



**ROSENTHAL COLLINS GROUP LLC**

216 West Jackson Boulevard Suite 400 Chicago Illinois 60606

Disclosure Booklet A

Information & Disclosure Statements

## ***Opening your***

## ***Account at***

## ***RCG....***

**We** are pleased that you have selected Rosenthal Collins Group, L.L.C. (“RCG”) as your futures clearing firm. For your convenience, we have included all necessary forms and information in two booklets. Booklet A includes information and Disclosure Statements, and Booklet D contains Customer Information and Agreements.

**You** must do the following to open your account at RCG:

- Carefully read the information and Disclosures contained in Booklet A and retain for your records.
- Complete the required sections of Booklet D and return the entire booklet to your Account Executive.

**If** you have any questions concerning the opening of your account, please contact your Account Executive.

### **Table of Contents**

Notice to Introduced Customers .....	page 3
Funding Your Account .....	page 3
Risk Disclosure Statement for Futures and Options .....	pages 4-5
Risk Disclosure Statement for Security Futures Contracts .....	pages 6-21
Electronic Trading Disclosure Statement .....	page 22
Notification Regarding Access to Exchange Market Data .....	page 23
Regulation 190.10 Non-Cash Margin Disclosure .....	page 24
Notice to Foreign Brokers and Foreign Traders .....	page 25
RCG Privacy Policy .....	page 26-27
RCG Anti-Money Laundering Policy Statement.....	page 28

## **IMPORTANT NOTICE TO INTRODUCED CUSTOMERS**

---

If your account has been introduced to Rosenthal Collins Group, L.L.C. ("RCG") by an Introducing Broker, we want you to be aware of the relationship between RCG, the Introducing Broker and the Account Executive who services your account in its day to day activities.

Please be aware of the following:

RCG will accept **only** funds remitted from the account holder which are made payable to Rosenthal Collins Group, L.L.C. When RCG accepts these funds for your account they will be deposited into and held in a "Customer Segregated Funds" account. Neither the Introducing Broker nor the Account Executive are authorized to accept funds which are made payable to anyone other than RCG. **You should also know that when funds are drawn out of your account they will be made payable only to the name or names of the account holder.**

All instructions and order placement for your account should be directed to your Account Executive at your Introducing Broker. Your Account Executive will assist you in your trading. If you have granted a Power of Attorney to trade your account to a third party, trading activity is permitted in your account without your specific authorization for each trade. If you have not granted Power of Attorney to a third party, trading in your account is prohibited without your specific authorization.

**RCG may call for the immediate deposit of additional funds to your account should your account fall below RCG's margin requirements and may take any action necessary to protect the firm from potential losses.**

If you have questions regarding transactions in your account or your account statements, please direct such questions to your Account Executive at your Introducing Broker. However, if matters are not handled to your satisfaction contact the RCG Compliance Department at (312) 460-9200.

## **FUNDING YOUR ACCOUNT**

---

You may fund your account in three ways. Regardless of the method of funding you chose, **the originator of the funds must always be the name or names listed as the account owner.**

(1) By **Bank Wire**. Bank wires are cleared funds and allow you to begin trading your account immediately. Following are instructions for wiring funds to RCG:

Harris Trust and Savings Bank, Chicago, Illinois, ABA Routing Number 071 000 288  
For credit to the Rosenthal Collins Group, L.L.C. Customer Segregated Funds A/C #3964467,  
For further credit to (your name and new RCG account number)

(2) **Checks**. Certified checks and cashiers checks made payable to RCG are in most cases considered cleared funds and in most cases you may begin to trade your account immediately. Personal checks, savings and loan checks and checks drawn on money market or credit union accounts may require clearance before you trade.

(3) **Transfer of funds**. You may wish to fund your account by transferring funds to RCG from a brokerage or investment account at another firm. Funds transferred from another brokerage account are considered cleared funds. To transfer funds, fill out the Transfer of Account form included in Booklet B.

## **RISK DISCLOSURE STATEMENT**

---

### **For Futures and Options**

*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 is ordinarily 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/offset 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 pro-rated 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 inquire 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 STATEMENT FOR SECURITY FUTURES CONTRACTS**

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).

<u>Price of XYZ at Liquidation</u>	<u>Customer A Profit/Loss</u>	<u>Customer B Profit/Loss</u>
\$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.

<u>Opening Position</u>	<u>Price at Liquidation</u>	<u>Gain or Loss</u>	<u>Price at Liquidation</u>	<u>Gain or Loss</u>
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.

<u>Price in September</u>	<u>Value of 1,000 Shares of ABC</u>	<u>Gain or Loss on Futures</u>	<u>Effective Selling Price</u>
\$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)

<u>Daily Settlement Value</u>	<u>Buyer’s Account</u>	<u>Seller’s Account</u>
\$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 EJM security futures at 71.50. Assuming each contract represents 100 shares, the nominal value of the position is \$21,450 ( $71.50 \times 3 \text{ contracts} \times 100 \text{ shares}$ ). 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 EJM security futures falls to 69.25. The marked-to-market loss in the customer's equity is \$675 ( $71.50 - 69.25 \times 3 \text{ contracts} \times 100 \text{ shares}$ ). The customer's equity decreases to \$3,615 ( $\$4,290 - \$675$ ). The new nominal value of the contract is \$20,775 ( $69.25 \times 3 \text{ contracts} \times 100 \text{ shares}$ ). If the maintenance margin rate is 20% of the nominal value, then the customer's maintenance margin requirement would be \$4,155. 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 EJM 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 Web site, [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.

## **ELECTRONIC TRADING DISCLOSURE STATEMENT**

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 trading 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 procedures, 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.

- 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.

### **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.

## **NOTIFICATION REGARDING ACCESS TO EXCHANGE MARKET DATA**

As a market user you may obtain access to exchange Market Data available through an electronic trading system, software or device that is provided or made available to you by a broker or an affiliate of such. Market Data may include, but is not limited to, "real time" or delayed market prices, opening and closing prices and ranges, high-low prices, settlement prices, estimated and actual volume information, bids or offers and the applicable sizes and numbers of such bids or offers.

You are hereby notified that Market Data constitutes valuable confidential information that is the exclusive proprietary property of the applicable exchange and is not within the public domain. Such Market Data may only be used for your internal use. You may not, without the authorization of the applicable exchange, redistribute, sell, license, retransmit or otherwise provide Market Data, internally or externally and in any format by electronic or other means, including, but not limited to the Internet.

You must provide upon request of the broker through which you have obtained access to Market Data, or the applicable Exchange, information demonstrating your use of the Market Data in accordance with this Notification. Each applicable exchange reserves the right to terminate a market user's access to Market Data for any reason. You also agree that you will cooperate with an exchange and permit an exchange reasonable access to your premises should an exchange wish to conduct an audit or review connection to the distribution of Market Data.

**NEITHER THE EXCHANGE NOR THE BROKER, NOR THEIR RESPECTIVE MEMBERS, SHAREHOLDERS, DIRECTORS, OFFICERS, EMPLOYEES OR AGENTS, GUARANTEE THE TIMELINESS, SEQUENCE, ACCURACY OR COMPLETENESS OF THE DESIGNATED MARKET DATA, MARKET INFORMATION OR OTHER INFORMATION FURNISHED NOR THAT THE MARKET DATA HAVE BEEN VERIFIED. YOU AGREE THAT THE MARKET DATA AND OTHER INFORMATION PROVIDED IS FOR INFORMATION PURPOSES ONLY AND IS NOT INTENDED AS AN OFFER OR SOLICITATION WITH RESPECT TO THE PURCHASE OR SALE OF ANY SECURITY OR COMMODITY.**

**NEITHER THE EXCHANGE NOR THE BROKER NOR THEIR RESPECTIVE MEMBERS, SHAREHOLDERS, DIRECTORS, OFFICERS, EMPLOYEES OR AGENTS, SHALL BE LIABLE TO YOU OR TO ANY OTHER PERSON, FIRM OR CORPORATION WHATSOEVER FOR ANY LOSSES, DAMAGES, CLAIMS, PENALTIES, COSTS OR EXPENSES (INCLUDING LOST PROFITS) ARISING OUT OF OR RELATING TO THE MARKET DATA IN ANY WAY, INCLUDING BUT NOT LIMITED TO ANY DELAY, INACCURACIES, ERRORS OR OMISSIONS IN THE MARKET DATA OR IN THE TRANSMISSION THEREOF OR FOR NONPERFORMANCE, DISCONTINUANCE, TERMINATION OR INTERRUPTION OF SERVICE OR FOR ANY DAMAGES ARISING THEREFROM OR OCCASIONED THEREBY, DUE TO ANY CAUSE WHATSOEVER, WHETHER OR NOT RESULTING FROM NEGLIGENCE ON THEIR PART. IF THE FOREGOING DISCLAIMER AND WAIVER OF LIABILITY SHOULD BE DEEMED INVALID OR INEFFECTIVE, NEITHER THE EXCHANGE NOR THE BROKER, NOR THEIR RESPECTIVE SHAREHOLDERS, MEMBERS, DIRECTORS, OFFICERS, EMPLOYEES OR AGENTS SHALL BE LIABLE IN ANY EVENT, INCLUDING THEIR OWN NEGLIGENCE, BEYOND THE ACTUAL AMOUNT OF LOSS OR DAMAGE, OR THE AMOUNT OF THE MONTHLY FEE PAID BY YOU TO BROKER, WHICHEVER IS LESS. YOU AGREE THAT NEITHER THE EXCHANGE NOR THE BROKER NOR THEIR RESPECTIVE SHAREHOLDERS, MEMBERS, DIRECTORS, OFFICERS, EMPLOYEES OR AGENTS, SHALL BE LIABLE TO YOU OR TO ANY OTHER PERSON, FIRM OR CORPORATION WHATSOEVER FOR ANY INDIRECT, SPECIAL OR CONSEQUENTIAL DAMAGES, INCLUDING WITHOUT LIMITATION, LOST PROFITS, COSTS OF DELAY, OR COSTS OF LOST OR DAMAGED DATA.**

## **REGULATION 190.10 NON-CASH MARGIN DISCLOSURE**

---

THIS STATEMENT IS FURNISHED TO YOU BECAUSE RULE 190.10(C) OF THE COMMODITY FUTURES TRADING COMMISSION REQUIRES IT FOR REASONS OF FAIR NOTICE UNRELATED TO THIS COMPANY'S CURRENT FINANCIAL CONDITION.

1. YOU SHOULD KNOW THAT IN THE UNLIKELY EVENT OF THIS COMPANY'S BANKRUPTCY, PROPERTY, INCLUDING PROPERTY SPECIFICALLY TRACEABLE TO YOU, WILL BE RETURNED, TRANSFERRED OR DISTRIBUTED TO YOU, OR ON YOUR BEHALF, ONLY TO THE EXTENT OF YOUR PRO RATA SHARE OF ALL PROPERTY AVAILABLE FOR DISTRIBUTION TO CUSTOMERS.

2. NOTICE CONCERNING THE TERMS FOR THE RETURN OF SPECIFICALLY IDENTIFIABLE PROPERTY WILL BE BY PUBLICATION IN A NEWSPAPER OF GENERAL CIRCULATION.

3. THE COMMISSION'S REGULATIONS CONCERNING BANKRUPTCIES OF COMMODITY BROKERS CAN BE FOUND AT 17 CODE OF FEDERAL REGULATIONS PART 190.

## **NOTICE TO FOREIGN BROKERS AND FOREIGN TRADERS**

---

### **Designation of Rosenthal Collins Group, L.L.C. as Agent for Customer**

The Commodity Futures Trading Commission ("CFTC") has issued regulations which require the designation of Futures Commission Merchants ("FCM") as the agents of foreign brokers and foreign traders. Rosenthal Collins Group, L.L.C. ("RCG") is required to notify all foreign brokers and foreign traders of the requirements of these regulations.

CFTC Regulation 15.05 provides that upon execution by an FCM of commodity transactions on a United States contract market for the account of a foreign trader or foreign broker, the FCM will be considered to be the agent of the foreign trader or foreign broker, as well as of Customers of the foreign brokers who have positions in the foreign broker's accounts carried by the FCM, for purposes of accepting delivery and service of communications and legal process issued by or on behalf of the CFTC. RCG is required under such regulation to retransmit any such communications or process to the foreign broker or trader that is its Customer. A foreign broker or trader should be aware that this regulation also permits the foreign broker or trader to designate an agent other than RCG. Such alternate designation of agency must be evidenced by written agreement which the foreign broker or trader must provide to RCG and which RCG must forward to the CFTC. If the foreign broker or trader wishes to designate an agent other than RCG, you must notify RCG in writing. In the event another agent is not so designated, RCG will be the foreign broker's or foreign trader's designated agent for CFTC communications. CFTC Regulation 15.05 is available upon request from RCG.

In addition the CFTC has issued Regulation 21.03 requiring FCMs, foreign brokers and foreign traders to respond to special calls made by the CFTC for information regarding their futures and options trading. RCG is also required by this regulation to notify all foreign brokers and foreign traders of the requirements of this regulation.

CFTC Regulation 21.03 provides for the issuance of a special call by the CFTC for information from foreign brokers or traders for whom an FCM makes or causes to be made a futures or option on futures transaction, including any foreign futures and foreign options. These special calls are generally limited to instances where the CFTC requires information and where the books and records of the FCM, trader or broker upon whom the special call is made are not open at all times to inspection in the United States by any representative of the CFTC. For the purposes of this regulation, RCG will be considered the agent of the Customer and may be required to submit such special call by telex or a similarly expeditious means of communication, unless the Customer has made an alternative designation as above for CFTC Regulation 15.05. Foreign brokers and traders are required to provide the CFTC with the information requested in such special call. The regulation permits the CFTC to prohibit the foreign broker or trader from further trading in the contract market and in the delivery months or option expiration dates specified in the call, except for liquidation if the special call is not responded to at the place and within the time required by the CFTC. The special call shall be limited to information relating to futures or options positions of the foreign broker or trader in the United States.

RCG would also like to inform you of certain additional regulations regarding FCMs and foreign brokers and traders. In Regulation 15.03 the CFTC has established specific reportable position levels for all futures contracts. These levels are subject to change at any time and you should consult your account executive to determine the present levels.

Part 17 of CFTC Regulations require FCMs and foreign brokers to submit a report to the CFTC with respect to each account carried by such FCM or foreign broker which contains a reportable futures position. In addition, Part 18 of CFTC Regulations requires all traders, including foreign traders, who own or control a reportable futures or options position and who have received a special call from the CFTC to file a Large Trader Reporting Form (Form 102) with the CFTC within one day after the special call upon such trader by the CFTC. A foreign broker or trader should review Parts 17 and 18 of the CFTC Regulations for more complete information.

## **RCG Privacy Policy**

---

**At Rosenthal Collins Group, L.L.C. (“RCG”) we value our customers, and maintaining customer trust and confidence is our highest priority.** While it is necessary that we obtain accurate and current information about our customers in order to provide the highest level of customer service, we are dedicated to protecting the privacy and confidentiality of our customer’s information.

**RCG will never sell your personal information to anyone.** We will not use or distribute your personal information in any way without prior notification to you. We promise that we will uphold the privacy policies and procedures as set forth below.

### **Information we collect about our Customers**

- **RCG will not sell personal information regarding our current or former customers.**
- The personal information we collect from you comes from information you supply to us in account opening applications (whether written or electronic), or in other forms you may provide to us. This information may include your name, address, social security number or tax identification number, and financial information about you.
- Information regarding your transactions with us including your trading history at RCG, your history of meeting margin calls or your use of the various services and products that we provide.
- Information about your credit history and information we may receive from your introducing broker or associated person and other consumer reporting agencies.
- “Cookies” are small text files consisting of encrypted information assigned to a computer’s browser. Cookies do not collect or transmit your personal information. For users of the non-public areas of our website or electronic trading platforms that require a User ID or password, RCG may use cookies to identify you so that you do not have to input your password multiple times as you navigate our site. RCG may also use cookies for administrative purposes, such as to maintain security on our site.

### **Information we may share about our Customers**

- **RCG will not sell personal information regarding our current or former customers.**
- RCG may share personal information about our current and former customers with our affiliated companies and service providers around the world. (RCG affiliated companies include our subsidiaries and our guaranteed introducing brokers.) In either case, your personal information will remain subject to the strictest confidentiality protections.
- To the extent that we may engage unaffiliated companies to assist in providing services on our web site, such providers will be subject to stringent contractual requirements to maintain the confidentiality of any personal information they may obtain in connection with the performance of their services for us. We will make every effort to make sure that they receive the minimum amount of personal information necessary and will be allowed to retain that information only for as long as necessary in order to provide such services. Such service providers will only be allowed to use personal information in the course of providing services to RCG and only for the purposes that we authorize.

### **Information we may disclose**

- We may disclose information about current or former customers in order to cooperate with legal or regulatory authorities or pursuant to a court order or subpoena.

We may also disclose personal information as necessary to perform credit checks, collect debts, enforce our legal rights or otherwise protect our interests and property.

### **Security**

**RCG is committed to protection of your personal information and to protecting your privacy.**

- Only authorized RCG employees or agents will have access to your personal information. All of our employees, affiliates and service providers are held to the highest standards of privacy and security.

If this privacy policy changes you will be notified through the RCG web site or in other appropriate ways. If you have questions relating to this policy, please contact your RCG representative.

## **RCG Anti-Money Laundering Policy Statement**

---

Rosenthal Collins Group, LLC (RCG) recognizes that **The International Money Laundering Abatement and Anti-Terrorist Financing Act of 2001 (“Act”)** imposes important new obligations on all financial firms for the detection, deterrence and reporting of money laundering activities. Under the Act, money laundering is defined as any financial transaction using income derived from criminal activity including, but not limited to, drug trafficking, fraud, illegal gambling and terrorism. RCG has established the following policies to ensure thorough compliance with all laws and regulations regarding money laundering.

Prior to the opening of any new account, RCG shall document the identity, nature of business, income, source of assets, and investment objectives of each prospective customer. Accounts for persons or entities from countries that do not cooperate with the Financial Action Task Force (FATF) guidelines on money laundering shall be subject to a heightened level of scrutiny. Accounts in the name of, or related to, any person or entity on the Office of Foreign Asset Control (OFAC) Specially Designated Nationals and Blocked Person list shall not be permitted.

On an on-going basis, RCG shall review account activity for evidence of suspicious transactions that may be indicative of money laundering activities. This review may include surveillance of: 1) money flows into and out of accounts, 2) the origin and destination of wire transfers, 3) non-economic transactions, and 4) other activity outside the normal course of business.

Every officer, employee, and associated person (“AP”) of RCG shall be responsible for assisting in the firm’s efforts to uncover and report any activity that might constitute, indicate or raise suspicions of money laundering. To this end, RCG shall provide continuing education and training of all such persons.

Should any officer, employee or AP of RCG have any knowledge, suspicions or information regarding potential money laundering activities, that individual shall immediately notify RCG’s Compliance Department. RCG’s Compliance Officer shall document the reported activity, investigate fully, and, if warranted, report such activity to the senior management of RCG.

RCG shall comply with all trade and economic sanctions imposed by OFAC against targeted foreign countries and shall cooperate fully with government agencies, self-regulatory organizations and law enforcement officials. As provided by the Act, RCG may supply information about former, current or prospective customers to such bodies.

**Any officer, employee or AP who fails to comply with RCG’s policies and procedures on money laundering may be subject to disciplinary action, including termination of employment. In addition, such failure may expose the individual to civil and criminal penalties under the Act.**



**ROSENTHAL COLLINS GROUP LLC**

216 West Jackson Boulevard Suite 400 Chicago Illinois 60606

## Booklet D – Information and Agreements

Partnership and Limited Liability Company Accounts

---

Name of Partnership or LLC

---

Account Number

---

Account Executive

**To Open Your**

**Account at**

**RCG....**

**Instructions:**

**Booklet A** Read Booklet A carefully. There are no signatures required.  
Retain this booklet for future reference.

**Booklet D** Complete the Partnership/LLC Information Form.....(pages 3-4)  
Carefully read the Commodity Customer Agreement.....(pages 5-9)  
Read Signature Page, sign and date where required.....(page 10)  
Read Arbitration Agreement.....(page 11)  
Complete Combined W-9, W-8, and 1099-B (required).....(page 12)  
Account Transfer Authorization (if applicable).....(page 13)

If you have any questions concerning the opening of your account, please contact your Account Executive.

Welcome to RCG!

# Partnership/Limited Liability Company Information

To open a Partnership or LLC account, please complete the following:

## Information

Name of Partnership/LLC \_\_\_\_\_

\_\_\_\_\_

Name of Account \_\_\_\_\_

Address \_\_\_\_\_

\_\_\_\_\_

Mailing Address (A street address or rural route is required.)  
(PO boxes are not acceptable.)

\_\_\_\_\_

\_\_\_\_\_

Telephone \_\_\_\_\_

Fax \_\_\_\_\_

Tax ID Number \_\_\_\_\_

Date of Organization \_\_\_\_\_

State of Organization \_\_\_\_\_

Email Address \_\_\_\_\_

\_\_\_\_\_

Nature of business of the Partnership/LLC \_\_\_\_\_

\_\_\_\_\_

## **Confidential Information**

Current Bank/Money Market Accounts:

1-Name \_\_\_\_\_

Address \_\_\_\_\_

Contact/Phone \_\_\_\_\_

2-Name \_\_\_\_\_

Address \_\_\_\_\_

Contact/Phone \_\_\_\_\_

3. Annual Income of Partnership/LLC:

- |  |  |
|--|--|
| <input type="checkbox"/> under \$25,000          | <input type="checkbox"/> \$25,000 - \$50,000   |
| <input type="checkbox"/> \$50,000 - \$100,000    | <input type="checkbox"/> \$100,000 - \$250,000 |
| <input type="checkbox"/> \$250,000 - \$500,000   | <input type="checkbox"/> \$500,000 - \$750,000 |
| <input type="checkbox"/> \$750,000 - \$1,000,000 | <input type="checkbox"/> over \$1,000,000      |

## Partners / Members

Name \_\_\_\_\_

Title \_\_\_\_\_

Signature Specimen \_\_\_\_\_

Name \_\_\_\_\_

Title \_\_\_\_\_

Signature Specimen \_\_\_\_\_

Name \_\_\_\_\_

Title \_\_\_\_\_

Signature Specimen \_\_\_\_\_

Name \_\_\_\_\_

Title \_\_\_\_\_

Signature Specimen \_\_\_\_\_

## **Other Authorized Individuals**

Name \_\_\_\_\_

Position/Title \_\_\_\_\_

Authorized to: \_\_\_\_\_

Signature Specimen \_\_\_\_\_

Name \_\_\_\_\_

Position/Title \_\_\_\_\_

Authorized to: \_\_\_\_\_

Signature Specimen \_\_\_\_\_

If this is a foreign partnership or LLC you must attach a copy of a valid passport or other government ID for each partner, member or Power of Attorney holder with this application.

Other information:

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

**Confidential Information – (continued)**

4. Net Worth of Partnership/LLC:

- under \$25,000                       \$25,000 - \$50,000  
 \$50,000 - \$100,000               \$100,000 - \$250,000  
 \$250,000 - \$500,000               \$500,000 - \$1,000,000  
 \$1,000,000 - \$5,000,000         \$5,000,000 - \$10,000,000  
 Over \$10,000,000

5. Liquid Net Worth (describe)

\_\_\_\_\_

\_\_\_\_\_

Source of Assets (describe)

- Income  
 Investment  
 Other (describe)

\_\_\_\_\_

\_\_\_\_\_

6. Cash in Bank(s) \$ \_\_\_\_\_

Marketable Securities \$ \_\_\_\_\_

7. Other Assets of Partnership/LLC (describe)

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

8. Trading objective:     Speculation     Hedging

9. Does the Partnership/LLC now have, or did it ever have, an interest in a commodities account at RCG or another firm?

- Yes     No

Name of firm \_\_\_\_\_  open     closed

Name of firm \_\_\_\_\_  open     closed

10. Investment experience: Yes    (# of years)    No

Stocks/Bonds                                            \_\_\_\_\_                     

Funds                                                            \_\_\_\_\_                     

Commodities                                                    \_\_\_\_\_                     

11. Do the partners/members understand:

The risk of loss in futures trading?                       Yes                       No

The leverage provided in futures and options trading?                       Yes                       No

The possibility of incurring a debit balance?                       Yes                       No

That you may be required to deposit additional funds to margin your account?                       Yes                       No

12. Do any other person or entities:

Have a financial interest in this account?     Yes                       No

If yes, provide details: \_\_\_\_\_

\_\_\_\_\_

Control the trading of this account?                       Yes                       No

If yes, please obtain the "Power of Attorney" form from your Account Executive or from the RCG website.

13. Does the Partnership/LLC or its partners/members have pending, or have they ever had litigation, disputed accounts or unresolved matters with any futures or securities brokerage firm?

If yes, describe:

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

14. Is the Partnership/LLC or any of its partners/members now, or were they in the past, an NFA or NASD member? If yes, list registration and sponsor:

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

15. Are any of the partners/members related to anyone employed by RCG or your Introducing Broker? If yes, provide name and employer:

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

16. Is the Partnership/LLC or any of its partners or members a member of any exchange? If yes, please list name, exchange and membership status:

\_\_\_\_\_

\_\_\_\_\_

17. Do you wish to have your statements sent to you via email?

- Yes     No

If yes, please be advised that RCG will deliver confirmation of actual transactions and/or orders, purchase and sale notices, correction notices and statements of your account(s) by electronic mail (email). You agree that no printed copy of such daily or monthly information will be sent to you by regular mail. In the event you do not elect to receive your statements via email, your account may be charged a monthly statement fee.

Please complete the following information:

Email address: \_\_\_\_\_

# RCG Commodity Customer Agreement

In consideration of Rosenthal Collins Group, L.L.C. ("RCG") accepting your account and its agreement to act as your broker, you agree to the following with respect to any of your accounts with RCG for the purchase and sale of securities, monies, physical commodities, futures contracts, options on futures, foreign futures contracts, options on foreign futures, forward contracts and foreign exchange contracts (collectively referred to as "commodities" or "property"):

1. You represent that you are a validly existing partnership/limited liability company ("LLC") and the sole owner of your account(s) and that no other person or entity, except as disclosed herein, has any interest therein. You agree to notify RCG of the identity of any other person or entity who controls the trading of the account, has a financial interest of 10% or more in the account or the identity of any other account in which you control or have a 10% or more ownership interest. You shall maintain your account(s) in accordance with and shall be solely responsible for compliance with the rules, regulations and/or guidelines issued by any federal, state or administrative bodies having oversight or regulatory authority over your activities, and any statutes governing your activities. You also represent that the funds deposited into your account(s) are your own partnership/LLC funds and that no funds from any other person or entity will be deposited into your account. You understand that RCG is relying on the representations contained herein with regard to the manner in which RCG will carry your account, and you agree to notify RCG immediately in writing in the event that these circumstances change.

2. All transactions for your account(s) shall be subject to the regulations of all applicable federal, state and self-regulatory agencies including the constitution, rules and customs, as the same may be constituted from time to time, of the exchanges, market or place (and the clearing associations, if any) where executed, or if different, RCG's house rules. This paragraph is solely for RCG's protection and RCG's failure to comply with any such regulations, constitutions, rules and/or customs shall not be a breach of this Agreement and shall not relieve you of any obligations under this Agreement.

3. You agree not to exceed the position limits of any federal agency or exchange for your account(s), acting alone or in concert with others. You will promptly notify RCG of positions for which you are required to file reports with the Commodity Futures Trading Commission ("CFTC") or any exchange.

4. You understand that RCG has the sole and absolute discretion and the right to limit positions in your account(s), to decline to accept any orders and to require that your account(s) be transferred to another firm. You understand that if you do not promptly transfer your positions upon RCG's demand, RCG reserves the right to liquidate positions in your account(s) at its sole and absolute discretion.

5. You understand that RCG acts as your agent and not as principal for your commodity futures and commodity options transactions which are effected on exchanges. Consequently, RCG does not guarantee the performance of the obligations of any party to the futures or options

contracts purchased and/or sold by its clients. You understand that RCG may act as principal in certain cash, forward, foreign commodity and foreign exchange transactions.

6. Any property belonging to you or in which you have an interest, either individually or jointly with others, held by RCG or any of its subsidiaries or affiliates or carried in any of your sole or joint account(s) shall be subject to a general lien and security interest for the discharge of your obligations to RCG, wherever or however arising and without regard to whether or not RCG has made advances with respect to such property, and RCG is hereby authorized to sell and/or purchase any and all such property without notice to satisfy such general lien and security interest. You irrevocably appoint RCG as your attorney-in-fact with power of substitution to execute any documents for the perfection or registration of such general lien and security interest.

7. You agree to maintain such collateral and/or margin as RCG may from time to time, in its sole and absolute discretion, require and agree to pay immediately on demand any amount owing with respect to any of your accounts. Margin requirements may be increased at RCG's sole and absolute discretion and may differ from those established by the exchange on which the transaction is executed. Margin requirements are subject to change without notice and will be enforced retroactively and prospectively. You shall make deposits of margin as RCG requests within a reasonable time after such request. It is agreed and understood that one hour may be deemed to be a reasonable time; provided, however, that RCG, in its sole and absolute discretion, may request that deposits be made in a lesser period of time. RCG's failure to require satisfaction of a margin call within one hour, or any shorter time period, on any occasion shall not be deemed to be a waiver of its right to do so in the future. You shall provide RCG with the names of bank officers and information necessary for immediate verification of wire transfers.

**8. In the event you fail to deposit sufficient funds to pay for any commodities and/or to satisfy any demands for initial and/or variation margin, or whenever in RCG's sole and absolute discretion it considers it necessary, RCG may, without prior demand or notice and notwithstanding any rule of any exchange, liquidate the positions in your account(s), hedge and/or offset those positions in the cash market, by an exchange for physicals transaction or otherwise, sell any property belonging to you or in which you have an interest, cancel any open orders for the purchase and sale of any property, or borrow or buy any property required to make delivery against any sales, including a short sale, on an exchange or off an exchange, effected for you, all for your sole**

**account and risk.** Such sale or purchase may be public or private and may be made without advertising or notice to you and in such a manner as RCG may, in its sole and absolute discretion, determine, and no demands, tenders or notices which RCG may make or give shall invalidate your aforesaid waiver. You agree that RCG has no duty and is not required to liquidate positions in your account(s) and that the provisions of this paragraph are solely for the protection of RCG. The proceeds of such transactions, if any, are to be applied first to reduce any indebtedness owing by you to RCG and thereafter to your account.

9. RCG is authorized to transfer among your regulated commodity account(s) and any of your other account(s), including foreign secured account(s) and non-regulated account(s), and vice versa, such excess funds as may be required for any reason RCG deems appropriate in RCG's sole and absolute discretion. Any such transfer shall be in compliance with the Commodity Exchange Act. It is understood that within a reasonable time after making such transfer RCG will confirm the same to you in writing.

10. You acknowledge that you shall be liable for all losses in your account(s) whether or not your account(s) is liquidated and for any debts and deficiencies, including, but not limited to, interest, costs, expenses and attorneys' fees, including all debts and deficiencies resulting from a liquidation of your account(s).

11. You agree to pay storage and delivery charges and other service related fees charged to your account(s). You also agree to pay any give-up or give-in fees that may be charged by any executing firm or broker whom you or your agents have authorized to execute transactions for your account(s). You agree to pay such fees, brokerage and commission charges as RCG may impose or which may be imposed by any exchange or regulatory organization. Unless otherwise agreed, RCG may charge exchange, clearing, brokerage, transaction, NFA and any other transaction related fees as separate items for each transaction in your account(s). You understand that current NFA fees are \$.18 per each futures round turn and \$.09 per each option side and are charged pro-rata for Mid America Commodity Exchange contracts and such fees are subject to change without notice. You acknowledge that transactions on the Mid America Commodity Exchange may include a "changer fee" and the amount of such fee, if any, included in a transaction price will be provided upon request. In the event a debit balance occurs in your account(s), RCG shall be entitled to receive and charge to your account(s) interest at the greater of the following rates: twelve percent (12%) per year, or at the rate determined by adding one percent (1%) to the rate announced from time to time by Harris Trust and Savings Bank of Chicago or its successors or assigns as its prime commercial rate for the entire period that such debit shall exist. You agree that any and all interest earned on any available cash balances in your account(s) may accrue to, and may be retained by RCG. In the event that your account(s) is transferred to another futures commission merchant, a reasonable transfer charge in addition to commissions and fees may be imposed and charged against your account(s).

12. In the event of dissolution, liquidation, bankruptcy or any similar act, RCG may cancel or complete any open orders for the purchase or sale of any commodities, place orders for the sale of commodities which RCG may be carrying for you, buy any commodities of which your account(s) may be short, or any part thereof, under the same terms and conditions as hereinabove stated, without prior notice to your trustees and without prior demand upon any of them.

13. Written or electronically transmitted confirmation of actual transactions and/or orders, purchase and sales notices, correction notices and statements of your account(s) (collectively "statements") shall be conclusive and deemed ratified by you unless RCG shall receive oral notice from you to the contrary IMMEDIATELY upon your receipt thereof and thereafter confirmed by you in writing. In any event, such statements shall be conclusive and deemed ratified by you if not objected to in writing within SEVEN days after mailing or electronic transmission to you by RCG. In the event that you do not receive an electronic transmission of your statements or you fail to receive statements for your account(s) by mail within SEVEN days from the date of a transaction in your account(s), such transaction shall be conclusive and deemed ratified by you unless you notify RCG IMMEDIATELY in writing of your failure to receive such statements. Communications mailed or electronically transmitted to you at the address specified herein shall, until RCG receives notice in writing of a different address, be deemed to have been personally delivered to you and you agree to waive all claims resulting from failure to receive such communications. Oral notice shall be given to RCG by telephone at (312) 460-9200, Attention: Compliance Department. Written notice to RCG under this paragraph shall be sent to Rosenthal Collins Group, L.L.C., 216 West Jackson Boulevard, Suite 400, Chicago, Illinois 60606, Attention: Compliance Department. None of the provisions in this paragraph, however, will prevent RCG, upon discovery of any error or omission, from correcting it. You agree that such errors, whether resulting in profit or loss, will be corrected in your account(s), will be credited or debited so that it is in the same position it would have been in if the error had not occurred. Whenever a correction is made, RCG will promptly make written or electronic notification to you.

14. You acknowledge and agree that RCG may reduce all documentation evidencing your account(s), including the original signature documents executed by you in the opening of your account with RCG, utilizing a printed media storage device such as micro-fiche or optical disc imaging. You agree to permit the records stored by such printed media storage method to serve as a complete, true and genuine record of your account documents and signatures.

15. You understand that RCG is not responsible for any losses resulting directly or indirectly from any government restriction, exchange ruling, suspension of trading, actions of independent floor brokers, or other persons beyond RCG's control, clearing house failure, omnibus relationship failure, war, strike, national disaster or wire malfunction, delay in mails, electronic transmission or any other delay or

inaccuracy in the transmission of orders or the information because of a breakdown or failure of transmission or communication facilities. All price quotations, commodity information, or trade reports given to you are also subject to change and errors, as well as delays in reporting and you acknowledge that reliance upon such information is at your own risk. You understand that you are bound to the actual executions of transactions on the exchange(s) and that RCG is not bound by erroneous reports of executions transmitted to you.

16. You acknowledge that RCG is hereby specifically authorized for your account and benefit, from time to time and without notice to you, either separately or with others, to lend, pledge, repledge, hypothecate or rehypothecate, either to RCG or to others, any and all property, including, but not limited to, metals, warehouse receipts, securities or other negotiable instrument(s) held by RCG in any of your account(s) and RCG shall not at any time be required to deliver to you identical property, but may fulfill its obligations to you by delivery of property of the same kind and amount.

17. If you initiate a transaction on an exchange or in a market which margins or settles the position(s) in a currency different than the type held or deposited in your account(s), RCG shall have the right to convert such currency from one type to another (e.g. U.S. currency to foreign currency, foreign currency to U.S. currency, or foreign currency to another foreign currency) as RCG in its sole and absolute discretion may determine at an exchange rate determined by RCG in its discretion based on prevailing money markets. Any profit or loss from a fluctuation in the exchange rate of such currency will be for your sole account and risk. Unless you instruct RCG otherwise, monies you deposit with RCG in currency other than U.S. dollars and unrealized profits in currency other than U.S. dollars are not intended to margin, guarantee or secure transactions on United States contract markets.

**18. THIS INFORMATION IS FURNISHED TO YOU AND MUST BE ACKNOWLEDGED BY YOU IF YOU INTEND TO MAINTAIN FUNDS IN AN ACCOUNT DENOMINATED IN A FOREIGN CURRENCY WITH DEPOSITORIES LOCATED INSIDE OR OUTSIDE THE UNITED STATES BECAUSE YOU ARE DOMICILED IN A FOREIGN COUNTRY OR BECAUSE THE FUNDS ARE HELD IN CONNECTION WITH CONTRACTS PRICED AND SETTLED IN A FOREIGN CURRENCY.**

Funds of customers trading on United States contract markets may be held in accounts denominated in a foreign currency with depositories located outside the United States or its territories if you are domiciled in a foreign country or if the funds are held in connection with contracts priced and settled in a foreign currency. Such accounts are subject to the risk that events could occur which would hinder or prevent the availability of these funds for distribution to you. Such accounts also may be subject to foreign currency exchange rate risks.

You authorize the deposit of funds into such foreign depositories. If you are domiciled in the United States, this authorization permits the holding of funds in regulated

accounts offshore only if such funds are used to margin, guarantee, or secure positions in such contracts or accrue as a result of such positions.

In order to avoid the possible dilution of other customer funds, if you have funds held outside the United States you must further agree that any claims based on such funds will be subordinated as described below in the unlikely event **both** of the following conditions are met: (1) your futures commission merchant is placed in receivership or bankruptcy, and (2) there are insufficient funds available for distribution denominated in the foreign currency as to which you have a claim to satisfy all claims against those funds.

You agree that if both of the conditions listed above occur, your claim against the futures commission merchant's assets attributable to funds held overseas in a particular foreign currency may be satisfied out of segregated customer funds held in accounts denominated in dollars or other foreign currencies only after each customer whose funds are held in dollars or in such other foreign currencies receives its pro-rata portion of such funds. It is further agreed that in no event may a customer whose funds are held overseas receive more than his pro-rata share of the aggregate pool consisting of funds held in dollars, funds held in the particular foreign currency, and non-segregated assets of the futures commission merchant.

19. No provision of this Agreement can be amended or waived except in writing signed by a registered Principal of RCG. No oral agreements or instructions contrary to any provisions of this Agreement shall be recognized or enforceable. You agree to be bound by any amendments to this Agreement which you have not objected to in writing within three business days after receipt thereof. The failure of RCG to enforce, at any time, any provision of this Agreement shall not be construed to be a waiver of such provision and shall not in any way affect the validity of this Agreement or the right of RCG thereafter to enforce each and every provision of this Agreement. No waiver or amendment shall be implied from RCG's conduct, action or inaction.

20. You understand that some exchanges and clearing houses have established cut-off times for the tender of exercise instructions and that an option will become worthless if instructions are not received by RCG before such expiration time. You also understand that certain exchanges and clearing houses automatically exercise some "in-the-money" options unless instructed otherwise. You acknowledge full responsibility for taking action either to exercise or to prevent the automatic exercise of an option contract, as the case may be, and RCG is not required to take any action with respect to an option contract, including, without limitation, any action to exercise an option prior to its expiration date or to prevent its automatic exercise, except upon your express instructions. You further understand that RCG may establish exercise cut-off times which may be different from the times established by exchanges and clearing houses. You understand that all short option positions are subject to assignment at any time including positions established on the same day that exercises are assigned,

and assignment notices are allocated randomly from among all RCG's customers' short options positions which are subject to assignment.

21. This Agreement shall enure to the benefit of RCG's present organization, and any successor organization, irrespective of any change or changes at any time in the personnel thereof for any cause whatsoever, and to any of RCG's assigns. You agree that all of your rights and obligations under this Agreement shall not be assigned, transferred, sold or otherwise conveyed, and any such attempted assignment, transfer, sale or conveyance shall be null and void and of no force or effect. In any event, RCG may, subject to the applicable rules and regulations of the CFTC and the National Futures Association, assign this Agreement and transfer your account(s) to another duly registered futures commission merchant.

22. RCG is authorized to accept oral, telephonic or electronic (if the Electronic Trading Agreement has been executed) orders as you or your authorized agent may give for transactions in your account(s). You hereby waive any defense that such order was not in writing or evidenced by a memorandum in writing as required by the Statute of Frauds or any other statute. Although authorized, RCG is not required to accept oral, electronic or telephonic orders. RCG is further authorized to record, whether by tape, wire or other method, with or without a periodic tone signal, any and all telephonic or other oral communications between us, with or without notice thereof.

23. Should RCG become a party, without fault on RCG's part, to any action or proceeding arising out of your account(s) or orders given to RCG, you agree to indemnify and save RCG harmless therefrom and to pay RCG such attorneys' fees and costs incurred by RCG as the court or arbitration panel may determine. You shall further indemnify RCG and hold it harmless from and against any and all liabilities, losses, damages, costs and expenses, including attorneys' fees, which arise out of, or which in any manner or way whatsoever are related to any representation made by you in this Agreement, or by your failure to perform any of your agreements made herein, including, but not limited to, the failure to immediately pay any deficit balances which may arise in your account(s).

24. The undersigned, being all of the General Partners/Members of the Partnership/LLC identified in the Commodity Customer Agreement agree to be jointly and severally liable for all obligations assumed in or arising out of the Commodity Customer Agreement. Further, any one or more of the General Partners/Members shall have full authority to act on behalf of the Partnership/LLC as if (s)he alone were interested therein, all without notice to the others interested in said account and all for the account and risk of the Partnership/LLC. Such authority shall include, but is not limited to:

- (a) To designate a Managing General Partner/Member to enter into and execute a Commodity Customer Agreement and other account forms;
- (b) To buy, sell and trade in commodities (as such term is defined in the Commodity 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 RCG money, commodities, contracts for the purchase or sale of commodities, checks and other negotiable instruments, securities or other property;
- (d) To receive and acquiesce in the correctness of notices, confirmations, requests, demands and communications of every kind;
- (e) To settle, compromise, adjust and give releases with respect to any and all claims, demands, disputes and controversies, pending or contingent;
- (f) To make other agreements and take any other action relating to any of the foregoing matters, including but not limited to the grant of discretionary trading authority to other individuals or entities.

FURTHER, each General Partner/Member hereby appoints each and every other General Partner/Member as his/her agent and confers upon every other General Partner/Member and each of them, the broadest possible power with respect to the above grants of authority; and each General Partner/Member agrees to indemnify and hold RCG harmless against any and all claims that may arise by reason of its following any directions, instructions and orders given to it by any General Partner/Member in respect of any of the Partnership/LLC's accounts.

All property of any one or more of the General Partners/Members held or carried by RCG shall be held as collateral security and with a general lien thereon for the payment of all debits, losses or expenses incurred in the Partnership/LLC account and vice versa, however arising. In the event of death or legal incapacity of any of the General Partners/Members, the survivor(s) shall immediately give RCG notice and RCG may, before or after receiving such notice, take such actions, require such documents, retain such assets and/or restrict transactions as RCG deems advisable, in its sole and absolute discretion, to protect itself. Liability of the General Partners/Members hereunder shall pass to any estate or personal representative of the General Partners/Members.

The authority granted herein is in addition to other authority given to RCG by any or all of the General Partners/Members and is continuing and shall remain in full force and effect until RCG receives written notice of revocation or modification.

The undersigned, by signing this agreement, hereby confirm that the undersigned are authorized under the terms of the Partnership/LLC Agreement to enter into the types of transactions set forth above and to bind the Partnership/LLC.

25. You consent to RCG's "affiliated persons" (as defined in 17 C.F.R. 155 et seq., as amended) or any floor broker acting on behalf of RCG or its customers, taking, directly or indirectly, the other side of any order you place with RCG, in accordance with the rules of the applicable futures exchanges. You give your consent to any such floor broker.

26. You authorize RCG to verify information contained in your application and in other documents, which may be required in connection with this Agreement. You authorize all relative parties to provide to RCG any and all information and documentation that RCG requests, including but not limited to income, bank, money market or other similar account balances and credit history.

27. If you elect to receive confirmation statements of actual transactions and/or orders, purchase and sale notices, correction notices ("daily and monthly statements") of your account(s) by email by indicating such election in #16 of the Customer Information section herein, you agree that no printed copy of such daily or monthly information will be sent to you by mail or other means. This consent shall remain in effect until revoked by you in writing. In the event you do not elect to receive your statements via email, your account may be charged a monthly statement fee.

28. RCG, in its sole and absolute discretion and without notice, may delegate any of its rights, powers or duties under this Agreement to the introducing broker or futures commission merchant who introduced your account to RCG.

29. This Agreement has been made and delivered at Chicago, Illinois. Its validity, construction and enforcement shall be governed and construed in accordance with the substantive laws of the State of Illinois without reference to its principles of conflicts of law. This Agreement constitutes the entire understandings among the parties with respect to the subject matter hereof. Wherever possible, each portion of this Agreement shall be interpreted in such a manner to be valid and effective under applicable law, but if any provision of this Agreement shall be prohibited by or invalid under such law, such provision shall be ineffective to the extent of such prohibition or invalidity without invalidating the remainder of such provisions or the remaining provisions of this Agreement. YOU AGREE NOT TO COMMENCE ANY LEGAL OR ADMINISTRATIVE PROCEEDING AGAINST RCG UNTIL ANY DEFICIT BALANCE IN YOUR ACCOUNT (S) IS SATISFIED.

30. All actions, disputes, claims or proceedings, including but not limited to any arbitration proceeding, including National Futures Association ("NFA") arbitrations, arising directly or indirectly in connection with, out of, or related to or from the Customer Agreement, any other agreement between the Customer and RCG, or any orders entered or transactions effected for your account(s), whether or not initiated by RCG, shall be adjudicated only in courts or other dispute resolution forums whose situs is within the City of Chicago, State of Illinois, and you hereby specifically consent and submit 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 proceedings 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 the Customer Agreement between Customer and RCG may not be enforced in or by such court or arbitration proceeding.

BY SIGNING THE AGREEMENT CONTAINING THIS CONSENT TO JURISDICTION, CUSTOMER ACKNOWLEDGES ASSENT TO JURISDICTION AS SET FORTH ABOVE AND FURTHER ACKNOWLEDGES THAT THESE CLAUSES WERE FREELY AND KNOWINGLY NEGOTIATED BETWEEN THE PARTIES.

THIS COMMODITY CUSTOMER AGREEMENT CONTAINS A CONTRACTUAL AGREEMENT. DO NOT SIGN UNTIL YOU HAVE READ IT CAREFULLY. BY SIGNING IN THE SECTION PROVIDED THEREFOR, THE UNDERSIGNED REPRESENTS AND WARRANTS THAT ALL INFORMATION CONTAINED HEREIN, OR IN ANY OTHER ACCOUNT FORM OR OTHER DOCUMENT FROM THE UNDERSIGNED IS TRUE AND CORRECT AND THAT IF ANY CHANGES TO SUCH INFORMATION OCCUR, THE UNDERSIGNED WILL IMMEDIATELY INFORM RCG, IN WRITING, OF SUCH CHANGES. BY SIGNING BELOW, THE UNDERSIGNED ACKNOWLEDGES THAT CUSTOMER HAS READ AND UNDERSTANDS ALL OF THE TERMS AND CONDITIONS OF THE COMMODITY CUSTOMER AGREEMENT AND SHALL BE BOUND BY THEM.

# THIS IS A CONTRACTUAL AGREEMENT. PLEASE READ IT CAREFULLY BEFORE SIGNING.

BY SIGNING THIS AGREEMENT YOU REPRESENT AND WARRANT TO RCG THAT ALL INFORMATION CONTAINED HEREIN OR IN ANY OTHER ACCOUNT FORM IS TRUE AND ACCURATE, AND THAT YOU SHALL INFORM RCG IN WRITING OF ANY CHANGES TO SUCH INFORMATION WHEN SUCH CHANGES OCCUR. I (WE) HEREBY REQUEST THAT RCG OPEN A COMMODITY TRADING ACCOUNT IN THE NAME(S) SET FORTH IN THIS APPLICATION. I (WE) HAVE READ AND UNDERSTOOD THE TERMS AND CONDITIONS OF THE CUSTOMER AGREEMENT GOVERNING THE ACCOUNT AND AGREE TO BE BOUND BY THEM AS CURRENTLY IN EFFECT.

Name of Partnership/LLC \_\_\_\_\_

**Note: All General Partners/Members must sign this Agreement.**

X \_\_\_\_\_  
General Partner/Member

X \_\_\_\_\_  
General Partner/Member

\_\_\_\_\_  
Date

\_\_\_\_\_  
Date

X \_\_\_\_\_  
General Partner/Member

X \_\_\_\_\_  
General Partner/Member

\_\_\_\_\_  
Date

\_\_\_\_\_  
Date

## ACKNOWLEDGEMENT OF RECEIPT OF RISK DISCLOSURE STATEMENT FOR FUTURES AND OPTIONS

### CUSTOMER ACKNOWLEDGEMENT:

We hereby acknowledge that we have received and understood the Risk Disclosure Statement for Futures and Options (Appendix A to CFTC Rule 1.55(c)) set forth in Booklet A on pages 4 and 5.

X \_\_\_\_\_  
General Partner/Member

X \_\_\_\_\_  
General Partner/Member

\_\_\_\_\_  
Date

\_\_\_\_\_  
Date

X \_\_\_\_\_  
General Partner/Member

X \_\_\_\_\_  
General Partner/Member

\_\_\_\_\_  
Date

\_\_\_\_\_  
Date

**CURRENT PARTNERSHIP/LLC AGREEMENT MUST ACCOMPANY THIS AGREEMENT**

# **Arbitration Agreement**

---

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 WHICH YOU OR ROSENTHAL COLLINS GROUP, L.L.C. ("RCG") MAY SUBMIT TO ARBITRATION UNDER THIS AGREEMENT. YOU ARE NOT, HOWEVER, WAIVING YOUR RIGHT TO ELECT INSTEAD TO PETITION THE CFTC TO INSTITUTE REPARATIONS 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 RCG 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 AGREEMENT TO OPEN AN ACCOUNT WITH RCG. (See 17CFR 180.1-180.5)

Name of Partnership/LLC \_\_\_\_\_

X \_\_\_\_\_  
General Partner/Member

X \_\_\_\_\_  
General Partner/Member

\_\_\_\_\_  
Date

\_\_\_\_\_  
Date

**BACKUP WITHHOLDING and TRANSACTION REPORTING REQUIREMENTS  
COMBINED W-9, W-8, and 1099-B CERTIFICATIONS**

Name \_\_\_\_\_

Address \_\_\_\_\_

**WARNING**

Unless you complete EITHER the W-9 or the W-8 Sections, i.e., you fail to furnish us with the correct taxpayer identification number or an exemption certificate as a "Foreign Person," we must generally withhold 20% of withdrawals and payments from your account. If this account is exempt from REPORTING on Form 1099-B, complete the 1099-B Section.

**W-9 Section**

Payer's  
Request  
for  
Identification  
Number

**Part I**—For United States Citizens, Legal Entities or Residents. Taxpayer Identification Number. For most individual taxpayers, the taxpayer identification number is the social security number.  
NOTICE: For individual, joint, custodian and sole proprietorship the social security number is to be used.

**Part II**—Initial the box if you are NOT subject to backup withholding under the provision of section 3406(a)(1)(C) of the Internal Revenue code.

Social Security Number \_\_\_\_\_ - \_\_\_\_\_ - \_\_\_\_\_

Initial here \_\_\_\_\_

**OR**

Employer Identification Number \_\_\_\_\_ - \_\_\_\_\_

**OR**

**W-8 Section**

Foreign Person Exemption Initial here \_\_\_\_\_ if this is the account of an EXEMPT FOREIGN PERSON meeting each of the following requirements:

1. You are neither a citizen nor a resident of the United States;
2. You have not been nor plan to be in the U.S. for a period aggregating 183 or more days during the calendar year; and
3. You do not expect to engage in trade or business in the United States with respect to which any gain derived from transactions effected by the broker during that calendar year is effectively connected.

If your mailing address is within the United States, please provide your non-United States address below:

Name \_\_\_\_\_

Street \_\_\_\_\_

City \_\_\_\_\_ Country \_\_\_\_\_

**1099-B**

**CERTIFICATE OF EXEMPTION FROM REPORTING OF SECURITIES AND COMMODITIES TRANSACTIONS**

Please complete this section if this account is exempt from the Internal Revenue Service regulations which require that RCG report the account's Commodity and Security transactions on Form 1099-B.

Check category under which exemption is claimed; **Foreign Persons – Complete W-8 above.**

- Corporation, Domestic
- Corporation, Foreign
- Tax Exempt Entity, Section 501(a)
- Foreign Person, SEE W-8 SECTION ABOVE
- Individual Retirement Plan
- Other \_\_\_\_\_

- Trusts taxed as Corporation
- Bank Common Trust
- Entity registered under the Investment Company Act of 1940
- Real Estate Investment Trust

**CERTIFICATION**

Under the penalties of perjury, I certify that the information provided on this form is true, correct, and complete for Sections W-9 or W-8 and 1099-B (if applicable).

Signature \_\_\_\_\_

Date \_\_\_\_\_

Title (when appropriate) \_\_\_\_\_

Signature \_\_\_\_\_

Date \_\_\_\_\_

Title (when appropriate) \_\_\_\_\_

# Account Transfer Authorization

TO: CURRENT BROKERAGE HOUSE: Account # \_\_\_\_\_  
\_\_\_\_\_  
Account Name \_\_\_\_\_  
\_\_\_\_\_  
Clearing Firm \_\_\_\_\_  
\_\_\_\_\_

Ladies and Gentlemen:

We have this day given Rosenthal Collins Group, L.L.C. ("RCG") this form and our permission for them to present it to you at their discretion. In accordance with the Commodity Exchange Act, we hereby demand that upon presentation to you by RCG, you do the following:

Immediately confirm our account balance, and any and all open futures and option positions; margins or securities to RCG and, upon RCG's acceptance and further instructions, immediately transfer our account balance, and any and all open futures and option positions, margins or securities to:

Rosenthal Collins Group, L.L.C.  
Attention: Back Office Manager  
216 West Jackson Boulevard - Suite 400  
Chicago, Illinois 60606

You are further authorized and directed to deliver to RCG, at the above address, photocopies of our Account Agreement, including, but not limited to, all Risk Disclosures signed by us which are currently in your possession.

Very truly yours,

\_\_\_\_\_  
Name of Partnership/LLC

\_\_\_\_\_  
Date

\_\_\_\_\_  
General Partner/Member

\_\_\_\_\_  
General Partner/Member

\_\_\_\_\_  
Address

\_\_\_\_\_  
City, State, Zip

**PLEASE ATTACH A COPY OF A CURRENT ACCOUNT STATEMENT**