Chapter 4

Communicating with clients, including financial promotions

Risk summaries

This Annex belongs to ■ COBS 4.12A.11R, ■ COBS 4.12A.20R, ■ COBS 4.12B.14R and ■ COBS 4.12B.21R.

Where a risk summary in this Annex includes two or three alternative formulations of text in square brackets, the first should be used where the *person* offering the *investment* is not an *authorised person* (including a *registered person*) and the second where the *person* offering the *investment* is an *authorised person*. The third alternative formulation should be used instead of the first or second formulations where the *investment* is a *unit* in an *unregulated collective investment scheme*. A *firm* should select the correct statement in the relevant section and omit the statement(s) in that section that are not appropriate. *Firms* should omit square brackets.

Where a risk summary in this Annex includes only one available statement in relation to *unregulated collective investment schemes*, *firms* should use this where the *investment* is a *unit* in an *unregulated collected investment scheme*. This text should not be used when the *investment* is not a *unit* in an *unregulated collective investment scheme*. *Firms* should omit square brackets.

Where a risk summary in this Annex includes a web address in square brackets:

•where the risk summary is provided through a digital medium, this web address and square brackets should be omitted, and the preceding underlined text should link to the web address specified in the square brackets;

•where the risk summary is provided through a non-digital medium, this web address and square brackets should be omitted and *firms* should amend the text to make it appropriate for the non-digital setting, pointing the reader to the relevant web address.

The risk summary in (1) is expected ordinarily to be used where a *financial promotion* will be *communicated* by a *firm* intermediating investment in *non-readily realisable securities* by way of an online platform. The risk summaries in (3) and (4) are expected ordinarily to be used where a *financial promotion* will be *communicated* by an *issuer* of *non-readily realisable securities* or a *firm* intermediating investment in *non-readily realisable securities* other than by way of an online platform.

1 Risk summary for investments in *non-readily realisable securities* which are *arranged* by a *firm* by way of an online platform

Estimated reading time: 2 min

Due to the potential for losses, the Financial Conduct Authority (FCA) considers this investment to be high risk.

What are the key risks?

1.You could lose all the money you invest

•Most investments are shares in start-up businesses or bonds issued by them. Investors in these shares or bonds often lose 100% of the money they invested, as most start-up businesses fail.

•Certain of these investments can be held in an Innovative Finance ISA (IFISA). An IFISA does not reduce the risk of the investment or protect you from losses, so you can still lose all your money. It only means that any potential returns will be tax free.

•Checks on the businesses you are investing in, such as how well they are expected to perform, may not have been carried out by the platform you are investing through. You should do your own research before investing.

2.You won't get your money back quickly

•Even if the business you invest in is successful, it will likely take several years to get your money back.

•The most likely way to get your money back is if the business is bought by another business or lists its shares on an exchange such as the London Stock Exchange. These events are not common.

•Start-up businesses very rarely pay you back through dividends. You should not expect to get your money back this way.

•Some platforms may give you the opportunity to sell your investment early through a 'secondary market' or 'bulletin board', but there is no guarantee you will find a buyer at the price you are willing to sell.

3.Don't put all your eggs in one basket

•Putting all your money into a single business or type of investment for example, is risky. Spreading your money across different investments makes you less dependent on any one to do well. A good rule of thumb is not to invest more than 10% of your money in high-risk investments. [https://www.fca.org.uk/investsmart/5-questions-ask-you-invest]

4.The value of your investment can be reduced

•If your investment is shares, the percentage of the business that you own will decrease if the business issues more shares. This could mean that the value of your investment reduces, depending on how much the business grows. Most start-up businesses issue multiple rounds of shares.

•These new shares could have additional rights that your shares don't have, such as the right to receive a fixed dividend, which could further reduce your chances of getting a return on your investment.

5.You are unlikely to be protected if something goes wrong

•Protection from the Financial Services Compensation Scheme (FSCS), in relation to claims against failed regulated firms, does not cover poor investment performance. Try the FSCS investment protection checker here. [https://www.fscs.org.uk/check/investment-protection-checker/]

•Protection from the Financial Ombudsman Service (FOS) does not cover poor investment performance. If you have a complaint against an FCA-regulated platform, FOS may be able to consider it. Learn more about FOS protection here. [https://www.financial-ombudsman.org.uk/consumers].

If you are interested in learning more about how to protect yourself, visit the FCA's website here. [https://www.fca.org.uk/investsmart**] For further information about investment-based crowdfunding, visit the FCA's website here. [**https://www.fca.org.uk/consumers/crowdfunding**]**

2 Risk summary for *P2P agreements* or *P2P portfolios*

Estimated reading time: 2 min

Due to the potential for losses, the Financial Conduct Authority (FCA) considers this investment to be high risk.

What are the key risks?

1.You could lose the money you invest

•Many peer-to-peer (P2P) loans are made to borrowers who can't borrow money from traditional lenders such as banks. These borrowers have a higher risk of not paying you back.

•Advertised rates of return aren't guaranteed. If a borrower doesn't pay you back as agreed, you could earn less money than expected. A higher advertised rate of return means a higher risk of losing your money.

•These investments can be held in an Innovative Finance ISA (IFISA). An IFISA does not reduce the risk of the investment or protect you from losses, so you can still lose all

your money. It only means that any potential gains from your investment will be tax free.

2.You are unlikely to get your money back quickly

•Some P2P loans last for several years. You should be prepared to wait for your money to be returned even if the borrower repays on time.

•Some platforms may give you the opportunity to sell your investment early through a 'secondary market', but there is no guarantee you will be able to find someone willing to buy.

•Even if your agreement is advertised as affording early access to your money, you will only get your money early if someone else wants to buy your loan(s). If no one wants to buy, it could take longer to get your money back.

3.Don't put all your eggs in one basket

•Putting all your money into a single business or type of investment for example, is risky. Spreading your money across different investments makes you less dependent on any one to do well.

•A good rule of thumb is not to invest more than 10% of your money in high-risk investments. [https://www.fca.org.uk/investsmart/5-questions-ask-you-invest]

4.The P2P platform could fail

•If the platform fails, it may be impossible for you to collect money on your loan. It could take years to get your money back, or you may not get it back at all. Even if the platform has plans in place to prevent this, they may not work in a disorderly failure.

5.You are unlikely to be protected if something goes wrong

•The Financial Services Compensation Scheme (FSCS), in relation to claims against failed regulated firms, does not cover investments in P2P loans. You may be able to claim if you received regulated advice to invest in P2P, and the adviser has since failed. Try the FSCS investment protection checker here. [https://www.fscs.org.uk/check/investment-protection-checker/]

•Protection from the Financial Ombudsman Service (FOS) does not cover poor investment performance. If you have a complaint against an FCA-regulated platform, FOS may be able to consider it. Learn more about FOS protection here. [https://www.financial-ombudsman.org.uk/consumers]

If you are interested in learning more about how to protect yourself, visit the FCA's website here. [https://www.fca.org.uk/investsmart]

For further information about peer-to-peer lending (loan-based crowdfunding), visit the FCA's website here. [https://www.fca.org.uk/consumers/crowdfunding]

3 Risk summary for *non-readily realisable securities* which are *shares*

Estimated reading time: 2 min

Due to the potential for losses, the Financial Conduct Authority (FCA) considers this investment to be high risk.

What are the key risks?

1.You could lose all the money you invest

•If the business you invest in fails, you are likely to lose 100% of the money you invested. Most start-up businesses fail.

2.You are unlikely to be protected if something goes wrong

•[The business offering this investment is not regulated by the FCA. Protection from the Financial Services Compensation Scheme (FSCS) only considers claims against failed regulated firms. Learn more about FSCS protection here. [https://www.fscs.org.uk/what-we-cover/investments/]] **or**

[Protection from the Financial Services Compensation Scheme (FSCS), in relation to claims against failed regulated firms, does not cover poor investment performance. Try

the FSCS investment protection checker here. [https://www.fscs.org.uk/check/investment-protection-checker/]]

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3.You won't get your money back quickly

•Even if the business you invest in is successful, it may take several years to get your money back. You are unlikely to be able to sell your investment early.

•The most likely way to get your money back is if the business is bought by another business or lists its shares on an exchange such as the London Stock Exchange. These events are not common.

•If you are investing in a start-up business, you should not expect to get your money back through dividends. Start-up businesses rarely pay these.

4.Don't put all your eggs in one basket

•Putting all your money into a single business or type of investment for example, is risky. Spreading your money across different investments makes you less dependent on any one to do well.

•A good rule of thumb is not to invest more than 10% of your money in high-risk investments. [https://www.fca.org.uk/investsmart/5-questions-ask-you-invest]

5.The value of your investment can be reduced

•The percentage of the business that you own will decrease if the business issues more shares. This could mean that the value of your investment reduces, depending on how much the business grows. Most start-up businesses issue multiple rounds of shares.

•These new shares could have additional rights that your shares don't have, such as the right to receive a fixed dividend, which could further reduce your chances of getting a return on your investment.

If you are interested in learning more about how to protect yourself, visit the FCA's website here. [https://www.fca.org.uk/investsmart**]**

4 Risk summary for *non-readily realisable securities* which are *debentures*

Estimated reading time: 2 min

Due to the potential for losses, the Financial Conduct Authority (FCA) considers this investment to be high risk.

What are the key risks?

1.You could lose all the money you invest

•If the business you are investing in fails, there is a high risk that you will lose your money. Most start-up and early-stage businesses fail.

•Advertised rates of return aren't guaranteed. This is not a savings account. If the borrower doesn't pay you back as agreed, you could earn less money than expected. A higher advertised rate of return means a higher risk of losing your money. If it looks too good to be true, it probably is.

•These investments are sometimes held in an Innovative Finance ISA (IFISA). An IFISA does not reduce the risk of the investment or protect you from losses, so you can still lose all your money. It only means that any potential gains from your investment will be tax free.

2.You are unlikely to be protected if something goes wrong

•[The business offering this investment is not regulated by the FCA. Protection from the Financial Services Compensation Scheme (FSCS) only considers claims against failed regulated firms. Learn more about FSCS protection here. [https://www.fscs.org.uk/what-we-cover/investments/]] **or**

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3.You are unlikely to get your money back quickly

•Many bonds last for several years, so you should be prepared to wait for your money to be returned even if the business you're investing in repays on time.

•You are unlikely to be able to cash in your investment early by selling your bond. You are usually locked in until the business has paid you back over the period agreed.

4.Don't put all your eggs in one basket

•Putting all your money into a single business or type of investment for example, is risky. Spreading your money across different investments makes you less dependent on any one to do well.

•A good rule of thumb is not to invest more than 10% of your money in high-risk investments. [https://www.fca.org.uk/investsmart/5-questions-ask-you-invest]

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5 Risk summary for *speculative illiquid securities*

Estimated reading time: 2 min

Due to the potential for losses, the Financial Conduct Authority (FCA) considers this investment to be very complex and high risk.

What are the key risks?

1.You could lose all the money you invest

•If the business offering this investment fails, there is a high risk that you will lose all your money. Businesses like this often fail as they usually use risky investment strategies.

•Advertised rates of return aren't guaranteed. This is not a savings account. If the issuer doesn't pay you back as agreed, you could earn less money than expected or nothing at all. A higher advertised rate of return means a higher risk of losing your money. If it looks too good to be true, it probably is.

•These investments are sometimes held in an Innovative Finance ISA (IFISA). While any potential gains from your investment will be tax free, you can still lose all your money. An IFISA does not reduce the risk of the investment or protect you from losses.

2.You are unlikely to be protected if something goes wrong

•[The business offering this investment is not regulated by the FCA. Protection from the Financial Services Compensation Scheme (FSCS) only considers claims against failed regulated firms. Learn more about FSCS protection here. [https://www.fscs.org.uk/what-we-cover/investments/]] **or**

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3.You are unlikely to get your money back quickly

•This type of business could face cash-flow problems that delay interest payments. It could also fail altogether and be unable to repay investors their money.

•You are unlikely to be able to cash in your investment early by selling it. You are usually locked in until the business has paid you back over the period agreed. In the rare circumstances where it is possible to sell your investment in a 'secondary market', you may not find a buyer at the price you are willing to sell.

4.This is a complex investment

•This investment has a complex structure based on other risky investments. A business that raises money like this lends it to, or invests it in, other businesses or property. This makes it difficult for the investor to know where their money is going.

•This makes it difficult to predict how risky the investment is, but it will most likely be high.

•You may wish to get financial advice before deciding to invest.

5.Don't put all your eggs in one basket

•Putting all your money into a single business or type of investment for example, is risky. Spreading your money across different investments makes you less dependent on any one to do well.

•A good rule of thumb is not to invest more than 10% of your money in high-risk investments. [https://www.fca.org.uk/investsmart/5-questions-ask-you-invest]

If you are interested in learning more about how to protect yourself, visit the FCA's website here. [https://www.fca.org.uk/investsmart**]**

For further information about minibonds, visit the FCA's website here. [https://www.fca.org.uk/consumers/mini-bonds**]**

6 Risk summary for *non-mainstream pooled investments*

Estimated reading time: 2 min

Due to the potential for losses, the Financial Conduct Authority (FCA) considers this investment to be very complex and high risk.

What are the key risks?

1.You could lose all the money you invest

•If the business offering this investment fails, there is a high risk that you will lose all your money. Businesses like this often fail as they usually use risky investment strategies.

•Advertised rates of return aren't guaranteed. This is not a savings account. If the issuer doesn't pay you back as agreed, you could earn less money than expected or nothing at all. A higher advertised rate of return means a higher risk of losing your money. If it looks too good to be true, it probably is.

•These investments are very occasionally held in an Innovative Finance ISA (IFISA). While any potential gains from your investment will be tax free, you can still lose all your money. An IFISA does not reduce the risk of the investment or protect you from losses.

2.You are unlikely to be protected if something goes wrong

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[The Financial Services Compensation Scheme (FSCS), in relation to claims against failed regulated firms, does not cover investments in unregulated collective investment schemes. You may be able to claim if you received regulated advice to invest in one, and the adviser has since failed. Try the FSCS investment protection checker here. [https://www.fscs.org.uk/check/investment-protection-checker/]]

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3.You are unlikely to get your money back quickly

•This type of business could face cash-flow problems that delay payments to investors. It could also fail altogether and be unable to repay any of the money owed to you.

•You are unlikely to be able to cash in your investment early by selling your investment. In the rare circumstances where it is possible to sell your investment in a 'secondary market', you may not find a buyer at the price you are willing to sell.

•You may have to pay exit fees or additional charges to take any money out of your investment early.

4.This is a complex investment

•This kind of investment has a complex structure based on other risky investments, which makes it difficult for the investor to know where their money is going.

•This makes it difficult to predict how risky the investment is, but it will most likely be high.

•You may wish to get financial advice before deciding to invest.

5.Don't put all your eggs in one basket

•Putting all your money into a single business or type of investment for example, is risky. Spreading your money across different investments makes you less dependent on any one to do well.

•A good rule of thumb is not to invest more than 10% of your money in high-risk investments. [https://www.fca.org.uk/investsmart/5-questions-ask-you-invest]

If you are interested in learning more about how to protect yourself, visit the FCA's website here. [https://www.fca.org.uk/investsmart**]**

[For further information about unregulated collective investment schemes (UCIS), visit the FCA's website here. [https://www.fca.org.uk/consumers/unregulated-collective-investment-schemes]**]**

7 Risk summary for *units* in a *long-term asset fund*

Estimated reading time: 2 min

Due to the potential for losses, the Financial Conduct Authority (FCA) considers this investment to be high risk.

What are the key risks?

1.You should be ready to invest for the long term and, during this time, the value of your investment may go up or down. You may lose money on your investment.

•Assets in this fund may take a long time to buy and sell.

•Long-Term Asset Funds (LTAFs) can invest into fixed assets, infrastructure, or complex financial products, all of which are relatively hard to sell. Investors who do not remain invested for the long-term may not get back all of their money. It may take many years to make a profit on the investment.

•You should carry out your own research, so that you understand what you are investing in.

2.If you decide to exit early, you won't get your money back quickly

•This LTAF accepts requests to sell units only once a month and there is also a 90-day waiting period before the value of your units is determined and you receive your money. This means that:

oIf you choose to sell your units on 2 January, and the trading day is the 15th of the month, you won't get any money back until approximately 20 April, assuming a few extra days for the trade to close and funds to transfer.

oThe value of the units you sell will be at the price set on 15 April if it is a business day, or else the next business day after it.

•Once your redemption request has been approved, you cannot cancel your request.

3.It will take a long time to make profits

•If the assets the LTAF invests in are successful, it may still take a long time to get your money back and make a profit.

•You should not expect to get your money back as payments of income (unless the LTAF includes payments of income as an investment objective).

4.Don't put all your eggs in one basket

•Putting all your money into a single investment or type of investment is risky. Spreading your money across different investments makes you less dependent on any one to do well.

•A good rule of thumb is not to invest more than 10% of your money in high-risk investments.

5.You are unlikely to be protected if something goes wrong

•Protection from the Financial Services Compensation Scheme (FSCS), in relation to claims against failed regulated firms, does not cover poor investment performance. Learn more about FSCS protection here [https://www.fscs.org.uk/check/investment-protection-checker/].

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8 Risk summary for *qualifying cryptoassets*

Estimated reading time: 2 min

Due to the potential for losses, the Financial Conduct Authority (FCA) considers this investment to be high risk.

What are the key risks?

1.You could lose all the money you invest

•The performance of most cryptoassets can be highly volatile, with their value dropping as quickly as it can rise. You should be prepared to lose all the money you invest in cryptoassets.

•The cryptoasset market is largely unregulated. There is a risk of losing money or any cryptoassets you purchase due to risks such as cyber-attacks, financial crime and firm failure.

2.You should not expect to be protected if something goes wrong

•The Financial Services Compensation Scheme (FSCS) doesn't protect this type of investment because it's not a 'specified investment' under the UK regulatory regime – in other words, this type of investment isn't recognised as the sort of investment that the FSCS can protect. Learn more by using the FSCS investment protection checker here. [https://www.fscs.org.uk/check/investment-protection-checker/]

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firm, FOS may be able to consider it.] Learn more about FOS protection here. [https://www.financial-ombudsman.org.uk/consumers]

3.You may not be able to sell your investment when you want to

•There is no guarantee that investments in cryptoassets can be easily sold at any given time. The ability to sell a cryptoasset depends on various factors, including the supply and demand in the market at that time.

•Operational failings such as technology outages, cyber-attacks and comingling of funds could cause unwanted delay and you may be unable to sell your cryptoassets at the time you want.

4.Cryptoasset investments can be complex

•Investments in cryptoassets can be complex, making it difficult to understand the risks associated with the investment.

•You should do your own research before investing. If something sounds too good to be true, it probably is.

5.Don't put all your eggs in one basket

•Putting all your money into a single type of investment is risky. Spreading your money across different investments makes you less dependent on any one to do well.

•A good rule of thumb is not to invest more than 10% of your money in high-risk investments. [https://www.fca.org.uk/investsmart/5-questions-ask-you-invest]

If you are interested in learning more about how to protect yourself, visit the FCA's website here. [https://www.fca.org.uk/investsmart]

For further information about cryptoassets, visit the FCA's website here. [https://www.fca.org.uk/investsmart/crypto-basics]