Risks

We offer a wide range of investments, each with their own risks and rewards. The following information provides you with a general description of the nature and risks of the investments that you can trade through TD Direct Investing.

It does not disclose all of the risks and other significant aspects of the investments which we offer. If you are not sure about any aspect of the risks and features of these products, you should obtain professional advice.

You should be aware that the performance of all of the investment products set out below is not guaranteed and the prices may go down as well as up.

You should not view the past performance of investments as a guide to their future performance.

Non-Complex Products

- Shares
- Savings
- Fixed Interest Bonds and Gilts
- Collective investment products

Complex Products

- Warrants
- Off-exchange warrant transactions
- Securitised derivatives
- Contracts for difference (CFDs)
- Financial spread trading
- Convertible debt instruments
- Over the Counter Transaction (OTC)
- Exchange Traded Products (ETPs)
- Nil Paid Rights

General risks of trading

- Foreign markets
- Commissions
- Market conditions
- Clearing house protections
- Insolvency

This summary is taken from our main Terms of Service.

Non-Complex Products

1.1 Shares

Nature

Shares, known as equities, represent a portion of a company's share capital. The extent of your ownership in a company depends on the number of shares you own in relation to the total number of shares in issue. Some shares are bought and sold on stock exchanges and their values can go down as well as up in line with market conditions. These shares are termed "quoted".

Risks

In respect of unlisted shares or shares in small companies, there is an extra risk of losing money when such shares are bought or sold. There can be a big difference between the buying and selling price of these shares. If they have to be sold immediately, you may get back much less than you paid for them.

Shares in companies incorporated in emerging markets may be harder to buy and sell than those shares in companies in more developed markets and such companies may also not be regulated as strictly.

Specialist sector investments

Investing in shares that are concentrated in a specialist sector is considered to be a higher risk strategy, due to the concentrated exposure to the market sector in question. Whilst such investments may offer greater returns over the long term, this can be coupled with the risk of higher volatility.

1.2 Savings

Nature

Savings products usually involve you placing your money into an account where it earns interest.

You can get your money out immediately with TD Bank N.V.'s savings product.

Your money grows from interest being added on a quarterly basis, and it is calculated daily.

Risks

Savings Accounts are generally considered low risk and the prospect of you losing your money is usually unlikely (unless there is a bank collapse).

Inflation may have a negative impact on your savings if the rate of interest you receive on your savings is less than the prevailing rate of inflation as your money will buy less each year.

1.3 Fixed interest bonds and gilts

Nature

Investing in a corporate bond means that you are effectively loaning money to the company which has issued the corporate bond.

This means that the more financially secure the company issuing the bond is, the more likely it is that it will be able to pay back the loan. The interest payment may be related to the perceived financial security of the company issuing the bond.

Risks

Sub investment grade or 'junk' bonds are issued by companies which are less financially secure and so there is a greater risk that it will default but you may receive a higher interest payment. The effect of a default will impact upon the return of your investment.

UK Government bonds (which in the UK are also known as gilts) are regarded as the least risky type of bond investments since they are backed by the UK government.

Bonds issued by supranational institutions, such as the European Investment Bank or the World Bank, are also generally regarded as being a safe investment.

1.4 Collective investment products

Nature

Collective investment products include investment trusts, unit trusts, open ended investment companies (OEICs), real estate investment trusts (REITs) and exchange traded funds (ETFs) which are deemed to be 'qualifying' under the Undertakings for Collective Investment in Transferable Securities directives (UCITS).These are all investment vehicles that invest their assets in the securities of other issuers, or in cash, in accordance with their own internal rules.

Whereas investment trusts and REITs are listed companies with their shares traded on the London Stock Exchange, unit trusts and OEICs are not traded on a stock exchange, but are traded through the manager of the product.

Investment trusts and REITs may trade at a discount or premium to the cumulative value of their underlying investments, depending on the demand for their shares. Unit trusts and OEICs are usually priced daily using a set formula based on their net assets minus charges.

If you trade collective investment products with us, you could consider holding them in a stocks and shares ISA. This may be beneficial to you for tax purposes. In order to do this with us you would need to open a TD Direct Investing Trading ISA account which would be subject to these Terms along with the terms specifically set out in Appendix B of our Terms of Service. If you are in any doubt as to the suitability of the TD Direct Investing Trading ISA for your personal circumstances you should seek advice from an independent financial adviser.

Some collective investment products may specialise in certain countries or sectors and you should read the terms of any key features document carefully before deciding on an investment.

Risks

As with individual equities, the value of your investment can go down as well as up and you might not get back the original amount you invested.

Any income you receive from your investment in a collective investment scheme may vary with the dividends or interest paid by the underlying investments and so could fall as well as rise.

Collective investment products that focus on a country, sector or market index may display greater volatility than the wider market and so should be considered as higher risk than more widely invested collective investment products.

All investment in collective investment products carries a degree of risk. You will be provided with a key investor information document and/or a simplified prospectus for all UCITS qualifying collective investment products that you want to trade with us. The documentation will be available on our website as part of the trading process. You should read these documents carefully prior to purchasing a collective investment as they include full details of the particular risks relating to the product. It is your responsibility to ensure that you fully understand the contents of the documentation provided and if you are in any doubt you should seek professional advice.

Complex Products

Products such as warrants, securitised derivatives and contracts for difference are complicated instruments and you should make sure that you understand their nature and the level of risk they involve before you deal in these products. You should also be satisfied that the product is suitable for you in the light of your circumstances and financial position. Although these products can be used for the management of investment risk, some of these products are unsuitable for many investors. Different instruments involve different levels of exposure to risk and in deciding whether to trade in such instruments you should be aware of the following points:

2.1 Warrants

Nature

A warrant is a time limited right to subscribe for shares, debentures, loan stock or government securities and is exercisable against the original issuer of the underlying securities. Some other instruments are also called warrants but are actually options (for example, a right to acquire securities which is exercisable against someone other than the original issuer of the securities, often called a 'covered warrant').

Risks

It is important to note that a relatively small movement in the price of the underlying security results in a disproportionately large movement, unfavourable or favourable, in the price of the warrant. As a result, the prices of warrants can be volatile.

The right to subscribe conferred by a warrant is generally limited by time, which means that if the investor fails to exercise this right within the predetermined time-scale then the investment becomes worthless. It is therefore important to understand that if you are considering purchasing a warrant you should be prepared to lose all of the money you have invested plus any commission or other transaction charges.

2.2 Off-exchange warrant transactions

Nature

Off-exchange transactions are those where the relevant deal is not regulated by the rules of any stock exchange.

Risks

It may be impossible to: liquidate an existing position, assess the value of the position arising from an off-exchange transaction or assess the exposure to risk.

Bid and offer prices need not be quoted and even where they are, they will be established by dealers in these instruments and consequently it may be difficult to establish what is a fair price and in some cases it may be difficult to sell at any price.

We will tell you if you are entering into an off-exchange transaction.

2.3 Securitised derivatives

Nature

Certain types of securitised derivatives, including covered warrants, may give you a time limited right to buy or sell one or more types of investment which is normally exercisable against someone other than the issuer of that investment.

Other types of securitised derivatives may give you rights under a contract for difference which allow for speculation on the changes in the value of a particular kind of property (of any description) or changes in the value of an index, such as the FTSE 100 index.

In both cases, the investment or property may be referred to as the "Underlying Instrument".

Risks

Securitised derivatives often involve a high degree of gearing or leverage, so that a relatively small movement in the price of the Underlying Instrument results in a much larger movement, unfavourable or favourable, in the price of the securitised derivative which means that the price of these instruments can be volatile.

Securitised derivatives have a limited life, may include features such as in-built knock outs, stop losses or similar features and may (unless there is some form of guaranteed return to the amount you are investing in the product) expire worthless if the Underlying Instrument does not perform as expected.

As a result of this risk, you should only buy these products if you are prepared to lose all of the money you have invested plus any commission or other transaction charges.

You should consider carefully whether or not this product is suitable for you in light of your circumstances and financial position and if you are in any doubt you should seek professional advice.

2.4 Contracts for difference (CFDs)

Nature

Futures, Forex and options contracts can also be referred to as contracts for difference. These can be options and futures on the FTSE 100 index or any other index, as well as currency and interest rate swaps. However, unlike other futures and options, these contracts can only be settled in cash.

Listed CFDs can also be referred to as 'Turbos'. Turbos are lower risk than traditional CFDs as a Turbo embeds a guaranteed stop-loss at no extra cost, at all times giving you control of your maximum possible loss. With a Turbo you can never lose more than your initial margin payment, no matter how badly the market moves against you or the length of time it is held.

To trade contracts for difference through the Broker, you need to open an account with TD Derivatives Trading.

TD Derivatives Trading is provided by Saxo Bank A/S or one of its associated companies (together referred to as "Saxo" for the purposes of these Terms) and for the purposes of CFD trading any contract is between you and Saxo with all dealing, settlement and administration carried out by Saxo. Saxo Bank A/S is a bank incorporated in Denmark and is regulated by the Danish Financial Supervisory Authority. For the avoidance of doubt, these Terms will not apply to any CFD trading.

You are made especially aware that TD Direct Investing receives commission, fees, price or interest adjustments (together referred to as the Trading Commissions) based on the transactions that you enter into with Saxo. The payment of Trading Commissions may entail that you pay more than Saxo's standard retail rates.

The amount of Trading Commissions earned by the Broker in respect of the your transactions can generally be determined as the difference between the following two sets of prices, multiplied by the notional traded amount:

a) the individual Target Spread/Rates that apply to you and which are shown on your Trading Platforms in the Trading Condition window under the "Account" menu; and

b) the Standard Institutional Target Spread/Rates for Introducing Brokers, as displayed under "Institutional" – "Rates & Conditions" on Saxo's website www.saxobank.com.

Specific Trading Commissions earned by the Broker may be higher or lower than the Trading Commissions set out above. In certain cases, Saxo may retain a share of the Trading Commissions, which will result in lower Trading Commissions to the Broker. In certain other cases, the Trading Commissions may be calculated on the basis of lower spreads which will lead to higher Trading Commissions.

The amount payable by Saxo to the Broker can be up to 90% of the Trading Commissions that Saxo receives from you.

The above spreads and commissions, and deviations of spreads and commissions, may change over time.

We will provide you with further details regarding these commission payments on request.

Risks

Investing in a contract for difference carries a high degree of risk because the gearing or leverage often obtainable means that a small deposit or down payment can lead to large losses as well as gains. This also means that a relatively small movement can lead to a proportionately much larger movement in the value of your investment and this can work against you as well as for you.

2.5 Financial spread trading

Nature

A financial spread trade is an agreement to exchange the difference between the open and closing value of the trade.

When you place a financial spread trade, you are speculating on the direction of the future price movements in an underlying instrument or index.

You specify an amount you want to bet on each point movement of the underlying instrument or index.

To make a financial spread trade through the Broker, you need to open an account with TD Financial Spread Trading.

TD Financial Spread Trading is provided by London Capital Group Limited (LCG) and for the purposes of financial spread trading any contract is between you and LCG and all dealing, settlement and administration is carried out by LCG. LCG is authorised and regulated by the FCA. For the avoidance of doubt, these terms will not apply to any financial spread trading.

We receive various commission revenues from LCG in direct relation to the transactions made by you.

We will provide you with further details regarding these commission payments upon written request.

Risks

As the price movement of the underlying instrument or index determines the financial outcome, profits and losses can quickly exceed the initial deposit and you may have to provide further funds at short notice. Financial spread trading carries a high risk as it is possible to quickly lose more money than your initial deposit.

2.6 Convertible debt instruments

Nature

A bond instrument issued by a company that can be exchanged for shares of that company's common stock.

The price at which the instrument can be converted into shares is usually set when the instrument is issued and typically can be converted at any point up until maturity.

Convertibles combine the reliability of a debt instrument with the added upside of benefiting from any increase in the share value of the company.

Risks

If an issuer is unable to meet its debt obligations, you may get back less than you invest or lose your initial investment. However, in the event of bankruptcy, bondholders will typically have a claim upon the assets of the issuer ahead of its shareholders.

A downgrade in the credit rating assigned to a bond or issuer can increase the yield commanded by the investor for investing in the bonds, leading to a lower price of the bond.

Are typically callable, which means the issuer can force conversion of the bond for a specified number of shares at a certain price.

2.7 Over the Counter Transaction (OTC)

Nature

A bilateral transaction in which two parties agree on how a particular trade or agreement is to be settled in the future. Examples of OTCs are forwards or swaps.

OTC transactions are in respect of stocks and shares not traded on any listed exchange as they do not meet the listing requirements of an exchange. That said, some companies do meet these listing requirements but still choose for stock in that company to remain tradable as an OTC.

OTC stocks trade on the Over the Counter Bulletin Boards (OTCBB) or on the pink sheets.

Risks

A counterparty to the transaction may default prior to expiration of the trade and will not make the current and future payments required by the contract (so called 'counterparty risk').

Because of the way OTCs are traded, default by a counterparty in respect of one OTC contract may have a negative impact upon the wider OTC market and upon otherwise unrelated OTC contracts (so called 'systemic risk').

OTCBB stocks are either penny stocks or stocks where details on the issuer may be limited.

2.8 Exchange Traded Products (ETPs)

Nature

Products which follow the price movements of an underlying asset and can gain exposure to a wide range of markets without the cost of investing directly.

There are three types of ETPs: ETFs, exchange traded commodities (ETCs) and exchange traded notes (ETNs). ETCs and ETNs do not have the same level of investor protection as UCITS qualifying ETFs.

ETPs can have either a physical investment strategy (where the fund contains some or all of the shares or securities in the index being tracked) or a synthetic investment strategy (where special transactions, known as swaps, are used to track the price of the index).

Risks

The use of complex financial techniques (including derivatives and swaps) means that these types of funds may not be suitable for all types of investors.

If the ETP does not hold the assets it is tracking then all or part of the money invested could be lost in certain circumstances.

The more an ETP invests in leveraged instruments then the more the losses on these investments will be magnified. For leveraged index-based ETPs, the value of the ETPs shares will tend to increase or decrease more than the value of any increase or decrease in its underlying index (so called 'leverage risk').

2.9 Nil Paid Rights

Nature

These are rights to subscribe for new shares provisionally allotted by an issuer under a rights issue subject to payment of the subscription price. "Nil Paid" refers to the fact that the amount payable on acceptance of the offer has not yet been paid. If the shareholder exercises the rights then they must pay for the shares they have been given the right to buy.

These rights are securities that can be traded in the market (known as dealing 'nil-paid').

Risks

Rights purchased in the open market are short dated call options which can only be exercised within a limited period.

The rights will expire worthless if not exercised within the given period.

General risks of trading

3.1 Foreign markets

Foreign markets will involve different risks from the UK markets. In some cases the risks will be greater.

The potential for profit or loss from transactions on foreign markets or in foreign denominated contracts will be affected by fluctuations in foreign exchange rates.

3.2 Commissions

Before you begin to trade, you should obtain details of all commissions and other charges for which you will be liable by checking our Rates and Charges.

If you do not understand any charges (because, for example, they are not expressed in money terms but as a percentage of contract value), you should ask us for a written explanation, including appropriate examples, to establish what such charges are likely to mean in specific money terms.

3.3 Market conditions

Under certain trading conditions it may be difficult or impossible to liquidate a position. This may occur, for example, at times of rapid price movement if the price rises or falls in one trading session to such an extent that under the rules of the relevant exchange trading is suspended or restricted.

Placing a stop loss order or Limit Order will not necessarily limit your losses to the intended amounts, because market conditions may make it impossible to execute such an order at the stipulated price.

3.4 Clearing house protections

On many exchanges, the performance of a transaction by us (or third party with whom we are dealing on your behalf) is 'guaranteed' by the exchange or clearing house.

However, this guarantee is unlikely in most circumstances to cover you, the client, and may not protect you if we or another party were to default on obligations owed to you.

3.5 Insolvency

Our insolvency or default, or that of any other brokers involved with your transaction, may lead to positions being liquidated or closed out without your consent.

In certain circumstances, you may not get back the actual assets that you lodged as collateral and you may have to accept any available payments in cash.

On request, we will provide you with an explanation of the extent to which we will accept liability for any insolvency of, or default by, other firms involved with your transactions.

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