2018 Supplement to the 2002 Security Futures Risk Disclosure Statement

The 2002 Security Futures Risk Disclosure Statement is amended as provided below.

The second paragraph under Section 2.4 (How Security Futures Differ from the Underlying Security) is replaced with the following paragraph:

The purchaser of a security futures contract, by contrast, has only a contract for future delivery of the underlying security. The purchaser of the security futures contract is not entitled to exercise any voting rights over the underlying security and is not entitled to any dividends that may be paid by the issuer. Moreover, the purchaser of a security futures contract does not receive the corporate disclosures that are received by shareholders of the underlying security, although such corporate disclosures must be made publicly available through the SEC’s EDGAR system, which can be accessed at www.sec.gov. You should review such disclosures before entering into a security futures contract. See Section 8.1 for further discussion of the impact of corporate events on a security futures contract.

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The first paragraph under Section 5.2 (Settlement by Physical Delivery) is replaced with the following paragraph:
Settlement by physical delivery is carried out by clearing brokers or their agents with National Securities Clearing Corporation (NSCC), an SEC-regulated securities clearing agency. Such settlements are made in much the same way as they are for purchases and sales of the underlying security. Promptly after the last day of trading, the regulated exchange’s clearing organization will report a purchase and sale of the underlying stock at the previous day’s settlement price (also referred to as the “invoice price”) to NSCC. In general, if NSCC does not reject the transaction by a time specified in its rules, settlement is effected pursuant to the rules of the exchange and NSCC’s Rules and Procedures within the normal clearance and settlement cycle for securities transactions, which currently is two business days. However, settlement may be effected on a shorter timeframe based on the rules of the exchange and subject to NSCC’s Rules and Procedures.

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The second paragraph under Section 6.1 (Protections for Securities Accounts) is replaced with the following paragraph:

The Securities Investor Protection Corporation (SIPC) also covers positions held in securities accounts. SIPC was created in 1970 as a non-profit, non-government,
membership corporation, funded by member broker-dealers. Its primary role is to return funds and securities to customers if the broker-dealer holding these assets becomes insolvent. SIPC coverage applies to customers of current (and in some cases former) SIPC members. Most broker-dealers registered with the SEC are SIPC members; those few that are not must disclose this fact to their customers. SIPC members must display an official sign showing their membership. To check whether a firm is a SIPC member, go to www.sipc.org, call the SIPC Membership Department at (202) 371-8300, or write to SIPC Membership Department, Securities Investor Protection Corporation, 1667 K Street, NW, Suite 1000, Washington, DC 20006-1620.

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The third paragraph under Section 6.1 (Protections for Securities Accounts) is replaced with the following paragraph:

SIPC coverage is limited to $500,000 per customer, including up to $250,000 for cash. For example, if a customer has 1,000 shares of XYZ stock valued at $200,000 and $10,000 cash in the account, both the security and the cash balance would be protected. However, if the customer has shares of stock valued at $500,000 and
$250,000 in cash, only a total of $500,000 of those assets will be protected.

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The third paragraph under Section 8.1 (Corporate Events) is replaced with the following paragraph:

Corporate issuers also occasionally issue special dividends. A special dividend is an announced cash dividend payment outside the normal and customary practice of a corporation. The terms of a security futures contract may be adjusted for special dividends. The adjustments, if any, will be based upon the rules of the exchange and clearing organization. In general, there will be no adjustments for ordinary dividends as they are recognized as a normal and customary practice of an issuer and are already accounted for in the pricing of security futures. However, adjustments for ordinary dividends may be made for a specified class of security futures contracts based on the rules of the exchange and the clearing organization.

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The second paragraph under Section 8.2 (Position Limits and Large Trader Reporting) is replaced with the following paragraph:

Position limits are required for security futures contracts that overlie a security that has an average daily trading
volume of 20 million shares or fewer. In the case of a
security futures contract overlying a security index,
position limits are required if any one of the securities in
the index has an average daily trading volume of 20 million
shares or fewer. Position limits also apply only to an
expiring security futures contract during its last five trading
days. A regulated exchange must establish position limits
on security futures that are no greater than 13,500 (100
share) contracts, unless the underlying security meets
certain volume and shares outstanding thresholds, in which
case the limit may be increased to 22,500 (100 share)
contracts.