaser at an agreed price on an agreed date that is further into the future than the ordinary settlement deadline for the underlying financial instrument to which the agreement pertains.

**Index option/Index future.** An agreement where the underlying parameter is not a security, but an index. Such an agreement is not settled through the delivery of financial instruments, but through payment of the cash value of the agreement.

**Contract for difference.** An agreement with exactly the same risk profile as a future, although no delivery of the underlying financial instruments shall take place upon expiry. A cash payment is made upon expiry, based on the difference between the swap price and the market price as per the expiry date.

**Short sale.** Sale of financial instruments one does not own, but has borrowed in order to perform correct settlement. The financial instruments have to be purchased at a later date and handed back to the lender.

**Underlying financial instrument(s).** These are the financial instrument(s) the option entitles the Holder to sell or purchase, or the financial instrument(s) agreed to be traded under a future, or the financial instrument(s) agreed to be used as the calculation basis under a price swap.

**Exercising** an option means to demand settlement under the option, for example by effecting a trade in the underlying financial instrument pursuant to the option agreement.

**Expiry date.** The date on which an option must either be exercised or will expire without value. The expiry date of a future is the date on which the agreement enters a settlement phase, typically by changing into a trade with an ordinary settlement deadline for delivery of the underlying financial instrument in return for the payment of a purchase price.

**Settlement date.** The date on which a future, option or price swap is finally discharged by the delivery of the underlying financial instruments in return for the agreed purchase price, or the cash settlement falls due for payment. The settlement date is normally three stock exchange days after the expiry date.

**American option/future.** An option/future that may be exercised by the Holder, in full or in part, at any given time until the agreed time on the expiry date.

**European option/future.** An option/future that may only be exercised on the expiry date.

**Spot price.** The price at which the security is traded for ordinary delivery on the third stock exchange day after the trading day.

**Strike price/Exercise price.** The agreed price at which an option shall be exercised.

**Futures price.** The agreed price at which a future shall be settled.

**Swap price.** The agreed price at which a price swap shall be settled.

**Option premium.** The amount the Holder has paid the Issuer to purchase the option.

**Hedging share/Hedge.** If a seller of an option/future/swap does not want to assume price risk, he or she purchases/short sells such a number of the underlying security that any increase in the value of the sold derivative is cancelled out by a corresponding increase in the value of the underlying securities. The securities thus hedging the issuer against price risk are often called hedging shares or hedges.

## 6. Project finance companies

A project finance company is typically established for the purpose of acquiring and operating an asset or several similar assets, typically a vessel or a property. Irrespective of the legal structure of the project finance company there is, in addition to the different types of risk aspects described above in Section 2.2, certain risk elements the client should take into consideration when evaluating an investment in a project finance company. These are:

**Liquidity risk** - No established market place exists for the trade of shares in shipping, offshore or real estate projects. The liquidity in the secondary market is subject to large variations, and differs from project to projects. During some periods, it may be difficult to trade shares at all in the secondary market.

**AIFM risk** - The Alternative Investment Fund Managers Directive and the Norwegian implementation of the directive is recent, and there are still some unresolved/unclear issues. For each projects Pareto consider whether the company falls outside of the scope of the AIFMD due to its industrial purpose, i.e. because the company shall generate returns through its operations and not necessarily by divesting the assets owned by the company, or whether it is to be considered an AIF. There is a risk that a company deemed a non-AIF may be considered an AIF, which would among other result in additional costs to a depositary and a manager.

**Leverage effect risk** – The project finance company may be leveraged up to 80-90 per cent. Such leverage enables the company to make larger investments than otherwise possible, and increases potential returns. At the same time, leverage increases risk related to the invested capital, as the effect of falling values in underlying projects will increase. As an example, a leverage of 50 % will magnify the effect of a value increase or decrease on the invested capital by a factor of two (i.e. double the effect).

For project finance companies organised as public or private limited liability companies reference is made to Section 3 "Equities and equity-related instruments" above. Project finance companies may also be organised as partnership companies that are taxed at the partner's hand and is in itself not a separate taxpayer. In such partnership company each partner (investor) is therefore taxed on his prorated part of the profit or loss, determined as if the partnership was a separate taxpayer.

An internal partnership (*NO: indre selskap/IS*), is unlike other partnership structures in that it does not present itself to third parties as a legal entity. The legal ramifications, including the investor's liability for called-up capital, and the risks associated with non-payment of capital, are in most cases the same as for a limited partnership. However, the Partnership

Act is silent regarding any committed capital requirement in a Silent Partnership. Both internal partnerships and limited partnerships (both the general partner and the limited partners) are regulated by the Norwegian Partnership Act of 1985, although in the case of the internal partnership the Principal Partner (the company that fronts the business and is visible to the outside world) is often subject to the rules of the Norwegian Private Limited Liability Companies Act.

A limited partnership (NO: *kommandittselskap/KS*) is one type of general partnership, in which at least one partner has unlimited liability for the firm's obligations (general partner), and at least one other partner has a limited, fixed-sum liability for the firm's obligations (limited partner). The investor will normally invest as a limited partner, although it is also possible to invest as the general partner. All limited partnerships are required to have a certain amount of committed capital, and normally the commitment is called in from the investors gradually as the need arises. Accordingly, an investor may have a payment obligation even after paying the subscription capital, and there are risks associated with non-payment of these capital calls.

## 7. Securities fund

A securities fund is a "portfolio" of different financial instruments, comprising for example equities and/or bonds. The fund is owned by all those who invest in the fund; the unit holders, and is managed by a management company. There are different types of securities funds with different investment strategies and risk profiles. Below follows a short description of the most common types of securities funds<sup>6</sup>:

**Equity fund** - a securities fund that shall normally invest no less than 80 percent of the fund's assets under management in equities (or other equity instruments) and that shall normally not invest in interest-bearing securities.

**Combination fund** - a securities fund that is not defined as purely an equity fund or purely a fixed-income fund. A combination fund may be characterised by a more or less permanent bias towards equities or fixed-income securities, but the proportional distribution of various securities may also change over the life of the fund.

**Fixed-income fund** - a securities fund that shall invest in other securities than equities. The fixed-income funds are grouped into bond funds and money market funds.

**Index fund** – a securities fund that is managed rather passively in relation to the benchmark index of the fund.

**Fund of funds** - a securities fund that invests in one (or several) underlying securities fund(s).

**Hedge fund (specialised fund)** – there is no exact definition of the term hedge fund, and the variation between the various hedge funds may be very considerable as far as investment choice and risk profile are concerned. A hedge fund is not required to comply with the Norwegian Securities Funds Act or the UCITS Directive, and the hedge funds are at liberty to use various financial instruments. The fund may in most cases engage in borrowing, and will usually have considerable liberty when it comes to using various derivatives. A hedge fund may also engage in short trading of securities, which implies that the fund sells borrowed securities, and then purchases the borrowed securities at a later date.

The units may be purchased and redeemed (sold) via the management company. The current value of the units will be calculated by the management company on a daily basis, and will be based on developments in the price of the financial instruments in which the fund has invested. There also exist units in funds that may be traded in a regulated market (Exchange Traded Funds – "ETF").

One of the ideas behind an equity fund is to invest in several different equities and other financial instruments. This implies that the risk assumed by the unit holders is less than the risk assumed by those shareholders who invest in only one stock, or a small number of stocks. The unit holders are relieved of having to select, purchase and sell, as well as monitor, the equities, and also of carrying out other management efforts associated therewith.

## 8. Short trading

Short trading means selling financial instruments that one does not own (by borrowing shares from the investment firm or otherwise). At the same time, the borrower undertakes to return instruments of the same type to the lender on an agreed future date.

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<sup>6</sup> Source: [www.vff.no](http://www.vff.no)

Short trading is used as an investment strategy when it is expected that the value of the stock will slump. On the sales date, the borrower expects to be able to purchase the borrowed instruments in the market, on the date when these are going to be handed back, at a price lower than that at which these instruments were sold. If the price does instead increase, a loss will be incurred, which loss may be considerable in case of a steep price increase.

## 9. Leveraged trading

Financial instruments may in many cases be purchased with partially borrowed capital. Since both the client's own capital and the borrowed capital is used to acquire securities, borrowing may generate a higher gain for the client, if the investment develops favourably, than would be achieved through an investment made with the client's own capital only.

The debt associated with the borrowed capital is not affected by whether the prices of the purchased instruments change in a favourable or unfavourable direction, which is an advantage as long a price developments are favourable. The debt remains unchanged if the price of the purchased instruments changes in an unfavourable direction. This depletes the client's own invested capital, and he or she also risks the lender calling for the debt to be repaid. Consequently, a price reduction may result in the client's own invested capital being lost in full or in part whilst, at the same time, the debt can only be partially repaid from the sales income from financial instruments that were purchased, thus implying that the residual debt must be repaid from other funds.

A couple of examples: If the purchaser has used NOK 500,000 of his own funds and NOK 500,000 in borrowed funds to purchase equities, all of his or her own capital will be lost if the investment falls 50% in value. If he or she has borrowed NOK 600,000 and invested NOK 400,000 of his or her own capital, he or she would in this scenario have to repay NOK 100,000 of the debt from other funds, after having sold the purchased securities.

## 10. Exchange Traded Notes (ETN)

An ETN is a listed debt security issued by a bank, the yield on which is linked to developments in the value of an underlying commodity, market, index or equity.

Certain ETNs provide a leveraged exposure, and some ETNs will in addition to the exposure to the underlying benchmark provide foreign exchange exposure. Unlike Exchange Traded Funds (ETF), the holder will not own any stake in the underlying security.

ETNs can offer a wide range of different characteristics. One should, prior to making the investment, thoroughly review the product information and the base prospectus for the product in which one would like to invest. Such information is available from the issuer of the relevant ETN.

The risk associated with holding an ETN is primarily related to developments in the value of the relevant underlying commodity, market, index or equity. There will also be a credit risk relating to the issuer of the product, which issuer will also charge an administration fee. Moreover, there will be liquidity risk when wanting to sell the product.

There is a risk, when purchasing an ETN, that the entire purchase price may be lost. ETNs are volatile products that are not suitable for long-term investment. We also advise against borrowing money to trade in this type of product.

## 11. Contingent convertible bonds

Contingent convertibles are perpetual debt instruments. If their issuer were to experience financial distress, contingent convertibles may be converted to equity or suffer write-down of principal. Having properties in common with both equity and debt they are called "hybrid" instruments.

Contingent convertibles are typically issued by financial institutions like savings banks and insurance companies. Under normal circumstances they offer investors a somewhat higher yield than conventional debt instruments. This higher return comes with a higher risk. Holders of contingent convertible bonds risk being obliged to suffer loss absorption according to the instrument's position between equity and traditional debt in the order of priority on the balance sheet. Such circumstances are formalized as predefined conditions in the bond agreement.

Common equity has the lowest priority and would be the first to suffer write-down. Hybrid capital such as contingent convertibles would be the next asset class to risk principal write-down or conversion. Regulatory authorities can instruct issuers to let this capital absorb losses. Furthermore, the issuer has the option to cancel coupon payments.

Contingent convertibles are complex instruments, and this description of risks is not exhaustive. We encourage investors who consider buying contingent convertible bonds to study the bond agreement carefully and get acquainted with all the inherent sources of risk.

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