

## Customer Account Agreement

You should be with PFG.





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# PFG ACCOUNT MATRIX

**Instructions: Find Your Account Type (at the top of the page). Read and sign the appropriate forms.**

Type of Form	Page	Individual Speculative	Managed Individual Speculative	Individual Hedge	Sole Proprietorship	Managed Sole Proprietorship	Sole Proprietorship Hedge	Joint Speculative	Joint Managed	Joint Hedge	Partnership Speculative	Partnership Managed	Partnership Hedge	LLC/ Corporation Speculative	LLC/ Corporation Managed	LLC/ Corporation Hedge	Trust Speculative	Trust Managed	Trust Hedge
Account Application	3	Required	Required	Required	Required	Required	Required	Required	Required	Required	Required	Required	Required	Required	Required	Required	Required	Required	Required
Customer Agreement	5	Required	Required	Required	Required	Required	Required	Required	Required	Required	Required	Required	Required	Required	Required	Required	Required	Required	Required
SS # or Tax ID Certification	14	Required	Required	Required	Required	Required	Required	Required	Required	Required	Required	Required	Required	Required	Required	Required	Required	Required	Required
Hedging Agreement	14	Not Applicable	Not Applicable	Required	Not Applicable	Not Applicable	Required	Not Applicable	Not Applicable	Required	Not Applicable	Not Applicable	Required	Not Applicable	Not Applicable	Required	Not Applicable	Not Applicable	Required
Risk Disclosure Statement	15	Required	Required	Required	Required	Required	Required	Required	Required	Required	Required	Required	Required	Required	Required	Required	Required	Required	Required
Arbitration Agreement	31	Optional	Optional	Optional	Optional	Optional	Optional	Optional	Optional	Optional	Optional	Optional	Optional	Optional	Optional	Optional	Optional	Optional	Optional
Corporate Resolution	32	Not Applicable	Not Applicable	Not Applicable	Not Applicable	Not Applicable	Not Applicable	Not Applicable	Not Applicable	Not Applicable	Not Applicable	Not Applicable	Not Applicable	Not Applicable	Not Applicable	Not Applicable	Not Applicable	Not Applicable	Not Applicable
LLC Addendum	33	Not Applicable	Not Applicable	Not Applicable	Not Applicable	Not Applicable	Not Applicable	Not Applicable	Not Applicable	Not Applicable	Not Applicable	Not Applicable	Not Applicable	Not Applicable	Not Applicable	Not Applicable	Not Applicable	Not Applicable	Not Applicable
Personal Guarantee	34	Not Applicable	Not Applicable	Not Applicable	Not Applicable	Not Applicable	Not Applicable	Not Applicable	Not Applicable	Not Applicable	Not Applicable	Not Applicable	Not Applicable	Not Applicable	Not Applicable	Not Applicable	Not Applicable	Not Applicable	Not Applicable
IRS Form W-9	35	Required if Non-Resident	Required if Non-Resident	Required if Non-Resident	Required if Non-Resident	Required if Non-Resident	Required if Non-Resident	Required if Non-Resident	Required if Non-Resident	Required if Non-Resident	Required if Non-Resident	Required if Non-Resident	Required if Non-Resident	Required if Non-Resident	Required if Non-Resident	Required if Non-Resident	Required if Non-Resident	Required if Non-Resident	Required if Non-Resident
Transfer Agreement	36	Required if Transferring	Required if Transferring	Required if Transferring	Required if Transferring	Required if Transferring	Required if Transferring	Required if Transferring	Required if Transferring	Required if Transferring	Required if Transferring	Required if Transferring	Required if Transferring	Required if Transferring	Required if Transferring	Required if Transferring	Required if Transferring	Required if Transferring	Required if Transferring
Income Statement	37	If Applicable	If Applicable	If Applicable	If Applicable	If Applicable	If Applicable	If Applicable	If Applicable	If Applicable	If Applicable	If Applicable	If Applicable	If Applicable	If Applicable	If Applicable	If Applicable	If Applicable	If Applicable
Net Worth Statement	37	If Applicable	If Applicable	If Applicable	If Applicable	If Applicable	If Applicable	If Applicable	If Applicable	If Applicable	If Applicable	If Applicable	If Applicable	If Applicable	If Applicable	If Applicable	If Applicable	If Applicable	If Applicable
2nd Account Statement	37	If Applicable	If Applicable	If Applicable	If Applicable	If Applicable	If Applicable	If Applicable	If Applicable	If Applicable	If Applicable	If Applicable	If Applicable	If Applicable	If Applicable	If Applicable	If Applicable	If Applicable	If Applicable

## Supplemental Forms

Additional Risk Disc. Concerns	If Applicable	If Applicable	If Applicable	If Applicable	If Applicable	If Applicable	If Applicable	If Applicable	If Applicable	If Applicable	If Applicable	If Applicable	If Applicable	If Applicable	If Applicable	If Applicable	If Applicable	If Applicable	If Applicable
Discretionary Acct. Documentation	Not Applicable	Required	Not Applicable	Not Applicable	Not Applicable	Required	Not Applicable	Not Applicable	Required	Not Applicable	Not Applicable	Required	Not Applicable	Not Applicable	Required	Not Applicable	Not Applicable	Required	Not Applicable
Additional Documents	Not Applicable	Not Applicable	Not Applicable	Not Applicable	Not Applicable	Not Applicable	Not Applicable	Not Applicable	Not Applicable	Not Applicable	Partnership Agreement	Partnership Agreement	Partnership Agreement	Corporate Processing Agreement	Corporate Processing Agreement	Financial Statement	Trust Agreement	Trust Agreement	Trust Agreement

**Account Application**

- Please print in ink
- Do not type
- Designate N/A for those areas that do not apply

**Check Only One**

- Individual
- Trust
- General Partnership
- Joint Tenants with Right of Survivorship
- Sole Proprietorship
- Corporation/LLC
- Limited Partnership
- Joint Tenants in Common
- Pension Plan/IRA
- Commodity Pool
- Other \_\_\_\_\_

**ACCOUNT INFORMATION**

Account Title: \_\_\_\_\_  
Account Mailing Address: \_\_\_\_\_  
Telephone number for account transaction information: \_\_\_\_\_  
E-mail Address: \_\_\_\_\_

**CUSTOMER INFORMATION**

This form is to be completed for each participant in the account, individually, jointly, by all general partners, and by the corporate officers authorized to make trading decisions for the account. For the purpose of this document the term "Customer" always refers to the entity or person(s) for which this Application has been made, regardless of legal description. Federal law requires all financial institutions to obtain, verify and record information that identifies each person who opens an account. In addition to the following information, we may also ask to see your driver's license or other identifying documents.

**Individual #1:**

Full Name: \_\_\_\_\_ Date of Birth: \_\_\_\_\_  
Street Address: \_\_\_\_\_ Apartment/Suite: \_\_\_\_\_  
City: \_\_\_\_\_ State: \_\_\_\_\_ Zip: \_\_\_\_\_ Marital Status: \_\_\_\_\_  
Telephone: \_\_\_\_\_ Soc. Sec. # or Tax ID#: \_\_\_\_\_  
Number of Dependents: \_\_\_\_\_ Citizenship: U.S. Citizen  Yes  No. If no, what country? \_\_\_\_\_  
Employer's Name: \_\_\_\_\_ Years There: \_\_\_\_\_  
Nature of Business: \_\_\_\_\_ Position Held: \_\_\_\_\_  
Employer's Telephone: \_\_\_\_\_ Employer's Address: \_\_\_\_\_  
If joint account, percentage of ownership: \_\_\_\_\_%

**Individual #2:**

Full Name: \_\_\_\_\_ Date of Birth: \_\_\_\_\_  
Street Address: \_\_\_\_\_ Apartment/Suite: \_\_\_\_\_  
City: \_\_\_\_\_ State: \_\_\_\_\_ Zip: \_\_\_\_\_ Marital Status: \_\_\_\_\_  
Telephone: \_\_\_\_\_ Soc. Sec. # or Tax ID#: \_\_\_\_\_  
Number of Dependents: \_\_\_\_\_ Citizenship: U.S. Citizen  Yes  No. If no, what country? \_\_\_\_\_  
Employer's Name: \_\_\_\_\_ Years There: \_\_\_\_\_  
Nature of Business: \_\_\_\_\_ Position Held: \_\_\_\_\_  
Employer's Telephone: \_\_\_\_\_ Employer's Address: \_\_\_\_\_  
If joint account, percentage of ownership: \_\_\_\_\_%

(Attach a copy of this page for additional individuals of this account.)

**Customer Agreement**

The following confidential financial information is needed to open your account. Joint or Partnership Customers must provide combined financial information. For information on completing the following, see paragraph 24 of the Customer Agreement.

**ALL QUESTIONS MUST BE ANSWERED.**

- 1. Annual Income (U.S. Dollars):
  - Over \$100,000
  - \$50,000 to \$100,000
  - \$25,000 to \$50,000
  - If less than \$25,000 - please complete the Net Income statement on page 37

- 2. Net Worth (excluding equity in home) (U.S. Dollars):
  - Over \$100,000
  - \$50,000 to \$100,000
  - \$35,000 to \$50,000 - please complete the Net Worth statement on page 37
  - Less than \$35,000

- 3. Liquid Net Worth (U.S. Dollars):
  - Over \$50,000
  - \$30,000 to \$50,000
  - \$15,000 to \$30,000
  - Less than \$15,000

- 4. Have you ever declared bankruptcy?  Yes  No  
(If yes, please provide a copy of your Order of Discharge)

- 5. Do you have or ever had any other account with PFG?  Yes  No  
If yes, account number: \_\_\_\_\_

- 6. Are you now or were you ever an NFA, NASD, CFTC or SEC member?  
 Yes  No If yes, Reg. Status and Sponsor: \_\_\_\_\_

- 7. Investment Experience – Must Check Yes or No
  - Stocks/Bonds  Yes  No
  - Funds  Yes  No
  - Commodities  Yes  No
  - Options  Yes  No

- 8. What type of account are you opening? (Must check one)
  - Speculative account  Hedge account

- 9. Do you intend to trade security futures products ("SFP")?  
 Yes (See SFP risk disclosure on page 21)  No  
If yes, what are your investment objective/risk tolerance?  
\_\_\_\_\_  
If your objective is to produce income, do you understand that there is risk of loss in trading these contracts?  Yes  No

- 10. Are you a "control person" or an "affiliate" of a public company as defined by SEC Rule 144? This would include, but not necessarily limited to, 10% shareholders, policymaking executives and members of the Board of Directors.  
 Yes Trading Symbol \_\_\_\_\_  No  
Company Name \_\_\_\_\_

- 11. Do you understand:
  - a) Futures Trading  Yes  No
  - b) Risk of Loss  Yes  No
  - c) PFG's Margin Policy  Yes  No
  - d) Foreign Exchange Trading  Yes  No

- 12. Principal Bank Reference  
Branch \_\_\_\_\_  
City/State \_\_\_\_\_

- 13. Does any other person, other than the account owner(s) have the authority to trade this account?  Yes  No  
If yes, complete the Discretionary Account Documents.

- 14. Have you ever been party to an investigation, complaint or settlement with the NFA, CFTC, SEC, or other?  
 Yes  No  
If yes, please explain: \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

- 15. Do you have a pending or have ever made a complaint regarding a past commodity futures or securities account?  
 Yes  No  
If yes, please explain: \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

- 16. Do you require duplicate statements?  Yes  No  
If yes, name and address: \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

- 17. PFG currently charges a postage and handling fee for each daily confirmation and monthly statement. If you do not wish to receive e-mail confirmations or statements check the box below.  
 I decline e-mail confirmations and agree to pay the postage and handling fee.

The undersigned hereby attest(s) and agree(s) that the above information is complete and accurate and authorize(s) PFG to verify any or all of the foregoing information. The undersigned further verifies that the above information was completed in Customer's own handwriting.

**X**  
\_\_\_\_\_  
Customer Signature

Print Name \_\_\_\_\_ Date \_\_\_\_\_

**X**  
\_\_\_\_\_  
Customer Signature

Print Name \_\_\_\_\_ Date \_\_\_\_\_

**THIS AGREEMENT IS A LEGAL CONTRACT, PLEASE READ IT CAREFULLY.**

**This is a legal contract by and between Peregrine Financial Group, Inc., its successors and assigns, referred to collectively in this document as "PFG", and the party (or parties) executing this document, referred to collectively as "Customer".**

In consideration of PFG agreeing to carry one or more accounts of Customer and providing services to Customer in connection with the purchase and sale of cash commodities (including financial instruments), commodity futures contracts, securities futures products, options on cash commodities, options on futures contracts, forward or leverage contracts, forward rate transactions, commodity swaps, foreign exchange transactions, currency swap transactions, cross-currency rate swap transactions, currency options, and other derivatives of futures and/or foreign currency contracts, and any similar instruments which may be purchased or sold by or through PFG for Customer's Account(s) (collectively referred to as "Commodities" or "Futures"), Customer agrees to the following terms and conditions:

**1. AUTHORIZATION TO TRADE.**

PFG is authorized to purchase and sell cash commodities (including financial instruments), commodities futures contracts, security futures products, options on cash commodities, options on commodity futures contracts, forward or leverage contracts, forward rate transactions, commodity swaps, foreign exchange transactions, currency swap transactions, cross-currency rate swap transactions, currency options, and other derivatives of futures and/or foreign currency contracts for Customer's Account(s) in accordance with Customer's oral, written or electronically transmitted instructions. Unless instructed by Customer to the contrary in writing, PFG is authorized to execute all futures and option orders on such recognized contract markets, as PFG deems appropriate. Customer authorizes PFG to purchase and sell physically settled and cash settled foreign currency contracts on a spot basis for Customer's Account in accordance with Customer's instructions. Customer agrees that Customer is fully responsible for making all final decisions as to transactions effected for Customer's Account. Customer has considered the factors contained below and in view of Customer's present and anticipated financial resources, Customer is willing and able to assume the substantial financial risks of trading in the above markets.

**2. TRANSACTIONS SUBJECT TO INDUSTRY REGULATIONS AND STANDARDS.**

All transactions shall be subject to the regulations of all applicable government authorities and self-regulatory agencies including, but not limited to, the constitutions and rules of the clearinghouse, exchange, or market where trades are executed. Customer understands that PFG is obligated to comply with all applicable laws and regulations including those of regulatory and self-regulatory organizations and agrees that PFG shall not be liable to Customer as a result of any action taken by PFG to comply with any ruling, interpretation or directive of such organization. The Customer recognizes that rates and/or prices it may view on electronic market information screens (e.g. Reuters, Flash Quotes, Telerate, etc.) are only indications of rates and/or prices, and may or may not reflect actual rates and/or prices available to PFG or the Customer.

In all transactions under this Agreement, Customer shall be bound by all applicable laws, rules and regulations, including the Commodity Exchange Act, as amended, the Commodity Futures Trading Commission regulations thereunder, and the rules, regulations, customs, usages, rulings and interpretations of the National Futures Association ("NFA"), and to the extent applicable, the Securities and Exchange Commission, National Association of Securities Dealers, and the exchange or market and the clearing house, if any, where the transactions are executed by PFG or PFG's agents.

**3. MARGINS/DEPOSIT REQUIREMENTS.**

PFG's margin policies and/or the policies of those exchanges on which trading occurs may require that additional funds be provided to properly margin Customer's Account. Customer understands that Customer is obligated to promptly meet such margin requirements. Failure to meet margin calls may result in the liquidation of any open positions with a resultant loss.

As security for Customer's obligation to PFG hereunder, Customer shall provide to and maintain with PFG margin and/or collateral in such amounts and in such forms as PFG, in its sole and absolute discretion, may from time to time require. Margin requirements may be increased at PFG's sole and absolute discretion. Such margin requirements may exceed margins established by an exchange. PFG may change margin requirements at any time. Margin requirements are subject to change without notice and will be enforced retroactively and prospectively. Customer acknowledges and agrees that PFG has no obligation to establish uniform margin requirements and that such requirements may be higher for single stock futures and other security futures products. No previous margin requirement by PFG shall preclude PFG from increasing that requirement without prior notice. Further, PFG will exercise considerable discretion in setting and collecting margin associated with foreign currency transactions. For margin purposes associated with foreign currency transactions, Customer has authorized PFG to convert Customer's funds into and from such foreign currency at a rate of exchange determined by PFG, in its sole discretion, on the basis of the then prevailing money market rates.

Customer agrees to deposit by immediate wire transfer such additional margin when and as required by PFG, and will promptly meet all margin calls in such mode of transmission, as PFG shall in its sole discretion designate. Customer agrees to provide PFG with the names of bank officers and information necessary for immediate verification of wire transfers. Notwithstanding any demand for additional margin, PFG may at any time proceed to liquidate Customer's Account in accordance with paragraph 10 below. Any failure by PFG to enforce its rights hereunder shall not be deemed a waiver by PFG to enforce its rights thereafter.

**4. LIMIT OF POSITIONS.**

Exchanges where trading occurs may impose daily trading limits with respect to the trading of certain commodities and may, from time to time, change such trading limits. Such trading limits and limit changes may cause trading in a certain commodity to cease, thereby preventing the liquidation of an adverse position, which may result in a substantial financial loss. Trading in commodity futures is suitable only for those persons or entities financially able to withstand losses that may substantially exceed the value of margins or deposits. Customer acknowledges Customer's reporting obligations, among others, pursuant to regulations

promulgated by the Commodity Futures Trading Commission (“CFTC”), such as Customer’s obligation to notify the CFTC when Customer’s position is reportable.

PFG retains the right to limit the number of open positions a Customer may acquire or maintain at PFG and/or the size of transaction a Customer may execute through PFG. PFG will attempt to execute all orders that PFG may, in PFG’s sole discretion, choose to accept for the purchase or sale of contracts or other property in accordance with the oral or written instructions of Customer. PFG reserves the right to refuse to accept any order. Notwithstanding the foregoing, PFG shall not be responsible for any loss or damage caused, directly or indirectly, by any events, actions or omissions beyond PFG’s control, including any delays or inaccuracies in the transmission of orders and/or information due to a breakdown in or failure of any transmission or communication facilities.

### **5. COMMODITY OPTIONS TRADING.**

With respect to purchases or sales of options on cash commodities or futures contracts (“Commodity Options”), Customer acknowledges and understands the risks of buying and selling options on commodity futures contracts and the risks of such option trading caused by a limit move in the underlying commodity futures contract. Customer has been advised of the commissions and fees associated with trading options.

Customer is fully responsible for taking action to exercise an option contract. PFG shall not be required to take any action with respect to an option contract, including any action to exercise a valuable option prior to its expiration date, except upon express instructions from Customer. Customer agrees to instruct PFG as to the exercise and disposition of Commodity Options. Customer understands that the exchanges, boards of trade, markets and clearinghouses have established exercise cut-off times for the tender of exercise instructions and that Customer’s options will become worthless in the event that Customer does not deliver instructions by PFG’s established expiration times. Customer understands that PFG has established exercise cut-off times, which may be different from the times established by the exchanges, boards of trade, markets, and clearinghouses.

Customer shall give PFG instructions for exercising Commodity Options not later than two hours prior to the close of trading in the underlying commodity or futures contract on the day Customer intends to exercise a Commodity Option. Customer, by noon of the business day before the last day of trading of a Commodity Option, shall instruct PFG whether to liquidate, exercise, or abandon the Commodity Option. In the absence of timely instructions from Customer, PFG is authorized, at PFG’s absolute discretion, to exercise or liquidate all or any portion of the Commodity Options in Customer’s Account(s) for Customer’s Account(s) and at Customer’s risk.

Customer hereby agrees to waive any and all claims for damage or loss that Customer might have against PFG arising out of the fact that an option was not exercised.

### **6. ONLINE ORDER ENTRY SYSTEM.**

PFG offers the service of an online order entry system, which allows Customer to trade with PFG online via the Internet utilizing BEST Direct™, a division of PFG. Although numerous features have been designed into BEST Direct™ to prevent system failure, as with all electronic systems, service could be interrupted. Should the system be interrupted, depending on the type of failure, it may not be possible for Customer to access the system to enter new orders, modify existing orders, or cancel

previously entered but not yet filled orders. System or component failure may also result in loss of orders or order priority.

PFG does not guarantee that any order placed through this system will be filled or acted on. PFG reserves the right to refuse any order for any reason. Customer is solely responsible for confirming Customer’s own orders. Should Customer fail to receive electronic confirmation as to the placement of an order, Customer agrees to verify the status of such order independently by contacting PFG telephonically to confirm whether such order has been received. Any order so received by PFG will be deemed to have been placed by Customer at the time received by PFG and in the form PFG receives such order. Customer further agrees that all orders placed through BEST Direct™ are placed at Customer’s sole risk.

- (a) **Minimum Equity Requirement.** Customer acknowledges that should the equity in Customer’s Account fall below \$500, Customer’s access to place trades through BEST Direct™ will be suspended until such time as the equity in Customer’s Account shall again equal or exceed \$500.
- (b) **Access Number.** Customer agrees to be responsible for all orders entered through and under Customer’s access number(s) and account number(s). Customer agrees to immediately notify PFG in the event of any loss, theft, or unauthorized use of Customer’s access number(s), pass-word(s), and/or account number(s) or any incorrect information contained in any report Customer received concerning Customer’s Account.
- (c) **Restricted Account.** PFG reserves, in its sole discretion, the right to restrict, terminate and/or suspend Customer’s access to BEST Direct™. Customer acknowledges that if PFG places a restriction on Customer’s Account, Customer will not be able to use BEST Direct™ online trading function. Customer agrees to hold PFG harmless for any and all claims, losses, liability, costs and expenses (including but not limited to attorney’s fees) arising from PFG’s restriction of Customer’s access to BEST Direct™. PFG reserves, in its sole discretion, the right to terminate Customer’s access to BEST Direct™ without notice for any reason, including but not limited to unauthorized use of Customer’s access number(s), and/or account number(s), or breach of this Agreement.

### **7. CURRENCY FOREX TRADING.**

Foreign currency transactions (hereinafter referred to as “Currency Forex”) are traded on the “interbank” system, and not on regulated exchanges like commodities. The interbank system consists of counterparties that exchange currency positions with each other. A counterparty may be, but need not be, a bank. For purposes of Currency Forex trading, Daily Cutoff shall mean the time selected each Business Day by PFG after which any Transaction entered into will be considered to have as its trade date the next Business Day. The Daily Cutoff will occur at a time selected solely by PFG and may vary from day to day. Business Day shall mean, with respect to the United States, any day on which banks are open for business (other than a Saturday or Sunday) in New York City, and with respect to any other country other than the United States, any day on which banks are open for business (other than a Saturday or Sunday) in the principal financial center of the relevant country.

- (a) **Capacity.** PFG shall act as a principal and is the counterparty in each Currency Forex contract or transaction with Customer. Customer acknowledges, understands and agrees that PFG is not acting

as a broker, intermediary, agent, advisor or in any fiduciary capacity to Customer in Currency Forex transactions.

- (b) Prices and Valuations for Currency Forex. Prices and valuations for Currency Forex are set by PFG and may be different from prices reported elsewhere. PFG will provide prices to be used in trading, valuations of Customer positions and determination of margin requirements. Although PFG expects that these prices will be reasonably related to prices available in the interbank market, prices reported by PFG may vary from prices available to banks and other counterparties in what is known as the interbank market.
- (c) Settlement Date and Rollovers. With respect to purchases or sales of foreign currencies, Customer agrees to instruct PFG as to the offset or rollover of a foreign currency position. Except as provided herein, during the term of the Currency Forex position, Customer shall give PFG instructions for rolling the Currency Forex position not later than two hours prior to the settlement of trading in the relevant foreign currency on the day Customer intends to roll over that foreign currency position. In addition, Customer, by noon of the business day before the settlement day of the contract of the Currency Forex contract, shall instruct PFG whether to deliver, offset or roll over the Currency Forex position. In the absence of timely instructions from Customer, PFG is authorized, at PFG's sole and absolute discretion, to deliver, roll over or offset all or any portion of the Currency Forex positions in the Customer's Account and at Customer's risk. Customer shall be charged separate commissions, at PFG's commission rates in effect from time to time, upon the rollover or offset of a Currency Forex position.
- (d) Settlement Date Offset Instructions. Offset instructions on open Currency Forex positions must be given to PFG at least one (1) business day prior to the settlement or value day. Alternatively, sufficient funds to take delivery or the necessary delivery documents to make delivery must be in the possession of PFG within the time frame set forth above. If no instructions, funds or documents are received by PFG, then PFG may, without additional notice to Customer and in PFG's sole discretion, take one or a combination of the following actions: offset Customer's position, roll Customer's positions into the next settlement time period, make or receive delivery on behalf of Customer upon such terms and by such methods deemed reasonable by PFG in its sole discretion.
- (e) Delivery. Delivery of foreign currency shall be made to the bank specified by the purchaser in a major city in the country in which the foreign currency is the legal tender. Unless otherwise agreed to by PFG and the Customer in writing, the foreign currency shall be deliverable by cable or wire transfer. All payments to be made in U.S. Dollars shall be made by wire transfer of immediately available funds to a bank in a major U.S. city specified by the purchaser. PFG will not be responsible for delays or failures in the delivery of any foreign currency within the time specified for the delivery thereof to the extent the failure is caused by a breakdown of communication facilities or by any other cause beyond PFG's reasonable control. PFG may require payment of amounts due to PFG from Customer on any day to occur simultaneously with or prior to payment of amounts due from PFG to Customer on that day. PFG and the Customer shall exchange, make use of, and periodically update and confirm standing payment instructions.
- (f) Offsetting Transactions. Whenever there may exist in or between any of the Customer's Accounts two or more open and opposite transactions, PFG may, in its sole discretion, elect to treat the trans-

actions as a single transaction and upon the value date of the transactions, the net difference between the amounts payable under the transactions, and/or the net difference between the amounts deliverable thereunder, shall be paid to and/or delivered by PFG, as the case may be.

- (g) Separate Transactions. Each Currency Forex transaction is a separate transaction, even though more than one such transaction may be included on a single confirmation.

## **8. COLLATERAL.**

All funds, securities, commodities, commodity futures contracts, commodity option contracts, and other property of Customer which PFG or its affiliates may at any time be carrying for Customer (either individually, jointly with others, or as a guarantor of the account of any other person), or which may at any time be in PFG's possession, control, or carried on PFG's books for any purpose, including safekeeping, are to be held by PFG as security and subject to a general lien and right of set-off against liabilities of Customer to PFG whether or not PFG has made advances in connection with such securities, commodities or other property, and irrespective of the number of accounts Customer may have with PFG. At any time, PFG may in its discretion, with or without notice to Customer, apply and/or transfer any or all funds or other property of Customer between any of Customer's Accounts. Additionally, Customer hereby grants to PFG the right to pledge, repledge, hypothecate, sell or purchase, invest or loan, either separately or with the property of other Customers, to itself as broker or to others, as securities or other property of Customer held by PFG as margin or security. The value of any such collateral shall be determined by PFG in its sole discretion and based upon what PFG would receive if PFG sold the relevant collateral for immediate delivery. PFG shall at no time be required to deliver to Customer the identical property delivered to or purchased by PFG for any account of Customer. The Customer agrees to maintain at all times with PFG collateral in such form and in such amount as PFG may from time to time request orally or in writing. In all cases, collateral shall be deemed received by PFG when such collateral is actually received by PFG. The rights of PFG are subject to the applicable requirements for the segregation of Customer funds and property under the Commodity Exchange Act, as amended (the "Act").

## **9. LENDING AGREEMENT.**

The purpose of the Lending Agreement is to allow PFG to use warehouse receipts (representing delivery) as collateral. Should Customer take delivery of commodities through futures contracts, PFG is obliged to make full payment for the delivery on 24 hours notice. If the balance in the Customer's Account is not adequate to pay for the delivery, the warehouse receipts become property carried on margin in the Customer's Account, since the commodity is not fully paid for by Customer. The Lending Agreement allows PFG to use the warehouse receipt as collateral for a bank loan, the proceeds of which are used to pay for the warehouse receipts until redelivery of the commodity and/or payment in full by Customer. Should Customer intend to take delivery of the underlying commodity covered by any futures contract, PFG requires the Customer to sign the Lending Agreement so it may use the commodities, property, warehouse receipts or evidence of ownership thereof, as collateral for a bank loan, the proceeds of which may be used to pay for the commodities, or evidence of ownership thereof, until payment in full, including interest, is made by Customer. This authorization shall apply to all accounts carried by PFG for Customer and shall remain in full force until all accounts

are fully paid for by Customer or until notice of revocation is sent by PFG from PFG's principal place of business.

**10. LIQUIDATION OF ACCOUNTS.**

In the event of (a) the death or judicial declaration of incompetence of Customer; (b) the filing of a petition in bankruptcy, a petition for the appointment of a receiver, or the institution of any insolvency or similar proceeding by or against Customer; (c) the filing of an attachment against any of Customer's Accounts carried by PFG; (d) Customer's failure to maintain sufficient margin; or (e) PFG's determination, regardless of current market quotations, that any collateral deposited to protect one or more accounts of Customer is inadequate to secure the account; (f) Customer's failure to provide PFG any information requested pursuant to this Agreement; (g) Customer's failure to pay any amount due to PFG; or (h) any other circumstances or developments that PFG deems appropriate for its protection, PFG, in its sole discretion, may take one or more, or any portion of the following actions: (1) satisfy any obligation Customer may have to PFG either directly or by way of guaranty or suretyship out of any of Customer's funds or property in PFG's custody or control; (2) liquidate Customer's positions by offsetting any or all commodity futures contracts, futures options, commodities, securities, or securities options held or carried for Customer; and/or (3) cancel any or all outstanding orders or contracts, or any other commitments made on behalf of Customer. Any of the above actions may be taken without demand for margin or additional margin, without prior notice of sale or purchase or other notice to Customer, Customer's personal representatives, heirs, executors, administrators, trustees, legatees, or assigns, and regardless of whether the ownership interest shall be solely Customer's or held jointly with others. In liquidation of Customer's positions, PFG may, in its sole discretion, offset in the same contract month or it may initiate new long or short positions in order to establish a spread or straddle which in PFG's sole judgment may be advisable to protect or reduce existing positions in Customer's Account. According to PFG's sole judgment and discretion, any sales or purchases hereunder may be made on any exchange or other markets where such business is then usually transacted or at a public auction or private sale, and PFG may purchase the whole or any part thereof free from any right of redemption.

**11. PAYMENT OF DEFICIT BALANCES.**

Customer recognizes that PFG is financially liable to the clearing members through which PFG clears transactions for deficit balances occurring in Customer's Accounts. Customer therefore agrees that Customer shall at all times be liable for the payment of any deficit balance occurring in Customer's Account including any deficiency balance remaining in Customer's Account(s) in the event of the liquidation thereof in whole or in part by PFG or by Customer. Customer agrees to hold PFG harmless, and indemnify and defend PFG from and against any and all losses sustained by PFG resulting from any deficit balances that may occur in Customer's Account. In the event the proceeds realized from liquidation of Customer's Account are insufficient for the payment of all liabilities of Customer due to PFG, Customer shall promptly pay upon demand, the deficit and all unpaid liabilities, together with interest thereon equal to three (3) percentage points above the then prevailing prime rate at PFG's principal bank or the maximum interest rate allowed by law, whichever is lower, and all costs of collection, including attorney's fees, witness fees, travel expenses and the like. In the event PFG incurs expenses other than for the collection of deficits, with respect to any of the account(s) of Customer, Customer also agrees to pay such expenses.

**12. DELIVERY MONTH LIQUIDATION INSTRUCTIONS.**

Liquidation instructions on open futures positions maturing in a current futures month must be given to PFG at least five (5) business days prior

to the first notice day in the case of long positions, and at least seven (7) business days prior to the last trading day in the case of short positions. Alternatively, sufficient funds to take delivery or the necessary delivery documents must be in PFG's possession within the same periods described above. If instructions, funds or documents are not received, PFG may, without notice to Customer, either liquidate Customer's position or make delivery or receive delivery on Customer's behalf on such terms, conditions and by such methods as PFG deems reasonable, in its sole discretion, and Customer agrees to remain liable for all costs, expenses or debit balances incurred in connection therewith.

**13. CHARGES.**

Customer agrees to pay such commission rates as PFG may from time to time charge, as well as all other costs and fees (including, without limitations, fees imposed by the National Futures Association, exchanges or other regulatory or self-regulatory organizations) arising out of PFG's provision of services hereunder. PFG may change its commissions, charges, and/or fees without notice. Customer agrees to pay all such charges as they are incurred. Customer hereby authorizes PFG to withdraw the amount of any such charges from Customer's Account(s). In the event Customer instructs PFG to transfer open positions, monies, and/or property from Customer's Account to another futures commission merchant, Customer agrees to pay a transfer fee, to be designated by PFG.

Customer specifically agrees that, after any Account subject to this Agreement has been dormant for a period of three calendar months, as defined by the unclaimed property laws and regulations of the relevant jurisdiction(s) to which such Account is subject, such Account shall thereafter be subject to a monthly administration fee for each subsequent month during which such dormancy continues without interruption. Such monthly administration fee shall be equal to 1.75% of the liquidation value of such Account (rounded up to the nearest multiple of \$10.00) or the maximum amount permitted by applicable law, whichever is less. Except as required by law, Customer shall not be entitled to a refund of any such monthly administration fee for any reason.

**14. STATEMENTS AND CONFIRMATIONS.**

Customer understands that Customer must carefully review the reports relating to Customer's trading sent by PFG. Customer must review and report immediately errors on confirmations and statements. Failure to notify PFG immediately of any error or omission will bind Customer to the terms of such confirmation or statement, as the case may be. All reports of execution shall be deemed final within twenty-four (24) hours and all statements of account will be deemed final within three (3) days, unless Customer objects to these reports within these periods of time to an executive officer of PFG at PFG's principal place of business.

Margin calls shall be conclusive and binding unless objected to immediately by telephone or by wire. Written objections on Customer's part shall be directed to PFG's Compliance Department at 190 S. LaSalle St., 7th Floor, Chicago, IL 60603 and shall be deemed received only if actually delivered or mailed by registered mail, return receipt requested. Customer's failure to receive a trade confirmation or statement of accounts shall not relieve Customer of the obligation to object as set out herein. Failure to object shall be deemed ratification of all actions taken by PFG or PFG's agents.

Unless Customer indicated otherwise in Paragraph 18 of the Account Application, Customer hereby authorizes PFG to deliver correspondence and other communications including, but not limited to trade confirmations, daily statements, monthly statements, margin and maintenance calls, and other documents required to be delivered in connection with Customer's account.

Customer agrees that the sending by PFG of an e-mail to the e-mail address of record shall constitute good and effective delivery to Customer of the communication whether or not Customer actually access the communication. Customer may revoke his consent to electronic delivery of documents at any time upon written notice to PFG. It is the customer's responsibility and obligation to notify PFG of any change of mailing and/or electronic addresses.

**Customer agrees that written statements shall supersede all electronic information and the written statements shall be controlling.**

#### **15. COMMUNICATIONS.**

Reports, statements, notices and any other communications may be transmitted to Customer at the address given above or to such other address as Customer may from time to time designate in writing to PFG. All communications so sent, whether by mail, telegraph, messenger or other wise, shall be deemed transmitted by PFG when deposited in the United States mail, or when received by a transmitting agent, and deemed delivered to Customer personally, whether actually received by Customer or not.

PFG will not be responsible for delays in transmission of orders due to breakdown, excessive call volume or failure of transmission or communication systems or facilities, or for any other cause or causes beyond PFG's reasonable control or anticipation.

#### **16. DISCLAIMER OF WARRANTIES.**

Neither PFG nor its agents make any representations or warranties to Customer, express or implied, with respect to the electronic order system, or the transmission, timeliness, accuracy or completeness thereof, including, without limitation, any implied warranties or any warranties of merchantability, quality or fitness for a particular purpose, and those arising by statute or other wise in law or from any course of dealing or usage.

#### **17. LIMITATION OF LIABILITY.**

Customer agrees that in no event will PFG be liable to Customer for the accuracy, interruption, delay, completeness, timeliness, or correct sequencing of the information received through Customer's use of BEST Direct™ or for any interruption of any data, information, or accessibility to BEST Direct™. Further, PFG shall not be held responsible for any delay or failure to provide BEST Direct™ service, including the execution of any order. Under no circumstances shall PFG or its agents be liable for any indirect, incidental, special or consequential loss or damages, including loss of business or profits or goodwill, that result from Customer's use, attempted use, or inability to use BEST Direct™.

#### **18. EXTRAORDINARY EVENTS.**

PFG shall not be liable for losses caused directly or indirectly by government restrictions, exchange or market actions, suspension of trading, war, strikes, or for delays in the transmission of orders due to breakdown or failure of transmission or communication facilities, or as a result of any other causes beyond PFG's control or anticipation.

Without limiting the generality of the foregoing, PFG shall not be liable for any loss, liability, expense, fine or tax caused directly or indirectly by any (i) governmental, judicial, exchange or other self-regulatory organization action or order, (ii) suspension or termination of trading, (iii) breakdown or failure of transmission or communication facilities, or (iv) failure or delay by any exchange to enforce its rules or to pay or return any amounts owed to PFG with respect to any transactions or contracts executed and/or cleared for Customer's account(s) with PFG. In no event shall PFG be liable for consequential, incidental or special damages.

#### **19. CURRENCY FLUCTUATION RISK.**

If Customer directs PFG to enter into any commodity futures or commodity option on futures contract and such transaction is to be effected in

a foreign currency: (a) any profit or loss arising as a result of a fluctuation in the exchange rate affecting such currency will be entirely for Customer's Account and Customer's risk; (b) all initial and subsequent deposits for margin purposes shall be made in U.S. dollars, in such amounts as PFG may in its sole discretion require; and (c) PFG is authorized to convert funds in Customer's Account into and from such foreign currency at a rate of exchange on the basis of the then prevailing money market rates as determined by PFG in its sole discretion.

#### **20. CUSTOMER'S ACKNOWLEDGEMENTS.**

Customer acknowledges that investment in commodity futures contracts and commodity options on futures is speculative, involves a high degree of risk and is appropriate only for persons who can assume risk of loss in excess of their margin deposit. Customer understands that because of the low margin normally required in commodity futures trading, price changes in commodity futures contracts may result in significant losses, which losses may substantially exceed Customer's investment and margin deposit. Customer warrants that Customer is willing and able, financially and other wise, to assume the risk of trading commodities, and in consideration of PFG's carrying Customer's Account(s) Customer agrees not to hold PFG responsible for losses incurred through following PFG's trading recommendations or suggestions or those of PFG's employees, agents or representatives. Customer recognizes that guarantees of profit or freedom from loss are impossible in commodity trading. Customer acknowledges that Customer has received no such guarantees from PFG or from any of PFG's representatives or any introducing broker or other entity with whom Customer is conducting business in Customer's Account and has not entered into this Agreement in consideration of or in reliance upon any such guarantees or similar representations. Further Customer acknowledges that Customer has relied only on the terms and representations contained in this Agreement in formulating Customer's decision to open an account with PFG.

Customer acknowledges that Customer has been advised and understands the following factors concerning trading Commodities, in addition to those contained in the CFTC Required Risk Disclosure Statement and Disclosure Statement for Non-Cash Margin, that have been provided to Customer. Customer further acknowledges that the purchase or sale of a futures contract always anticipates the accepting or making of delivery.

PFG is not a member of the Securities Investor Protection Corporation ("SIPC"), therefore, Customer's account is not entitled to SIPC protection. Customer acknowledges that Customer's Accounts at PFG are neither securities accounts protected under SIPC nor bank accounts protected by the FDIC.

Customer acknowledges that the accuracy, completeness, timeliness, and correct sequencing of the real-time information concerning Customer's trading and account activity, the quotes, market news, charts, trading analysis and strategies are not guaranteed by PFG or PFG's information providers. Customer understands that some of the information available through BEST Direct™ may be supplied by various independent sources. While PFG believes that these independent sources are reliable, PFG does not guarantee the accuracy, completeness, timeliness, non-interruption, or sequencing of any information supplied. Further, the information provided may be the property of the party who supplies such and may be protected by copyright; therefore, any reproduction, transmittal, dissemination or distribution of the information in any form or manner is prohibited without the express written consent of PFG.

Customer further acknowledges that from time to time, and for any reason BEST Direct™ may not be operational or otherwise available for Customer's use due to servicing, hardware malfunction, software defect, service or transmission interruption or other cause, and Customer agrees to hold PFG and its agents harmless from liability or any damage which results from the unavailability of BEST Direct™. Customer acknowledges that Customer has alternative arrangements, which will remain in place for the transmission and/or execution of Customer's orders, by telephone, facsimile transmission or otherwise, in the event, for any reason, circumstances prevent the transmission and/or execution of all, or any portion of, Customer's orders through BEST Direct™. In the event that BEST Direct™ is not operational, Customer agrees to contact Customer's broker at PFG to make alternative order entry arrangements.

Customer further acknowledges that there is risk associated with Currency Forex trading. If trading liquidity decreases, trading in a certain foreign currency may cease, thereby preventing the liquidation of an adverse position, which may result in a substantial financial loss. Additionally, there are no guarantees to the credit worthiness of the counterparty PFG utilizes for Customer's Currency Forex position. If Customer directs PFG to enter into any Currency Forex contract: (a) any profit or loss arising as a result of a fluctuation in the exchange rate affecting such currency will be entirely for Customer's Account and Customer's risk; and (b) all initial and subsequent deposits for margin purposes shall be made in U.S. dollars, in such amounts as PFG may, in its sole discretion, require.

If Customer trades through the Forex market, Customer may not be afforded certainty of the protective measures provided by any domestic futures exchange, including the right to arbitrate Customer's dispute with the counterparty. For additional risk factors associated with Currency Forex, Customer should refer to the Currency Forex Risk Disclosure Statement, a copy of which has been provided to Customer.

If Customer's Account is introduced by an IB or by a CTA, it is being carried on PFG's books on a "fully disclosed basis." Customer understands that PFG is employed to perform certain bookkeeping and operational functions with regard to Customer's Account. Customer understands that PFG is responsible for executing and confirming transactions effected for Customer's Account; segregating funds in accordance with the rules and regulations promulgated by the CFTC; margining Customer's Account and collecting funds on Customer's behalf by means of checks payable to PFG only. Customer agrees to indemnify PFG and hold harmless PFG from and against all damages or liability arising from the conduct of Customer's IB or CTA.

## **21. TRADING RECOMMENDATIONS.**

Customer acknowledges that (i) any market recommendations and information communicated by PFG does not constitute an offer to sell or the solicitation of an offer to buy any commodity or commodity futures contract or options on futures contract; (ii) such recommendation and information, although based upon information obtained from sources believed by PFG to be reliable, may be based solely on a broker's opinion and that such information may be incomplete and may be unverified; and (iii) PFG makes no representation, warranty or guarantee as to, and shall not be responsible for, the accuracy or completeness of any information or trading recommendation furnished to Customer. The market recommendations of PFG are based solely on the judgment of PFG's personnel. These market recommendations may or may not be consistent with the market position or intentions of PFG, PFG's affiliates and employees.

Customer acknowledges that PFG and/or PFG's officers, directors, affiliates, associates, stockholders or representatives may have a position in or may intend to buy or sell commodities, commodity futures contracts or Commodity Options which are the subject of market recommendations furnished to Customer, and that the market position of PFG or any such officer, director, affiliate, associate, stockholder or representative may not be consistent with the recommendations furnished to Customer by PFG. Customer acknowledges that PFG makes no representations concerning the tax implications or treatment of contracts.

## **22. TRADING AGENTS.**

Customer acknowledges that should Customer grant trading authority or control over Customer's Account to a third-party ("Trading Agent"), whether on a discretionary or non-discretionary basis, PFG shall in no way be responsible for reviewing Customer's choice of such Trading Agent nor making any recommendations with respect thereto. Customer understands that PFG makes no warranties or representations concerning any Trading Agent; nor does PFG by implication or otherwise, endorse or approve of the operating methods of the Trading Agent. Customer agrees that PFG shall not be held responsible for any loss to Customer occasioned by the actions of the Trading Agent. If Customer gives Trading Agent authority to exercise any of its rights over its accounts, Customer understands that Customer does so at Customer's own risk.

Customer understands that PFG does not permit its Account Executives to either exercise discretion or manage an account, or hold a power of attorney over an account, unless approved by an executive officer of PFG and only after proper documentation has been submitted and approved by PFG. If Customer's Account is not being traded with Customer's authorization, Customer must notify PFG's Compliance Officer immediately.

## **23. CUSTOMER REPRESENTATIONS AND WARRANTIES.**

Customer represents and warrants that: (a) Customer is of sound mind, legal age and legal competence; (b) no person other than Customer has or will have an interest in Customer's Account(s); (c) regardless of any subsequent determination to the contrary Customer is suitable to trade Commodities; and, (d) Customer is not now an employee of any exchange, any corporation in which any exchange owns a majority of the capital stock, any member of any exchange or a firm registered on any exchange, or any bank, trust, or insurance company; and in the event that Customer becomes so employed, Customer will promptly notify PFG at its home office in writing of such employment; and, (e) all the information provided in the information portion of this booklet is true, correct and complete as of the date hereof and Customer will notify PFG promptly of any changes in such information.

## **24. DISCLOSURE OF FINANCIAL INFORMATION.**

Customer represents and warrants that the financial information disclosed to PFG in this document is an accurate representation of Customer's current financial condition. Further, Customer represents and warrants that in determining:

- (a) Customer's Net Worth: Assets and Liabilities were carefully calculated then Liabilities were subtracted from Assets to determine Customer's Net Worth;
- (b) Value of Assets: Customer included cash and/or cash equivalents, U.S. Government and Marketable securities, real estate owned (excluding primary residence), the cash value of life insurance and other valuable Assets;
- (c) Value of Liabilities: Customer included notes payable to banks (secured and unsecured), notes payable to relatives, real estate mort-

gages (excluding primary residence) and other debts; and

- (d) Customer's Liquid Assets: Customer included only those Assets that can be quickly, (within one day's time) converted to Cash.

Customer represents and warrants that Customer has very carefully considered the portion of Customer's Assets that Customer considers being Risk Capital. Customer recognizes that Risk Capital is the amount of money Customer is willing to put at risk and if lost would not, in any way, change Customer's life style. Customer agrees to immediately inform PFG if Customer's financial condition changes in such a way that reduces Customer's Net Worth, Liquid Assets and/or Risk Capital.

Customer authorizes PFG or PFG's agents to investigate Customer's credit standing and in connection therewith to contact such banks, financial institutions and credit agencies as PFG shall deem appropriate to verify information regarding Customer. Customer further authorizes PFG to investigate Customer's current and past investment activity and in connection therewith, to contact such futures commission merchants, exchanges, broker/dealers, and compliance data centers, as PFG shall deem appropriate. Upon reasonable request made in writing by Customer to PFG, Customer shall be allowed to review any records maintained by PFG relating to Customer's credit standing. At Customer's sole cost and expense Customer also shall be allowed to copy such records.

PFG has adopted policies and procedures for the protection of Customer's confidential personal information from unauthorized disclosure. PFG's policies and procedures regarding such matters are reflected in the PFG Privacy Notice. PFG's Privacy Notice may also be obtained from PFG's website at [www.pfgbest.com](http://www.pfgbest.com).

#### **25. NO GUARANTEES.**

Customer acknowledges that Customer neither has any separate agreement nor shall enter into any separate agreement with Customer's broker or any PFG employee or agent regarding the trading in Customer's Account, including any agreement to guarantee profits or limit losses in Customer's Account. Customer understands that Customer is under an obligation to notify PFG's Compliance Officer immediately in writing as to any agreement of this type. Further, Customer understands that any representations made by anyone concerning Customer's Account, which differ from any statements Customer receives from PFG must be brought immediately in writing to the attention of PFG's Compliance Officer. Customer understands that Customer must authorize every transaction prior to its execution unless Customer has delegated discretion to another party by signing PFG's limited trading authorization. Any disputed transactions must be brought to the attention of PFG's Compliance Officer pursuant to the notice requirements of this Customer Agreement. Customer agrees to indemnify and hold PFG harmless from all damages or liabilities resulting from Customer's failure to immediately notify PFG's Compliance Officer of any of the occurrences referred to herein. All notices required under this section shall be sent to PFG at PFG's address appearing on confirmations and account statements.

#### **26. JOINT ACCOUNTS.**

If this account is held by more than one (1) person, all of the joint holders are jointly and severally liable to PFG for any and all obligations arising out of transactions in the account and/or this Customer Agreement. Customer acknowledges that each tenant of a joint account has authority to: a) trade for the account, b) receive all cor-

respondence and documents in respect to the account, c) receive or withdraw money, d) execute agreements relating to the account, and e) deal with PFG fully. PFG has the authority to require joint action by the parties of the Account in matters relating to the Account. PFG has control and possession of the security of the Account individually or jointly. If a death occurs to one or more of the tenants, the remaining tenants shall notify PFG in writing. For all expenses incurred by the Account, the Account shall be charged and all tenants shall be jointly and individually responsible. Unless the Customer informs PFG otherwise, each tenant is presumed to have equal interest in the Account.

#### **27. PARTNERSHIP ACCOUNTS.**

Where the Customer is a partnership, the Customer represents that the General or Limited Partnership Agreement is in writing and provides that the partnership will not terminate upon the death or incapacity of any one of the partners; the partners and the partnership are in compliance with and shall remain in compliance with all rules and regulations applicable to their activities including, but not limited to, the rules and regulations of the CFTC, NFA, the Commodity Exchange Act, and State Laws in which the partnership was formed; the partners are jointly and severally liable to PFG for any and all transactions and obligations made in conjunction with this account and are bound by all terms and conditions of this Agreement; and the partnership shall promptly notify PFG in writing of the death or retirement of any partner, or any change in the partnership agreement. The estate of any of the general partners who shall have died shall be liable, and each survivor shall continue to be liable, to PFG for any debit balance or loss in the account resulting from the completion of transactions initiated prior to receipt by PFG of such written notice of death or incurred in the liquidation of the account after receipt of notice of death of a partner.

#### **28. ERISA PENSION PLAN ACCOUNTS.**

Where the Customer is a plan covered by the Employee Retirement Security Act of 1974 ("ERISA"), Customer acknowledges and understands that PFG is only providing services hereunder and is not a plan fiduciary as defined in ERISA, and any rules or regulations promulgated thereunder. PFG has no discretionary authority or control with respect to Customer's purchase or sale of futures contracts and that the furnishing of market recommendations and information by PFG is solely for Customer's convenience and does not constitute the exercise of such authority or control; and there is no agreement, arrangement, or understanding between Customer and PFG for investment decisions with respect to the assets of Customer or that PFG will render individualized investment advice to Customer based on the particular needs of Customer. Customer further represents that it has full power and authority pursuant to governing agreements and otherwise to enter into this Agreement and to engage in transactions of the kind contemplated herein.

#### **29. NO WAIVER OR AMENDMENT.**

No provision of this Agreement may be waived or amended unless the waiver or amendment is in writing and signed by both Customer and an authorized officer of PFG. No waiver or amendment of this Agreement may be implied from any course of dealing between the parties or from any failure by PFG or PFG's agents to assert PFG's right under this Agreement on any occasion or series of occasions. No oral agreements or instructions to the contrary shall be recognized or enforceable. This instrument and the attachments hereto embody the entire agreement of

the parties, superseding any and all prior written and oral agreements and there are no other terms, conditions or obligations other than those contained herein.

**30. GOVERNING LAW AND JURISDICTION.**

This Agreement, and the parties' rights and obligations hereto, shall be governed by, construed and enforced in all respects by the laws of the State of Illinois.

If any provision or condition of this Agreement shall be held to be invalid or unenforceable by any court, regulatory or self-regulatory agency or body, such invalidity or unenforceability shall attach only to such provision or condition. The validity of the remaining provisions and conditions shall not be affected and this Agreement shall be carried out as if any such invalid or unenforceable provision or condition was not contained herein. This Agreement or any section thereof shall not be construed against any party due to the fact that said Agreement or any section thereof was drafted by said party.

**31. FOREIGN CUSTOMER NOTICE.**

Where Customer is not a resident of the United States (hereinafter referred to as "Foreign Customer"), Regulation 15:05 of the United States Code of Federal Regulations (CFR) deems PFG to be Foreign Customer's agent for purposes of accepting delivery and service of any communication issued by or on behalf of the CFTC with respect to any futures or options contracts which are or have been maintained in Foreign Customer's account carried by PFG. Service or delivery of any communication issued by or on behalf of the CFTC to PFG constitutes valid and effective service or delivery upon the Foreign Customer. Further, pursuant to Regulation 18:07 CFR, may required a Foreign Customer to comply with the filing of various reports with the CFTC upon twenty days notice, except where such Foreign Customer may be required by the CFTC to file such reports within one business day after a special call by the CFTC upon such Foreign Customer. In the event that the CFTC, pursuant to Regulation 21:03 CFR issues a call for information on the account of a Foreign Customer, PFG, as your agent, may be required to provide any and all information concerning Foreign Customer's account, including but not limited to Foreign Customer's name and address and the name and address of persons having a ten percent or more beneficial interest in the account, total open futures and options positions in the account and the number of futures contracts against which delivery notices have been issued or received or against which exchanges of futures for cash have been transacted for the period of time specified in the call.

**32. TERMINATION.**

This Agreement shall continue in effect until termination. Customer may terminate this Agreement only at a time when Customer has no open commodity positions and no liabilities held by or owed to PFG. Termination by Customer shall be effective upon the actual receipt by PFG, at PFG's main office, of written notice of termination. PFG may terminate this Agreement at any time. If PFG elects to terminate this Agreement, PFG shall have the right, in PFG's sole discretion, to sell any property in any account of the Customer, and to close out and liquidate any and all outstanding transactions of Customer, and any such sales or purchases shall be at PFG's discretion on any exchange or other market. Prior demand, call or notice of the time and place of such sale or purchase, shall not be construed to be a waiver of PFG's rights to sell or to buy without demand or notice. Termination by PFG shall be effective upon the transmittal of written notice of termination to Customer. Customer's obligations to PFG arising out of any deficit balance or indemnification shall survive the termination of this Agreement.

**33. INDEMNIFICATION.**

Customer agrees to indemnify and hold harmless PFG, PFG's affiliates, employees, agents, successors and assigns from and against any and all liabilities, losses, damages, costs and expenses, including attorney's fees, incurred by PFG arising out of Customer's failure to fully and timely perform Customer's agreements herein or should any of the representations and warranties fail to be true and correct. Customer also agrees to be responsible for and pay promptly to PFG all damages, costs and expenses, including attorney's fees, incurred by PFG in the enforcement of any of the provisions of this Agreement and any other agreements between PFG and Customer. Should customer instigate any legal action against PFG and is unsuccessful, Customer agrees to indemnify PFG for all cost PFG incurs, including but not limited to attorneys' fees.

**34. CROSS TRADE CONSENT.**

Customer acknowledges and agrees that a situation may arise whereby an officer, director, affiliate, associate, employee, floor broker or floor trader associated with PFG may be the opposing broker for a trade entered for Customer's Account. Customer consents to any such transaction, subject to any limitations and conditions contained in the Rules or Regulations of any bank, institution, exchange or board of trade upon which such buy or sell orders are executed, the CFTC, NFA, or the United States Federal Reserve Board, or any other regulatory agency.

**35. ELECTRONIC MARKET CONSENT.**

Customer authorizes PFG to enter orders to buy and sell futures contracts on the GLOBEX®, the NYMEX ACCESS™, and/or the PROJECT A® automated order entry and matching system(s). Customer acknowledges having read and understood the Automated Order Entry Systems Disclosure Statement.

**36. LINKED MARKET CONSENT.**

PFG may from time to time execute transactions as Customer's agent on a foreign futures exchange to trade futures, options, and/or Exchange for Physical Commodities, (EFP), pursuant to an agreement between the foreign futures exchange and a domestic futures exchange that a trade executed on one exchange liquidates or establishes a position on the other exchange. Customers who trade on a foreign futures exchange may not be afforded certainty of the protective measures provided by the Commodity Exchange Act, as amended, the CFTC's regulations, and the rules of NFA, and any domestic futures exchange, including the right to use reparation proceedings before the CFTC and arbitration proceedings provided by NFA or any domestic futures exchange. Customer authorizes PFG to trade on foreign futures exchanges. Customer understands that Customer may be giving up the right to have arbitration in association with trades on foreign exchanges.

**37. TERMS AND HEADINGS.**

The term "PFG" shall be deemed to include Peregrine Financial Group, Inc., PFG's divisions, its successors and assigns. The term "Customer" shall mean the party (or parties) executing the Agreement. The term "Agreement" shall include all other agreements and authorizations executed by Customer in connection with the maintenance of Customer's Account regardless of when executed. The paragraph headings in this Agreement are inserted for convenience of reference only and are not deemed to limit the applicability or affect the meaning of any of its provisions.

**38. BINDING EFFECT AND ACCEPTANCE.**

This Agreement shall be continuous and shall cover, individually and collectively, all accounts of Customer at any time opened or reopened with PFG, irrespective of any change or changes at any time in the personnel of PFG or PFG's successors, assigns, or affiliates. This Agreement,

including all authorizations, shall inure to the benefit of PFG and PFG's successors and assigns, whether by merger, consolidation or otherwise, and shall be binding upon Customer and/or the heirs, estate, executor, trustees, administrators, legal representatives, successors, and assigns of Customer. Customer hereby ratifies all transactions with PFG effected prior to the date of this Agreement, and agrees that the rights and obligations of Customer in respect thereto shall be governed by the terms of this Agreement. The parties agree that this Agreement shall not be deemed to have been accepted by PFG or become a binding contract between Customer and PFG until approved at PFG's main office and signed by PFG's authorized representative.

**39. RECORDINGS.**

Customer agrees and acknowledges that all conversations regarding Customer's Account(s) between Customer and PFG may be electronically recorded with or without the use of an automatic tone-warning device. Customer further agrees to the use of such recordings and transcripts thereof as evidence by either party in connection with any dispute or proceeding that may arise involving Customer or PFG. Customer understands that PFG destroys such recordings at regular intervals in accordance with PFG's established business procedures and Customer consents to such destruction.

**40. ELECTRONIC SIGNATURE**

PFG may, at its sole discretion, accept electronic signatures. As such, any signature documents signed and transmitted by facsimile, telecopier or similar electronic system may be accepted as original documents. The signature of any person or entity thereon, considered as an original signature, and will have the same binding effect as an original signature.

**41. CONSENT TO JURISDICTION AND VENUE.**

Customer agrees that all actions, disputes, claims or proceedings, including, but not limited to, any arbitrations proceeding, including NFA arbitrations, arising directly or indirectly in connection with, out of, or

related to or from this Agreement, any other agreement between the Customer and PFG or any orders entered or transactions effected for Customer's Account, whether or not initiated by PFG, shall be adjudicated only in courts or other dispute resolution forums whose situs is within the City of Chicago, State of Illinois. Customer hereby specifically consents and submits to the jurisdiction of any State or Federal Court, or arbitration proceedings located within the City of Chicago, State of Illinois.

Customer waives any claim Customer may have that (a) Customer is not personally subject to the jurisdiction of any State or Federal Court or arbitration proceeding located within the State of Illinois, (b) Customer is immune from any legal process (whether through service or notice, attachment prior to judgment, attachment in aid of execution, execution or otherwise) with respect to Customer or Customer's property, (c) any such suit, action or proceeding is brought in an inconvenient forum, (d) the venue of any such suit, action or proceeding is improper, or (e) this consent or this Agreement may not be enforced in or by such court or arbitration proceeding. Customer acknowledges that as a condition precedent to Customer instigating any action, dispute, claim or proceeding, including but not limited to any arbitration proceeding, including NFA arbitrations, Customer shall pay to PFG all deficit balances.

Customer further acknowledges that PFG may elect to collect any deficit balance by instigating a court proceeding against Customer. Nothing in this Agreement shall be construed as to prevent PFG from proceeding in a judicial forum of PFG's choice. Should Customer have instigated an arbitration proceeding, Customer acknowledges that PFG shall not be compelled to bring its claim, if any, in the arbitration forum nor shall Customer seek to stay PFG's proceedings against Customer pending resolution of the arbitration proceeding. No action, regardless of form, arising out of transactions under this Agreement may be brought by the Customer more than one year after the cause of action arose.

**THIS IS A CONTRACTUAL AGREEMENT. DO NOT SIGN UNTIL YOU HAVE READ THE FOREGOING CAREFULLY. The undersigned acknowledges having received, read and understood the foregoing Customer Agreement. (Attach a copy of this page for additional signatures.) By signing this Agreement containing the Consent to Jurisdiction and Venue, Customer assents to jurisdiction and venue as set forth in Paragraph 41 above, and acknowledges that all clauses contained in this Agreement were freely and knowingly negotiated between the parties.**

**X** \_\_\_\_\_  
Customer Signature

Print Name \_\_\_\_\_ Date \_\_\_\_\_

**X** \_\_\_\_\_  
Customer Signature

Print Name \_\_\_\_\_ Date \_\_\_\_\_

(Attach a copy of this page for additional signatures.)

Social Security or Tax ID Certification

This section must be completed for all accounts.

The Social Security or Tax Identification number for this account will be: \_\_\_\_\_

Do you consider this account taxable in the United States?  Yes  No.

Under penalties of perjury, I certify (1) the number shown on this form is the correct Social Security or Taxpayer Identification number and (2) the ownership, or beneficiary, of this account is not subject to backup withholding under Section 3406(a)(1)(C) of the Internal Revenue Code.

X \_\_\_\_\_
Customer Signature

Print Name \_\_\_\_\_ Date \_\_\_\_\_

Hedging Agreement

Unless specified in writing to the contrary, PFG is hereby notified that all transactions effected for the undersigned's account and all positions taken in this account in the commodities set out below will be bona fide hedging transactions and positions as defined in Section 4a(3) of the Commodity Exchange Act, as amended, and Regulation 1.3(z) promulgated thereunder by the Commodity Futures Trading Commission ("CFTC").

Commodities that will be traded in an opening short or long position are designated:

Three horizontal lines for listing designated commodities.

The regulations of the CFTC require PFG to provide each hedge Customer the opportunity to issue instructions to liquidate or not liquidate all hedging positions in the unlikely event that PFG becomes bankrupt.

Customer elects:  to liquidate  not to liquidate all Customer's hedging positions in the event of PFG's bankruptcy. If neither box is checked, Customer will be deemed to have chosen to have all Customer's hedging positions liquidated if PFG becomes bankrupt.

The undersigned agrees that all transactions and positions executed or carried in this account will be consistent with the above provisions and interpretations thereof. The undersigned also agrees that it is not the responsibility of PFG to determine if transactions in this account qualify as bona fide hedges. The undersigned also agrees that their purpose to hedge is economically appropriate to the reduction of risk in the conduct and management of Customer's commercial enterprise.

(Attach a copy of this page for additional signatures.)

X \_\_\_\_\_
Customer Signature

Print Name \_\_\_\_\_ Date \_\_\_\_\_

X \_\_\_\_\_
Customer Signature

Print Name \_\_\_\_\_ Date \_\_\_\_\_

This statement is Required to be Furnished to You in Accordance with Rule 1.55, Rule 30.6 and Rule 33.7 of The Commodity Exchange Act. This brief statement does not disclose all of the risks and other significant aspects of trading in futures and options. In light of the risks, you should undertake such transactions only if you understand the nature of the contracts (and contractual relationships) into which you are entering and the extent of your exposure to risk. Trading in futures and options is not suitable for many members of the public. You should carefully consider whether trading is appropriate for you in light of your experience, objectives, financial resources and other relevant circumstances.

## **Futures**

### **1. EFFECT OF 'LEVERAGE' OR 'GEARING'**

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

### **2. RISK-REDUCING ORDERS OR STRATEGIES**

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

## **Options**

### **3. VARIABLE DEGREE OF RISK**

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

The purchaser of options may offset or exercise the options or allow the options to expire. The exercise of an option results either in a cash settlement or in the purchaser acquiring or delivering the underlying interest. If the option is on a future, the purchaser will acquire a futures position with associated liabilities for margin (see the section on Futures above). If the purchased options expire worthless, you will suffer a total loss of your investment which will consist of the option premium plus transaction costs. If you are contemplating purchasing deep-out-of-the-money options, you should be aware that the chance of such options becoming profitable ordinarily is remote. Selling ('writing' or 'granting') an option generally entails considerably greater risk than purchasing options. Although the premium received by the seller is fixed, the seller may sustain a loss well in excess of that amount. The seller will be liable for additional margin to maintain the position if the market moves unfavorably. The seller will also be exposed to the risk of the purchaser exercising the option and the seller will be obligated to either settle the option in cash or to acquire or deliver the underlying interest. If the option is on a future,

the seller will acquire a position in a future with associated liabilities for margin (see the section on Futures above). If the position is 'covered' by the seller holding a corresponding position in the underlying interest or a future or another option, the risk may be reduced. If the option is not covered, the risk of loss can be unlimited.

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

## **Additional risks common to futures and options**

### **4. TERMS AND CONDITIONS OF CONTRACTS**

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

### **5. SUSPENSION OR RESTRICTION OF TRADING AND PRICING RELATIONSHIPS**

Market conditions (e.g. illiquidity) and/or the operation of the rules of certain markets (e.g. the suspension of trading in any contract or contract month because of price limits or 'circuit breakers') may increase the risk of loss by making it difficult or impossible to effect transactions or liquidate/off-set positions. If you have sold options, this may increase the risk of loss.

Further, normal pricing relationships between the underlying interest and the future, and the underlying interest and the option may not exist. This can occur when, for example, the futures contract underlying the option is subject to price limits while the option is not. The absence of an underlying reference price may make it difficult to judge 'fair' value.

### **6. DEPOSITED CASH AND PROPERTY**

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

### **7. COMMISSION AND OTHER CHARGES**

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

**8. TRANSACTIONS IN OTHER JURISDICTIONS**

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

**9. CURRENCY RISKS**

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

**10. TRADING FACILITIES.**

Most open-outcry and electronic trading facilities are supported by computer-based component systems for the order-routing, execution, matching, registration or clearing of trades. As with all facilities and systems, they are vulnerable to temporary disruption or failure. Your

ability to recover certain losses may be subject to limits on liability imposed by the system provider, the market, the clearing house and/or member firms. Such limits may vary; you should ask the firm with which you deal for details in this respect.

**11. ELECTRONIC TRADING**

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

**12. OFF-EXCHANGE TRANSACTIONS**

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

**Risk Disclosure Acknowledgment**

**I, the undersigned Customer, received a copy of this Risk Disclosure Statement and I read and understand it. I, also, acknowledge that if I intend to trade options on futures, I read and understand the Options Disclosure Statement and if I intend to trade security futures contracts, I read and understand the Risk Disclosure Statement for Security Futures Contracts and Electronic Trading and Pre-Negotiated Business Disclosure contained on pages 17-30 of this account booklet.**

**X** \_\_\_\_\_  
Customer Signature

Print Name \_\_\_\_\_ Date \_\_\_\_\_

**X** \_\_\_\_\_  
Customer Signature

Print Name \_\_\_\_\_ Date \_\_\_\_\_

(Attach a copy of this page for additional signatures.)

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

BOTH THE PURCHASER AND THE GRANTOR SHOULD KNOW WHETHER THE PARTICULAR OPTION IN WHICH THEY CONTEMPLATE TRADING IS AN OPTION WHICH, IF EXERCISED, RESULTS IN THE ESTABLISHMENT OF A FUTURES CONTRACT (AN "OPTION ON A FUTURES CONTRACT") OR RESULTS IN THE MAKING OR TAKING OF DELIVERY OF THE ACTUAL COMMODITY UNDERLYING THE OPTION (AN "OPTION ON A PHYSICAL COMMODITY"). BOTH THE PURCHASER AND THE GRANTOR OF AN OPTION ON A PHYSICAL COMMODITY SHOULD BE AWARE THAT, IN CERTAIN CASES, THE DELIVERY OF THE ACTUAL COMMODITY UNDERLYING THE OPTION MAY NOT BE REQUIRED AND THAT, IF THE OPTION IS EXERCISED, THE OBLIGATIONS OF THE PURCHASER AND GRANTOR WILL BE SETTLED IN CASH.

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

A PERSON SHOULD NOT PURCHASE ANY COMMODITY OPTION UNLESS HE OR SHE IS ABLE TO SUSTAIN A TOTAL LOSS OF THE PREMIUM AND TRANSACTION COSTS OF PURCHASING THE OPTION. A PERSON SHOULD NOT GRANT ANY COMMODITY OPTION UNLESS HE OR SHE IS ABLE TO

MEET ADDITIONAL CALLS FOR MARGIN WHEN THE MARKET MOVES AGAINST HIS OR HER POSITION AND, IN SUCH CIRCUMSTANCES, TO SUSTAIN A VERY LARGE FINANCIAL LOSS.

A PERSON WHO PURCHASES AN OPTION SUBJECT TO STOCK-STYLE MARGINING SHOULD BE AWARE THAT, IN ORDER TO REALIZE ANY VALUE FROM THE OPTION, IT WILL BE NECESSARY EITHER TO OFFSET THE OPTION POSITION OR TO EXERCISE THE OPTION. OPTIONS SUBJECT TO FUTURES-STYLE MARGINING ARE MARKED TO MARKET, AND GAINS AND LOSSES ARE PAID AND COLLECTED DAILY. IF AN OPTION PURCHASER DOES NOT UNDERSTAND HOW TO OFFSET OR EXERCISE AN OPTION, THE PURCHASER SHOULD REQUEST AN EXPLANATION FROM THE FCM OR IB. CUSTOMERS SHOULD BE AWARE THAT IN A NUMBER OF CIRCUMSTANCES, SOME OF WHICH WILL BE DESCRIBED IN THIS DISCLOSURE STATEMENT, IT MAY BE DIFFICULT OR IMPOSSIBLE TO OFFSET AN EXISTING OPTION POSITION ON AN EXCHANGE.

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

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

THE COMMODITY FUTURES TRADING COMMISSION REQUIRES THAT ALL CUSTOMERS RECEIVE AND ACKNOWLEDGE RECEIPT OF A COPY OF THIS DISCLOSURE STATEMENT BUT DOES NOT INTEND THIS STATEMENT AS A RECOMMENDATION OR ENDORSEMENT OF EXCHANGE-TRADED COMMODITY OPTIONS.

**(1) SOME OF THE RISKS OF OPTION TRADING.**

Specific market movements of the underlying future or underlying physical commodity cannot be predicted accurately.

The grantor of a call option who does not have a long position in the underlying futures contract or underlying physical commodity is subject to risk of loss should the price of the underlying futures contract or underlying physical commodity be higher than the strike price upon exercise or expiration of the option by an amount greater than the premium received for granting the call option.

The grantor of a call option who has a long position in the underlying futures contract or underlying physical commodity is subject to the full risk of a decline in price or the underlying position reduced by the premium received for granting the call. In exchange for the premium received for granting a call option, the option grantor gives up all of the potential gain resulting from an increase in the price of the underlying futures contract or underlying physical commodity above the option strike price upon exercise or expiration of the option.

The grantor of a put option who does not have a short position in the underlying futures contract or underlying physical commodity (e.g., commitment to sell the physical) is subject to risk of loss should the price of the underlying futures contract or underlying physical commodity decrease below the strike price upon exercise or expiration of the option by an amount in excess of the premium received for granting the put option.

The grantor of a put option on a futures contract who has a short position in the underlying futures contract is subject to the full risk of a rise in the price in the underlying position reduced by the premium received for granting the put. In exchange for the premium received for granting a put option on a futures contract, the option grantor gives up all of the potential gain resulting from a decrease in the price of the underlying futures contract below the option strike price upon exercise or expiration of the option. The grantor of a put option on a physical commodity who has a short position (e.g., commitment to sell the physical) is subject to the full risk of a rise in the price of the physical commodity which must be obtained to fulfill the commitment reduced by the premium received for granting the put. In exchange for the premium, the grantor of a put option on a physical commodity gives up all the potential gain which would have resulted from a decrease in the price of the commodity below the option strike price upon exercise or expiration of the option.

## **(2) DESCRIPTION OF COMMODITY OPTIONS.**

Prior to entering into any transaction involving a commodity option, an individual should thoroughly understand the nature and type of option involved and the underlying futures contract or physical commodity. The futures commission merchant or introducing broker is required to provide, and the individual contemplating an option transaction should obtain:

- (i) An identification of the futures contract or physical commodity underlying the option and which may be purchased or sold upon exercise of the option or, if applicable, whether exercise of the option will be settled in cash;
- (ii) The procedure for exercise of the option contract, including the expiration date and latest time on that date for exercise. (The latest time on an expiration date when an option may be exercised may vary; therefore, option market participants should ascertain from their futures commission merchant or their introducing broker the latest time the firm accepts exercise instructions with respect to a particular option.);
- (iii) A description of the purchase price of the option including the premium, commissions, costs, fees and other charges. (Since commissions and other charges may vary widely among futures commission merchants and among introducing brokers, option customers may find it advisable to consult more than one firm when opening an option account.);
- (iv) A description of all costs in addition to the purchase price which may be incurred if the commodity option is exercised, including the amount of commissions (whether termed sales commissions or otherwise), storage, interest, and all similar fees and charges which may be incurred;
- (v) An explanation and understanding of the option margining system;
- (vi) A clear explanation and understanding of any clauses in the option contract and of any items included in the option contract explicitly or by reference which might affect the customer's obligations under

the contract. This would include any policy of the futures commission merchant or the introducing broker or rule of the exchange on which the option is traded that might affect the customer's ability to fulfill the option contract or to offset the option position in a closing purchase or closing sale transaction (for example, due to unforeseen circumstances that require suspension or termination of trading); and (vii) If applicable, a description of the effect upon the value of the option position that could result from limit moves in the underlying futures contract.

## **(3) THE MECHANICS OF OPTION TRADING.**

Before entering into any exchange-traded option transaction, an individual should obtain a description of how commodity options are traded.

Option customers should clearly understand that there is no guarantee that option positions may be offset by either a closing purchase or closing sale transaction on an exchange. In this circumstance, option grantors could be subject to the full risk of their positions until the option position expires, and the purchaser of a profitable option might have to exercise the option to realize a profit.

For an option on a futures contract, an individual should clearly understand the relationship between exchange rules governing option transactions and exchange rules governing the underlying futures contract. For example, an individual should understand what action, if any, the exchange will take in the option market if trading in the underlying futures market is restricted or the futures prices have made a "limit move."

The individual should understand that the option may not be subject to daily price fluctuation limits while the underlying futures may have such limits, and, as a result, normal pricing relationships between options and the underlying future may not exist when the future is trading at its price limit. Also, underlying futures positions resulting from exercise of options may not be capable of being offset if the underlying future is at a price limit.

## **(4) MARGIN REQUIREMENTS.**

An individual should know and understand whether the option he or she is contemplating trading is subject to a stock-style or futures-style system of margining. Stock-style margining requires the purchaser to pay the full option premium at the time of purchase. The purchaser has no further financial obligations, and the risk of loss is limited to the purchase price and transaction costs. Futures-style margining requires the purchaser to pay initial margin only at the time of purchase. The option position is marked to market, and gains and losses are collected and paid daily. The purchaser's risk of loss is limited to the initial option premium and transaction costs.

An individual granting options under either a stock-style or futures-style system of margining should understand that he or she may be required to pay additional margin in the case of adverse market movements.

## **(5) PROFIT POTENTIAL OF AN OPTION POSITION.**

An option customer should carefully calculate the price which the underlying futures contract or underlying physical commodity would have to reach for the option position to become profitable. Under a stock-style margining system, this price would include the amount by which the underlying futures contract or underlying physical commodity would have to rise above or fall below the strike price to cover the sum of the premi-

um and all other costs incurred in entering into and exercising or closing (offsetting) the commodity option position. Under a future-style margining system, option positions would be marked to market, and gains and losses would be paid and collected daily, and an option position would become profitable once the variation margin collected exceeded the cost of entering the contract position.

Also, an option customer should be aware of the risk that the futures price prevailing at the opening of the next trading day may be substantially different from the futures price which prevailed when the option was exercised. Similarly, for options on physicals that are cash settled, the physicals price prevailing at the time the option is exercised may differ substantially from the cash settlement price that is determined at a later time. Thus, if a customer does not cover the position against the possibility of underlying commodity price change, the realized price upon option exercise may differ substantially from that which existed at the time of exercise.

#### **(6) DEEP-OUT-OF-THE-MONEY OPTIONS.**

A person contemplating purchasing a deep-out-of-the-money option (that is, an option with a strike price significantly above, in the case of a call, or significantly below, in the case of a put, the current price of the underlying futures contract or underlying physical commodity) should be aware that the chance of such an option becoming profitable is ordinarily remote.

On the other hand, a potential grantor of a deep-out-of-the-money option should be aware that such options normally provide small premiums while exposing the grantor to all of the potential losses described in section (1) of this disclosure statement.

#### **(7) GLOSSARY OF TERMS.**

- (i) Contract market —Any board of trade (exchange) located in the United States which has been designated by the Commodity Futures Trading Commission to list a futures contract or commodity option for trading.
- (ii) Exchange-traded option; put option; call option—The options discussed in this disclosure statement are limited to those which may be traded on a contract market. These options (subject to certain exceptions) give an option purchaser the right to buy in the case of a call option, or to sell in the case of a put option, a futures contract or the physical commodity underlying the option at the stated strike price prior to the expiration date of the option. Each exchange-traded option is distinguished by the underlying futures contract or underlying physical commodity, strike price, expiration date, and whether the option is a put or a call.
- (iii) Underlying futures contract —The futures contract which may be purchased or sold upon the exercise of an option on a futures contract.
- (iv) Underlying physical commodity—The commodity of a specific grade (quality) and quantity which may be purchased or sold upon the exercise of an option on a physical commodity.
- (v) Class of options—A put or a call covering the same underlying futures contract or underlying physical commodity.
- (vi) Series of options—Options of the same class having the same strike price and expiration date.
- (vii) Exercise price—See strike price.
- (viii) Expiration date—The last day when an option may be exercised.
- (ix) Premium—The amount agreed upon between the purchaser and seller for the purchase or sale of a commodity option.
- (x) Strike price—The price at which a person may purchase or sell the underlying futures contract or underlying physical commodity upon exercise of a commodity option. This term has the same meaning as the term “exercise price.”
- (xi) Short option position—See opening sale transaction.
- (xii) Long option position—See opening purchase transaction.
- (xiii) Types of options transactions—
  - (A) Opening purchase transaction—A transaction in which an individual purchases an option and thereby obtains a long option position.
  - (B) Opening sale transaction—A transaction in which an individual grants an option and thereby obtains a short option position.
  - (C) Closing purchase transaction—A transaction in which an individual with a short option position liquidates the position. This is accomplished by a closing purchase transaction for an option of the same series as the option previously granted. Such a transaction may be referred to as an offset transaction.
  - (D) Closing sale transaction—A transaction in which an individual with a long option position liquidates the position. This is accomplished by a closing sale transaction for an option of the same series as the option previously purchased. Such a transaction may be referred to as an offset transaction.
- (xiv) Purchase price—The total actual cost paid or to be paid, directly or indirectly, by a person to acquire a commodity option. This price includes all commissions and other fees, in addition to the option premium.
- (xv) Grantor, writer, seller—An individual who sells an option. Such a person is said to have a short position.
- (xvi) Purchaser—An individual who buys an option. Such a person is said to have a long position.

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

**DIFFERENCES AMONG ELECTRONIC TRADING SYSTEMS**

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

**RISKS ASSOCIATED WITH SYSTEM FAILURE**

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

**SIMULTANEOUS OPEN OUTCRY PIT AND ELECTRONIC TRADING**

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

**LIMITATION OF LIABILITY**

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

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

This disclosure statement discusses the characteristics and risks of standardized security futures contracts traded on regulated U.S. exchanges. At present, regulated exchanges are authorized to list futures contracts on individual equity securities registered under the Securities Exchange Act of 1934 (including common stock and certain exchange-traded funds and American Depositary Receipts), as well as narrow-based security indices. Futures on other types of securities and options on security futures contracts may be authorized in the future. The glossary of terms appears at the end of the document.

Customers should be aware that the examples in this document are exclusive of fees and commissions that may decrease their net gains or increase their net losses. The examples also do not include tax consequences, which may differ for each customer.

## **SECTION 1 – RISKS OF SECURITY FUTURES**

### **1.1. RISKS OF SECURITY FUTURES TRANSACTIONS**

Trading security futures contracts may not be suitable for all investors. You may lose a substantial amount of money in a very short period of time. The amount you may lose is potentially unlimited and can exceed the amount you originally deposit with your broker. This is because futures trading is highly leveraged, with a relatively small amount of money used to establish a position in assets having a much greater value. If you are uncomfortable with this level of risk, you should not trade security futures contracts.

### **1.2. GENERAL RISKS**

• *Trading security futures contracts involves risk and may result in potentially unlimited losses that are greater than the amount you deposited with your broker.* As with any high risk financial product, you should not risk any funds that you cannot afford to lose, such as your retirement savings, medical and other emergency funds, funds set aside for purposes such as education or home ownership, proceeds from student loans or mortgages, or funds required to meet your living expenses.

• *Be cautious of claims that you can make large profits from trading security futures contracts.* Although the high degree of leverage in security futures contracts can result in large and immediate gains, it can also result in large and immediate losses. As with any financial product, there is no such thing as a “sure winner.”

• *Because of the leverage involved and the nature of security futures contract transactions, you may feel the effects of your losses immediately.* Gains and losses in security futures contracts are credited or debited to your account, at a minimum, on a daily basis. If movements in the markets for security futures contracts or the underlying security decrease the value of your positions in security futures contracts, you may be required to have or make additional funds available to your carrying firm as margin. If your account is under the minimum margin requirements set by the exchange or the brokerage firm, your position may be liquidated at a loss, and you will be liable for the deficit, if any, in your account. Margin requirements are addressed in Section 4.

• *Under certain market conditions, it may be difficult or impossible to liquidate a position.* Generally, you must enter into an offsetting transaction in order to liquidate a position in a security futures contract. If you cannot liquidate your position in security futures contracts, you may not be able to realize a gain in the value of your position or prevent losses from mounting. This inability to liquidate could occur, for example, if trading is halted due to unusual trading activity in either the security futures contract or the underlying security; if trading is halted due to recent news events involving the issuer of the underlying security; if systems

failures occur on an exchange or at the firm carrying your position; or if the position is on an illiquid market. Even if you can liquidate your position, you may be forced to do so at a price that involves a large loss.

• *Under certain market conditions, it may also be difficult or impossible to manage your risk from open security futures positions by entering into an equivalent but opposite position in another contract month, on another market, or in the underlying security.* This inability to take positions to limit your risk could occur, for example, if trading is halted across markets due to unusual trading activity in the security futures contract or the underlying security or due to recent news events involving the issuer of the underlying security.

• *Under certain market conditions, the prices of security futures contracts may not maintain their customary or anticipated relationships to the prices of the underlying security or index.* These pricing disparities could occur, for example, when the market for the security futures contract is illiquid, when the primary market for the underlying security is closed, or when the reporting of transactions in the underlying security has been delayed. For index products, it could also occur when trading is delayed or halted in some or all of the securities that make up the index.

• *You may be required to settle certain security futures contracts with physical delivery of the underlying security.* If you hold your position in a physically settled security futures contract until the end of the last trading day prior to expiration, you will be obligated to make or take delivery of the underlying securities, which could involve additional costs. The actual settlement terms may vary from contract to contract and exchange to exchange. You should carefully review the settlement and delivery conditions before entering into a security futures contract. Settlement and delivery are discussed in Section 5.

• *You may experience losses due to systems failures.* As with any financial transaction, you may experience losses if your orders for security futures contracts cannot be executed normally due to systems failures on a regulated exchange or at the brokerage firm carrying your position. Your losses may be greater if the brokerage firm carrying your position does not have adequate back-up systems or procedures.

• *All security futures contracts involve risk, and there is no trading strategy that can eliminate it.* Strategies using combinations of positions, such as spreads, may be as risky as outright long or short positions. Trading in security futures contracts requires knowledge of both the securities and the futures markets.

• *Day trading strategies involving security futures contracts and other products pose special risks.* As with any financial product, persons who seek to purchase and sell the same security future in the course of a day

to profit from intra-day price movements (“day traders”) face a number of special risks, including substantial commissions, exposure to leverage, and competition with professional traders. You should thoroughly understand these risks and have appropriate experience before engaging in day trading. The special risks for day traders are discussed more fully in Section 7.

- *Placing contingent orders, if permitted, such as “stop-loss” or “stop-limit” orders, will not necessarily limit your losses to the intended amount.* Some regulated exchanges may permit you to enter into stop-loss or stop-limit orders for security futures contracts, which are intended to limit your exposure to losses due to market fluctuations. However, market conditions may make it impossible to execute the order or to get the stop price.
- *You should thoroughly read and understand the customer account agreement with your brokerage firm before entering into any transactions in security futures contracts.*
- *You should thoroughly understand the regulatory protections available to your funds and positions in the event of the failure of your brokerage firm.* The regulatory protections available to your funds and positions in the event of the failure of your brokerage firm may vary depending on, among other factors, the contract you are trading and whether you are trading through a securities account or a futures account. Firms that allow customers to trade security futures in either securities accounts or futures accounts, or both, are required to disclose to customers the differences in regulatory protections between such accounts, and, where appropriate, how customers may elect to trade in either type of account.

**SECTION 2 – DESCRIPTION OF A SECURITY FUTURES CONTRACT**

**2.1. WHAT IS A SECURITY FUTURES CONTRACT?**

A security futures contract is a legally binding agreement between two parties to purchase or sell in the future a specific quantity of shares of a security or of the component securities of a narrow-based security index, at a certain price. A person who buys a security futures contract enters into a contract to purchase an underlying security and is said to be “long” the contract. A person who sells a security futures contract enters into a contract to sell the underlying security and is said to be “short” the contract. The price at which the contract trades (the “contract price”) is determined by relative buying and selling interest on a regulated exchange.

In order to enter into a security futures contract, you must deposit funds with your brokerage firm equal to a specified percentage (usually at least 20 percent) of the current market value of the contract as a performance bond. Moreover, all security futures contracts are marked-to-market at least daily, usually after the close of trading, as described in Section 3 of this document. At that time, the account of each buyer and seller reflects the amount of any gain or loss on the security futures contract based on the contract price established at the end of the day for settlement purposes (the “daily settlement price”).

An open position, either a long or short position, is closed or liquidated by entering into an offsetting transaction (i.e., an equal and opposite transaction to the one that opened the position) prior to the contract expiration. Traditionally, most futures contracts are liquidated prior to expiration through an offsetting transaction and, thus, holders do not incur a settlement obligation.

Examples:

Investor A is long one September XYZ Corp. futures contract. To liquidate the long position in the September XYZ Corp. futures contract, Investor A would sell an identical September XYZ Corp. contract.

Investor B is short one December XYZ Corp. futures contract. To liquidate the short position in the December XYZ Corp. futures contract, Investor B would buy an identical December XYZ Corp. contract.

Security futures contracts that are not liquidated prior to expiration must be settled in accordance with the terms of the contract. Some security futures contracts are settled by physical delivery of the underlying security. At the expiration of a security futures contract that is settled through physical delivery, a person who is long the contract must pay the final settlement price set by the regulated exchange or the clearing organization and take delivery of the underlying shares. Conversely, a person who is short the contract must make delivery of the underlying shares in exchange for the final settlement price.

Other security futures contracts are settled through cash settlement. In this case, the underlying security is not delivered. Instead, any positions in such security futures contracts that are open at the end of the last trading day are settled through a final cash payment based on a final settlement price determined by the exchange or clearing organization. Once this payment is made, neither party has any further obligations on the contract.

Physical delivery and cash settlement are discussed more fully in Section 5.

**2.2. PURPOSES OF SECURITY FUTURES**

Security futures contracts can be used for speculation, hedging, and risk management. Security futures contracts do not provide capital growth or income.

**SPECULATION**

Speculators are individuals or firms who seek to profit from anticipated increases or decreases in futures prices. A speculator who expects the price of the underlying instrument to increase will buy the security futures contract. A speculator who expects the price of the underlying instrument to decrease will sell the security futures contract. Speculation involves substantial risk and can lead to large losses as well as profits.

The most common trading strategies involving security futures contracts are buying with the hope of profiting from an anticipated price increase and selling with the hope of profiting from an anticipated price decrease. For example, a person who expects the price of XYZ stock to increase by March can buy a March XYZ security futures contract, and a person who expects the price of XYZ stock to decrease by March can sell a March XYZ security futures contract. The following illustrates potential profits and losses if Customer A purchases the security futures contract at \$50 a share and Customer B sells the same contract at \$50 a share (assuming 100 shares per contract).

Price of XYZ at Liquidation	Customer A Profit/Loss	Customer B Profit/Loss
\$55	\$500	-\$500
\$50	\$0	\$0
\$45	-\$500	\$500

Speculators may also enter into spreads with the hope of profiting from an expected change in price relationships. Spreaders may purchase a contract expiring in one contract month and sell another contract on the same underlying security expiring in a different month (e.g., buy June and sell September XYZ single stock futures). This is commonly referred to as a “calendar spread.”

Spreaders may also purchase and sell the same contract month in two different but economically correlated security futures contracts. For example, if ABC and XYZ are both pharmaceutical companies and an individual believes that ABC will have stronger growth than XYZ between now and June, he could buy June ABC futures contracts and sell June XYZ futures contracts. Assuming that each contract is 100 shares, the following illustrates how this works.

Opening Position	Price at Liquidation	Gain or Loss	Price at Liquidation	Gain or Loss
Buy ABC at 50	\$53	\$300	\$53	\$300
Sell XYZ at 45	\$46	-\$100	\$50	-\$500
Net Gain or Loss	\$200	-\$200		

Speculators can also engage in arbitrage, which is similar to a spread except that the long and short positions occur on two different markets. An arbitrage position can be established by taking an economically opposite position in a security futures contract on another exchange, in an options contract, or in the underlying security.

**HEDGING**

Generally speaking, hedging involves the purchase or sale of a security future to reduce or offset the risk of a position in the underlying security or group of securities (or a close economic equivalent). A hedger gives up the potential to profit from a favorable price change in the position being hedged in order to minimize the risk of loss from an adverse price change.

An investor who wants to lock in a price now for an anticipated sale of the underlying security at a later date can do so by hedging with security futures. For example, assume an investor owns 1,000 shares of ABC that have appreciated since he bought them. The investor would like to sell them at the current price of \$50 per share, but there are tax or other reasons for holding them until September. The investor could sell ten 100-share ABC futures contracts and then buy back those contracts in September when he sells the stock. Assuming the stock price and the futures price change by the same amount, the gain or loss in the stock will be offset by the loss or gain in the futures contracts.

Price in September	Value of 1,000 Shares of ABC	Gain or Loss on Futures	Price at Liquidation
\$40	\$40,000	\$10,000	\$50,000
\$50	\$50,000	\$0	\$50,000
\$60	\$60,000	-\$10,000	\$50,000

Hedging can also be used to lock in a price now for an anticipated purchase of the stock at a later date. For example, assume that in May a mutual fund expects to buy stocks in a particular industry with the proceeds of bonds that will mature in August. The mutual fund can hedge

its risk that the stocks will increase in value between May and August by purchasing security futures contracts on a narrow-based index of stocks from that industry. When the mutual fund buys the stocks in August, it also will liquidate the security futures position in the index. If the relationship between the security futures contract and the stocks in the index is constant, the profit or loss from the futures contract will offset the price change in the stocks, and the mutual fund will have locked in the price that the stocks were selling at in May.

Although hedging mitigates risk, it does not eliminate all risk. For example, the relationship between the price of the security futures contract and the price of the underlying security traditionally tends to remain constant over time, but it can and does vary somewhat. Furthermore, the expiration or liquidation of the security futures contract may not coincide with the exact time the hedger buys or sells the underlying stock. Therefore, hedging may not be a perfect protection against price risk.

**RISK MANAGEMENT**

Some institutions also use futures contracts to manage portfolio risks without necessarily intending to change the composition of their portfolio by buying or selling the underlying securities. The institution does so by taking a security futures position that is opposite to some or all of its position in the underlying securities. This strategy involves more risk than a traditional hedge because it is not meant to be a substitute for an anticipated purchase or sale.

**2.3. WHERE SECURITY FUTURES TRADE**

By law, security futures contracts must trade on a regulated U.S. exchange. Each regulated U.S. exchange that trades security futures contracts is subject to joint regulation by the Securities and Exchange Commission (SEC) and the Commodity Futures Trading Commission (CFTC).

A person holding a position in a security futures contract who seeks to liquidate the position must do so either on the regulated exchange where the original trade took place or on another regulated exchange, if any, where a fungible security futures contract trades. (A person may also seek to manage the risk in that position by taking an opposite position in a comparable contract traded on another regulated exchange.)

Security futures contracts traded on one regulated exchange might not be fungible with security futures contracts traded on another regulated exchange for a variety of reasons. Security futures traded on different regulated exchanges may be non-fungible because they have different contract terms (e.g., size, settlement method), or because they are cleared through different clearing organizations. Moreover, a regulated exchange might not permit its security futures contracts to be offset or liquidated by an identical contract traded on another regulated exchange, even though they have the same contract terms and are cleared through the same clearing organization. You should consult your broker about the fungibility of the contract you are considering purchasing or selling, including which exchange(s), if any, on which it may be offset.

Regulated exchanges that trade security futures contracts are required by law to establish certain listing standards. Changes in the underlying security of a security futures contract may, in some cases, cause such contract to no longer meet the regulated exchange’s listing standards. Each regulated exchange will have rules governing the continued trading of security futures contracts that no longer meet the exchange’s listing standards. These rules may, for example, permit only liquidating trades in security futures contracts that no longer satisfy the listing standards.

**2.4. HOW SECURITY FUTURES DIFFER FROM THE UNDERLYING SECURITY**

Shares of common stock represent a fractional ownership interest in the issuer of that security. Ownership of securities confers various rights that are not present with positions in security futures contracts. For example, persons owning a share of common stock may be entitled to vote in matters affecting corporate governance. They also may be entitled to receive dividends and corporate disclosure, such as annual and quarterly reports.

The purchaser of a security futures contract, by contrast, has only a contract for future delivery of the underlying security. The purchaser of the security futures contract is not entitled to exercise any voting rights over the underlying security and is not entitled to any dividends that may be paid by the issuer. Moreover, the purchaser of a security futures contract does not receive the corporate disclosures that are received by shareholders of the underlying security, although such corporate disclosures must be made publicly available through the SEC’s EDGAR system, which can be accessed at [www.sec.gov](http://www.sec.gov). You should review such disclosures before entering into a security futures contract. See Section 9 for further discussion of the impact of corporate events on a security futures contract.

All security futures contracts are marked-to-market at least daily, usually after the close of trading, as described in Section 3 of this document. At that time, the account of each buyer and seller is credited with the amount of any gain, or debited by the amount of any loss, on the security futures contract, based on the contract price established at the end of the day for settlement purposes (the “daily settlement price”). By contrast, the purchaser or seller of the underlying instrument does not have the profit and loss from his or her investment credited or debited until the position in that instrument is closed out.

Naturally, as with any financial product, the value of the security futures contract and of the underlying security may fluctuate. However, owning the underlying security does not require an investor to settle his or her profits and losses daily. By contrast, as a result of the mark-to-market requirements discussed above, a person who is long a security futures contract often will be required to deposit additional funds into his or her account as the price of the security futures contract decreases. Similarly, a person who is short a security futures contract often will be required to deposit additional funds into his or her account as the price of the security futures contract increases.

Another significant difference is that security futures contracts expire on a specific date. Unlike an owner of the underlying security, a person cannot hold a long position in a security futures contract for an extended period of time in the hope that the price will go up. If you do not liquidate your security futures contract, you will be required to settle the contract when it expires, either through physical delivery or cash settlement. For cash-settled contracts in particular, upon expiration, an individual will no longer have an economic interest in the securities underlying the security futures contract.

**2.5. COMPARISON TO OPTIONS**

Although security futures contracts share some characteristics with options on securities (options contracts), these products are also different in a number of ways. Below are some of the important distinctions between equity options contracts and security futures contracts.

If you purchase an options contract, you have the right, but not the obligation, to buy or sell a security prior to the expiration date. If you sell an options contract, you have the obligation to buy or sell a security prior to the expiration date. By contrast, if you have a position in a security futures contract (either long or short), you have both the right and the obligation to buy or sell a security at a future date. The only way that you can avoid the obligation incurred by the security futures contract is to liquidate the position with an offsetting contract.

A person purchasing an options contract runs the risk of losing the purchase price (premium) for the option contract. Because it is a wasting asset, the purchaser of an options contract who neither liquidates the options contract in the secondary market nor exercises it at or prior to expiration will necessarily lose his or her entire investment in the options contract. However, a purchaser of an options contract cannot lose more than the amount of the premium. Conversely, the seller of an options contract receives the premium and assumes the risk that he or she will be required to buy or sell the underlying security on or prior to the expiration date, in which event his or her losses may exceed the amount of the premium received. Although the seller of an options contract is required to deposit margin to reflect the risk of its obligation, he or she may lose many times his or her initial margin deposit.

By contrast, the purchaser and seller of a security futures contract each enter into an agreement to buy or sell a specific quantity of shares in the underlying security. Based upon the movement in prices of the underlying security, a person who holds a position in a security futures contract can gain or lose many times his or her initial margin deposit. In this respect, the benefits of a security futures contract are similar to the benefits of purchasing an option, while the risks of entering into a security futures contract are similar to the risks of selling an option.

Both the purchaser and the seller of a security futures contract have daily margin obligations. At least once each day, security futures contracts are marked-to-market and the increase or decrease in the value of the contract is credited or debited to the buyer and the seller. As a result, any person who has an open position in a security futures contract may be called upon to meet additional margin requirements or may receive a credit of available funds.

Example:

Assume that Customers A and B each anticipate an increase in the market price of XYZ stock, which is currently \$50 a share. Customer A purchases an XYZ 50 call (covering 100 shares of XYZ at a premium of \$5 per share). The option premium is \$500 (\$5 per share X 100 shares). Customer B purchases an XYZ security futures contract (covering 100 shares of XYZ). The total value of the contract is \$5000 (\$50 share value X 100 shares). The required margin is \$1000 (or 20% of the contract value).

Price of XYZ at Expiration	Customer A Profit/Loss	Customer B Profit/Loss
\$65	\$1000	\$1500
\$60	\$500	\$1000
\$55	\$0	\$500
\$50	-\$500	\$0
\$45	-\$500	-\$500
\$40	-\$500	-\$1000
\$35	-\$500	-\$1500

The most that Customer A can lose is \$500, the option premium. Customer A breaks even at \$55 per share, and makes money at higher prices. Customer B may lose more than his initial margin deposit. Unlike the options premium, the margin on a futures contract is not a cost but a performance bond. The losses for Customer B are not limited by this performance bond. Rather, the losses or gains are determined by the settlement price of the contract, as provided in the example above. Note that if the price of XYZ falls to \$35 per share, Customer A loses only \$500, whereas Customer B loses \$1500.

## **2.6. COMPONENTS OF A SECURITY FUTURES CONTRACT**

Each regulated exchange can choose the terms of the security futures contracts it lists, and those terms may differ from exchange to exchange or contract to contract. Some of those contract terms are discussed below. However, you should ask your broker for a copy of the contract specifications before trading a particular contract.

**2.6.1.** Each security futures contract has a set size. The size of a security futures contract is determined by the regulated exchange on which the contract trades. For example, a security futures contract for a single stock may be based on 100 shares of that stock. If prices are reported per share, the value of the contract would be the price times 100. For narrow-based security indices, the value of the contract is the price of the component securities times the multiplier set by the exchange as part of the contract terms.

**2.6.2.** Security futures contracts expire at set times determined by the listing exchange. For example, a particular contract may expire on a particular day, e.g., the third Friday of the expiration month. Up until expiration, you may liquidate an open position by offsetting your contract with a fungible opposite contract that expires in the same month. If you do not liquidate an open position before it expires, you will be required to make or take delivery of the underlying security or to settle the contract in cash after expiration.

**2.6.3.** Although security futures contracts on a particular security or a narrow-based security index may be listed and traded on more than one regulated exchange, the contract specifications may not be the same. Also, prices for contracts on the same security or index may vary on different regulated exchanges because of different contract specifications.

**2.6.4.** Prices of security futures contracts are usually quoted the same way prices are quoted in the underlying instrument. For example, a contract for an individual security would be quoted in dollars and cents per share. Contracts for indices would be quoted by an index number, usually stated to two decimal places.

**2.6.5.** Each security futures contract has a minimum price fluctuation (called a tick), which may differ from product to product or exchange to exchange. For example, if a particular security futures contract has a tick size of 1¢, you can buy the contract at \$23.21 or \$23.22 but not at \$23.215.

## **2.7. TRADING HALTS**

The value of your positions in security futures contracts could be affected if trading is halted in either the security futures contract or the underlying

security. In certain circumstances, regulated exchanges are required by law to halt trading in security futures contracts. For example, trading on a particular security futures contract must be halted if trading is halted on the listed market for the underlying security as a result of pending news, regulatory concerns, or market volatility. Similarly, trading of a security futures contract on a narrow-based security index must be halted under such circumstances if trading is halted on securities accounting for at least 50 percent of the market capitalization of the index. In addition, regulated exchanges are required to halt trading in all security futures contracts for a specified period of time when the Dow Jones Industrial Average (“DJIA”) experiences one-day declines of 10-, 20- and 30-percent. The regulated exchanges may also have discretion under their rules to halt trading in other circumstances – such as when the exchange determines that the halt would be advisable in maintaining a fair and orderly market.

A trading halt, either by a regulated exchange that trades security futures or an exchange trading the underlying security or instrument, could prevent you from liquidating a position in security futures contracts in a timely manner, which could prevent you from liquidating a position in security futures contracts at that time.

## **2.8. TRADING HOURS**

Each regulated exchange trading a security futures contract may open and close for trading at different times than other regulated exchanges trading security futures contracts or markets trading the underlying security or securities. Trading in security futures contracts prior to the opening or after the close of the primary market for the underlying security may be less liquid than trading during regular market hours.

## **SECTION 3 – CLEARING ORGANIZATIONS AND MARK-TO-MARKET REQUIREMENTS**

Every regulated U.S. exchange that trades security futures contracts is required to have a relationship with a clearing organization that serves as the guarantor of each security futures contract traded on that exchange. A clearing organization performs the following functions: matching trades; effecting settlement and payments; guaranteeing performance; and facilitating deliveries.

Throughout each trading day, the clearing organization matches trade data submitted by clearing members on behalf of their customers or for the clearing member’s proprietary accounts. If an account is with a brokerage firm that is not a member of the clearing organization, then the brokerage firm will carry the security futures position with another brokerage firm that is a member of the clearing organization. Trade records that do not match, either because of a discrepancy in the details or because one side of the transaction is missing, are returned to the submitting clearing members for resolution. The members are required to resolve such “out trades” before or on the open of trading the next morning.

When the required details of a reported transaction have been verified, the clearing organization assumes the legal and financial obligations of the parties to the transaction. One way to think of the role of the clearing organization is that it is the “buyer to every seller and the seller to every buyer.” The insertion or substitution of the clearing organization as the counterparty to every transaction enables a customer to liquidate a security futures position without regard to what the other party to the original security futures contract decides to do.

The clearing organization also effects the settlement of gains and losses from security futures contracts between clearing members. At

least once each day, clearing member brokerage firms must either pay to, or receive from, the clearing organization the difference between the current price and the trade price earlier in the day, or for a position carried over from the previous day, the difference between the current price and the previous day's settlement price. Whether a clearing organization effects settlement of gains and losses on a daily basis or more frequently will depend on the conventions of the clearing organization and market conditions. Because the clearing organization assumes the legal and financial obligations for each security futures contract, you should expect it to ensure that payments are made promptly to protect its obligations.

Gains and losses in security futures contracts are also reflected in each customer's account on at least a daily basis. Each day's gains and losses are determined based on a daily settlement price disseminated by the regulated exchange trading the security futures contract or its clearing organization. If the daily settlement price of a particular security futures contract rises, the buyer has a gain and the seller a loss. If the daily settlement price declines, the buyer has a loss and the seller a gain. This process is known as "marking-to-market" or daily settlement. As a result, individual customers normally will be called on to settle daily.

The one-day gain or loss on a security futures contract is determined by calculating the difference between the current day's settlement price and the previous day's settlement price.

For example, assume a security futures contract is purchased at a price of \$120. If the daily settlement price is either \$125 (higher) or \$117 (lower), the effects would be as follows:

(1 contract representing 100 shares)

Daily Settlement Value	Buyer's Account	Seller's Account
\$125	\$500 gain (credit)	\$500 loss (debit)
\$117	\$300 loss (debit)	\$300 gain (credit)

The cumulative gain or loss on a customer's open security futures positions is generally referred to as "open trade equity" and is listed as a separate component of account equity on your customer account statement. A discussion of the role of the clearing organization in effecting delivery is discussed in Section 5.

**SECTION 4 – MARGIN AND LEVERAGE**

When a broker-dealer lends a customer part of the funds needed to purchase a security such as common stock, the term "margin" refers to the amount of cash, or down payment, the customer is required to deposit. By contrast, a security futures contract is an obligation and not an asset. A security futures contract has no value as collateral for a loan. Because of the potential for a loss as a result of the daily marked-to-market process, however, a margin deposit is required of each party to a security futures contract. This required margin deposit also is referred to as a "performance bond."

In the first instance, margin requirements for security futures contracts are set by the exchange on which the contract is traded, subject to certain minimums set by law. The basic margin requirement is 20% of the current value of the security futures contract, although some strategies may have lower margin requirements. Requests for additional margin are known as "margin calls." Both buyer and seller must individually deposit the required margin to their respective accounts.

It is important to understand that individual brokerage firms can, and in many cases do, require margin that is higher than the exchange requirements. Additionally, margin requirements may vary from brokerage firm

to brokerage firm. Furthermore, a brokerage firm can increase its "house" margin requirements at any time without providing advance notice, and such increases could result in a margin call.

For example, some firms may require margin to be deposited the business day following the day of a deficiency, or some firms may even require deposit on the same day. Some firms may require margin to be on deposit in the account before they will accept an order for a security futures contract. Additionally, brokerage firms may have special requirements as to how margin calls are to be met, such as requiring a wire transfer from a bank, or deposit of a certified or cashier's check. You should thoroughly read and understand the customer agreement with your brokerage firm before entering into any transactions in security futures contracts.

If through the daily cash settlement process, losses in the account of a security futures contract participant reduce the funds on deposit (or equity) below the maintenance margin level (or the firm's higher "house" requirement), the brokerage firm will require that additional funds be deposited.

If additional margin is not deposited in accordance with the firm's policies, the firm can liquidate your position in security futures contracts or sell assets in any of your accounts at the firm to cover the margin deficiency. You remain responsible for any shortfall in the account after such liquidations or sales. Unless provided otherwise in your customer agreement or by applicable law, you are not entitled to choose which futures contracts, other securities or other assets are liquidated or sold to meet a margin call or to obtain an extension of time to meet a margin call.

Brokerage firms generally reserve the right to liquidate a customer's security futures contract positions or sell customer assets to meet a margin call at any time without contacting the customer. Brokerage firms may also enter into equivalent but opposite positions for your account in order to manage the risk created by a margin call. Some customers mistakenly believe that a firm is required to contact them for a margin call to be valid, and that the firm is not allowed to liquidate securities or other assets in their accounts to meet a margin call unless the firm has contacted them first. This is not the case. While most firms notify their customers of margin calls and allow some time for deposit of additional margin, they are not required to do so. Even if a firm has notified a customer of a margin call and set a specific due date for a margin deposit, the firm can still take action as necessary to protect its financial interests, including the immediate liquidation of positions without advance notification to the customer.

Here is an example of the margin requirements for a long security futures position.

A customer buys 3 July EJG security futures at 71.50. Assuming each contract represents 100 shares, the nominal value of the position is \$21,450 (71.50 x 3 contracts x 100 shares). If the initial margin rate is 20% of the nominal value, then the customer's initial margin requirement would be \$4,290. The customer deposits the initial margin, bringing the equity in the account to \$4,290.

First, assume that the next day the settlement price of EJG security futures falls to 69.25. The marked-to-market loss in the customer's equity is \$675 (71.50 – 69.25 x 3 contracts x 100 shares). The customer's equity decreases to \$3,615 (\$4,290 – \$675). The new nominal value of the contract is \$20,775 (69.25 x 3 contracts x 100 shares). If the maintenance margin rate is 20% of the nominal value, then the customer's maintenance margin requirement would be \$4,155. Because the customer's equity had decreased to \$3,615 (see above), the customer would be required to have an additional \$540 in margin (\$4,155 – \$3,615).

Alternatively, assume that the next day the settlement price of EJG security futures rises to 75.00. The mark-to-market gain in the customer's equity is \$1,050 ( $75.00 - 71.50 \times 3 \text{ contracts} \times 100 \text{ shares}$ ). The customer's equity increases to \$5,340 ( $\$4,290 + \$1,050$ ). The new nominal value of the contract is \$22,500 ( $75.00 \times 3 \text{ contracts} \times 100 \text{ shares}$ ). If the maintenance margin rate is 20% of the nominal value, then the customer's maintenance margin requirement would be \$4,500. Because the customer's equity had increased to \$5,340 (see above), the customer's excess equity would be \$840.

The process is exactly the same for a short position, except that margin calls are generated as the settlement price rises rather than as it falls. This is because the customer's equity decreases as the settlement price rises and increases as the settlement price falls.

Because the margin deposit required to open a security futures position is a fraction of the nominal value of the contracts being purchased or sold, security futures contracts are said to be highly leveraged. The smaller the margin requirement in relation to the underlying value of the security futures contract, the greater the leverage. Leverage allows exposure to a given quantity of an underlying asset for a fraction of the investment needed to purchase that quantity outright. In sum, buying (or selling) a security futures contract provides the same dollar and cents profit and loss outcomes as owning (or shorting) the underlying security. However, as a percentage of the margin deposit, the potential immediate exposure to profit or loss is much higher with a security futures contract than with the underlying security.

For example, if a security futures contract is established at a price of \$50, the contract has a nominal value of \$5,000 (assuming the contract is for 100 shares of stock). The margin requirement may be as low as 20%. In the example just used, assume the contract price rises from \$50 to \$52 (a \$200 increase in the nominal value). This represents a \$200 profit to the buyer of the security futures contract, and a 20% return on the \$1,000 deposited as margin. The reverse would be true if the contract price decreased from \$50 to \$48. This represents a \$200 loss to the buyer, or 20% of the \$1,000 deposited as margin. Thus, leverage can either benefit or harm an investor.

Note that a 4% decrease in the value of the contract resulted in a loss of 20% of the margin deposited. A 20% decrease would wipe out 100% of the margin deposited on the security futures contract.

## **SECTION 5 – SETTLEMENT**

If you do not liquidate your position prior to the end of trading on the last day before the expiration of the security futures contract, you are obligated to either 1) make or accept a cash payment ("cash settlement") or 2) deliver or accept delivery of the underlying securities in exchange for final payment of the final settlement price ("physical delivery"). The terms of the contract dictate whether it is settled through cash settlement or by physical delivery.

The expiration of a security futures contract is established by the exchange on which the contract is listed. On the expiration day, security futures contracts cease to exist. Typically, the last trading day of a security futures contract will be the third Friday of the expiring contract month, and the expiration day will be the following Saturday. This follows the expiration conventions for stock options and broad-based stock indexes. Please keep in mind that the expiration day is set by the listing exchange and may deviate from these norms.

## **5.1. CASH SETTLEMENT**

In the case of cash settlement, no actual securities are delivered at the expiration of the security futures contract. Instead, you must settle any open positions in security futures by making or receiving a cash payment based on the difference between the final settlement price and the previous day's settlement price. Under normal circumstances, the final settlement price for a cash-settled contract will reflect the opening price for the underlying security. Once this payment is made, neither the buyer nor the seller of the security futures contract has any further obligations on the contract.

## **5.2. SETTLEMENT BY PHYSICAL DELIVERY**

Settlement by physical delivery is carried out by clearing brokers or their agents with National Securities Clearing Corporation ("NSCC"), an SEC-regulated securities clearing agency. Such settlements are made in much the same way as they are for purchases and sales of the underlying security. Promptly after the last day of trading, the regulated exchange's clearing organization will report a purchase and sale of the underlying stock at the previous day's settlement price (also referred to as the "invoice price") to NSCC. If NSCC does not reject the transaction by a time specified in its rules, settlement is effected pursuant to the rules of NSCC within the normal clearance and settlement cycle for securities transactions, which currently is three business days.

If you hold a short position in a physically settled security futures contract to expiration, you will be required to make delivery of the underlying securities. If you already own the securities, you may tender them to your brokerage firm. If you do not own the securities, you will be obligated to purchase them. Some brokerage firms may not be able to purchase the securities for you. If your brokerage firm cannot purchase the underlying securities on your behalf to fulfill a settlement obligation, you will have to purchase the securities through a different firm.

## **SECTION 6 – CUSTOMER ACCOUNT PROTECTIONS**

Positions in security futures contracts may be held either in a securities account or in a futures account. Your brokerage firm may or may not permit you to choose the types of account in which your positions in security futures contracts will be held. The protections for funds deposited or earned by customers in connection with trading in security futures contracts differ depending on whether the positions are carried in a securities account or a futures account. If your positions are carried in a securities account, you will not receive the protections available for futures accounts. Similarly, if your positions are carried in a futures account, you will not receive the protections available for securities accounts. You should ask your broker which of these protections will apply to your funds.

You should be aware that the regulatory protections applicable to your account are not intended to insure you against losses you may incur as a result of a decline or increase in the price of a security futures contract. As with all financial products, you are solely responsible for any market losses in your account.

Your brokerage firm must tell you whether your security futures positions will be held in a securities account or a futures account. If your brokerage firm gives you a choice, it must tell you what you have to do to make the choice and which type of account will be used if you fail to do so. You should understand that certain regulatory protections for your account will depend on whether it is a securities account or a futures account.

## 6.1. PROTECTIONS FOR SECURITIES ACCOUNTS

If your positions in security futures contracts are carried in a securities account, they are covered by SEC rules governing the safeguarding of customer funds and securities. These rules prohibit a broker/dealer from using customer funds and securities to finance its business. As a result, the broker/dealer is required to set aside funds equal to the net of all its excess payables to customers over receivables from customers. The rules also require a broker/dealer to segregate all customer fully paid and excess margin securities carried by the broker/dealer for customers.

The Securities Investor Protection Corporation (SIPC) also covers positions held in securities accounts. SIPC was created in 1970 as a non-profit, non-government, membership corporation, funded by member broker/dealers. Its primary role is to return funds and securities to customers if the broker/dealer holding these assets becomes insolvent. SIPC coverage applies to customers of current (and in some cases former) SIPC members. Most broker/dealers registered with the SEC are SIPC members; those few that are not must disclose this fact to their customers. SIPC members must display an official sign showing their membership. To check whether a firm is a SIPC member, go to [www.sipc.org](http://www.sipc.org), call the SIPC Membership Department at (202) 371-8300, or write to SIPC Membership Department, Securities Investor Protection Corporation, 805 Fifteenth Street, NW, Suite 800, Washington, DC 20005-2215.

SIPC coverage is limited to \$500,000 per customer, including up to \$100,000 for cash. For example, if a customer has 1,000 shares of XYZ stock valued at \$200,000 and \$10,000 cash in the account, both the security and the cash balance would be protected. However, if the customer has shares of stock valued at \$500,000 and \$100,000 in cash, only a total of \$500,000 of those assets will be protected.

For purposes of SIPC coverage, customers are persons who have securities or cash on deposit with a SIPC member for the purpose of, or as a result of, securities transactions. SIPC does not protect customer funds placed with a broker/dealer just to earn interest. Insiders of the broker/dealer, such as its owners, officers, and partners, are not customers for purposes of SIPC coverage.

## 6.2. PROTECTIONS FOR FUTURES ACCOUNTS

If your security futures positions are carried in a futures account, they must be segregated from the brokerage firm's own funds and cannot be borrowed or otherwise used for the firm's own purposes. If the funds are deposited with another entity (e.g., a bank, clearing broker, or clearing organization), that entity must acknowledge that the funds belong to customers and cannot be used to satisfy the firm's debts. Moreover, although a brokerage firm may carry funds belonging to different customers in the same bank or clearing account, it may not use the funds of one customer to margin or guarantee the transactions of another customer. As a result, the brokerage firm must add its own funds to its customers' segregated funds to cover customer debits and deficits. Brokerage firms must calculate their segregation requirements daily.

You may not be able to recover the full amount of any funds in your account if the brokerage firm becomes insolvent and has insufficient funds to cover its obligations to all of its customers. However, customers with funds in segregation receive priority in bankruptcy proceedings. Furthermore, all customers whose funds are required to be segregated have the same priority in bankruptcy, and there is no ceiling on the amount of funds that must be segregated for or can be recovered by a particular customer.

Your brokerage firm is also required to separately maintain funds invested in security futures contracts traded on a foreign exchange. However, these funds may not receive the same protections once they are transferred to a foreign entity (e.g., a foreign broker, exchange or clearing organization) to satisfy margin requirements for those products. You should ask your broker about the bankruptcy protections available in the country where the foreign exchange (or other entity holding the funds) is located.

## SECTION 7 – SPECIAL RISKS FOR DAY TRADERS

Certain traders who pursue a day trading strategy may seek to use security futures contracts as part of their trading activity. Whether day trading in security futures contracts or other securities, investors engaging in a day trading strategy face a number of risks.

- *Day trading in security futures contracts requires in-depth knowledge of the securities and futures markets and of trading techniques and strategies.* In attempting to profit through day trading, you will compete with professional traders who are knowledgeable and sophisticated in these markets. You should have appropriate experience before engaging in day trading.

- *Day trading in security futures contracts can result in substantial commission charges, even if the per trade cost is low.* The more trades you make, the higher your total commissions will be. The total commissions you pay will add to your losses and reduce your profits. For instance, assuming that a round-turn trade costs \$16 and you execute an average of 29 round-turn transactions per day each trading day, you would need to generate an annual profit of \$111,360 just to cover your commission expenses.

- *Day trading can be extremely risky.* Day trading generally is not appropriate for someone of limited resources and limited investment or trading experience and low risk tolerance. You should be prepared to lose all of the funds that you use for day trading. In particular, you should not fund day trading activities with funds that you cannot afford to lose.

## SECTION 8 – OTHER

### 8.1. CORPORATE EVENTS

As noted in Section 2.4, an equity security represents a fractional ownership interest in the issuer of that security. By contrast, the purchaser of a security futures contract has only a contract for future delivery of the underlying security. Treatment of dividends and other corporate events affecting the underlying security may be reflected in the security futures contract depending on the applicable clearing organization rules. Consequently, individuals should consider how dividends and other developments affecting security futures in which they transact will be handled by the relevant exchange and clearing organization. The specific adjustments to the terms of a security futures contract are governed by the rules of the applicable clearing organization. Below is a discussion of some of the more common types of adjustments that you may need to consider.

Corporate issuers occasionally announce stock splits. As a result of these splits, owners of the issuer's common stock may own more shares of the stock, or fewer shares in the case of a reverse stock split. The treatment of stock splits for persons owning a security futures contract may vary according to the terms of the security futures contract and the rules of the clearing organization. For example, the terms of the contract may

provide for an adjustment in the number of contracts held by each party with a long or short position in a security future, or for an adjustment in the number of shares or units of the instrument underlying each contract, or both.

Corporate issuers also occasionally issue special dividends. A special dividend is an announced cash dividend payment outside the normal and customary practice of a corporation. The terms of a security futures contract may be adjusted for special dividends. The adjustments, if any, will be based upon the rules of the exchange and clearing organization. In general, there will be no adjustments for ordinary dividends as they are recognized as a normal and customary practice of an issuer and are already accounted for in the pricing of security futures.

Corporate issuers occasionally may be involved in mergers and acquisitions. Such events may cause the underlying security of a security futures contract to change over the contract duration. The terms of security futures contracts may also be adjusted to reflect other corporate events affecting the underlying security.

## **8.2. POSITION LIMITS AND LARGE TRADER REPORTING**

All security futures contracts trading on regulated exchanges in the United States are subject to position limits or position accountability limits. Position limits restrict the number of security futures contracts that any one person or group of related persons may hold or control in a particular security futures contract. In contrast, position accountability limits permit the accumulation of positions in excess of the limit without a prior exemption. In general, position limits and position accountability limits are beyond the thresholds of most retail investors. Whether a security futures contract is subject to position limits, and the level for such limits, depends upon the trading activity and market capitalization of the underlying security of the security futures contract.

Position limits apply are required for security futures contracts that overlie a security that has an average daily trading volume of 20 million shares or fewer. In the case of a security futures contract overlying a security index, position limits are required if any one of the securities in the index has an average daily trading volume of 20 million shares or fewer. Position limits also apply only to an expiring security futures contract during its last five trading days. A regulated exchange must establish position limits on security futures that are no greater than 13,500 (100 share) contracts, unless the underlying security meets certain volume and shares outstanding thresholds, in which case the limit may be increased to 22,500 (100 share) contracts.

For security futures contracts overlying a security or securities with an average trading volume of more than 20 million shares, regulated exchanges may adopt position accountability rules. Under position accountability rules, a trader holding a position in a security futures contract that exceeds 22,500 contracts (or such lower limit established by an exchange) must agree to provide information regarding the position and consent to halt increasing that position if requested by the exchange.

Brokerage firms must also report large open positions held by one person (or by several persons acting together) to the CFTC as well as to the exchange on which the positions are held. The CFTC's reporting requirements are 1,000 contracts for security futures positions on individual equity securities and 200 contracts for positions on a narrow-based index. However, individual exchanges may require the reporting of large open positions at levels less than the levels required by the CFTC. In addition, brokerage firms must submit identifying information on the account holding the reportable position (on a form referred to as either an "Identification of Special Accounts Form" or a "Form 102") to the CFTC and to the exchange on which the reportable position exists within three business days of when a reportable position is first established.

## **8.3. TRANSACTIONS ON FOREIGN EXCHANGES**

U.S. customers may not trade security futures on foreign exchanges until authorized by U.S. regulatory authorities. U.S. regulatory authorities do not regulate the activities of foreign exchanges and may not, on their own, compel enforcement of the rules of a foreign exchange or the laws of a foreign country. While U.S. law governs transactions in security futures contracts that are effected in the U.S., regardless of the exchange on which the contracts are listed, the laws and rules governing transactions on foreign exchanges vary depending on the country in which the exchange is located.

## **8.4. TAX CONSEQUENCES**

For most taxpayers, security futures contracts are not treated like other futures contracts. Instead, the tax consequences of a security futures transaction depend on the status of the taxpayer and the type of position (e.g., long or short, covered or uncovered). Because of the importance of tax considerations to transactions in security futures, readers should consult their tax advisors as to the tax consequences of these transactions.

## SECTION 9 – GLOSSARY OF TERMS

This Glossary is intended to assist customers in understanding specialized terms used in the futures and securities industries. It is not inclusive and is not intended to state or suggest the legal significance or meaning of any word or term.

**Arbitrage** – taking an economically opposite position in a security futures contract on another exchange, in an options contract, or in the underlying security.

**Broad-based security index** – a security index that does not fall within the statutory definition of a narrow-based security index (see Narrow-based security index). A future on a broad-based security index is not a security future. This risk disclosure statement applies solely to security futures and generally does not pertain to futures on a broad-based security index. Futures on a broad-based security index are under exclusive jurisdiction of the CFTC.

**Cash settlement** – a method of settling certain futures contracts by having the buyer (or long) pay the seller (or short) the cash value of the contract according to a procedure set by the exchange.

**Clearing broker** – a member of the clearing organization for the contract being traded. All trades, and the daily profits or losses from those trades, must go through a clearing broker.

**Clearing organization** – a regulated entity that is responsible for settling trades, collecting losses and distributing profits, and handling deliveries.

**Contract** – 1) the unit of trading for a particular futures contract (e.g., one contract may be 100 shares of the underlying security), 2) the type of future being traded (e.g., futures on ABC stock).

**Contract month** – the last month in which delivery is made against the futures contract or the contract is cash-settled. Sometimes referred to as the delivery month.

**Day trading strategy** – an overall trading strategy characterized by the regular transmission by a customer of intra-day orders to effect both purchase and sale transactions in the same security or securities.

**EDGAR** – the SEC’s Electronic Data Gathering, Analysis, and Retrieval system maintains electronic copies of corporate information filed with the agency. EDGAR submissions may be accessed through the SEC’s website, [www.sec.gov](http://www.sec.gov).

**Futures contract** – a futures contract is (1) an agreement to purchase or sell a commodity for delivery in the future; (2) at a price determined at initiation of the contract; (3) that obligates each party to the contract to fulfill it at the specified price; (4) that is used to assume or shift risk; and (5) that may be satisfied by delivery or offset.

**Hedging** – the purchase or sale of a security future to reduce or offset the risk of a position in the underlying security or group of securities (or a close economic equivalent).

**Illiquid market** – a market (or contract) with few buyers and/or sellers. Illiquid markets have little trading activity and those trades that do occur may be done at large price increments.

**Liquidation** – entering into an offsetting transaction. Selling a contract that was previously purchased liquidates a futures position in exactly the same way that selling 100 shares of a particular stock liquidates an earlier purchase of the same stock. Similarly, a futures contract that was initially sold can be liquidated by an offsetting purchase.

**Liquid market** – a market (or contract) with numerous buyers and sellers trading at small price increments.

**Long** – 1) the buying side of an open futures contract, 2) a person who has bought futures contracts that are still open.

**Margin** – the amount of money that must be deposited by both buyers and sellers to ensure performance of the person’s obligations under a futures contract. Margin on security futures contracts is a performance bond rather than a down payment for the underlying securities.

**Mark-to-market** – to debit or credit accounts daily to reflect that day’s profits and losses.

**Narrow-based security index** – in general, and subject to certain exclusions, an index that has any one of the following four characteristics: (1) it has nine or fewer component securities; (2) any one of its component securities comprises more than 30% of its weighting; (3) the five highest weighted component securities together comprise more than 60% of its weighting; or (4) the lowest weighted component securities comprising,

in the aggregate, 25% of the index’s weighting have an aggregate dollar value of average daily trading volume of less than \$50 million (or in the case of an index with 15 or more component securities, \$30 million). A security index that is not narrow-based is a “broad based security index.” (See Broad-based security index).

**Nominal value** – the face value of the futures contract, obtained by multiplying the contract price by the number of shares or units per contract. If XYZ stock index futures are trading at \$50.25 and the contract is for 100 shares of XYZ stock, the nominal value of the futures contract would be \$5025.00.

**Offsetting** – liquidating open positions by either selling fungible contracts in the same contract month as an open long position or buying fungible contracts in the same contract month as an open short position.

**Open interest** – the total number of open long (or short) contracts in a particular contract month.

**Open position** – a futures contract position that has neither been offset nor closed by cash settlement or physical delivery.

**Performance bond** – another way to describe margin payments for futures contracts, which are good faith deposits to ensure performance of a person’s obligations under a futures contract rather than down payments for the underlying securities.

**Physical delivery** – the tender and receipt of the actual security underlying the security futures contract in exchange for payment of the final settlement price.

**Position** – a person’s net long or short open contracts.

**Regulated exchange** – a registered national securities exchange, a national securities association registered under Section 15A(a) of the Securities Exchange Act of 1934, a designated contract market, a registered derivatives transaction execution facility, or an alternative trading system registered as a broker or dealer.

**Security futures contract** – a legally binding agreement between two parties to purchase or sell in the future a specific quantity of shares of a security (such as common stock, an exchange-traded fund, or ADR) or a narrow-based security index, at a specified price.

**Settlement price** – 1) the daily price that the clearing organization uses to mark open positions to market for determining profit and loss and margin calls, 2) the price at which open cash settlement contracts are settled on the last trading day and open physical delivery contracts are invoiced for delivery.

**Short** – 1) the selling side of an open futures contract, 2) a person who has sold futures contracts that are still open.

**Speculating** – buying and selling futures contracts with the hope of profiting from anticipated price movements.

**Spread** – 1) holding a long position in one futures contract and a short position in a related futures contract or contract month in order to profit from an anticipated change in the price relationship between the two, 2) the price difference between two contracts or contract months.

**Stop limit order** – an order that becomes a limit order when the market trades at a specified price. The order can only be filled at the stop limit price or better.

**Stop loss order** – an order that becomes a market order when the market trades at a specified price. The order will be filled at whatever price the market is trading at. Also called a stop order.

**Tick** – the smallest price change allowed in a particular contract.

**Trader** – a professional speculator who trades for his or her own account.

**Underlying security** – the instrument on which the security futures contract is based. This instrument can be an individual equity security (including common stock and certain exchange-traded funds and American Depositary Receipts) or a narrow-based index.

**Volume** – the number of contracts bought or sold during a specified period of time. This figure includes liquidating transactions.

**Arbitration Agreement**

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You may voluntarily agree to submit your disputes with PFG to arbitration. If you sign this agreement, you may have agreed to submit all future disputes with PFG to arbitration if such disputes involve commodity futures contracts, commodity options contracts or currency forex transactions.

If you sign this agreement and a dispute arises you will have a choice of at least "3" qualified arbitration forums. You will be provided with a list of such forums when you notify PFG that you intend to submit a dispute to arbitration or when PFG notifies you that PFG intends to submit a dispute to arbitration. Please note that in the Customer Agreement, you have agreed that the venue for all arbitration proceedings shall be within the City of Chicago, State of Illinois. PFG may elect to collect any deficit balance by instigating a court proceeding against you regardless of whether you have signed this Arbitration Agreement.

If a dispute is submitted to arbitration, you will have the right to have the dispute heard by a mixed panel. A mixed panel is composed of one or more arbitrators where the single arbitrator or a majority of the arbitrators are not associated with any contract market, the members of any contract market, or the employees of members of any contract market. If the dispute is heard by a registered futures association, a mixed panel will be composed of a majority of arbitrators who are not associated with the registered futures association, its members, or the employees of its members. If you choose to have a dispute heard by a mixed panel, PFG will pay any incremental fees which may be assessed by the arbitration forum for providing a mixed panel, except that you may be required to pay such fees if the arbitrators in the proceeding decide that you acted in bad faith in initiating or conducting the proceeding.

**Three forums exist for the resolution of commodity disputes: civil court litigation, reparations at the Commodity Futures Trading Commission (CFTC), and arbitration conducted by a self-regulatory or other private organization.**

**The CFTC recognizes that the opportunity to settle disputes by arbitration may in some cases provide many benefits to Customers, including the ability to obtain an expeditious and final resolution of disputes without incurring substantial costs. The CFTC requires, however, that each Customer individually examine the relative merits of arbitration and that your consent to this arbitration agreement be voluntary.**

**By signing this agreement, you: (1) may be waiving your right to sue in a court of law; and (2) are agreeing to be bound by arbitration of any claims or counterclaims you or PFG may submit to arbitration under this agreement. You are not, however, waiving your right to elect instead to petition the CFTC to institute reparation proceedings under Section 14 of the Commodity Exchange Act with respect to any dispute which may be arbitrated pursuant to this agreement. In the event a dispute arises, you will be notified if PFG intends to submit the dispute to arbitration. If you believe a violation of the Commodity Exchange Act is involved, and if you prefer to request a Section 14 "reparations" proceeding before the CFTC, you will have 45 days from the date of such notice in which to make that election.**

**You need not sign this arbitration agreement to open an account with PFG. See 17 CFR 166.5.**

**Arbitration Agreement Acknowledgement**

**The undersigned hereby agrees to submit all disputes with PFG to Arbitration. (Attach a copy of this page for additional Customer Signatures.)**

**X** \_\_\_\_\_  
Customer Signature

Print Name \_\_\_\_\_ Date \_\_\_\_\_

**X** \_\_\_\_\_  
Customer Signature

Print Name \_\_\_\_\_ Date \_\_\_\_\_

Accepted:  
By PFG

\_\_\_\_\_  
Authorized Individual

\_\_\_\_\_  
Date

**Corporate Resolution**

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I, \_\_\_\_\_ Secretary of \_\_\_\_\_, a corporation organized under

the laws of the State of \_\_\_\_\_, do hereby certify that at a meeting of the Board of Directors of the Corporation, held in accordance with its Charter and by-laws on the date at which a quorum was at all times present and acting, the attached Resolutions were duly adopted, that said Resolutions have not been amended, rescinded or revoked, and are in no way in conflict with any of the provisions of the Charter or by-laws of said Corporation.

1) Resolved that Name \_\_\_\_\_ Title \_\_\_\_\_  
Name \_\_\_\_\_ Title \_\_\_\_\_

each of them or such other person as this Corporation may designate from time to time either in writing or by their apparent authority be and hereby are authorized to trade in Commodities, as defined in the Customer Agreement, for present or future delivery for the account and risk of this Corporation through and with Peregrine Financial Group, Inc. ("PFG"), the authority hereby granted including the power to do any of the following:

- a. To open an account with PFG for the purpose of PFG's carrying, clearing, and settling all Commodities transactions undertaken by the Corporation and to enter into the Customer Agreement;
- b. To buy, sell and trade commodities (as such term is described in the Customer Agreement) for present or future delivery, on margin or otherwise, the power to sell including the power to sell "short";
- c. To deposit with and withdraw from said firm money, commodities, contracts, for the purchase or sale of commodities, securities and other property;
- d. To receive requests and demands for additional margin, notices of intention to sell or purchase and other notices and demands of whatever character;
- e. To receive, confirm and acquiesce in the correctness of notices, confirmations, requests, demands and confirmations of every kind;
- f. To pay PFG all fees and commissions incurred in connection with any such transactions and all amounts as may be requested by PFG from time to time as margin or equity for the Corporation's account; and
- g. To settle, compromise, adjust and give releases on behalf of this Corporation with respect to any and all claims, disputes and controversies.

(2) **Further Resolved**, that PFG may deal with any and all of the persons directly or indirectly by the foregoing resolution empowered, as though they were dealing with the Corporation directly, and that in the event of any change in the office or powers or persons hereby empowered, the Secretary shall certify such change to PFG in writing in the manner herein above provided, which notification, when received, shall be adequate both to terminate the powers of the persons theretofore authorized, and to empower the persons substituted.

(3) **Further Resolved**, that in order to induce PFG to act as Agent on behalf of the Corporation, the execution and delivery of an Account Application, Customer Agreement, Risk Disclosure Statement, Options on Futures Risk Disclosure Statement, and other documents appropriate to induce PFG to act as Agent, (copies of which have been presented to this meeting and will be filed with the records of the Corporation by any officer of the Corporation) are hereby authorized; and the officers of the Corporation are hereby directed to execute such Agreements by and on behalf of the Corporation and to deliver the same to PFG.

(4) **Further Resolved**, that the Corporation agrees to indemnify and hold harmless PFG and its associates from any and all loss, damage or liability incurred due to any of the representations or warranties made above that are not true and correct or any of the agreements entered into between the Corporation and PFG shall not have been fully performed by the Corporation.

(5) **Further Resolved**, that PFG is authorized to act upon the authority of these resolutions until receipt by it of a certificate showing rescission or modification thereof signed by the Secretary of this Corporation and under its seal.

I further certify that each of the following have been duly elected and is now legally holding the office designated beside his or her respective name:

\_\_\_\_\_ President                      \_\_\_\_\_ Vice President  
\_\_\_\_\_ Treasurer                      \_\_\_\_\_ Secretary

**I further certify that the foregoing resolutions have not been modified or rescinded and are now in full force and effect and that the Corporation has the power under its Charter and by-laws and applicable laws to take the action set forth in and contemplated by the foregoing resolutions.**

In witness whereof, I have hereunto affixed my hand this \_\_\_\_\_ day of 200\_\_\_\_\_,  
\_\_\_\_\_  
Secretary (Corporate Seal)

**Limited Liability Company Resolution**

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The undersigned being the manager (or managing members) of \_\_\_\_\_, a limited liability company formed under the laws of the State of \_\_\_\_\_ (“Company”), do hereby certify that the following resolutions were, duly adopted in accordance with the procedures set forth in the limited liability agreement of the Company and that said resolutions have not been amended, rescinded or revoked, and are in no way in conflict with any of the provisions of the Company’s limited liability agreement.

1) Resolved that Name \_\_\_\_\_ Title \_\_\_\_\_  
Name \_\_\_\_\_ Title \_\_\_\_\_,

each of them or such other person as this Company may designate from time to time either in writing or by their apparent authority be and hereby are authorized to trade in Commodities, as defined in the Customer Agreement, for present or future delivery for the account and risk of this Company through and with Peregrine Financial Group, Inc. (“PFG”), the authority hereby granted including the power to do any of the following:

- a. To open an account with PFG for the purpose of PFG’s carrying, clearing, and settling all Commodities transactions undertaken by the Company and to enter into the Customer Agreement;
- b. To buy, sell and trade commodities (as such term is described in the Customer Agreement) for present or future delivery, on margin or otherwise, the power to sell including the power to sell “short”;
- c. To deposit with and withdraw from said firm money, commodities, contracts, for the purchase or sale of commodities, securities and other property;
- d. To receive requests and demands for additional margin, notices of intention to sell or purchase and other notices and demands of whatever character;
- e. To receive, confirm and acquiesce in the correctness of notices, confirmations, requests, demands and confirmations of every kind;
- f. To pay PFG all fees and commissions incurred in connection with any such transactions and all amounts as may be requested by PFG from time to time as margin or equity for the Company’s account; and
- g. To settle, compromise, adjust and give releases on behalf of this Company with respect to any and all claims, disputes and controversies.

This enumeration of specific authority shall not in any way limit or affect any other authority, which the named officials might otherwise have.

2) **Further Resolved**, that in order to induce PFG to act as Agent on behalf of the Company, the execution and delivery of an Account Application, Customer Agreement, Risk Disclosure Statement, Options on Futures Risk Disclosure Statement, and other documents appropriate to induce PFG to act as Agent, (copies of which have been presented to this meeting and will be filed with the records of the Company by any managing member of the Company) are hereby authorized; and the managing member(s) of the Company are hereby directed to execute such Agreements by and on behalf of the Company and to deliver the same to PFG.

3) **Further Resolved**, that the Company agrees to indemnify and hold harmless PFG and its associates from any and all loss, damage or liability incurred due to any of the representations or warranties made above that are not true and correct or any of the agreements entered into between the Company and PFG shall not have been fully performed by the Company.

4) **Further Resolved**, that PFG is authorized to act upon the authority of these resolutions until receipt by it of a certificate showing rescission or modification thereof signed by the Managing Member of this Company and under its seal.

I further certify that the foregoing resolutions have not been modified or rescinded and are now in full force and effect and that the Company has the power under its certificate of formation and by-laws and applicable laws to take the action set forth in and contemplated by the foregoing resolutions. IN WITNESS WHEREOF, I have hereunto subscribed my name on behalf of the Company.

**X** \_\_\_\_\_  
Signature of Manager (or managing member) Date

**X** \_\_\_\_\_  
Signature of Manager (or managing member) Date



## Certificate of Foreign Status of Beneficial Owner for United States Tax Withholding

OMB No. 1545-1621

**Section references are to the Internal Revenue Code. See separate instructions.**  
**Give this form to the withholding agent or payer. Do not send to the IRS.**

**Do not use this form for:**

**Instead, use Form:**

- A U.S. citizen or other U.S. person, including a resident alien individual . . . . . W-9
- A person claiming an exemption from U.S. withholding on income effectively connected with the conduct of a trade or business in the United States . . . . . W-8ECI
- A foreign partnership, a foreign simple trust, or a foreign grantor trust (see instructions for exceptions) . . . . . W-8ECI or W-8IMY
- A foreign government, international organization, foreign central bank of issue, foreign tax-exempt organization, foreign private foundation, or government of a U.S. possession that received effectively connected income or that is claiming the applicability of section(s) 115(2), 501(c), 892, 895, or 1443(b) (see instructions) . . . . . W-8ECI or W-8EXP
- Note:** These entities should use Form W-8BEN if they are claiming treaty benefits or are providing the form only to claim they are a foreign person exempt from backup withholding.
- A person acting as an intermediary . . . . . W-8IMY

**Note:** See instructions for additional exceptions.

**Part I Identification of Beneficial Owner (See instructions.)**

<b>1</b> Name of individual or organization that is the beneficial owner	<b>2</b> Country of incorporation or organization
<b>3</b> Type of beneficial owner: <input type="checkbox"/> Individual <input type="checkbox"/> Corporation <input type="checkbox"/> Disregarded entity <input type="checkbox"/> Partnership <input type="checkbox"/> Simple trust <input type="checkbox"/> Grantor trust <input type="checkbox"/> Complex trust <input type="checkbox"/> Estate <input type="checkbox"/> Government <input type="checkbox"/> International organization <input type="checkbox"/> Central bank of issue <input type="checkbox"/> Tax-exempt organization <input type="checkbox"/> Private foundation	
<b>4</b> Permanent residence address (street, apt. or suite no., or rural route). <b>Do not use a P.O. box or in-care-of address.</b>	
City or town, state or province. Include postal code where appropriate.	Country (do not abbreviate)
<b>5</b> Mailing address (if different from above)	
City or town, state or province. Include postal code where appropriate.	Country (do not abbreviate)
<b>6</b> U.S. taxpayer identification number, if required (see instructions) <input type="checkbox"/> SSN or ITIN <input type="checkbox"/> EIN	<b>7</b> Foreign tax identifying number, if any (optional)
<b>8</b> Reference number(s) (see instructions)	

**Part II Claim of Tax Treaty Benefits (if applicable)**

**9 I certify that (check all that apply):**

- a**  The beneficial owner is a resident of ..... within the meaning of the income tax treaty between the United States and that country.
- b**  If required, the U.S. taxpayer identification number is stated on line 6 (see instructions).
- c**  The beneficial owner is not an individual, derives the item (or items) of income for which the treaty benefits are claimed, and, if applicable, meets the requirements of the treaty provision dealing with limitation on benefits (see instructions).
- d**  The beneficial owner is not an individual, is claiming treaty benefits for dividends received from a foreign corporation or interest from a U.S. trade or business of a foreign corporation, and meets qualified resident status (see instructions).
- e**  The beneficial owner is related to the person obligated to pay the income within the meaning of section 267(b) or 707(b), and will file Form 8833 if the amount subject to withholding received during a calendar year exceeds, in the aggregate, \$500,000.

**10 Special rates and conditions (if applicable—see instructions):** The beneficial owner is claiming the provisions of Article ..... of the treaty identified on line 9a above to claim a ..... % rate of withholding on (specify type of income): .....

Explain the reasons the beneficial owner meets the terms of the treaty article: .....

**Part III Notional Principal Contracts**

**11**  I have provided or will provide a statement that identifies those notional principal contracts from which the income is **not** effectively connected with the conduct of a trade or business in the United States. I agree to update this statement as required.

**Part IV Certification**

Under penalties of perjury, I declare that I have examined the information on this form and to the best of my knowledge and belief it is true, correct, and complete. I further certify under penalties of perjury that:

I am the beneficial owner (or am authorized to sign for the beneficial owner) of all the income to which this form relates,  
 The beneficial owner is not a U.S. person,  
 The income to which this form relates is not effectively connected with the conduct of a trade or business in the United States or is effectively connected but is not subject to tax under an income tax treaty, **and**  
 For broker transactions or barter exchanges, the beneficial owner is an exempt foreign person as defined in the instructions.

Furthermore, I authorize this form to be provided to any withholding agent that has control, receipt, or custody of the income of which I am the beneficial owner or any withholding agent that can disburse or make payments of the income of which I am the beneficial owner.

**Sign Here** \_\_\_\_\_ Date (MM-DD-YYYY) \_\_\_\_\_ Capacity in which acting \_\_\_\_\_  
 Signature of beneficial owner (or individual authorized to sign for beneficial owner)

**Account Transfer Form**

---

**TRANSFERRING FCM** (The Firm Currently holding Customer's Account)

Name of FCM \_\_\_\_\_

Street Address \_\_\_\_\_  
\_\_\_\_\_

City/State/Zip \_\_\_\_\_

Name of Introducing Broker Account Number(s) \_\_\_\_\_

Account Title(s) \_\_\_\_\_

**Important—Date the Account Transfer Form was sent and/or faxed to Transferring FCM:** \_\_\_\_\_  
Date

**Re: Transferring Customer Account to PFG, Inc.**

**To the above named Transferring FCM:** (Customer check only one of the following paragraphs that apply)

Please be advised that I wish to transfer all open commodity positions, ledger balances, securities and other properties held by you in the above named account number(s) to the receiving firm.

Please be advised that I wish to transfer only the following held by you, the transferring FCM, from the above named accounts to the receiving FCM:

\_\_\_\_\_  
\_\_\_\_\_

If Transferring Cash by Check make payable to **Peregrine Financial Group, Inc. or PFG, Inc.**, Cust. Seg. Acct., Credit to: (Customer Name)

**Receiving FCM:**  
**PFG, Inc.**  
**190 S. LaSalle Street**  
**7th Floor**  
**Chicago, IL 60603**

**X** \_\_\_\_\_  
Customer Signature

Print Name \_\_\_\_\_ Date \_\_\_\_\_

**X** \_\_\_\_\_  
Customer Signature

Print Name \_\_\_\_\_ Date \_\_\_\_\_

(Attach a copy of this page for additional signatures.)

---

**INCOME STATEMENT**

My annual income is less than \$25,000. I understand and realize that the loss in trading commodity futures and options contracts can be substantial. I realize the degree of leverage that is often obtainable in commodity trading can work against me, as well as in my favor. I also realize the use of leverage can lead to large losses.

**\$** \_\_\_\_\_  
Annual Income (U.S. Dollars) \_\_\_\_\_ Date \_\_\_\_\_

**X** \_\_\_\_\_  
Signature \_\_\_\_\_ Print Name \_\_\_\_\_

**X** \_\_\_\_\_  
Signature \_\_\_\_\_ Print Name \_\_\_\_\_

**NET WORTH STATEMENT**

I understand my net worth is less than \$50,000. I further understand and realize the risk of loss in trading commodity futures and options contracts can be substantial. I realize the degree of leverage that is often obtainable in commodity trading can work against me. I also realize the use of leverage can lead to large losses.

**\$** \_\_\_\_\_  
Net Worth (U.S. Dollars) \_\_\_\_\_ Date \_\_\_\_\_

**X** \_\_\_\_\_  
Signature \_\_\_\_\_ Print Name \_\_\_\_\_

**X** \_\_\_\_\_  
Signature \_\_\_\_\_ Print Name \_\_\_\_\_

**SECOND ACCOUNT REQUEST STATEMENT**

I am requesting with this letter that you open an additional account for me. I hereby authorize you to use the account forms that I have already executed [ for account number \_\_\_\_\_ ] as the account forms for the new account.

I understand and agree that all promises, representations and information that I made in my account forms are still true and accurate. I warrant that all statements in those forms shall apply to the new account as if I had executed a complete new set of forms.

I understand and agree that the commissions and fees for this new account are \$ \_\_\_\_\_

\_\_\_\_\_  
Date

**X** \_\_\_\_\_  
Signature \_\_\_\_\_ Print Name \_\_\_\_\_

**X** \_\_\_\_\_  
Signature \_\_\_\_\_ Print Name \_\_\_\_\_

**Wiring Instructions for Currencies Other Than U.S. Dollars (FUTURES CUSTOMERS)**

<b>JAPANESE YEN (JPY)</b>		
TO	BANK NAME:	JPMORGAN CHASE BANK, NA.
	BANK SWIFT #:	CHASJPJT
	BANK LOCATION:	TOKYO, JAPAN
	ACCOUNT NAME:	JPMORGAN CHASE BANK, N.A. LONDON
	ACCOUNT #:	0195006713
FC	BANK NAME:	JPMORGAN CHASE BANK, N.A. LONDON
	BANK SWIFT #:	CHASGB2L
	BANK LOCATION:	LONDON, UNITED KINGDOM
	ACCOUNT NAME:	PFG, INC., CUST. SEG.
	ACCOUNT #:	77074704
FBO	CUSTOMER NAME:	(YOUR PFG ACCOUNT NAME)
	CUSTOMER ACCOUNT #:	(YOUR PFG ACCOUNT NUMBER)

<b>CANADIAN DOLLAR (CAD)</b>		
TO	BANK NAME:	ROYAL BANK OF CANADA
	BANK SWIFT #:	ROYCCAT2
	BANK LOCATION:	TORONTO, CANADA
	ACCOUNT NAME:	JPMORGAN CHASE BANK, N.A. LONDON
	ACCOUNT #:	095912194132
FC	BANK NAME:	JPMORGAN CHASE BANK, N.A. LONDON
	BANK SWIFT #:	CHASGB2L
	BANK LOCATION:	LONDON, UNITED KINGDOM
	ACCOUNT NAME:	PFG, INC., CUST. SEG.
	ACCOUNT #:	77074707
FBO	CUSTOMER NAME:	(YOUR PFG ACCOUNT NAME)
	CUSTOMER ACCOUNT #:	(YOUR PFG ACCOUNT NUMBER)

<b>POUND STERLING (GBP)</b>		
TO	BANK NAME:	JPMORGAN CHASE BANK, N.A.
	BANK SORT CODE:	609242
	SWIFT #:	CHASGB2L
	BANK LOCATION:	LONDON, UNITED KINGDOM
FC	ACCOUNT NAME:	PFG, INC., CUST. SEG.
	ACCOUNT #:	77074702
FBO	CUSTOMER NAME:	(YOUR PFG ACCOUNT NAME)
	CUSTOMER ACCOUNT #:	(YOUR PFG ACCOUNT NUMBER)

<b>AUSTRALIAN DOLLAR (AUD)</b>		
TO	BANK NAME:	ANZ BANKING GROUP
	BANK SWIFT #:	ANZBAU3M
	BANK LOCATION:	MELBOURNE, AUSTRALIA
	ACCOUNT NAME:	JPMORGAN CHASE BANK, N.A. LONDON
	ACCOUNT #:	218032AUD00001
FC	BANK NAME:	JPMORGAN CHASE BANK, N.A. LONDON
	BANK SWIFT #:	CHASGB2L
	BANK LOCATION:	LONDON, UNITED KINGDOM
	ACCOUNT NAME:	PFG, INC., CUST. SEG.
	ACCOUNT #:	77074706
FBO	CUSTOMER NAME:	(YOUR PFG ACCOUNT NAME)
	CUSTOMER ACCOUNT #:	(YOUR PFG ACCOUNT NUMBER)

<b>EURO (EUR)</b>		
TO	BANK NAME:	J.P. MORGAN AG
	BANK SWIFT #:	CHASDEFX
	BANK LOCATION:	FRANKFURT, GERMANY
	IBAN:	GB97CHAS60924277074701
FC	BANK NAME:	JPMORGAN CHASE BANK, N.A.
	SWIFT #:	CHASGB2L
	BANK LOCATION:	LONDON, UNITED KINGDOM
	ACCOUNT NAME:	PFG, INC., CUST. SEG.
	ACCOUNT #:	77074701
FBO	CUSTOMER NAME:	(YOUR PFG ACCOUNT NAME)
	CUSTOMER ACCOUNT #:	(YOUR PFG ACCOUNT NUMBER)

<b>POLISH ZLOTY (PLN)</b>		
TO	BANK NAME:	BRE BANK SA
	BANK SWIFT #:	BREXPLPW
	BANK LOCATION:	WARSAW, POLAND
	ACCOUNT NAME:	JPMORGAN CHASE BANK, N.A. LONDON
	ACCOUNT #:	64114000000000103777004030
FC	BANK NAME:	JPMORGAN CHASE BANK, N.A. LONDON
	BANK SWIFT #:	CHASGB2L
	BANK LOCATION:	LONDON, UNITED KINGDOM
	ACCOUNT NAME:	PFG, INC., CUST. SEG.
	ACCOUNT #:	77074716
FBO	CUSTOMER NAME:	(YOUR PFG ACCOUNT NAME)
	CUSTOMER ACCOUNT #:	(YOUR PFG ACCOUNT NUMBER)

<b>SWISS FRANC (CHF)</b>		
TO	BANK NAME:	UBS A.G
	BANK SWIFT:	UBSWCHZH80A
	BANK LOCATION:	ZURICH, SWITZERLAND
	ACCOUNT NAME:	JPMORGAN CHASE BANK, N.A. LONDON
	ACCOUNT #:	02300000044129050000B
FC	BANK NAME:	JPMORGAN CHASE BANK, N.A. LONDON
	BANK SWIFT #:	CHASGB2L
	BANK LOCATION:	LONDON, UNITED KINGDOM
	ACCOUNT NAME:	PFG, INC., CUST. SEG.
	ACCOUNT #:	77074705
FBO	CUSTOMER NAME:	(YOUR PFG ACCOUNT NAME)
	CUSTOMER ACCOUNT #:	(YOUR PFG ACCOUNT NUMBER)

<b>HONG KONG DOLLAR (HKD)</b>		
TO	BANK NAME:	JPMORGAN CHASE BANK, N.A.
	BANK SWIFT #:	CHASHKHH
	BANK LOCATION:	HONG KONG
	ACCOUNT NAME:	JPMORGAN CHASE BANK, N.A. LONDON
	ACCOUNT #:	6743197680
FC	BANK NAME:	JPMORGAN CHASE BANK, N.A. LONDON
	BANK SWIFT #:	CHASGB2L
	BANK LOCATION:	LONDON, UNITED KINGDOM
	ACCOUNT NAME:	PFG, INC., CUST. SEG.
	ACCOUNT #:	77074710
FBO	CUSTOMER NAME:	(YOUR PFG ACCOUNT NAME)
	CUSTOMER ACCOUNT #:	(YOUR PFG ACCOUNT NUMBER)

**FUTURES ACCOUNT FUNDING**

- Have you completed all Customer Information?
- Have you signed all appropriate documents?

**SUBMISSION OF FUNDS TO YOUR TRADING ACCOUNT**

**1. BY U.S. POSTAL SERVICE**

*Make checks payable to:*

Peregrine Financial Group, Inc. or PFG, Inc.  
Cust. Seg. Acct.

*Mail to:*

PFG, Inc.  
190 S. LaSalle St.  
7th Floor  
Chicago, IL 60603

**2. BY CASH BANK WIRE TRANSFER**

(Do not wire Government Securities, ask for a special wiring instructions)

JPMorgan Chase Bank, N.A.  
New York, NY

ABA #021000021

BANK SWIFT #CHASUS33

Further Credit to: PFG, Inc. Customer Segregated Funds Account 5330355265

Further Credit to: Account Title, Account # (If Available)

**FOR INSTRUCTIONS FOR WIRING CURRENCIES OTHER THAN U.S. DOLLARS,  
FUTURES CUSTOMERS SEE PAGE 38  
FOREX CUSTOMERS SEE PAGE 40**

For Internal Use Only (v2.0.0807)

RT Comm \_\_\_\_\_

Acct Title: \_\_\_\_\_

Account #: \_\_\_\_\_

Individual  Joint  Corp.  Trust  Partnership  Sol AP \_\_\_\_\_ # \_\_\_\_\_

Speculative  Hedge Mng AP \_\_\_\_\_

DRT By: \_\_\_\_\_ IB \_\_\_\_\_ Br Off \_\_\_\_\_

Reviewed by: \_\_\_\_\_ Date \_\_\_\_\_

PFG Accepted \_\_\_\_\_ Date \_\_\_\_\_  DSFP Approved \_\_\_\_\_ Date \_\_\_\_\_

Lead Source: \_\_\_\_\_

CDC Check \_\_\_\_\_ NFA Check \_\_\_\_\_

**US DOLLARS (USD)**

TO	BANK NAME:	JPMORGAN CHASE BANK, N.A.
	BANK SWIFT #:	CHASUS33
	BANK ABA#:	021000021
	BANK LOCATION:	NEW YORK, NY
	ACCOUNT NAME:	PFG, INC., FOREX
	BANK ACCOUNT #:	5330355796
FC	CUSTOMER NAME:	(YOUR ACCOUNT NAME)
	CUSTOMER ACCOUNT #:	(YOUR ACCOUNT NUMBER)

**JAPANESE YEN (JPY)**

TO	BANK NAME:	JPMORGAN CHASE BANK, N.A.
	BANK SWIFT #:	CHASJPJT
	BANK LOCATION:	TOKYO, JAPAN
	ACCOUNT NAME:	JPMORGAN CHASE BANK, N.A. LONDON
	ACCOUNT #:	0195006713
FC	BANK NAME:	JPMORGAN CHASE BANK, N.A. LONDON
	BANK SWIFT #:	CHASGB2L
	BANK LOCATION:	LONDON, UNITED KINGDOM
	ACCOUNT NAME:	PFG, INC.
	ACCOUNT #:	77056004
FBO	CUSTOMER NAME:	(YOUR PFG ACCOUNT NAME)
	CUSTOMER ACCOUNT #:	(YOUR PFG ACCOUNT NUMBER)

**POUND STERLING (GBP)**

TO	BANK NAME:	JPMORGAN CHASE BANK, N.A.
	BANK SORT CODE:	609242
	SWIFT #:	CHASGB2L
	BANK LOCATION:	LONDON, UNITED KINGDOM
FC	ACCOUNT NAME:	PFG, INC.
	ACCOUNT #:	77056002
FBO	CUSTOMER NAME:	(YOUR PFG ACCOUNT NAME)
	CUSTOMER ACCOUNT #:	(YOUR PFG ACCOUNT NUMBER)

**EURO (EUR)**

TO	BANK NAME:	J.P. MORGAN AG
	BANK SWIFT #:	CHASDEFX
	BANK LOCATION:	FRANKFURT, GERMANY
	IBAN	GB97CHAS60924277074701
	ACCOUNT NAME:	JPMORGAN CHASE BANK, N.A. LONDON
FC	BANK NAME:	JPMORGAN CHASE BANK, N.A. LONDON
	SWIFT #:	CHASGB2L
	BANK LOCATION:	LONDON, UNITED KINGDOM
	ACCOUNT NAME:	PFG, INC.
	ACCOUNT #:	77056001
FBO	CUSTOMER NAME:	(YOUR PFG ACCOUNT NAME)
	CUSTOMER ACCOUNT #:	(YOUR PFG ACCOUNT NUMBER)

**SWISS FRANC (CHF)**

TO	BANK NAME:	UBS A.G
	BANK SWIFT #:	UBSWCHZH80A
	BANK LOCATION:	ZURICH, SWITZERLAND
	ACCOUNT NAME:	JPMORGAN CHASE BANK, N.A. LONDON
	ACCOUNT #:	02300000044129050000B
FC	BANK NAME:	JPMORGAN CHASE BANK, N.A. LONDON
	BANK SWIFT #:	CHASGB2L
	BANK LOCATION:	LONDON, UNITED KINGDOM
	ACCOUNT NAME:	PFG, INC.
	ACCOUNT #:	77056005
FBO	CUSTOMER NAME:	(YOUR PFG ACCOUNT NAME)
	CUSTOMER ACCOUNT #:	(YOUR PFG ACCOUNT NUMBER)

**CANADIAN DOLLAR (CAD)**

TO	BANK NAME:	ROYAL BANK OF CANADA
	BANK SWIFT #:	ROYCCAT2
	BANK LOCATION:	TORONTO, CANADA
	ACCOUNT NAME:	JPMORGAN CHASE BANK, N.A. LONDON
	ACCOUNT #:	095912194132
FC	BANK NAME:	JPMORGAN CHASE BANK, N.A. LONDON
	BANK SWIFT #:	CHASGB2L
	BANK LOCATION:	LONDON, UNITED KINGDOM
	ACCOUNT NAME:	PFG, INC.
	ACCOUNT #:	77056007
FBO	CUSTOMER NAME:	(YOUR PFG ACCOUNT NAME)
	CUSTOMER ACCOUNT #:	(YOUR PFG ACCOUNT NUMBER)

**AUSTRALIAN DOLLAR (AUD)**

TO	BANK NAME:	ANZ BANKING GROUP
	BANK SWIFT #:	ANZBAU3M
	BANK LOCATION:	MELBOURNE, AUSTRALIA
	ACCOUNT NAME:	JPMORGAN CHASE BANK, N.A. LONDON
	ACCOUNT #:	218032AUD00001
FC	BANK NAME:	JPMORGAN CHASE BANK, N.A. LONDON
	BANK SWIFT #:	CHASGB2L
	BANK LOCATION:	LONDON, UNITED KINGDOM
	ACCOUNT NAME:	PFG, INC.
	ACCOUNT #:	77056006
	CUSTOMER NAME:	(YOUR PFG ACCOUNT NAME)
	CUSTOMER ACCOUNT #:	(YOUR PFG ACCOUNT NUMBER)

**MEXICAN PESO (MXN)**

TO	BANK NAME:	BBVA BANCOMER SA
	BANK SWIFT #:	BCMRMXMM
	BANK LOCATION:	MEXICO
	ACCOUNT NAME:	JPMORGAN CHASE BANK, N.A. LONDON
	ACCOUNT #:	0095000899
FC	BANK NAME:	JPMORGAN CHASE BANK, N.A. LONDON
	BANK SWIFT #:	CHASGB2L
	BANK LOCATION:	LONDON, UNITED KINGDOM
	ACCOUNT NAME:	PFG, INC.
	ACCOUNT #:	77056015
	CUSTOMER NAME:	(YOUR PFG ACCOUNT NAME)
	CUSTOMER ACCOUNT #:	(YOUR PFG ACCOUNT NUMBER)

**FOREX ACCOUNT FUNDING**



190 S. LaSalle St.

7th Floor

Chicago, IL 60603

312.775.3000

800.333.5673

312.775.3070 Fax

[www.pfgbest.com](http://www.pfgbest.com)

You should be with PFG.

