BCS GLOBAL MARKETS

RISK DISCLOSURE: shares and depositary receipts

1. *Shares* in companies limited by shares entitle the owner to a portion of the company's share capital. If the company makes a profit, the company usually distributes dividends on the shares. Shares also entitle the holders to voting rights at the general meeting of the company, which is the highest-ranking decision-making body in the company. The more shares the holder owns, the greater the portion of the capital, dividends and votes that inure to the holder. Voting rights may vary depending on the class of shares concerned. There are two types of companies, public and private. Only shares of public companies may be listed for trading on stock exchanges or other marketplaces.
2. *Ordinary shares* are issued by limited liability companies as the primary means of raising risk capital. The issuer has no obligation to repay the original cost of the share, or the capital, to the shareholder until the issuer is wound up (in other words, the issuer company ceases to exist). In return for the capital investment in the share, the issuer may make discretionary dividend payments to shareholders, which could take the form of cash or additional shares. Ordinary shares usually carry a right to vote at general meetings of the issuer. There is no guaranteed return on an investment in ordinary shares, and in a liquidation of the issuer, ordinary shareholders are amongst the last with a right to repayment of capital and any surplus funds of the issuer, which could lead to a loss of a substantial proportion, or all, of the original investment.
3. Unlike ordinary shares, *preference shares* give shareholders the right to a fixed dividend the calculation of which is not based on the success of the issuer company. They therefore tend to be a less risky form of investment than ordinary shares. Preference shares do not usually give shareholders the right to vote at general meetings of the issuer, but shareholders will have a greater preference to any surplus funds of the issuer than ordinary shareholders, should the issuer go into liquidation. There is still a risk that you may lose all or part of your capital.
4. A share's *par value* is the value that each share represents of the company's share capital. The total of all shares in the company multiplied by the par value of each share constitutes the company's *share capital*. Occasionally, companies wish to change the par value, e.g. because the price, i.e. the market price of the share, has risen significantly. By dividing up the share into two or several shares through a *share split*, the par value is reduced at the same time as the price of the shares is reduced. However, after a split the owners' capital remains unchanged, but is divided into a greater number of shares that have a lower par value and a lower price. Conversely, a *reverse share split* can be carried out where the price has fallen dramatically. In such case, two or several shares are merged into one share. Following a reverse split, the shareholder retains the same capital, however divided into fewer shares with a higher par value and higher price.
5. *Market introduction* means that shares in a company are introduced on the stock market, i.e. become listed on a stock exchange or other marketplace. The public is then invited to subscribe for (purchase) shares in the company. Most often, an existing company that was not previously listed on a stock exchange is involved, in which the owners have decided to increase the number of shareholders and facilitate trading in the company's shares. Where a State-owned company is introduced on the market, this is called privatization.
6. A *take-over* or *buyout* normally involves an investor or investors inviting the shareholders in a company to sell their shares subject to certain conditions. If the buyer obtains 90% or more of the share capital and votes in the target company, the buyer can request compulsory purchase of the remaining shares from those shareholders who have not accepted the take-over offer. These shareholders are then entitled to payment which is determined through an arbitration proceeding.

7. If a company wishes to expand its operations, additional share capital is often required. The company raises additional capital by *issuing new shares through a new issue*. The existing shareholders often receive subscription rights entailing a *pre-emptive right to subscribe for shares* in a new issue. The number of shares that may be subscribed for is established in relation to the number of shares previously held by the shareholder. The subscriber must pay a certain price (issue price), which is often lower than the market price, for the newly issued shares. Immediately after the subscription rights – which normally have a certain market value – are detached from the shares, the price of the shares normally declines but, at the same time, shareholders who have subscribed have a larger number of shares. During the subscription period, which often lasts for several weeks, those shareholders who do not subscribe may sell their subscription rights on the marketplace on which the shares are listed. Upon the expiry of the subscription period, the subscription rights lapse and thus become useless and worthless.

8. If the assets or the reserve funds in a company limited by shares have greatly increased in value, the company can transfer part of the value to its share capital through what is commonly referred to as a *bonus issue*. In relation to bonus issues, consideration is given to the number of shares already held by each shareholder. The number of new shares that inure through the bonus issue is established in proportion to the number of shares previously held. Through the bonus issue, the shareholder receives more shares but the owner's portion of the company's increased share capital remains unchanged. The price of the shares declines in conjunction with a bonus issue but, through the increase in the number of shares, the shareholder retains an unchanged market value for his or her invested capital. Another method of carrying out a bonus issue is for the company to re-denominate the shares. Following a write-up, the shareholders have an unchanged number of shares and market value for their invested capital.

9. A company limited by shares can also carry out a *directed new issue*, which is carried out as a new issue but directed solely to a limited group of investors. Companies limited by shares can also carry out *non-cash issues* of new shares in order to acquire other companies, business operations, or assets other than cash. In conjunction with both directed issues and non-cash issues, dilution takes place of an existing shareholder's portion of the voting capital and share capital in the company, but the number of held shares and the market value of the invested capital is not affected.

10. A risk with share investment is that the company must both grow in value and, if it elects to pay dividends to its shareholders, make adequate dividend payments, or the share price may fall. If the share price falls, the company, if listed or traded on-exchange, may then find it difficult to raise further capital to finance the business, and the company's performance may deteriorate vis à vis its competitors, leading to further reductions in the share price. Ultimately the company may become vulnerable to a takeover or may fail.

11. The price of a share is affected to a great extent by the company's prospects. A share is valued upwards or downwards depending primarily on the investors' analyses and assessment of the company's possibilities to make future profits. Future external developments regarding the economy, technology, legislation, competition, etc. determine the demand for the company's products or services and, consequently, are of fundamental significance regarding changes in the price of the company's shares.

12. Other factors directly related to the company, e.g. changes in the company's management and organisation, disruptions in production, etc., may strongly affect the company's future ability to create profits, both in the long and short-run. In the worst case, a limited company may perform so poorly that it must be declared bankrupt. The share capital, i.e. the capital invested by the shareholders, is the capital that

is applied first in order to pay the company's debts. This often results in the entire share capital being used up, which means that the shares in the company become worthless.

13. Prices on certain major stock exchanges and other marketplaces could affect prices on others. Prices in shares in companies that belong to the industrial sector are often affected by changes in the prices of shares of other companies within the same sector.

14. Players on the market have different needs for investing cash (liquid funds) or obtaining liquid funds. In addition, they often have different opinions as to how the price will develop. These factors, which also include the way in which the company is valued, contribute to there being both buyers and sellers. On the other hand, if the investors have the same opinions regarding price trends, they will either wish to buy (thereby creating buying pressure from many buyers), or they will wish to sell (thereby creating selling pressure from many sellers). Prices increase in the event of buying pressure and fall in the event of selling pressure.

15. Turnover, i.e. the quantity of a particular share that is bought or sold, in turn affects the share price. In the event of high turnover, the difference (the spread) declines between the price the buyers are prepared to pay (bid price) and the price requested by the sellers (ask price). A share with a high turnover, where large amounts can be traded without affecting the price, enjoys good liquidity and, consequently, is easy to buy or sell. Companies on the stock exchange's list of most traded shares normally have high liquidity. During the day or during longer periods, different shares can exhibit different degrees of price stability (volatility) i.e. increases and declines, as well as in size of the price changes.

16. Stock exchanges and other marketplaces normally divide shares into various lists. The main criteria regarding the list on which listing will take place are the manner in which the company fulfils various requirements regarding the amount of share capital, diversification of ownership of the shares among many owners, operational history, and information regarding finances and operations. The most traded shares can also be found on a separate list. Shares on lists entailing high demands and high turnover are normally deemed to entail a lower risk than shares on other lists.

17. If the company is private, i.e. not listed or traded on an exchange, or is listed but only traded infrequently, there may also be liquidity risk, whereby shares could become very difficult to dispose of.

18. Shares have exposure to all of the generic risk types. Specifically and additionally, please, note that:

(a) some investments in shares cannot easily be sold or converted to cash. Check to see if there is any penalty or charge if you must sell an investment quickly.

(b) investments in stock issued by a company with little or no operating history or published information involves greater risk than investing in a public company with an operating history and extensive public information. There is an extra risk of losing money when shares are bought in some smaller companies, including penny shares. There is a big difference between the buying price and the selling price of these shares. If they have to be sold immediately, you may get back much less than you paid for them. The price may change quickly and it may go down as well as up.

(c) shares are not generally insured against a loss in market value.

(d) shares you own may be subject to tender offers, mergers, reorganizations, or third-party actions that can affect the value of your ownership interest. Pay careful attention to public announcements and information sent to you about such transactions. They involve complex investment decisions. Be sure you fully understand the terms of any offer to exchange or sell your shares before you act.

(e) The greatest risk in buying shares of stock is having the value of the stock fall to zero. On the other hand, the risk of selling shares short can be substantial.

19. *Depositary receipts* (ADRs, GDRs, etc.) are negotiable certificates, typically issued by a bank, which represent a specific number of shares in a company, traded on a stock exchange, which is local or overseas to the issuer of the receipt. They may facilitate investment in the companies due to the widespread availability of price information, lower transaction costs and timely dividend distributions. The risks involved relate both to the underlying share and to the bank issuing the receipt.

20. In addition, there are important differences between the rights of holders of ADRs and GDRs, and the rights of holders of the shares of the underlying share issuer represented by such depositary receipts. The relevant deposit agreement for the depositary receipt sets out the rights and responsibilities of the depositary (being the issuer of the depositary receipt), the underlying share issuer and holders of the depositary receipt, which may be different from the rights of holders of the underlying shares. For example, the underlying share issuer may make distributions in respect of its underlying shares that are not passed on to the holders of its depositary receipts. Any such differences between the rights of holders of the depositary receipts and holders of the underlying shares of the underlying share issuer may be significant and may materially and adversely affect the value of the relevant instruments.

21. Depositary receipts representing underlying shares in a foreign jurisdiction (in particular an emerging market jurisdiction) also involve risks associated with the securities markets in such jurisdictions.