

WHAT IS THIS DOCUMENT FOR?

This document will show you the costs and charges associated with our products.

You'll find formulae for how we calculate our charges, as well as worked examples. You can apply these to your own trades to estimate the cumulative effect of our costs and charges on your returns.

It's important to remember that your total costs will increase in line with your trading sizes and volumes.

TRADING COSTS AND CHARGES

When you open a position on a forex contract or knock-out option, you'll pay:

1. Our spread (the difference between the bid and ask prices, which can vary dependant on market conditions)
2. An overnight funding adjustment or rollover (if you hold your position through 10pm UK time, normally 5pm ET) which can be negative or positive

Forex usually settles on a T+2 basis, so if you hold a position overnight on a Wednesday, there will be a cash adjustment for three days' funding.

Formulae

1. Formula for forex **overnight funding adjustment = nights held x (tom-next rate + annual admin fee) x number of contracts**
2. Formula for **annual admin fee = Spot mid-price x 0.5% p.a.**

We take our tom-next rate from the brokers we trade with in the underlying forex market. It is a swap rate expressed in pips, for the cost or benefit of rolling a forex position over from one day to the next. For more information on how tom-next is calculated, please see below.

Forex example 1

Imagine that you're short 0.5 contracts (equivalent to \$5 per pip movement) on spot EUR/USD, with a spread of 1.2 pips, and you hold the position for two nights.

Underlying tom-next	= 0.55/-0.58 pips
Spot mid-price	= 1.1780
Admin fee per day	= $1.1780 \times 0.5\% / 360$ = 0.16 pips
Tom-next + admin fee	= $0.39 / -0.74$ <small>We use this positive number in our calculation, as this is a short position</small>
Total cost:	= $1.2 \times \$5$
Spread	= \$6.00
Overnight funding	$\begin{array}{c} \text{Tom-next with admin fee} \\ \hline = 2 \times 0.39 \times \$5 \\ \hline \begin{array}{cc} \uparrow & \uparrow \\ \text{Days held} & \text{Trade size} \end{array} \\ \hline = \$3.90 \text{ (received)} \end{array}$
Total cost	= \$2.10 (spread paid minus overnight funding received)

Forex example 2

Imagine that you're long 3 contracts of USD/CAD (equivalent to C\$30 per pip), with a spread of 2.5 pips, held for one night on Thursday. Forex trades are usually settled on a T+2 basis, except for certain currency pairs like USD/CAD which settle on a T+1 basis. So, if you hold a position overnight on a Wednesday, an adjustment for three nights rather than one will usually be posted to your account.

However, if you hold a position on USD/CAD on a Thursday, the three day adjustment will apply then. Public holidays in either currency's country will also be taken into account. The number of days accounted for during each week will always add up to seven but are applied at most 5 times a week.

Since this is a Canadian dollar-denominated trade, we also need to convert it into US dollars. We charge an admin fee of 0.5% of the conversion rate. Say the spot rate on this day is 1.3176 – with our admin fee, we get a conversion rate of 1.3136472.

Underlying tom-next	= 0.97/-1.01 pips (3 days)
Admin fee per day	= $1.3176 \times 0.5\% / 360$ = 0.18 pips
Tom-next + admin fee	= 0.78 / -1.19
Spread	= $2.5 \times \text{C}\$30 = \text{C}\75
Converted spread	= $\text{C}\$75 / 1.3136472$ = \$57.09
Overnight funding	= $-1.01 \times \text{C}\$30$ = C\$30.30
Converted overnight funding	= $\text{C}\$30.30 / 1.3136472$ = \$23.07
Total cost	= \$80.16

What is tom-next?

Tom-next is short for tomorrow-next day and is the forex market's swap price to roll a position from tomorrow or the next business day to the new spot date. It provides the means by which forex speculators avoid taking physical delivery of currency and are able to keep forex positions open from one day to the next.

Like commodity futures, forex trades would – if left unchecked – normally result in the trader taking delivery of the asset they have traded. In forex the expected delivery day is normally two business days after a transaction. In order to keep a position open overnight, forex providers will swap any overnight positions for an equivalent contract that starts the next day. The price difference between the two contracts is called the tom-next adjustment.

Tom-next is calculated by adjusting the closing level of the open position with the interest rate of the currencies involved. If you are buying a currency with a higher interest rate then you receive an interest payment, if you are buying a currency with a lower interest rate you have to pay interest.