# Equity options
## Information sheet

Financial instruments are all types of instruments that are intended to be traded on the securities market. They can be divided into complex and non-complex instruments. Before you trade in a financial instrument, we are required to ascertain whether you have sufficient knowledge and experience to understand the properties and risks involved in trading in financial instruments. Below is some information about the most important qualities and risks associated with a type of instrument in which you have shown an interest. If you do not have sufficient knowledge and experience, we recommend that you do not trade in this instrument.

### Introduction

An equity option is a common type of derivative whose value is linked to the performance of an underlying equity or an equity index. Equity options can be used to speculate on the price movement of a specific equity or equity index. They can also be used to protect a holding of equities against a drop in value, or to lock in profits. Equity options are categorized as complex financial instruments.

An equity option is an agreement of an equity trade in the future that always has a fixed term. The use of equity options is based on a certain view of the price movement of the underlying asset during a certain period in time. Options offer potential for returns regardless of whether the stock market rises, falls or stands still. It all depends on the strategy you choose and how you expect the market to develop.

The price of an equity option is based on the underlying equity or equity index. But it can also be influenced by other factors such as the remaining term, interest rate fluctuations and volatility (equity price fluctuation) of the underlying asset.

Derivative instruments require less capital than directly investing in the underlying asset. The potential returns from a derivative instrument are often higher than the potential returns from the underlying asset, but there is also a significantly higher risk of the investment losing some or all of its value.

When options are issued, you will be required to pledge collateral. The collaterals could be holdings on your custody account or the account connected to your custody account. The requirement for collateral may change in line with changes in volatility or the price of the underlying asset.

Derivative instruments vary in regard to their risk level and the factors that affect the financial outcome. It is therefore important that you understand what applies to the specific derivative you intend to trade in.

### How equity options work

An equity option is an agreement between two parties that entitles the buyer (holder) to buy (call option) or sell (put option) an underlying equity at a predetermined price (strike price) during a set period or at a set date (by the end of the termination date). The buyer of the option pays a premium to the seller for this right. The maximum amount the buyer can lose is the premium paid.

If the underlying equity price on the termination date is lower than or equal to the strike price (call option) or higher than or equal to the strike price (put option), the option falls due and is worthless and all the invested capital is lost.

The seller (issuer) of an equity option has an obligation to sell (call option) or buy (put option) the underlying equity at a predetermined price during a set period or at a set date (by the end of the termination date). If you issue an option, you always get to keep the premium, but your profit can never be greater than that. However the loss might be significant because you are obliged to sell (call option) or buy (put option) the equities at the strike price if the underlying equity price on the termination date is higher (call option) or lower (put option) than the strike price. In certain cases, the loss is potentially unlimited.

An equity index option has the same underlying structure and function as an equity option, with the difference that no underlying securities are delivered. In cases where equity index options have a value on the termination date, the difference between the index level and the strike price is settled in cash.

Options can be combined to increase or reduce the investment risk. Options can also be combined with forwards or futures.

### For whom are equity options suitable?

Equity options are suitable if you want to speculate on the price movement of a specific equity, or to protect a holding of equities against a drop in value of a specific equity.

Equity index options are suitable if you want to speculate on the price movement of a specific equity index, or to protect a portfolio against price movements.

### Trading in equity options

Equity options are traded on a regulated market or stock exchange according to established regulations. To trade in equity options, you must have a custody account and a cash account. You must also sign an OMX Customer Agreement (derivathandelsavtal) via SEB.

### Types of options

**Standardized options** are traded in Sweden on the Nasdaq OMX (Stockholm Stock Exchange). They are standardized with regard to underlying assets, quantity, term and strike price, and can be redeemed at any time during the term of the option. Most equity options traded via SEB are standardized options.

**OTC options** are traded between two or more parties, and the parties decide all the conditions, such as the strike price, the underlying instruments or the termination date.

**Subscription options** are usually issued by a limited company together with a promissory note. The holder of a subscription option is entitled to subscribe to new equities during specific periods. The number of equities the holder can buy depends on the terms of the subscription option.

### Risk

In relation to options, the term risk refers to the probability of the option decreasing in value. A higher risk often means a greater opportunity for a high return, but at the same time the risk of losing money increases.

Risk can vary between different derivatives and derivative combinations. Equity options can be used to avoid the risk associated with future equity price changes, as well as to speculate with the aim of increasing the value of the investment. Speculating with equity options involves higher risk.

The maximum amount the buyer of an option can lose is the premium paid. For the issuer of an option, on the other hand, the loss is potentially unlimited. Price fluctuations for the option may be greater than for the underlying asset.

Equity options can be traded until the instrument's expiry date. This allows any loss to be limited, and the instrument can also be closed during the period.

### Costs

When you trade in equity options, you pay a commission fee and a clearing fee based on your invested amount. For the clearing fee there is a minimum and maximum amount per option contract. You also pay a commission fee when the options are redeemed.

A7830eng_inf (inakt+0) 190919

## Things to remember:

- The historical return of a financial instrument is not a guarantee of future return. The value of financial instruments can rise or fall, and it is not certain that you will get back all the capital you have invested.
- In order to trade in these instruments, you must familiarise yourself with the terms and conditions that apply to trading in financial instruments. The contracts that apply depend on the instrument you are trading in.
- Certain instruments require you to be liable to make payments in future. It is important that you are prepared to comply with your undertaking.
- Check the information on the statement and other reporting relating to your holdings, and inform us immediately of any errors.
- Regularly monitor changes in the value of your holdings and positions.
- You are responsible for taking any action necessary to reduce the risk of losses.
- Always ask for supplementary marketing material or further information with more details about the financial instrument you are interested in.

## Check your experience

| How long have you invested in this type of instrument? | What is the average amount of money you have invested in this type of instrument? | How many times per year have you traded in this type of instrument? |
|---|---|---|
| ☐ No experience | ☐ Up to 50 000 | ☐ Up to 2 |
| ☐ Less than one year | ☐ Up to 100 000 | ☐ Up to 5 |
| ☐ 1 to 5 years | ☐ Up to 250 000 | ☐ Up to 10 |
| ☐ More than 5 years | ☐ Up to 500 000 | ☐ More than 10 |
| | ☐ More than 500 000 | |

## Check your knowledge

**1. If you buy an option...**

A) ☐ ... you pay a premium
B) ☐ ... you receive a premium
C) ☐ ... neither the buyer nor the seller pays or receives a premium

**2. If you buy a call option...**

A) ☐ ... you are entitled to buy underlying equities at a predetermined price
B) ☐ ... you are obliged to buy underlying equities at a predetermined price
C) ☐ ... you are obliged to sell underlying equities at a predetermined price

**3. If you sell a put option...**

A) ☐ ... you are entitled to buy underlying equities at a predetermined price
B) ☐ ... you are obliged to buy underlying equities at a predetermined price
C) ☐ ... you are obliged to sell underlying equities at a predetermined price

**4. If you sell an option...**

A) ☐ ... the maximum you can lose is the premium you paid
B) ☐ ... the loss may be unlimited
C) ☐ ... the maximum you can lose is the premium you received

**5. If you buy a standardized Swedish equity option...**

A) ☐ ... you can only redeem the option on its termination date
B) ☐ ... you can only have the option redeemed on its termination date
C) ☐ ... you can redeem the option at any time during the term of the option

**6. If the underlying equity price on the termination date is lower than the strike price for a call option...**

A) ☐ ... the seller must buy the equities at the strike price
B) ☐ ... the option falls due and is worthless
C) ☐ ... the buyer must buy the equities at the strike price

**7. When may you be obliged to pledge security?**

A) ☐ When you buy an option
B) ☐ When you either buy or sell an option
C) ☐ When you sell an option

A7830eng_inf (inakt+0) 190919