



Key Information Document – Limited Risk Spread Bet on an Interest Rate

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.



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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 interest rate.

An investor has the choice to buy (or go “long”) the spread bet to benefit from an increase in the prices of the instrument; or to sell (or go “short”) the spread bet to benefit from a fall in the price of the instrument. The price of the spread bet is derived from the underlying interest rate price, which is a derived forward (“future”) price. For instance, if an investor is long an interest rate spread bet and the underlying price of the interest rate market 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 price of the interest rate market falls, the value of the spread 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. A spread bet referencing the underlying future price works in exactly the same way except that such bets have a pre-defined expiry date – a date upon which the bet either automatically closes or must be rolled into the next period. The leverage embedded within all spread bets has the effect of magnifying both profits and losses.

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 the spread bet is to allow an investor to gain leveraged exposure to the movement in the value of the underlying interest rate (whether up or down), without actually needing to buy or sell the underlying futures or the asset itself.

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 an underlying interest rate price of 5000. **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: $£10 \times 5000 \times 20\% = £10,000$ margin

So your margin requirement is £10,000 (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 20% of the total exposure. This means you have 5:1 leverage, resulting in a notional value of £50,000 ($£10,000 \times 5$).

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 futures spread bet has a pre-defined expiry date and holding fees are built into the spread. In the case of futures 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. It is possible to buy or sell spread bets on an interest rate in a currency which is different to the base currency of your account. 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 interest rate 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 the section "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. 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, and are not an exact indicator. 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:

Interest rate spread bet (held intraday)		
Interest rate opening price:	P	5000
Bet size (£/pt):	TS	10
Margin rate:	M	20% (min)
Margin Requirement (£):	$MR = P \times TS \times GS \text{ Dist}$	£10,000
Notional value of the trade (£):	$TN = MR/M$	£50,000

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	5075	1.5%	£750	Favourable	4925	-1.5%	£750
Moderate	5025	0.5%	£300	Moderate	4975	-0.5%	£300
Unfavourable	4925	-1.5%	-£470	Unfavourable	5075	1.5%	-£470
Stress	4750	-5.0%	-£470	Stress	5250	5.0%	-£470

*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 interest rate incurs the following costs:

This table shows the different types of cost categories and their meaning			
Daily Funded Bets and Futures	One-off entry or 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.
Daily Funded Bets only	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.
Daily Funded Bets and Futures	Incidental costs	Distributor fee	We may from time to time, after informing you, share a proportion of our spread, commissions and other account fees with other persons including a distributor that may have introduced you.
Futures only	Other costs	Rollover costs	We charge you to rollover a futures spread bet into the next month or quarter, equal to the applicable spread to open and close a trade.

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 interest rate 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 interest rate. These can be found on the trading platform.