Key Information Document – Spread Bet on an Option

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"). See www.ig.com or call 0800 409 6789 or +44 207 896 0079 for more information. IG is authorised and regulated by the Bundesanstalt für Finanzdienstleistungsaufsicht ("BaFin") and Deutsche Bundesbank. The BaFin is responsible for supervising IG in relation to this Key Information Document.

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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

Options are a financial derivative instrument that gives you the right, but not the obligation to purchase or sell an asset at a specified price, known as the strike price, before a certain expiry date. Options are a versatile financial instrument that can be broken down into two forms: calls and puts. A call is the right to buy an asset for a given price within a given period of time. Buyers of a call option are speculating on an increase in the price of an asset. They have the right to buy an asset at the strike price of the contract. Sellers of a call option are speculating on a fall in the price of an asset (or to remain stable). Selling options is often referred to as 'writing options'. Buyers of a put option are speculating on a fall in the price of an underlying asset. Sellers of a put option are speculating on a rise in the price of an underlying asset (or at least stay stable). Selling options carries inherent risks. A worst-case scenario for a call seller is a strong market rally far greater than the premium received. A worst-case scenario for a put seller is a downward market move far greater than the premium received. For call options, the option is said to be in-the-money if the share price is above the strike price. A put option is in-the-money when the share price is below the strike price. The amount by which an option is in-the-money is referred to as intrinsic value. An option is out-of-the-money if the price of the underlying remains below the strike price (for a call), or above the strike price (for a put). An option is at-the-money when the price of the underlying is on or very close to the strike price. For example, if the October France 40 is currently trading at 6675 then the October France 40 call option has 225 pts of intrinsic value. Any additional value to the options price is represented by time value. The more time to expiration, the greater the time value of an option.

A spread bet on an option is a position entered into with IG on a bilateral basis. It allows an investor to speculate on rising or falling prices (or volatility) in an underlying instrument. This may be an index, FX pair, commodity, interest rate or individual equity. When trading on options with IG one never actually owns the right to the option. Clients are speculating on the price and value of a particular option.

An investor has the choice to buy (or go "long") the option to benefit from a rise in the price or value of the option; or to sell (or go "short") the option to benefit from a fall in the price or value of the option. This may be due to a rise or fall in the value of the underlying asset; a rise or fall in the volatility of the underlying asset; or a change in the time value of the option; or a combination of the three. The price of the option is derived from a number of factors. These include the price of the underlying instrument, which may be either the current ("cash") price or a forward ("future") price; the time to expiry, the volatility in the underlying market and the strike price of the option itself. All option prices are derived using the Black Scholes formula and the aforementioned parameters. For instance, if an investor is long a France 40 call option and the value of the option increases either via an increase in the underlying or a rise in volatility - at the end of the position IG will pay the difference between the closing value of the position and the opening value of the position. Conversely, if an investor is long and the price of the option falls, at the end of the position they will pay IG the difference between the closing value of the position and the opening value of the position. An options 'position will have a pre-defined expiry date. The position will automatically be closed out basis the pre-determined settlement rules on this pre-defined expiry date unless the contact is closed before by the client.

As the initial investment is equal to the total exposure of the trade when buying a spread bet on an option is not classed as a leveraged product. It is important that clients are aware of the risks involved in trading options. When buying options there is a maximum loss, unlimited profit profile. When selling options there is a limited profit and potentially unlimited maximum loss profile. When buying an option, an option premium (price) is paid. The premium is paid when the contract is initiated. When selling (writing) options the margin incurred is equal to the underlying assets margin factor multiplied by the stake size.

Risk profile	Margin incurred
Long Call	Stake size x option premium
Long Put	Stake size x option premium
Short Call	Stake size x underlying deposit factor
Short Put	Stake size x underlying deposit factor

Term

All options offered by IG have a pre-defined expiry date. As a result, there is no recommended holding period for options and 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.

Failure to deposit additional funds in the case of negative price movement may result in the option being auto-closed. This will occur when losses exceed the initial margin amount in a given position. IG also retains the ability to unilaterally terminate any spread bet option position where it deems that the terms of the position have been breached.

Objectives

There are three potential objectives of placing a spread bet on an option: 1) to limit risk, 2) protect against potential losses as part of a wider portfolio or 3) speculate. Spread bets on options can allow an investor to gain exposure to the movement in the value of the underlying instrument (whether up or down), without actually needing to buy or sell the underlying asset or constituent parts or to gain exposure to the volatility of the underlying instrument. The exposure when buying is not leveraged since the spread bet option only requires the full notional value of the position to be put down upfront as initial margin. By way of example, if an investor buys €1.5 per point of the October France 40 6900 call option with a trade price of 6675 the total margin will be €500 (6675 x €1.5 x 0.05). For each 1 point change in the price of the option so the value of the option position changes by €1.50. As previously stated, this change in the options price may arise from a move in the underlying asset or a change in the volatility on the underlying asset or both.

Intended Retail Investor

Placing a spread bet on options is intended for investors who have knowledge of, or are experienced with, derivatives. Likely investors will have some understanding of how the prices of options are derived, and the fact that when selling options, potential losses are not limited to the option premium. 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 in excess of the initial amount invested in a given position.

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 on options are products that, due to underlying market movement, can generate losses rapidly. When selling an option, losses can exceed the amount invested in a given position and you may be required to deposit additional funds in order to maintain your positions. There is no capital protection against market risk, credit risk or liquidity risk. **It is possible to generate significant losses up to the total loss of your invested capital. In case of professional clients, the losses can exceed the invested capital. Be aware of currency risk.** It is possible to place a long or short spread bet on an option on an underlying instrument 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 option trade on an underlying instrument is closed at a less favourable price, which could significantly impact how much you get back. We may close your open option contract 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

What you will get from this product depends on future market performance. Market developments in the future are uncertain and cannot be accurately predicted. The scenarios shown are illustrations based on results from the past and on certain assumptions. Markets could develop very differently in the future.

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

France 40 Index spread bet Option (held one day)		
Underlying Index price:	P	6675
Option type and Strike:	S	Call 6900
Option price (Sell/Buy):	Y	6.3 / 9.5

Bet Size (€/pt.):	**TS**	€1.5
Margin (%) for short selling options:	**M**	5%
Short Margin Requirement (€):	***MR = P x TS x M***	*€500*
Notional value of the trade (€):	***TN = Y x TS***	*€10,000*
Long Margin Requirement (€):	***MR = P x TS x M***	*€500*

Table 1

LONG Performance scenario	Percentage return (based on Notional value)	Profit/loss after costs
Minimum	**There is no minimum guaranteed return. You could lose some or all of your investment or have to make further payments to cover losses.**	
Stress	-30.0%	**- 3,000 EUR**
Unfavourable	-10%	**- 1,000 EUR**
Moderate	5%	**500 EUR**
Favourable	25%	**2,500 EUR**

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.

The stress scenario shows what you might get back in extreme market circumstances. The scenarios shown represent possible outcomes calculated based on simulations.

What happens if IG is unable to pay out?

If IG is unable to meet its financial obligations to you, you may have significant losses up to the value of your investment (total loss). However IG segregates all all client funds from its own money in accordance with the Securities Trading Act (WpHG)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?

If you have been sold this product by someone else, or have a third party advising you about this product the person advising on or selling you this product may charge you other costs. If so, this person will provide you with information about these costs and how they affect your investment. The cost vary on the basis of the underlying investment options.

Placing a spread bet on an option incurs the following costs:

This table shows the different types of cost categories and their meaning			
Cash 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.
Cash 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.

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

Options are intended for short or longer term trading, in some cases intraday and could be 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 option 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 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.