

## Barrier Options Disclosure

To our barrier option customers:

Barrier options are complex instruments with unusual risks. We view any barrier option you enter into with us as an arm's length transaction, and we assume that you have taken adequate steps to inform yourself of the characteristics of barrier options and the barrier options market. The following are UBS's practices with respect to barrier options.

### 1. **Barrier options.**

UBS defines a barrier option as an option the terms of which change in some pre-defined manner when a barrier event occurs. A "barrier event" is a transaction in the relevant currency pair occurring in the spot market at a rate that is at or beyond a certain pre-specified level (generically called the "barrier price").

For example, a knock out option is one that terminates before its scheduled expiration if a spot transaction occurs that is at or beyond the outstrike price.

There are many specific types of barrier options, including the knock out option, the double knock out option, the knock in option, the lock out option, the double lock out option, the lock in option, the step payment option and others. In particular cases, the barrier price may be called the outstrike price, the in strike price, the trigger price, etc., depending on the type of barrier option.

### 2. **Criteria for the occurrence of a barrier event**

UBS, acting as barrier determination agent, determines that a barrier event has occurred when it observes a transaction in the spot market that meets the following criteria:

- (a) the transaction takes place between:
  - (i) two independent counterparties through the brokers market;
  - (ii) UBS and an independent counterparty through the brokers market; or
  - (iii) UBS and an independent counterparty dealing direct.

In cases (ii) and (iii) the transaction can be initiated by either party.
- (b) the transaction occurs at a rate that is at or beyond the barrier price;
- (c) the transaction does not take place at an off-market rate. An "off-market rate" is defined as a rate that is substantially more favorable or substantially less favorable than the rate available to a professional spot dealer in the interbank spot market at the time of the transaction; and
- (d) the transaction is in an amount that is not less than the equivalent of three million USD (In certain circumstances two or more consecutive transactions in an aggregate amount of 3 million USD or more may be deemed to be a single transaction for purposes of these criteria.)

In the case of a barrier option in an illiquid currency pair A/B (i.e., a pair in which spot transactions are few and irregular), UBS may determine whether a barrier event has occurred by observing a transaction in the currency pair meeting all the criteria above, or alternatively by observing two spot transactions, one in which currency A is traded against a third currency C, and the other in which C is traded against B, and calculating from these the implied rate of exchange for A/B. Such spot transactions must be reasonably close together in time and meet all the criteria above

(except 2(b)).

If there is a dispute over the determination of a barrier event, UBS will furnish evidence of the observed spot transaction (or transactions).

Spot transactions that UBS does not observe and could not observe from sources regularly available to it in the ordinary course of its business cannot be the basis for barrier event determination.

**3. A barrier event does not require the execution of a specific order.**

A barrier event does not require the execution of an order placed by the seller or the buyer of the option at the barrier price. A barrier event is simply a transaction meeting the criteria set out in Section 2 above. It is thus possible for a barrier event to occur even though an order placed by you or by UBS at the Barrier Price remains unfilled.

**4. UBS generally hedges its barrier option positions.**

UBS generally hedges its barrier option positions with spot, forwards and options, though it may not always do so. UBS reserves the right to leave a barrier option position unhedged, partially hedged or fully hedged, and to adjust the hedge from time to time in any manner it sees fit.

**5. UBS may unwind its hedge in anticipation of a barrier event.**

If UBS has decided to maintain a spot hedge on a barrier option position, it will need to unwind the spot hedge when a barrier event occurs. Unwinding the hedge typically consists of buying or selling a quantity of the currency to which UBS is exposed, thereby flattening its position. It may not be possible to unwind a hedge in a single transaction timed to coincide with the barrier event. In order to achieve an average fill as close to the barrier price as possible, UBS may therefore at times anticipate the barrier event and begin unwinding its hedge before the barrier event occurs. This activity may affect the probability that a barrier event will occur.

**6. UBS is an active participant in the interbank spot and option market.**

UBS is an active participant in the interbank spot and option market as a dealer, proprietary trader and agent for its customers, and therefore at any given time it may be engaging in currency or currency derivative transactions. Such transactions may affect the probability that a barrier event will occur.

**7. UBS does not act as adviser to its barrier option clients.**

While UBS provides its clients with information and explanations as to the terms and conditions of barrier options, it does not act as a fiduciary for or an adviser to its barrier option clients. No communication from UBS should be construed as investment advice, or as a recommendation to enter into any barrier option, or as an assurance or guarantee as to the expected results of a barrier option.

If you have any questions, we would be happy to discuss them with you.