Derivatives Risk Disclosure

Purpose & Regulation

This disclosure explains key risks and obligations associated with trading options in the U.S. through a CIRO-regulated Dealer Member. All transactions are governed by U.S. exchange rules and CIRO Dealer Member Rules, including, but not limited to, position limits, margin requirements, best execution obligations, and margin call procedures.

Risk Acknowledgment

You acknowledge and confirm that:

- Options can be highly leveraged instruments. Losses may equal to or exceed your initial investment, potentially resulting in the loss of the full premium paid and all associated transaction costs.
- Covered and naked options strategies carry distinct and significant risk profiles, which you must fully understand before engaging in such transactions.

Financial Capacity

By trading options, you explicitly confirm having sufficient financial resources and liquidity to absorb significant losses and meet all potential margin requirements and other obligations on a timely basis.

Margin & Collateral

- Options trading on margin entails amplified risk. You irrevocably authorize us to utilize any cash and securities held in your accounts (both U.S. and Canadian) as collateral to meet margin calls, settle obligations, or cover any deficit. We reserve the absolute right to liquidate any or all positions, without prior notice, across all your accounts to cover any shortfall.
- Interest will apply on borrowed funds; all applicable charges and rates will be transparently disclosed per account statement.

Position & Exercise Limits

- You agree to strictly comply with all regulatory and exchange-imposed position limits, including exercise and early assignment rules, as well as any internal limits imposed by Alpaca Canada.

- In the event of a breach of any such limits, we may immediately and without notice close any or all of your positions, and you will be responsible for any resulting losses or debits.

Discretion & Principal Trades

- We reserve the right to act as principal (i.e., take the other side on trades or net between clients), provided that such transactions are undertaken with prior disclosure and your explicit consent, in strict adherence to CIRO rules.
- We may unilaterally impose, modify, or remove trading limits (i.e., notional limits, daily trading limits) to manage risk for both the firm and its clients, without prior notice.

Best Execution & Fair Pricing

We are committed to obtaining the best possible execution for your orders under CIRO's stringent best execution standards. Comprehensive details regarding our best execution practices are available in our published Best Execution Disclosure, which you are encouraged to review.

Reporting & Record-Keeping

We will monitor and report all transaction data, positions, and compliance limits to CIRO as required by regulatory mandates.

You are obligated to promptly provide accurate and complete Know Your Customer (KYC) updates to ensure that ongoing suitability assessments meet both Alpaca Canada's internal policies and CIRO standards.

Errors, Corrections & Reconciliation

- We shall promptly notify you of any trade errors and take immediate corrective action in line with CIRO rules regarding error accounts and trade corrections.
- You are solely responsible for diligently reviewing all trade confirmations, account statements, and other communications, and for reporting any discrepancies or errors to us immediately. Failure to do so may impact your ability to seek recourse.

Client Suitability & Relationship

- Trading options demands a sophisticated understanding of financial markets and significant risk tolerance. We will conduct a thorough assessment of your knowledge, trading experience, financial situation, risk profile, and investment objectives to determine your suitability for options trading approval.

- Alpaca Canada will not provide any investment advice or recommendations regarding options trading. All trades received will be processed strictly as self-directed orders from an execution-only client.

Conflicts of Interest

We may collect commissions, act as principal, or receive other forms of revenue directly or indirectly from your options trades. All such potential and actual conflicts of interest will be fully disclosed to you, and we will rigorously adhere to CIRO’s Conflict of Interest rules to manage and mitigate them.

Risk Disclosure Statement

This risk disclosure statement does not and cannot disclose all of the risks and other significant considerations associated with trading in derivatives. In light of the inherent variety and complexity of risks involved, you should undertake such transactions only if you fully comprehend the nature of the contracts, the precise contractual relationships into which you are entering, and the full extent of your potential exposure to risk. Trading in derivatives is not suitable for all investors and inherently entails a high level of risk, including the potential for rapid and substantial losses. You must exercise extreme caution and carefully consider whether such transactions are appropriate for you in light of your personal and financial circumstances, investment needs and objectives, investment knowledge, risk profile, investment time horizon, and any other relevant circumstances. It is strongly recommended that you consult with your own independent business, legal, tax, and accounting advisors before engaging in any such transactions.

You may lose more than the amount of funds deposited

A fundamental characteristic of many derivatives is their inherent leverage, meaning you are only required to deposit funds that correspond to a portion of your total potential obligations, yet your profits or losses are based on changes in the total value of the derivative contract. This inherent leverage means that losses incurred can greatly exceed the amount of funds initially deposited. A relatively small adverse market movement will have a proportionately larger and potentially devastating impact on the funds you have deposited or will be required to deposit. Your dealer may require you to deposit additional funds on very short notice to maintain your position as the value of the derivative changes (a "margin call"). If you fail to deposit these required funds by the stipulated deadline, your dealer may, without prior warning, close out your position at a loss, and you will remain liable for any resulting deficit in your account.

Using borrowed funds carries significantly greater risk

Using borrowed funds (i.e., trading on margin) to finance a derivatives transaction involves substantially greater risk than using cash resources. If you borrow money, your responsibility to repay the loan and pay interest as required by its terms remains absolute, even if the value of the derivative declines to zero or results in a loss.

Deposited cash and property

You should thoroughly familiarize yourself with the protections accorded to money or other property you deposit for both domestic and foreign transactions, particularly in the event of a firm insolvency or bankruptcy. The extent to which you may recover your money or property may be significantly governed by specific legislation, local rules, and jurisdiction-specific insolvency frameworks.

Commission and other charges

Before you initiate any trades, you should obtain a clear, comprehensive, and detailed explanation of all commissions, fees, spreads, interest charges, and any other charges for which you will be liable. These charges will directly and significantly affect your net profit (if any) or substantially increase your total loss.

Fluctuations in price or value

The price and value of derivatives can be adversely and severely affected by volatile market conditions, economic shocks, and unforeseen events, and such occurrences may significantly increase your risk exposure. There are a variety of market factors and conditions which can directly or indirectly affect derivatives, including, but not limited to, market demand and supply dynamics, interest rate changes, foreign currency exchange rate fluctuations, movements in underlying indices, commodity prices, equity prices, shifts in investor perception, and broader political or economic factors. Since derivatives are intrinsically linked to one or multiple underlying interests, the price or value of the derivatives may also be subject to considerable and sudden fluctuations due to the risks specifically associated with the underlying interest(s). The level of sensitivity of an underlying interest to specific market conditions (e.g., implied volatility for options) can have wide and unpredictable implications on the value of derivatives linked to that underlying interest. For example, when two or more factors are simultaneously affecting one or more underlying interests of a derivative, its value may become highly unpredictable and exhibit extreme volatility. A relatively small movement in the price of one underlying interest can cause a sudden and disproportionately large fluctuation in a derivative's value.

Hedging and risk management strategies

While intended to mitigate risk, hedging transactions require constant and diligent monitoring and adjustment. A failure to promptly adjust your hedging transaction in light of rapidly changing market conditions may result in the position becoming either under-hedged or over-hedged, and significant losses can still ensue.

The placing of certain types of orders (e.g., "stop-loss" or "stop-limit" orders) which are intended to limit losses to certain predetermined amounts may not be effective or executable under all market conditions, particularly in fast-moving or illiquid markets, because market conditions may make it impossible to execute such orders at the desired price or at all. Strategies using combinations of positions, such as "spread" and "straddle" positions, may be equally or even more risky than taking simple "long" or "short" positions, and their risk profiles must be thoroughly understood.

Listed derivatives

Under certain extreme market conditions, you may find it difficult or even impossible to liquidate or offset an existing position on a regulated marketplace (e.g., executing a buy-to-close or sell-to-close order). This can occur, for example, when the market reaches a daily price fluctuation limit (“daily price limit” or "circuit breakers"), or due to lack of liquidity, technological failures, or regulatory interventions.

You should proactively inquire with your dealer about the specific terms and conditions of the particular derivatives you are trading and all associated obligations and rights. Under certain extraordinary circumstances, the specifications of outstanding contracts may be modified unilaterally by the marketplace or clearing house to reflect changes in the underlying interest.

Over-the-counter derivatives

Unlike exchange-traded derivatives, Over-the-Counter (OTC) derivatives trading does not occur on a regulated marketplace; instead, your dealer acts as your direct counterparty in all transactions. This means that when you sell, your dealer is the buyer, and when you buy, your dealer is the seller. Consequently, any losses you incur from trading may result in a profit for your dealer, in addition to any fees, commissions, or spreads they may charge.

An electronic trading platform for OTC derivatives, such as Contracts for Difference (CFDs) and foreign exchange contracts, serves exclusively as an electronic connection to access your dealer, not as a public marketplace. Your transactions on such a platform are solely with your dealer, and you are not trading with other entities or clients of the dealer. The availability, operation, and any consequences arising from the unavailability of such a trading platform are governed exclusively by the terms of your account agreement with the dealer.

Your ability to offset or liquidate trading positions in OTC derivatives is limited to your dealer, as these transactions are not executed on a marketplace. This inherent limitation can make it difficult or even impossible to liquidate an existing position. Furthermore, the customized nature of certain OTC derivatives can contribute to illiquidity.

The terms, prices, and characteristics of OTC derivative contracts are generally not standardized and are often individually negotiated with your dealer. A central source for obtaining or comparing prices may not exist, making it challenging to assess the true value, determine a fair price, or accurately gauge your exposure to risk. Therefore, you must proactively inquire with your dealer about the specific terms and conditions of any OTC derivative contracts you are trading and fully understand your related rights and obligations.

Client Rights & Complaints

- As a client, you are entitled to be treated fairly, honestly, and in good faith. You have the right to receive full and prompt information concerning your account, trades, associated costs, and performance. Should you have any complaints regarding trading activities or disclosures, you may file them by contacting canadacompliance@alpaca.markets

Your option trades are subject to a comprehensive regulatory framework, including:

- CIRO Dealer Member Rules, which encompass the Universal Market Integrity Rules (UMIR).
- Rules established by U.S. exchanges, clearing corporations, and regulatory bodies.
- Applicable securities legislation and margin rules in both Canada and the U.S.