

Informative Material on Financial Instruments

I Non-complex Financial Instruments

Non-complex financial instruments are financial instruments determined in sub-clauses a)-e) of Article 126²(12)(1) of the Financial Instrument Market Law:

- a) shares admitted to trading on a regulated market of a Member State or a market of a foreign state considered as equivalent, or in the multilateral trading system, except for shares embedding a derivative instrument;
- b) bonds or other debt instruments admitted to trading on a regulated market of a Member State or a market of a foreign state considered as equivalent, or in the multilateral trading system, except for those embedding a derivative instrument or incorporating a structure making it difficult for the Customer to understand the risk associated with the respective financial instrument;
- c) money market instruments, except for those embedding a derivative instrument or incorporating a structure making it difficult for the Customer to understand the risk associated with the respective financial instrument;
- d) investment certificates or units in UCITS funds, except for structured UCITS funds, as stipulated in Paragraph two of Article 36(1) of Regulation (EU) No. 583/2010;
- e) structured deposits, except for those incorporating a structure making it difficult for the Customer to understand the risk associated with structured deposits and return or costs of early exiting the product;
- f) other non-complex financial instruments complying with the following criteria:
 - they are not derivative financial instruments;
 - they comply with criteria a)-f) determined in Article 57 of Regulation (EU) No. 2017/565:
 - they do not fall within clause c) of Article 4(1)(44) of Directive 2014/65/EU or clauses 4-11 of Section C of Annex I thereto;
 - there are frequent opportunities to dispose of, redeem, or otherwise sell those instruments at prices that are publicly available to market participants and that are either market prices or prices made available, or validated, by valuation systems independent of the issuer;
 - they do not involve any actual or potential liability for the Customer that exceeds the cost of acquiring the instrument;
 - they do not incorporate a clause, condition, or trigger that could fundamentally alter the nature or risk of the investment, or, for instance, investments that incorporate the right to convert the instrument into a different instrument;
 - they do not include any explicit or implicit exit charges that have the effect of making the investment illiquid even though there are technically frequent opportunities to dispose of, redeem, or otherwise realise it;
 - appropriate information on its characteristics is publicly available and is likely to be readily understood so as to enable the average retail Customer to make an informed judgement as to whether to enter into a transaction in that instrument.

Examples of financial instruments that are considered as **non-complex financial instruments**:

- shares admitted to trading on EU trading venues or trading venues considered as equivalent;
- bonds admitted to trading on EU trading venues or trading venues considered as equivalent;
- promissory notes and other debt instruments;
- money market instruments;
- money market open UCITS funds that do not embed a derivative instrument;
- fixed income debt instruments admitted to trading on EU trading venues or trading venues considered as equivalent (except for bonds or debt instruments embedding derivative financial instruments);
- UCITS funds that do not embed a derivative instrument;
- open bonds UCITS funds that do not embed a derivative instrument;
- open balanced UCITS funds that do not embed a derivative instrument;
- open shares UCITS funds that do not embed a derivative instrument;
- other open UCITS funds that do not embed a derivative instrument.

II Financial Instruments Not Considered as Non-complex

Financial instruments independent of the risk and profit profile and other characteristics of products, which are difficult to assess and require additional special knowledge and experience in performing transactions in financial instruments, **are not considered** as non-complex financial instruments:

- a) those are derivative financial instruments (derivatives) or financial instruments embedding a certain derivative;
- g) they are formed by one or several underlying financial assets that are difficult to assess; they might be joined so as to hinder the assessment of actual and potential risks and capacity scenarios;
- h) they mostly use less transparent indices, such as those created by the product manufacturer, than standard market indices;
- i) they have an unusual or unknown underlying asset;
- j) they have a fixed investment term for several years with certain impediments for the early termination of the transaction (conditions of the transaction are unclear and can mislead customers), or they are related to the deficiencies of the secondary market, or significant fines or losses, if the person wishes to terminate the transaction early;
- k) no pay-off date or term is set for them;
- l) they incorporate returns / pay-off structures embedding several varying or complex mathematical formulas;
- m) they include capital protection that might be conditional or partial, or that can be revoked on a certain condition;
- n) financial instruments admitted to trading outside the EU regulated market, EU markets considered as non-equivalent (for example, shares admitted to trading on the regulated market of Great Britain or Ukraine);
- o) a depositary receipt against a certain number of shares;
- p) combined financial instruments embedding various types of financial instruments;
- q) financial instruments secured by assets and other structured instruments embedding a derivative or incorporating a structure making it difficult for the investor to understand the product's risks;
- r) (structured covered bonds (deposits)) embedding a derivative or incorporating a structure making it difficult for the investor to understand the product's risk;
- s) (structured deposits) incorporating a structure making it difficult for the Customer to understand the costs of early termination;

- t) their profitability depends on the return on the particular set (portfolio) of assets;
- u) their repayment depends on the repayment of debts held by other persons;
- v) in cases when the issuer has the freedom to act to change the cash flow of the instrument / other conditions of the instrument;
- w) with leverage functions.

Examples of financial instruments not considered as non-complex financial instruments:

- contracts for difference (CFD) (such as stock-traded products that are contracts for difference or structured debt instruments embedding derivative financial instruments and financial 'difference rates');
- binary options;
- indexed bonds and turbo certificates;
- exchangeable bonds;
- puttable bonds;
- transferrable bonds;
- convertible bonds;
- bonds with a possibility of conversion;
- perpetual bonds;
- subordinated bonds;
- warranty option agreement;
- certificates;
- derivatives linked to underlying debt instruments, currencies, interest rates, profitability or goods;
- loan-linked promissory notes;
- loan-linked bonds;
- debt instruments secured by assets;
- bonds with the right of the issuer to redeem before maturity and bonds with the right of the investor to request early termination;
- other convertible shares, convertible financial instruments;
- convertible priority shares;
- money market instruments, bonds and other debts converted into debt instruments, embedding a certain derivative (loan-linked promissory notes, structured financial instruments the activity of which is linked to the activity of bond index, structured financial instruments the activity of which is linked to the activity of the basket of assets (set of various assets) with or without asset management, structured instruments with a fully guaranteed nominal value, the activity of which is linked to the activity of the basket of assets with or without asset management);
- SWAP transactions with the physical delivery of the underlying asset;
- Forward transactions with the physical delivery of the underlying asset;
- investment certificates of closed-end investment funds;
- other investment certificates of investment funds, funds not included in UCITS funds;
- interest rate swaps;
- interest rate swap (IRS);
- NDF (non-deliverable forwards);
- marginal currency transactions;
- stock marginal transactions – transactions with stock derivative financial instruments (futures and options for futures);
- OTC transactions – transactions in OTC derivative financial instruments;
- OTC SWAPS;
- REPO transactions, REVERSE REPO transactions;
- transactions with the granting of broker's loan (margin loan) – opening of short positions;

- options transactions;
- other financial instruments with a complex structure.

This material is of purely general informative nature and cannot be considered as an offer, consultation or recommendation on buying, holding or selling financial instruments referred to herein.

Should any questions or certainties arise with regard to the information included herein, please contact the Bank by phone at +371 67 35 90 28 by e-mail to rd@ribbank.com

Sources:

[Financial Instrument Market Law](#)

[MiFID practices for firms selling complex products \(07.02.2014 ESMA/2014/146\)](#)

[MiFID complex and non-complex financial instruments for the purposes of the Directive's appropriateness requirements \(3.11.2009 CESR/09-559\)](#)