Information regarding trading in financial instruments

Fearnley Securities AS

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Fearnley Securities AS

Office Oslo:
Dronning Eufemias gate 8
0191 Oslo

Mailing adress:
P.O. Box 1158 Sentrum
N-0107 Oslo

Telephone: +47 22 93 60 00
Web: fearnleysecurities.com

As a client, you must be aware that:

- trading in financial instruments takes place at your own risk.
- before starting to trade in financial instruments, you must carefully study Fearnley Securities' general business terms and conditions as well as any other relevant information on the financial instrument in question and its characteristics and risks.
- you must immediately scrutinise the contract note and submit any complaints regarding errors.
- you are responsible for monitoring changes in the value of the financial instruments in which you have invested.
- you must regularly assess your investments and make the necessary changes to adapt these to your investment strategy and risk profile.

1. Definitions

Financial instruments. This is a generic term for the assets and liabilities that are traded in the securities market, derivative market and in part currency market and is further defined in the Norwegian Securities Trading Act.

Regulated market. A regulated market is a market for the sale of financial instruments. A regulated market has a licence and is subject to a number of rules and obligations.

Stock exchange. A stock exchange is a regulated market that has a special licence to operate as a stock exchange and is entitled to use the term "stock exchange" in or in addition to its name.

Multilateral Trading Facility (MTF). An MTF is not a regulated market; it is a trading venue for the sale of financial instruments. All investment firms that meet the objective requirements set by the MTF may trade on the MTF. Operating an MTF requires a licence.

Organised Trading Facility (OTF). An OTF is not a regulated market, it is a trading venue for bonds, structured financial instruments, emission quotas and derivatives. Operating an OTF requires a licence.

Systematic Internaliser (SI). An investment firm that carries out extensive own-account trading in financial instruments with clients must register as an SI for the financial instrument in question. An SI is obliged to offer binding bid and ask prices and to notify its clients of these.

Dark pool. A marketplace where participants can submit orders that are not shown in the order book but are automatically matched if another participant submits a corresponding order. There is often a requirement that such orders must be a minimum size and that matching must automatically take place at the mid-price, i.e. the average of the best bid and ask prices in the open order book. Some dark pools also allow investors to submit their orders to the pool themselves. The legislation stipulates a limit on the percentage of the sales in one listed share that can be traded in one single dark pool (4% of the total volume) over a certain period and the percentage that can be traded in total in dark pools (8% of the total volume) over a certain period.

Underlying assets/underlying financial instrument(s). These are the assets or financial instruments that a derivative contract gives the parties the rights and obligations to buy or sell or that the parties have agreed to base a monetary settlement on.

Option. A contract that gives one party (the Holder) for a limited period a right but no obligation to buy (a Call Option) or sell (a Put Option) an agreed volume of financial instruments at a predetermined price from/to the other party (the Writer).

Forward/futures contract. A contract according to which both the buyer and seller agree that an agreed volume of financial instruments will be transferred from the seller to the buyer at an agreed price on an agreed date that is further into the future than the normal settlement period for the underlying financial instrument covered by the contract.

Price swap. A contract linked to an agreed volume of financial instruments, a settlement price (the swap price) and a settlement date, and according to which the underlying financial instruments are not to be delivered but there is instead to be a monetary settlement based on the difference between the swap price and the market price on the expiration date.

Contract for difference (CFD). A contract according to which both the buyer and seller are bound to agree to a monetary settlement of the price developments of an agreed volume of one or a group of financial

instruments, indices, currencies or similar. The buyer of a CFD makes a gain if the price rises and a loss if the price falls. A CFD does not have a predetermined expiration date but the buyer may close the position at any time.
Credit Default Swap (CDS). A contract which provides a buyer with an insurance against the issuer of a debt obligation being unable to settle the debt, in whole or in part, on the settlement date.
Index option/index futures contract. A contract where the underlying asset is an index value, not a security. Such a contract is not settled t by delivering financial instruments but by calculating the contract's monetary value.
Short sale. The sale of financial instruments that a party does not own, but has borrowed to carry out settlement on time. The financial instruments are bought at a later date and handed back to the lender. A short sale where the seller has not borrowed the underlying financial instruments is called a naked short sale and is illegal in Norway.
Securities swap. A combination of short and long positions in (at least) two financial instruments, in which the change in the price of one of the instruments (the long position) is netted against the change in the price of the other instrument (the short position) with respect to shares, government bonds and credit default swaps (CDS).
Exercising an option means demanding the trading of the underlying financial instrument in accordance with the option contract. Normally, the Holder may demand the partial exercise of the option while the option is maintained for the residual quantity.
The expiration date. The date when either a demand to exercise the option must be put forward or the option lapses as being worthless. The expiration date for a forward/futures contract is the date when the contract is changed into a trade with an ordinary settlement period for the delivery of an underlying financial instrument in return for payment of the purchase price.
The settlement date. The date when a forward/futures contract, option or price swap is finally settled by the underlying financial instruments being delivered in return for the agreed purchase price, or the monetary settlement falling due for payment. The settlement date is normally three stock market days after the expiration date.
American option. An option that the Holder may demand to exercise, in whole or in part, at any time prior to the agreed time on the expiration date.
European option. An option that the Holder may only demand to exercise on the expiration date.
Spot price/rate. The price at which the security is traded at for normal delivery on the second stock market day after the trading date.
Strike price/rate. The agreed price or rate for the exercise of an option.
Forward/futures price/rate. The agreed price or rate for the settlement of a forward/futures contract.
Swap price/rate. The agreed price(s) or rate(s) to be used when settling the individual elements in a swap.
Option premium. The amount the Holder has paid the Writer to purchase an option.
Hedge shares/hedge. If the seller of an option, forward/futures contract or swap does not want to have any price risk, he/she buys or short sells a quantity of the underlying securities so that any increase in the value of the sold derivative is offset against a corresponding increase in the value of the underlying securities. The securities that in this way protect the issuer against a price risk are often called hedge shares or a hedge.
NIBOR interest rate. An interest rate that is calculated by the Oslo Stock Exchange according to rules determined by Finance Norway and states the market interest rate for unsecured loans in NOK. The interest rate is determined daily for various terms to maturity.
Interest rate risk. The risk of the financial instrument that the client invests in falling in value due to changes in the market interest rate.
Credit risk. The risk of an issuer or a counterparty being unable or less able to pay.
Clearing. The function as a counterparty between the parties to derivatives contracts or share trades that guarantees that the parties will receive settlement for the contract/trade.

2. Trading in Financial instruments

Trading in financial instruments, such as shares, equity certificates, bonds, certificates, derivatives or other rights and obligations intended for trading in the securities market, normally takes place in an organised form in a trading system.
Trading takes place through the investment firms that use the trading system. As a client, you must normally contact such an investment firm in order to buy or sell financial instruments. There are also investment firms that forward orders to another investment firm that then uses the trading system. Trading may also take place internally in an investment firm, for example by the investment firm becoming the counterparty to the trade or through a trade with another of the investment firm's clients (internal trade).
In a ***regulated market,*** financial instruments can be ***listed***. That means that the instruments are approved for trading and the marketplace monitors that the company which has issued the financial instruments meets the requirements linked to the listing. Shares, equity certificates, bonds, certificates, some fund units and derivatives linked to financial instruments are traded on the Euronext Oslo Stock Exchange.
Trading in listed financial instruments may take place in regulated markets, on an MTF or OTF, in a dark pool or through an SI.
Information on the prices of the financial instruments traded on a regulated market is published regularly on the marketplace's website, in newspapers and/or through other media.

2.1 Share trading

Shares in a limited company entitle the owner to a percentage of the company's share capital. The share entitles the owner to a percentage of the dividends or other amounts distributed by the company. Shares also provide a ***right to vote*** at the general meeting, which is the company's supreme decision-making body. The more shares an owner has, the larger the owner's percentage normally is of the capital, dividend and votes. The right to vote may vary depending on the share category. There are two types of limited company in Norway, a ***public limited company*** (ASA) and a ***private limited company*** (AS).
Only shares issued by a public limited company (ASA) or a corresponding foreign entity can be listed on a stock exchange in Norway. In addition, there are requirements as to the company's size, business history and ownership spread and the publication of the company's finances and other operations.
Less stringent rules often apply to listing on regulated markets that are not stock exchanges.
In Norway, there are currently two ***regulated markets*** for trading in shares: Euronext Oslo Stock Exchange and Euronext Expand Oslo. Only the Euronext Oslo Stock Exchange has a ***stock exchange*** licence (www. Euronext.com). Euronext Expand Oslo is overall subject to the same rules as the Euronext Oslo Stock Exchange as regards follow-up, monitoring and the sanctioning of breaches of the regulations.
Shares may be listed on more regulated markets, so-called secondary listings. Several Norwegian companies have secondary listings on foreign regulated markets.

Trading in Norwegian shares also takes place on a number of MTFs. Several Norwegian companies are listed on Euronext Growth, that is an MTF and managed by Euronext Oslo Stock Exchange.
Trading in shares that are not listed on a regulated market or traded on an MTF takes place in the so-called OTC market. Here, trading takes place to a large extent based on information about prices and interests that the brokerage firms disclose to each other. In Norway, the brokerage firms can enter interest in buying or selling shares in a trading support system run by NOTC AS, a company owned by Euronext Oslo Stock Exchange. The brokerage firms then enter into agreements to buy/sell over the phone. The companies registered on this list must publish price-relevant information in the NOTC's trading-support system. For more information on the NOTC List, refer to www.notc.no.
If a share is not listed on a regulated market or traded on an MTF and does not have buy and sell interests published in a trading support system, it will normally be sold by the brokerage firm trying to assist the client by contacting other clients who may be interested in becoming a counterparty. Investments in this type of shares entail a considerable liquidity risk and significant uncertainty regarding the determination of the price.

Trading in a regulated market or other trading system comprises the ***secondary market*** for shares and equity certificates that a company has already issued. In addition, the NOTC List functions as a secondary market for shares. If the secondary market functions well, i.e. if it is easy to find buyers and sellers and the offer prices

from buyers and sellers and final prices of completed trades are continuously registered, companies benefit from the fact that it is easier to issue new shares and thus raise more capital for the company's operations. The ***primary market*** is the market where new issues of shares, equity certificates and bonds are offered/subscribed for.

Shares registered on a regulated market or other trading system are normally divided into various groups depending on the company's market value or liquidity. On the Euronext Oslo Stock Exchange, the most important OBX indexes includes the 25 most liquid shares, and the OSEBX includes approximately 65-70 most liquid shares.

The daily key prices at which the shares are traded, such as "highest", "lowest" and "last", as well as information on the volume traded, are published in the financial press and on various websites run by marketplaces, investment firms and information vendors to the financial industry, among other places. The relevance of this price information may vary, depending on the way in which it is published.

There are various ***classes*** of shares, usually A and B shares, and these are normally important for the exercise of voting rights at the company's general meeting. Class A shares normally entitle the holder to one vote, while class B shares usually entitle the holder to a restricted voting right or no voting rights at all. The differences in voting rights may, for example, be due to the fact that, in conjunction with a diversification of ownership, the company wants to protect the original founders' and owners' influence over the company by giving these parties stronger voting rights.

A share's ***nominal value*** is the amount of the company's share capital that the share represents. The sum of all the shares in a company multiplied by the nominal value of each share constitutes the company's share capital. Occasionally, companies change the nominal value, for example because the market price of the share has risen significantly. By dividing each share into two or more shares, a so-called ***split***, both the nominal value and price of the share are reduced. However, after a split the shareholder's capital remains the same but is divided into a greater number of shares, each of which has a lower nominal value and price.

Conversely, a ***reverse share split*** may be carried out if, for example, the share price falls dramatically. In such a case, two or more shares are consolidated to form one share. Following a reverse share split, the shareholder's capital remains unchanged but is divided into fewer shares, each of which has a higher nominal value and higher price.

A ***stock exchange introduction*** means that shares in a limited company are listed and admitted for trading on a regulated market. In connection with this, the general public may be invited to ***subscribe for*** (buy) shares in the company. The listing is normally motivated by the company wanting better access to the capital market and improved opportunities for trading in the company's shares.

An ***acquisition*** normally involves an investor or investors inviting the shareholders of a company to sell their shares on certain terms. A buyer that obtains 90% or more of the share capital and votes in the company can petition for the ***compulsory purchase*** of the remaining shares from those shareholders that have not accepted the acquisition offer.

A mandatory bid obligation arises when a shareholder becomes such a dominant owner that he can take control over a company. The Securities Trading Act states that this takes place when a shareholder becomes the owner of, or in some other way controls, more than one third of the shares in the company. A mandatory bid obligation arises once more if the dominant owner controls more than 40% and 50% of the shares. Anyone that exceeds such a limit and does not reduce his shareholding to below the limit again as quickly as possible, is obliged to make an unconditional offer to all the company's shareholders to buy their shares at the highest price that the bidder has paid in a given period.

Share issues raise new capital for a company. If a limited company wants to expand its operations, it often requires additional capital. It raises this by issuing new shares through a share issue. The main rule in the

Norwegian Private Limited Companies Act is that existing shareholders have a pre-emptive right to subscribe for shares in the share issue. The number of shares that can be subscribed for is in such case determined by the number of shares already owned by the shareholder and the company issues subscription rights to existing shareholders. The subscriber must pay a price (the issue price) for the new shares. This price is normally lower than the market price. The subscription rights will therefore have a certain market value and the price of the shares normally drops correspondingly after the subscription rights have been detached from the shares. Shareholders who have subscription rights but do not subscribe for shares, may during the subscription period (which in a rights issue must be at least two weeks), sell their subscription rights on the marketplace where the shares are listed. After the expiry of the subscription period and allotment of the shares, the subscription rights expire and are thus useless and worthless.

A limited company can also carry out a so-called ***private placement***, which is a share issue directed solely at a limited group of investors. In order to carry out a private placement, the shareholders must have decided to relinquish their pre-emptive rights to the new shares at a general meeting. Private placements often take place according to an authorisations given to the company's board by the general meeting. In the case of a private placement, the existing shareholders' percentages of the votes and share capital in the company are ***diluted***. Depending on the market conditions, companies will normally offer a subsequent offering towards existing shareholders that didn't participate in the private placement to equalize the diluted effects.

2.2 Share-like instruments

Equity certificates, convertible bonds/debentures and depositary receipts may have similar properties to shares. These types of financial instruments are traded on regulated markets, but can also be traded on the OTC market.

Equity certificates are very similar to shares. The difference is primarily related to the ownership of the company's assets and influence over the issuer's corporate bodies. There are also some restrictions on the distribution of dividend. The listed equity certificates in Norway are issued by savings banks. More information on equity certificates is available at www.sparebankforeningen.no.

Convertible bonds/debentures are interest-bearing securities which may be exchanged for new issued shares, within a certain period of time and at an agreed price. A convertible bond/debenture is both an interest-rate instrument and a call option. When the conversion rate is much higher than the share's market price, a convertible bond/debenture is normally priced in the same way as any other interest-rate instrument. If the opposite is true, the price of the convertible bond/debenture will reflect both the option value and interest element. In both cases, the price is expressed as a percentage of the nominal value of the convertible bond/debenture.

Depositary receipts are a financial instrument that gives the holder all the rights of an owner to an underlying financial instrument that is registered with a custodian. A depositary receipt is normally traded in the same way as the underlying financial instrument.

2.3 Interest-bearing financial instruments

An interest-bearing financial instrument is a claim against the issuer of a loan that has not yet fallen due. The return is normally provided in the form of ***interest (coupon***). There are different types of interest-bearing instruments, depending on who the issuer is, the *security* that the issuer has provided for the loan, the *term to maturity* and how interest is paid.

Instruments with a term to maturity of one year or less are often called certificates, while instruments with a longer term to maturity are called bonds.
Many interest-bearing instruments are assessed by independent analysis firms, so-called credit rating agencies. Such an assessment, called a **rating**, is intended to express the default risk on the issuing entity and the rated instrument.

The interest (coupon) is normally paid as either a fixed or floating interest rate. The interest on a fixed-interest loan applies to the entire term of the loan. The interest on a floating-interest loan is normally set (fixed) four times a year for three months at a time based on the NIBOR interest rate and an agreed interest-rate mark-up (interest spread). The interest spread is fixed for the entire term of the loan unless it has been agreed that certain events are to trigger a change. It is not unusual for it to be agreed that the interest spread for loans that are not rated is to change if the loan achieves a predetermined satisfactory rating.

On certain types of loans, no interest is payable and only the nominal amount is repaid on the loan’s maturity date (zero coupons). The purchase of zero-coupon bonds takes place at a considerable discount, which means that the effective interest rate is the same as for bonds on which a regular coupon rate is paid. For example, all the debts that the Norwegian state issues in Treasury bills (government certificates) are zero-coupon instruments.

The interest that a borrower must pay is linked to the market's assessment of the risk of the debt being defaulted on. It is normal to classify loans in two main groups: High Yield and Investment Grade. Interest-bearing securities that credit rating agencies classify as being lower than **bbb** or the equivalent are considered to be more likely to be defaulted on and are therefore classified as high yield securities.

A number of bonds are listed on a stock exchange. The reporting of trades in these financial instruments takes place, like listed shares, on a regulated market. In addition, the Euronext Oslo Stock Exchange offers an alternative marketplace for trading in bonds and certificates that are not listed on a stock exchange – the ***Alternative Bond Market*** (ABM). The ABM is a separate marketplace that is not regulated by, or subject to a licence, pursuant to the Norwegian Stock Exchange Act but is administered and organised by the Euronext Oslo Stock Exchange.

Bonds are normally traded in a different way to shares. In practice, the interest and currency market are regarded as a ***quoting*** or ***price-driven market***, unlike the stock market which is an order-driven market.

2.4 Derivative instruments

Derivative instruments are contracts that can be traded on the capital market for financial instruments. The derivative instrument is linked to an underlying financial instrument or an underlying index value. Derivatives can also have other types of underlying value, such as a currency or commodity, or indices for these. Such derivatives are called currency derivatives or commodity derivatives and are by nature similar to derivatives based on financial instruments. Below, the main focus will be on derivatives based on financial instruments.

Derivative instruments may be used for many different purposes:

- to protect against negative developments in the price of owned financial instruments.
- to achieve a gain on changed market prices without having to own or short sell the underlying financial instrument.
- to achieve a gain or return with a smaller capital investment than that required to carry out a corresponding direct trade in the underlying financial instrument.
- to agree on the sale of securities with settlement in the future.

The price of a call option or a forward/future will usually fluctuate in the same direction as the underlying financial instrument. Investments in derivatives will therefore to a large extent be based on the same assessments as investments in the underlying financial instruments, but an investment in a derivative will produce a risk profile that is different to that of a direct investment.
Investors in the derivatives market can also speculate in changes to secondary parameters that affect the price of the derivative, such as interest-rate changes and the volatility in the market.
In Norway, standardised derivatives are traded on the Oslo Stock Exchange. Derivatives with Norwegian shares and indices as underlying values are also traded on other marketplaces, including the NASDAQ OMX.

Trading in unlisted derivatives takes place on the so-called OTC market. Trading on this market takes place to a large extent on the basis of information regarding prices and interests that the brokerage firms notify each other of. It is also common for the brokerage firms to carry out own-trading in OTC derivatives and to offer prices and act as counterparties to their clients.

The most common derivatives are options, warrants and forwards.

Share options give the Holder the right to buy or sell a share. Acquired (bought) purchase options (call options) give the owner the right to buy, within a certain period, already issued shares at a predetermined price (strike price). Acquired (bought) sales options (put options) give the owner the right to sell shares within a certain period at a predetermined price (strike price). There is an ***issued/written*** (sold) option corresponding to each ***acquired*** option. The issuer/writer has obligation when contract is exercised. The writer will be assigned (must buy or sell as required by contract).

Index options provide a gain or loss linked to in the value of the underlying index and are settled by a cash payment of the difference between the strike price and market price when this difference is in the buyer's favour.
The price of options (premium/price) normally follows changes in the price of the option's underlying shares or index.

Call options with a longer term to maturity than standardised call options are called ***warrants***. Warrants may be used to buy underlying shares or to provide a cash settlement if a gain has been achieved as a result of the price of the underlying share being higher than the agreed future purchase price/selling price. Many exchange-traded warrants are issued by investment firms or banks as part of their derivative operations. Warrants can also be issued by the company itself. Such warrants are exercised by the company issuing new shares or selling shares it owns itself.