

# BUX

by



**ABN-AMRO**

## Risk Disclosure

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BUX B.V. is a private limited liability company (besloten vennootschap met beperkte aansprakelijkheid) with its statutory seat in Amsterdam, the Netherlands, registered with the Trade Register of the Dutch Chamber of Commerce in Amsterdam under number 58403949. BUX B.V. is authorised as an investment firm and supervised as such by the Dutch Authority for the Financial Markets (AFM).

# 1 Introduction

Whatever product you choose for your investments, there is always an associated risk for trading this product. The value of investments can go up as well as down and you may receive back less than your original investment or lose your entire investment. Investments for which you expect high returns often lead to higher risks as well. Keep these risks in mind when trading and try to trade with care.

This document is aimed at providing an overview of the specific risks involved in trading shares. The list is aimed at providing an overview that is as good and complete as possible, but is not collectively exhaustive. Therefore, it is always important to be aware of the fact that there are risks involved in trading and you should consider carefully if you are prepared to and can afford to run these risks.

Before opening an investment account with BUX it's important that you are aware of the involved risks and agree that you have read and understand these risks. Please read this document carefully before continuing the on-boarding process for opening an investment account for shares with BUX.

## 2 General Risks of investing with BUX

### **Market risk**

Market risk is the risk of the value of the shares you invested in declining due to market circumstances and factors that affect the overall performance of the financial markets.

### **Price risk**

Shares can fluctuate in price. Price risk is the risk of a decline in the price of a share and it is mainly influenced by the performance of the company you invested in and developments in the sector in which that company is active.

### **Bankruptcy risk**

When a company you invested in defaults, your shares lose their value. In this case there is a clear risk of losing (part of) your investment and not getting back your invested amount.

### **Geographic risk**

The political and economic stability of the country in which the company you invested in is established and/or active, can have an influence on the price of the shares. If a country becomes unstable, this can lead to increased risks.

### **Liquidity risk**

Liquidity risk is the risk of limited marketability. The liquidity of a share depends on the volume of outstanding shares available for trade (the free float) and the volume of the transactions in that share. If the market is not sufficiently liquid, you run the risk of being unable to sell your shares or being unable to do so for a reasonable price.

### **Currency exchange risk**

Currency exchange risk occurs when you trade in other currencies than the euro. If the exchange rate of the other currency compared to the euro changes, this will impact the value of your investment.

### **Timing Risk (applies to Zero Order)**

Timing Risk applies to Zero Orders only. Zero Orders are orders which are executed during an execution window. Due to the inherent nature of a moving market, it is likely that the execution price will differ from the price at the moment of instructing the Zero Order.

### **Delisting risk**

Delisting risk is the risk of a financial instrument being delisted from any of the markets that BUX is affiliated with. Delisting of a financial instrument can result in the loss of the entire value of the financial instrument. Delisting can also result in that the financial instrument is only tradeable at the OTC market. As BUX is not affiliated with any OTC market, it will not be able to facilitate any trades on the OTC market.

## **3 Specific Risks of investing in ETFs**

### **Stock Lending risk**

ETFs that use physical replication have the most transparent structure. The stocks are actually held in the ETF. However, physical ETFs may lend these stocks (known as stock lending) to generate additional returns for the fund. While this generates additional income for the fund, it does create counterparty risk just like synthetic replication.

### **Counterparty Risk**

Under a full replication strategy, an ETF generally aims to invest in all constituent stocks/assets with the same weightings as its benchmark. Under a representative sampling strategy, an ETF invests in some, but not all the relevant constituent stocks/assets. However, even for ETFs that invest directly in the underlying assets rather than through synthetic instruments issued by third parties, there still exists a counterparty risk, as mentioned in the “Stock Lending risk” section above.

### **Tracking Error**

This is the disparity between the performance of the ETF and the performance of the underlying benchmark. Tracking error may arise due to various factors such as, but not limited to, the following:

- Changes in the composition of the underlying benchmark or type of ETF (e.g. physical vs. synthetic)
- Failure of the ETF's tracking strategy
- Impact of fees and expenses
- Foreign exchange differences between the base currency or trading currency of the ETF and the currencies of the underlying investments
- Active management strategies (e.g. smart beta)

### **Active management**

Some actively managed ETFs may follow a focused objective rather than simply track an index. These ETFs typically aim to outperform the market or benchmark index and rely on portfolio managers to actively choose which stocks to buy and sell. As a result, investors in these ETFs are exposed to increased volatility and the risk of human decision making. Further, there is no assurance that these ETFs will achieve their investment objectives.

## 4 Specific Risks of investing in ETCs

Exchange Traded Commodities (ETCs) are an alternative for investors wanting exposure to commodities or single markets. Investing in ETCs will create exposure to individual commodities or a basket of goods through an index-related ETC. Examples of ETCs are the possibility to invest in commodities like gold, natural gas, oil, metals, energy, pigs and more.

### Counterparty Risk

ETCs are traded on the stock exchange just like ETFs and offer the same advantages to investors. An important difference between ETCs and stocks and/or ETFs is that the capital invested in an ETC is not a fund asset that is protected in case of insolvency of the issuer. In fact an ETC is a bond loan from the ETC provider. Investing in an ETC creates an issuer risk/counterparty risk. In the case of an ETC as compared to an ETF, issuers of ETC's rely on different methods of collateralisation for the minimisation of this risk. It is important to understand the risks associated with making an investment in an ETC and have sufficient financial resources to sustain any loss that may arise.

Investments in ETCs involve numerous risks including, among others, general market risks relating to the relevant commodities, exchange rate risks, interest rate risks, inflationary risks, liquidity risks and legal and regulatory risks.

### Commodity Volatility and Liquidity Risk

The value of an ETC may be affected by market volatility and the volatility of the underlying Index and the value of any investment may go down as well as up. Although ETCs are exchange-traded there is liquidity risk associated with an investment in ETCs during periods of increased volatility. No market may exist for ETCs and there may be delays in the execution of trades and wider than usual margins may arise during volatile time periods.

### Tracking Error/Market Risk/FX Risk

As ETCs are designed to track market returns, the performance of an ETC is linked to either one of two factors: the spot commodity price or the futures price. The spot commodity price is the current price for delivery whereas the futures price is for delivery at a future date. ETCs may be priced in a foreign currency and the value of an investment in currencies other than the investor's home currency will be affected by exchange rate movements.

ETCs are exposed to market risk. This means that if the underlying commodity price that is being tracked drops in value, the ETC will equally suffer a loss, while if the underlying commodity price being tracked increases in value then the ETC will experience a gain. Commodity prices strongly react, among other things, to economic factors such as changes in supply and demand relationships, weather conditions and other natural events, the agricultural, trade, fiscal, monetary and other policies of governments and other unforeseeable events all of which may affect an investment in ETCs.

Investments in ETC securities will not accrue any interest or pay any dividend like ETFs and performance is subject to the deduction of the annual product fee. An investment in an ETC is dependent on the performance of the underlying index or underlying asset less costs but an investment is not expected to match that performance precisely. Investing in ETC securities will not make an investor the owner of the ETC relevant underlying commodity.

## 5 Specific Risks of investing via Investment Plan

Because you select a time in the future for when your investments will occur, there can be significant price, market and FX movement between enrollment (in the plan) and execution (of trades).

## 6 Specific Risks of investing in Fractions

BUX's fractional trading allows you to purchase shares in Euro amounts. Please be advised that trading in fractional shares has unique risks and limitations that you should understand before investing in fractional shares.

- **Rounding.** BUX rounds all fractional holdings to six decimal places. For all notional based orders, your transaction will never exceed the order amount. Rounding may also affect your ability to be credited for cash dividends, stock dividends and stock splits. For example, if you own 0.000001 shares of stock that pays a one cent dividend per-share, we will not credit your cash balance a fraction of a cent.
- **No Limit Orders.** BUX will only accept market orders for fractional shares. This means that orders will be executed at the market price at that moment the order reaches the market. The market can be in this case a Regulated Market, MTF and Systematic Internalizer.
- **Execution.** BUX will comply in all respects with "best execution" on all orders executed through BUX in line with its regulatory requirements. This means that each order that contains a whole number of shares, order will be routed via the smart order router of an executing broker. The fractional share component will be executed at the market price with ABN AMRO Clearing Bank as counterparty. The execution price of the fractional part of a share will likely be the same as the execution price of the whole number of shares.
- **Transfer of Fractional Shares.** Fractional shares are not transferable. If you close your account, the fractional shares held in your account will need to be liquidated.
- **Voting Rights.** The fractional share does not exist outside the BUX administration. This means BUX will be rounding down to the nearest whole share for the total number of eligible shares for voting purposes.

## 7 Specific Risks of Stock Lending

### **Borrower default risk**

You have mandated BUX to facilitate the lending of Your Financial Instruments for Your risk and Your account. Under this mandate, your Financial Instruments will be Lent, via BUX, to one or more third parties (Borrowers).

During the Lending period, legal title to the Lent Financial Instruments is transferred to the Borrowers. Financial Instruments which have been borrowed by a Borrower from You will not fall under the asset segregation structure of BUX. Instead, You have a claim via BUX against the Borrower for redelivery of the Financial Instruments that have been Lent. Those Borrowers must also provide collateral to BUX to secure their obligation to redeliver the relevant Financial Instruments. This collateral will be held by Stichting BUX Collateral.

You run a default risk on the Borrower. If the Borrower would become insolvent, it may be unable to return the Lent Financial Instruments to You. There may also be other circumstances in which the Borrower is unable to return the Lent Financial Instruments to You.

If the Borrower is, for whatever reason, unable to redeliver the Lent Financial Instruments, Stichting BUX Collateral will apply the collateral it holds to acquire equivalent Financial Instruments, which will then be delivered to you. Although BUX will monitor on an ongoing basis whether the amount of collateral is sufficient to meet the Borrower's obligations in connection with the Lent Financial Instruments, it is possible that the execution value of the collateral turns out to be lower than expected. If the execution value is insufficient, there is a possibility that you will not receive back all of your Financial Instruments.

If the Borrower would become insolvent at a moment on which (a) it has already borrowed the Lent Financial Instruments, and (b) the Stichting BUX Collateral has not yet received the relevant collateral, you will have an unsecured claim via BUX in the Borrower's bankruptcy estate. In this specific situation it is unlikely that you will receive back all of your Financial Instruments. You will not have any recourse against BUX in connection with the Lent Financial Instruments.

### **Repurchase risk**

In the event that the Borrower cannot meet its obligations in relation to the Lent Financial Instruments, Stichting BUX Collateral will apply the collateral it holds to buy equivalent Financial Instruments in the market. There is a risk that the value of the collateral may be insufficient to buy back all the Financial Instruments on the market. If the market price increases during the liquidation process, it is highly likely that the collateral may prove to be insufficient and you run the risk of a loss.

### **Selling risk**

As set out above, the lending of your Financial Instruments does not affect your ability to sell those Financial Instruments on the market. However, under exceptional market circumstances, such as an unexpected high amount of sell orders by BUX clients, it is possible that you will not be able to sell your Lent Financial Instruments within the timeframe desired by you.

### **Timing risk**

In the event that Stichting BUX Collateral would need to use the collateral which the Borrower provided, to meet the Borrower's obligations in connection with the Lent Financial Instruments, there will be a period of time between (i) the moment when Stichting BUX Collateral starts to use the collateral to acquire equivalent Financial Instruments, and (ii) the moment when equivalent Financial Instruments are delivered to you. It is likely that you will during this period be unable to sell the Lent Financial Instruments concerned.

### **Price risk**

Aside from whether the Financial Instruments are Lent or not, you are always exposed to price risk on the Financial Instruments. The price of Financial Instruments rises and falls, this risk continues to exist.

### **Operational and third party risks**

In order for BUX to facilitate Lending Your Financial Instruments and receive collateral from Borrowers for Your Risk and Your Account, it has entered into certain services arrangements with

professional parties with vast experience in lending Financial Instruments. These professional parties may from time to time provide administrative, custodial/collateral and other services that are ancillary (hereafter: Ancillary Services) to the Lending services provided by BUX. If BUX or such professional parties would go insolvent, default or for other reasons no longer be able to perform such Ancillary Services or in case of faults in the provision of such Ancillary Services, there is a risk that the return of your Lent Financial Instruments, the receipt and monitoring of collateral received from Borrowers and other aspects of Lending are delayed or otherwise negatively impacted.

## **8 Extended Trading Hours**

You should consider the following points before engaging in trading during the extended trading hours. “Extended trading hours” for US stocks implies trading from 07:00 ET to 09:30 ET and 16:00 ET to 22:00 ET. Time is indicated in Eastern Time (ET).

### **Risk of Lower Liquidity**

Liquidity is important because with more liquidity it is easier to buy or sell stocks, and as a result, you are more likely to pay or receive a competitive price for stocks bought or sold. It is very likely that during the extended trading hours, the liquidity is lower in comparison to regular trading hours (during which markets are open). As a result, your order in extended trading hours may only be partially executed, not executed at all, or may receive inferior pricing.

### **Risk of Higher Volatility**

During extended trading hours, the volatility of stocks may be greater, which may lead to greater price swings. As a result, your order may only be partially executed, not executed at all, or you may receive an inferior price when you invest during extended trading hours than you would during regular trading hours.

### **Risk of Changing Prices**

The prices of stocks traded in extended trading hours may not reflect the prices in regular trading hours. As a result, you may receive an inferior price in extended trading hours.

### **Risk of Unlinked Markets**

Depending on the extended trading hours of a particular stock exchange or the time of day, the prices displayed on a particular extended trading hours venue may not reflect the prices in other operating extended trading hours venues dealing in the same stocks. Accordingly, you may receive a price in one extended trading hours venue that is worse than the price you would receive in another extended trading hours venue.

### **Risk of News Announcements**

Companies make news announcements that may affect the price of their stocks after regular trading hours. Financial news is often announced outside of regular trading hours. In extended trading hours, these announcements may occur during trading, and combined with lower liquidity and higher volatility, these announcements may cause a sharp effect on the price of a security.

### **Risk of Wider Spreads**

The spread refers to the difference between the price at which a stock can be purchased and the price at which it can be sold. Lower liquidity and higher volatility in extended trading hours may result in wider than normal spreads for a particular stock.

### **Market Orders**

Market Orders (including all fractional orders) placed during extended trading hours will contain a collar, meaning a maximum price away from the last trade price at the time the order was entered. The Market Orders will be (partially) executed or cancelled.

### **Fractional Orders**

Certain (or all) stocks are not eligible for fractional trading during extended trading hours. During extended trading hours, orders in such stocks may be placed for whole shares or you may start ordering at the opening of regular trading hours.