Risks Associated with Global Markets Products

Commonwealth Bank of Australia

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Risks Associated with Global Markets Products | 14.3A.5 COBS

This document is designed to provide a general description of the nature and risks associated with financial instruments offered by CBA Global Markets based products and services to meet the Financial Conduct Authority's (FCA) 14.3A.5 of the Conduct of Business Sourcebook (COBS). The risks described are a general warning about financial markets & instruments to enable clients to obtain a reasonable understanding with regards to investment decision making.

The following risks and products will be detailed in this document:

- Market Risk
- Credit Risk
- Operational Risk
- Legal Risk
- Country Risk
- Exchange Rate Risk
- Liquidity Risk
- Psychological Risk
- Term Deposit
- Bonds
- Foreign Exchange
- Commodities
- Interest Rates

General Risks

Market Risk

Market Risk is the possibility of an investor experiencing gains/losses due to factors that affect the overall performance of the financial markets in which the investor is involved. Market risk is very broad in nature and could include examples (but not limited to) such as natural disasters, political announcements, trade tariffs and national security issues.

Credit Risk

Credit risk is common to all financial markets products that you may hold with the Bank. In all cases, you are reliant on the ability of the bank to meet its obligations to you under the terms of each transaction. This risk is sometimes described as counterparty risk.

Operational Risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or external events. You are reliant on the ability of the Bank to price and settle your transaction in a timely and accurate manner. The Bank in turn is dependent on the reliability of its own operational processes that include communications, computers and computer networks. Disruptions in the Bank's processes may lead to delays in the execution and settlement of your transaction. Such disruptions may results in contractual outcomes that are less favourable to you.

Legal Risk

Australia, as a member state of the United Nations, is obliged to implement United Nations Security Council sanctions. Australia also may be required to implement other international sanctions and sometimes imposes unilateral sanctions. Sanctions can cover various subject matters including financial restrictions. Consequently, the Bank may be prohibited from dealing with certain persons or entities. This means that if the Bank is aware that you are a proscribed person or entity, then the Bank may be required to suspend, cancel or refuse you services or close or terminate any account, facility, transaction, arrangement or agreement with you. This may be at a significant cost to you.

Country Risk

Country risk is where a foreign debtor may be unable to pay interest or repay debts upon maturity or even completely defaults debts due to the unavailability of the foreign currency or to currency exchange controls triggered, for instance, by economic, political or social instability in the relevant country.

Exchange Rate Risk

Exchange rate risk, also known as currency risk, is prevalent where financial instruments are held in foreign currency. Fluctuations in exchange rate markets may generate profits or losses or changes in value of the financial instruments held by the investor. Exchange rates may be influenced by domestic and foreign interest rates, inflation, economic activity, political landscape and market psychology.

Liquidity Risk

Liquidity refers to the ability of an investor to buy or sell a financial instrument in the marketplace. Levels of liquidity impact the value of financial instruments as markets can become 'illiquid' where the amount of buyers or sellers are extremely low.

Psychological Risk

Market sentiment and interpretation can impact the value of financial instruments. Examples of this (but not limited to) could include rumours, political opinion or historical tendencies.

For further information please visit:

https://www.isda.org/a/nE8EE/ISDA-General-Disclosure-Statement-March-2018.pdf

Product Risks

Term Deposits

Cash deposits attracting a fixed interest rate return upon which principal and interest earnings will be returned to the investor on a specified date. Advantages of a term deposit is a predetermined outcome, stable returns and high level of security. Risks associated with this product are inflation risk, exchange rate & interest rate risk and counterparty risk. Early redemption of the deposit may attract a cost to the investor.

Bonds

A bond is a certificate or evidence of a debt on which the issuing company or government body promises to pay the bondholders a specified amount of interest for a specified length of time. Upon maturity, the debt is repaid by the issuer to the investor. Bondholders are entitled to periodic interest payments generally known as coupons with the interest rate predetermined. Risks associated with this product are issuer default and interest rate risk.

Foreign Exchange

Foreign exchange risk is the potential change in value of an underlying asset due to exchange rate movements. A decrease or an increase of exchange rates can cause, as the case may be, a fall or a rise in the value of the financial instrument, where the financial instrument is denominated in foreign currency. Associated foreign exchange products such as FX Forwards, Swaps & Options are instruments used to mitigate such risks.

https://www.isda.org/a/NJCEE/ISDA-FX-Risk-Disclosure-October-30-2018.pdf

Commodities

Commodity risk refers to the uncertainties of future market values and of the size of the future income, caused by the fluctuation in the prices of commodities. The commodities suite covers agriculture, energy, metals and other globally traded inputs. Associated products such as Futures, Forwards, Swaps and Options are instruments used to mitigate such risks.

https://www.isda.org/a/lRiDE/isda-commodity-derivatives-disclosure.pdf

Interest Rates

Changes in interest rates will impact the value of financial instruments. Interest rate hedging products including forward rate agreements, swaps and options are utilised to minimise exposure to rate movements.

https://www.isda.org/a/tE8EE/ISDA-interest-rate-derivatives-disclosure-annex-March-2018.pdf