



BREWIN DOLPHIN

APPROPRIATENESS
ASSESSMENT

Exchange Traded Products

Since the introduction of MiFID (the Markets in Financial Instruments Directive) on 1st November 2007, we are required to assess your understanding on the appropriateness of certain Complex Instruments before you undertake any transactions in them.

MiFID is part of the European Union's plan to regulate the financial services market across Europe in a uniform manner. The advantage to individual investors is that the same rules will be applied wherever you are in the European Economic area, and financial services firms will have the same duties and obligations to their clients and their clients' assets.

Guidance Notes on the Form

A central part of the requirements of MiFID is to ensure your level of knowledge about investing in complex instruments is sufficient for the type of investment you are contemplating and that any transaction in that type of instrument is appropriate for you.

A complex product is a derivative, an instrument which gives rise to a contingent liability or where inadequate information is available and unlikely to be understood by the average Retail Client.

This form is designed for you to provide the information that will assist us in the assessment of Appropriateness.

SECTION 1: PERSONAL DETAILS

Account Name

Client Code

If you have a second or joint account holder then it is important for both of you to complete this form.

First Account Holder

Mr Mrs Miss Ms Other (Please state below)

Other

First Name(s)

Surname

Date of Birth

Domicile (if residency not UK)

Are you currently an investment industry participant?

Yes

No

Company Name

What is your position and role?

Second/Joint Account Holder or Partner

Mr Mrs Miss Ms Other (Please state below)

Other

First Name(s)

Surname

Date of Birth

Domicile (if residency not UK)

Are you currently an investment industry participant?

Yes

No

Company Name

What is your position and role?

SECTION 2: YOUR INVESTMENT KNOWLEDGE AND EXPERIENCE

2.1 How knowledgeable are you about Exchange Traded Products?

DEFINITION

Essentially, Exchange Traded Products (ETPs) are open-ended index funds that, like stocks, are listed and traded on exchange. They allow investors to gain exposure to stock markets of different countries and regions as well as different sectors and investment styles. They also cover other asset classes such as fixed income, currencies and commodities. ETPs are the umbrella name covering the entire product range. Exchange Traded Funds (ETFs), Exchange Traded Commodities (ETCs) and Exchange Traded Notes (ETNs) are all Exchange Traded Products. There is no standard industry definition, however, some may refer to ETPs as the umbrella covering ETCs and ETNs and classify ETFs separately.

ETFS

There are two main approaches to ETF construction, direct replication and synthetic replication and it is important to understand the major differences.

SECTION 2: YOUR INVESTMENT KNOWLEDGE AND EXPERIENCE (CONTINUED)

DIRECT REPLICATION

This method is the more straightforward with the ETF investing directly in every security in the index with an identical weighting. If this is not possible the provider will buy an optimal mix of stocks thus minimizing tracking error and maximising liquidity. In this instance the assets are held separately from the asset manager. It can be too hard to get access to some markets by direct replication as illiquid or obscure indices may not lend themselves to direct replication as it would be very difficult for the ETF provider to buy and sell the underlying holdings.

SYNTHETIC REPLICATION

Generally these are either swap based or an investment note/certificate. Swap based methods use investments made into an ETF to purchase a basket of securities. The composition of this basket will be determined by either the swap counterparty or an independent third party. The returns on this basket are then swapped for the return on a specific underlying index. **It is important, that the value of the underlying basket closely mirrors the underlying index, or investors will become exposed to a greater risk of capital loss should the counterparty default.** Third parties are often used to build the basket as it removes 'conflicts of interest' such as 'over valuation' and the 'dumping' of illiquid assets.

Investment notes or certificates are debt instruments promising to pay investors the return of an index. These structures can carry significant counterparty risk as they may be solely dependant on the issuer meeting the obligation. To reduce this risk these structures may be 'collateralised' which involves a separate basket of 'collateral' becoming the property of the investor should the debt issuer default. This method has similar conflicts of interest to the swap based method, which can be mitigated by the appointment of a third party collateral manager. In this instance it is important to know the value of the collateral versus the underlying index, and the frequency that it is topped up or trimmed.

ETC AND ETNS

(ETCs) and (ETNs) are open-ended securities that trade on regulated exchanges and enable investors to gain exposure to commodities without taking physical delivery. They are similar to ETFs in that they are traded and settled on exchange, exactly like normal shares.

These issues are largely swap based, the underlying basket likely to be comprised of either the physical asset or futures contracts (these require purchase and delivery of an asset). Like ETF's the same issues of basket composition/collateral management apply. The two broad forms of ETCs are:

SINGLE COMMODITY

Investors can buy single-commodity ETCs like gold and oil.

INDEX TRACKING

Investors can invest in index tracking ETCs giving exposure to a range of underlyings. Generally, both types of ETCs track a total return index, meaning there are three sources of return:

- The change in the futures price – largely affected by changes in the spot commodity price
- The roll – in order not to receive delivery of the underlying commodity, ETCs will sell the expiring futures contract and buy a contract with a later maturity (normally the next expiry due to liquidity). As future is 'rolled' into the later month, there is usually a price difference between the two. This can be a significant factor in the disparity in performance of the underlying commodity and the ETC.
- Interest on collateral – since futures are margined instruments, interest is earned on the cash value of the initial investment

OTHER RISKS

EFFECTS OF LEVERAGING

Leveraged ETFs/ETPs try to deliver multiples of the performance of an index or benchmark they track. These have the potential to deliver higher returns but also greater losses.

SHORT OR INVERSE ETFs/ETPS

Inverse products attempt to deliver the performance opposite to the index using derivative instruments. One consequence of daily calculation, however, is that performance over a longer period of time can differ significantly from the benchmark. This imperfect hedge needs to be accounted for. Also, the more volatile the referenced asset, the greater this risk becomes. Leveraged Inverse ETFs seek to achieve a return that is a multiple of the inverse performance of the underlying index. These come with the potential for higher levels of return but also greater losses.

2.2 Your Investment Experience in ETPs

Please complete the questions which best describes your investment experience.

	First Account Holder	Second/Joint Account Holder or Partner
A Have you received advice from an Investment Adviser?	Yes <input type="checkbox"/> No <input type="checkbox"/>	Yes <input type="checkbox"/> No <input type="checkbox"/>
Adviser Name and Company	<input type="text"/>	
FSA (or equivalent) number	<input type="text"/>	
<i>If yes, please give details above and proceed to the declaration and signature. If no, please complete the questions below.</i>		
B Have you traded in Exchange Traded Products previously?	Yes <input type="checkbox"/> No <input type="checkbox"/>	Yes <input type="checkbox"/> No <input type="checkbox"/>
C How many times have you traded in these instruments in the last 12 months?	0 <input type="checkbox"/> 1-4 <input type="checkbox"/> 5-10 <input type="checkbox"/> 10+ <input type="checkbox"/>	0 <input type="checkbox"/> 1-4 <input type="checkbox"/> 5-10 <input type="checkbox"/> 10+ <input type="checkbox"/>
D How many months have you been trading on an execution only basis without advice?	0-6 <input type="checkbox"/> 6-12 <input type="checkbox"/> 12-18 <input type="checkbox"/> 18+ <input type="checkbox"/>	0-6 <input type="checkbox"/> 6-12 <input type="checkbox"/> 12-18 <input type="checkbox"/> 18+ <input type="checkbox"/>
E Do you understand that if the security you are wishing to trade is in a foreign currency the value can be affected by exchange rates?	Yes <input type="checkbox"/> No <input type="checkbox"/>	Yes <input type="checkbox"/> No <input type="checkbox"/>

SECTION 2: YOUR INVESTMENT KNOWLEDGE AND EXPERIENCE (CONTINUED)

F Leveraged and inverse ETFs require daily rebasing, do you understand that during periods of high volatility how this rebasing feature may increase the risk of holding over the medium to long term?

Yes No

Yes No

G Do you fully understand and accept the risks of the Exchange Traded Product that you want to trade in?

Yes No

Yes No

SECTION 3: SIGNATURES

Declaration

I/We accept that the answers given on this form are true to the best of my/our knowledge. I/We accept and fully understand the answers given to the questions above. I/We declare that I/We have the sufficient knowledge and experience or have received sufficient advice to assess the merits and risks of these types of instruments and declare that the instrument is suitable given my/our investment objective and attitude to risk. I/We fully accept the risks that accompany this instrument and confirm that no advice has been taken from Brewin Dolphin on the suitability of the investment.

I have read and understood the implications of the transaction I am entering into.

First Account Holder

Signed

Date

Print Name

Second/Joint Account Holder or Partner

Signed

Date

Print Name

For office use only

Account Title

Client Code

PRC Code

Appropriateness assessment results

A	B	C	D	E	F	G	Total Score

Pass Fail Insistent

W brewin.co.uk
E info@brewin.co.uk