Deutsche Schutzvereinigung für Wertpapierbesitz e.V.

Deutscher Derivate Verband

Checklist for Certificate Investors

This checklist is designed to help you in clarifying the most important points prior to purchasing a certificate. You should be able to answer “yes” to each of the following questions. Moreover, you should consult your financial, legal and tax advisors at length.

- ☐ Is the certificate’s underlying in line with your preferences?

  You should be familiar with the underlying upon which the certificate is based and have made your own personal assessment of it.

- ☐ Does the certificate reflect your market expectations?

  You ought to know how the underlying needs to perform in order to generate a profit. You should also know what development would result in a loss. Your expectations of the underlying’s performance should be taken into account when selecting a certificate.

- ☐ Do you understand what requirements need to be met for you to earn a profit on the certificate?

  A certificate’s investment success is generally the result of a number of conditions being satisfied. You ought to know which requirements have to be met, and when, in order for you to achieve a positive return on this certificate. For express certificates, you should know the observation dates by which the underlying must reach, exceed or fall short of a certain strike price in order to yield a profit.

- ☐ Do you know the main factors which could influence the value of the certificate?

  During their term, certificates are subject to market influences such as the development of the underlying, volatility and interest rate fluctuations.

- ☐ Are you aware that the performance of your investment also depends on whether you hold the certificate until redemption at maturity or sell it during the term?

  The price of a certificate during its term may differ considerably from the redemption amount paid at maturity. Some certificates do not develop their advantages until maturity. This is particularly the case for uncapped capital protection certificates, with which the investor receives the minimum of the certificate's par value at maturity, regardless of how the underlying has developed. The price during the term may fall below the par value, in which case the investor would sustain a loss if he sold the certificate before the end of the term.

- ☐ Are you aware of both the risks and rewards associated with an investment in certificates?

  The certificate's risk class is based on its various features. While uncapped capital protection certificates are in a more conservative product category, there are also highly speculative certificates which are only suitable for experienced investors. Whatever the type of certificate, you should know the issuer risk, the circumstances that would result in a partial loss for you, and likelihood of a total loss.

- ☐ Have you considered market scenarios which would result in a loss for you?

  You should know the ways in which a certificate can perform. There are a variety of scenarios for the performance of the underlying. These also include scenarios which would cause you to sustain a moderate and a considerable loss.

- ☐ Do you know whether your certificate bears the risk of total loss?

  Some types of certificates can become worthless under certain circumstances. You should know what these circumstances are.

- ☐ Do you know who issued your certificate?

  The bank that you buy your certificate from is not necessarily the issuer of the certificate. The "white labelling" concept, i.e. using a certificate from another issuer but marketing it using the bank's design, has led to the fact that investors are not always aware of whose certificates they have in their portfolio. So you should make sure you know who the issuer is.

- [ ] Do you know what the term “issuer risk” actually entails for certificates?

  Certificates are the issuer’s bearer bonds. In the event of insolvency, they are ranked the same as all other liabilities. If an issuer becomes insolvent, the certificate investor runs the risk of a total loss.

- [ ] Do you know the advantages of diversification (risk distribution)?

  This means distributing your investment capital between different investments in order to minimise the risk of total loss. The idea of diversification is to limit potential losses. The smaller the proportion attributable to a single investment, the lower the impact of a major loss or gain on your total assets.

- [ ] Do you know which fees may be charged at acquisition and for sale before maturity (front-end load, transaction costs, broker fee)?

  Fees reduce returns. You should therefore know all the costs which will be incurred at subscription, acquisition and sale.

- [ ] Have you read and understood the terms and conditions of the certificate and the risk factors?

  You should have read and understood the terms and conditions of the certificate and the risk factors prior to making an investment decision.

- [ ] Do you know when and under what conditions your certificate is traded? Is it traded on exchange and if so, on which ones, or over-the-counter?

  Certificates can generally be traded on exchange and over-the-counter. Around 99% of exchange trading takes place on the Stuttgart Stock Exchange (EUWAX) and Frankfurt’s structured products exchange (Scoach). Over-the-counter trading is usually conducted directly with the issuer. Investors have to pay a broker fee for exchange trading. This does not apply for over-the-counter transactions. Transaction costs are charged in both cases. In order to avoid paying these at all, or pay a reduced rate, you can use “free trades”, whereby during certain periods and/or under certain conditions, transaction costs are not charged at all or are charged at a lower rate.

- ☐ Have you availed of information sources (prospectus, informational brochures, independent certificate ratings on the Internet, etc.)?

  You should obtain all key informative material, such as product flyers and term sheets.

- ☐ Do you know what function the certificate has in your overall portfolio?

  In addition to building up your assets, certificates can also serve to hedge other positions in the portfolio.

- ☐ Does the certificate match your investment strategy (term, availability, risk appetite)?

  Not only does the return potential have to match your investment style – all other features of the certificate must be suitable too. You should think in particular about the extent of your experience with securities to date, and the risk you are willing to take.

- ☐ Can you achieve your personal investment objective with this certificate?

  You should have a clear idea of your personal investment objective, especially bearing in mind the return you would like, and the period in which this appears possible.