



Key Information Document – Limited Risk Spread Bet on an FX pair

Purpose

This document provides you with key information about this investment product. It is not marketing material. The information is required by law to help you understand the nature, risks, costs, potential gains and losses of this product and to help you compare it with other products.

Spread bets are provided by IG Europe GmbH (“IG”), a company incorporated in the Federal Republic of Germany and registered in the Frankfurt am Main Trade Register under number HRB 115624. IG is authorised and regulated by the Bundesanstalt für Finanzdienstleistungsaufsicht (“BaFin”) and Deutsche Bundesbank (Register number 148759) See www.ig.com for more information or contact us on 0800 409 6789 or +44 207 896 0079.



This document was created/last updated on 16th September 2019.

You are about to purchase a product that is not simple and may be difficult to understand.

What is this product?

Type

A spread bet is a leveraged financial derivative entered into with IG on a bilateral basis. It allows an investor to speculate on rising or falling prices in an underlying FX pair.

FX is always traded in pairs, and trading a spread bet on an FX pair involves the simultaneous buying and selling of two different currencies. An FX pair quote will show both currencies, e.g. EUR/GBP, the first currency (EUR) is known as the base currency and the second (GBP) is known as the variable currency.

FX trading gives an investor the choice to buy (or go “long”) the currency pair if they think the price of the “base” currency will rise in relation to the “variable” or “quote” currency, or alternatively to sell (or go “short”) the currency pair if they think that the price of the variable currency will rise in relation to the base currency.

For instance, if an investor is long on a EUR/GBP spread bet and the price of the underlying FX pair rises, the value of the spread bet will increase - at the end of the bet IG will pay the difference between the closing value of the bet and the opening value of the bet. Conversely, if an investor is long and the spot price of the underlying FX pair falls, the value of the bet will decrease - at the end of the bet they will pay IG the difference between the closing value of the bet and the opening value of the bet. The leverage embedded within all spread bets has the effect of magnifying both profits and losses.

The current (“spot”) prices we offer to you are derived from prices sourced from major liquidity providers to the OTC FX and bullion market. The forward (“future”) prices we offer to you are derived from underlying on-exchange Futures price data. Spread bet prices are usually quoted by scaling the underlying FX price by x10000.

All limited-risk spread bets require a guaranteed stop loss. This enables an investor to put an absolute limit on their maximum loss per trade. If the market price moves through the investor’s stop level, the trade is then closed at the requested price – with no risk of slippage even if the market gaps. A premium is charged if the stop loss is triggered, however if the investor closes the position before the stop loss is activated then no fee will be applied.

Objectives

The objective of a spread bet is to allow an investor to gain leveraged exposure to the movement in the value of the underlying FX pair (whether up or down).

The exposure is leveraged since the spread bet only requires the investor to put up the maximum potential loss of the trade (excluding daily holding costs), rather than the full value of the position.

For limited-risk positions, the margin required will be the larger figure of the two calculations below:

1. (Bet size x stop distance) + (limited risk premium x bet size)
2. Bet size x price x margin rate

As an example, suppose you buy a spread bet at a size of £10/point on EUR/GBP priced at 8495.0/8496.0. **You place a guaranteed stop 45 points away** and there is a 2-point limited risk premium. Your margin would be calculated as follows:

Calculation 1: $(£10 \times 45) + (2 \times £10) = £470$ margin

Calculation 2: $£10 \times 8496 \times 3.33\% = £ 2,829.17$ margin

So your margin requirement is £2,829.17 (the larger figure of the two).

The margin rate for a limited-risk spread bet is the same as the margin rate for non-limited-risk spread bets, in this case 3.33% of the total exposure. This means you have 33.3:1 leverage.

As the bet size for this market is £10, for every point the underlying market moves your profit or loss will change by £10. For instance, if you are long and the market increases in value, you’ll earn £10 profit for every point the market moves. If the market decreases in value, you’ll make a £10 loss for each point it moves. Conversely, if you were to hold a short position, you’d make a profit if the market price decreased and a loss if the market price increased.

A daily funded spread bet does not have a pre-defined maturity date, and is therefore open-ended. You'll be charged an interest fee for holding your position overnight. By contrast, a forward spread bet has a pre-defined expiry date and holding fees are built into the spread. As a result, it is down to the discretion of each individual investor to determine the most appropriate holding period based on their own individual trading strategy and objectives.

In the case of forward spread bets, all transactions will be automatically rolled over into the next period – ie, from a March expiry into a June expiry, unless you opt out of this. IG also retains the ability to terminate any spread bet where it deems that the terms of the bet have been breached.

Intended Retail Investor

Spread bets are intended for investors who have knowledge of, or are experienced with, leveraged products. Likely investors will understand how the prices of spread bets are derived, the key concepts of margin and leverage and the fact that losses may exceed deposits in a given position. Indeed, they will understand the risk/reward profile of the product compared to traditional share dealing. Investors will also have appropriate financial means and the ability to bear losses – up to the margin amount invested in the case of limited-risk positions.

What are the risks and what could I get in return?

Risk indicator



The summary risk indicator is a guide to the level of risk of this product compared to other products. It shows how likely it is that the product will lose money because of movements in the markets or because we are not able to pay you.

We have classified this product as 7 out of 7, which is the highest risk class. This rates the potential losses from future performance of the product at a very high level.

Spread bets are leveraged products that, due to underlying market movement, can generate losses rapidly. Guaranteed stops enable investors to put an absolute limit on their potential loss for each trade, to avoid losses beyond the initial amount invested. Please note that without this protection, losses can exceed the amount invested in a given position and you may be required to deposit additional funds to maintain your positions; hence it is possible to lose all of the funds on your account.

There is no capital protection against market risk, credit risk or liquidity risk.

Be aware of currency risk. Your profit and loss for an FX pair is always determined in the variable currency so when you buy or sell spread bets on an FX pair in a variable currency different to the currency of your trading account, there will be a currency conversion. The final return you may get depends on the exchange rate between the two currencies. This risk is not considered in the indicator shown above.

Market conditions may mean that your spread bet on an FX pair is closed at less favourable price, which could significantly impact how much you get back. We may close your open spread bet if you do not maintain the minimum margin that is required, if you are in debt to the company, or if you contravene market regulations. This process may be automated. This product does not include any protection from future market performance so you could lose some or all of your investment. If we are not able to pay you what is owed, you could lose your entire investment. However, you may benefit from a consumer protection scheme (see "what happens if we are unable to pay you"). The indicator shown above does not consider this protection.

Performance scenarios

The scenarios shown illustrate how your investment could perform, but are not an exact indicator. You can compare them with the scenarios of other products. The scenarios presented are an estimate of future performance based on evidence from the past on how the value of this investment varies. What you get will vary depending on how the market performs and how long you hold the spread bet. The stress scenario shows what you might get back in extreme market circumstances, and it does not take into account the situation where we are not able to pay you.

The following assumptions have been used to create the scenarios in Table 1:

FX pair spread bet (held intraday)		
FX pair opening price:	P	8496.0
Bet size (£/pt):	TS	£10 per point
Margin %:	M	3.33%
Margin Requirement (£):	$MR = P \times TS \times M$	£2829.17
Notional value of the trade (£):	$TN = P \times TS$	£84,960

Table 1

LONG Performance scenario	Closing price (inc. spread)	Price change	Profit/loss	SHORT Performance scenario	Closing price (inc. spread)	Price change	Profit/loss
Favourable	8623.0	1.5%	£1270	Favourable	8368.0	-1.5%	£1270
Moderate	8538.0	0.5%	£420	Moderate	8453.0	-0.5%	£420
Unfavourable	8369.0	-1.5%	-£1270	Unfavourable	8622.0	1.5%	-£1270
Stress	8071.0	-5.0%	-£4250	Stress	8920.0	5.0%	-£4250

*Losses capped to max given stop loss level 45 points away and a guaranteed stop premium of 2.

The figures shown include all the costs of the product itself. If you have been sold this product by someone else, or have a third party advising you about this product, these figures do not include any cost that you pay to them. The figures do not take into account your personal tax situation, which may also affect how much you get back.

What happens if IG is unable to pay out?

If IG is unable to meet its financial obligations to you, you may lose the value of your investment. However, IG segregates all retail client funds from its own money in accordance with the BaFin client money rules (§84 WpHG, §16 MiFID, §10 WpDVerOV). If IG is unable to fulfil its obligations under securities transactions with its clients the EdW may be able to compensate them up to the value of €20,000.

What are the costs?

Trading a spread bet on an underlying FX pair incurs the following costs:

This table shows the different types of cost categories and their meaning		
One-off entry and exit costs	Spread	The difference between the buy price and the sell price is called the spread. This cost is realised each time you open and close a trade.
	Currency conversion	Any cash, realised profit and losses, adjustments, fees and charges that are denominated in a currency other than the base currency of your account, will be converted to the base currency of your account and a currency conversion fee will be charged to your account.
	Guaranteed Stop Premium	A premium is charged if the guaranteed stop is triggered.
Incidental costs	Distributor fee	We may from time to time share a proportion of our spread, commissions and other account fees with other persons including a distributor that may have introduced you.
Ongoing costs	Daily holding cost	A fee is charged to your account for every night that your position is held. This means the longer you hold a position, the more it costs.

How long should I hold it and can I take money out early?

Spread bets are intended for short-term trading, in some cases intraday, and are generally not suitable for long-term investments. There is no recommended holding period, no cancellation period and therefore no cancellation fees. You can open and close a spread bet on an FX pair at any time during market hours.

How can I complain?

If you wish to make a complaint about IG, you should contact our client services team on 0800 409 6789, or email helpdesk.uk@ig.com. If our client services team is unable to resolve the matter you may refer it to our compliance department. If you are classified as a retail client, and you do not feel that your complaint has been resolved satisfactorily, you are able to refer your complaint to BaFin or the Deutsche Bundesbank.

You can also refer to the European Commission's Online Dispute Resolution Platform, however it is likely that you will be referred to the BaFin.

Other relevant information

If there is a time lag between the time you place your order and the moment it is executed, your order may not be executed at the price you expected. Ensure your internet signal strength is sufficient before trading.

The Terms and Policies section of our website contains important information regarding your account. You should ensure that you are familiar with all the terms and policies that apply to your account.

Our Market Information sheets contain additional information on trading a spread bet on an underlying FX pair. These can be found on the trading platform.