Key Information Document – commodity barrier options

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.

Barrier options 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.

This document was created/last updated on 1st January 2023.

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

What is this product?

Type

A commodity barrier option is a derivative contract entered into with IG on a bilateral basis. It allows a client to speculate on the rising or falling price of an underlying commodity. A commodity barrier option is an exotic option on an underlying commodity.

The commodity cash price is derived from the nearest lying liquid future contracts. The price of the barrier option is calculated by adding together the following two factors:

1. The difference between the knock-out level and the current cash price of the commodity

2. A knock-out premium, corresponding to the cost for the knock-out level being guaranteed

There are two types of barriers: call and put. Clients can either go long (call) or short (put) on the underlying.

When buying a call contract (going long), the client thinks the price of the underlying instrument or asset will rise. When buying a put contract (going short), the client thinks the price of the underlying instrument or asset will fall.

In both instances the client is expecting the price of the barrier option to increase by the difference between the strike price and underlying commodity level increasing.

A given instantaneous move in the bid/ask price of the underlying commodity results in an identical move in the price of the barrier option. This principle is altered where the knock-out premium varies. Such a situation will occur where IG increases the knock-out premium in anticipation of a perceived high-risk event at the time a client enters into a contract. The knock-out premium will decrease once the event has passed.

The risk on the position will vary depending on the knock-out level chosen by a client when buying a contract. The contract will automatically be closed out if the underlying commodity price reaches the knock-out level. This enables a client to put an absolute limit on their maximum loss per contract.

The client is also charged a separate commission on opening and closing of the trade.

Term

The product does not have a fixed lifetime, subject to a knock-out.

Objectives

This product provides exposure to the performance of an underlying commodity without actually needing to buy or sell the underlying instrument.

The product is subject to an initial payment, a commission charge, the spread and a knock-out premium. With a sample position of €10,000 of an Oil – US Crude Call barrier option (100 contracts), the initial payment for the product will also be €10,000 where Oil – US Crude ask price is trading at 8200, the knock-out level was selected at 8105 points by the client and the knock-out premium is 5 points at the time of entering in the contract. €9500 is the difference between the knock-out level and the price of Oil – US Crude multiplied by the trade size (100 contracts x €1 contract size), and €500 is the knock-out premium multiplied by the trade size. The commission charge is 10 cents per contract – so the position is also subject to a €10 charge taken on opening and closing.

The client does not have the ability to modify the selected knock-out level during the product's lifetime.

It is not possible to make a recommendation for a holding period, although clients typically hold positions for less than a day. Any recommendation for the holding period would be misleading information for a speculative client.

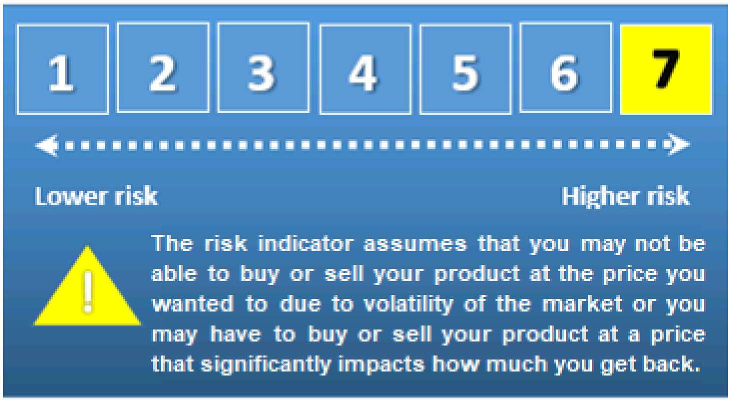
A daily holding fee will be charged basis positions open at 10pm (UK time).

Intended Retail Investor

Trading 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. 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 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.

Barriers are products that, due to underlying market movement, can generate losses rapidly. 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.**

Be aware of currency risk. It is possible to place a barrier 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 barrier option trade on an underlying instrument is closed at a less favourable price, which could significantly impact how much you get back; although if the knock-out level is triggered the position will be closed at the knock-out level. We may close your open barrier option if you do not maintain enough funds to cover overnight charges or the above stated currency risk, if you are in debt to the company, or if you contravene market regulations. This process may be automated.

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:

Commodity barrier call option (held one day)		
Underlying Commodity price:	*P*	8200
Knock-out Level:	*K*	8105
Barrier distance:	*D = P - K*	95
Knock-out premium (points):	*p*	5
Commission (per contract):	*c*	€0.1
Number of Contracts:	*N*	100
Difference between Price and K.O. (€):	*DPK = D x N*	*€9,500*
Upfront paid K.O. premium (€):	*UK = p x N*	*€500*
Notional value (€):	*NR = DPK + UK*	*€10,000*

Table 1

LONG / SHORT 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.	
Stress	-100.00%	**- 10,010 EUR**
Unfavourable	-40.00%	**- 4,000 EUR**

Moderate	1.14%	**114 EUR**
Favourable	14.66%	**1,466 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 client funds from its own money in accordance with the Securities Trading Act (WpHG).. IG also participates in the Securities Trading Companies Compensation Fund (Entschädigungseinrichtung der Wertpapierhandelsunternehmen (EdW), 10865 Berlin/Germany), which covers eligible investments up to 90% of the claim, maximum €20,000 per person, per firm. See http://www.e-d-w.de

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.

Trading a barrier option on an underlying commodity 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.
	Commission	The client is charged a separate commission, reflected on the client's ledger, at opening and closing of the trade.
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.
	Knock-out premium	A variable premium that is charged for the knock-out level being guaranteed when it is triggered. A client may also be charged part of the premium without the knock-out level being triggered, if the premium was higher on opening of the trade than on closing.
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?

Barrier options 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 barrier option on a commodity 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 the Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin). See

https://www.bafin.de/DE/DieBaFin/Kontakt/Verbraucher/verbraucher_node.html for further information.

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 (improve or get worse). Ensure your internet signal strength is sufficient before trading.

The terms and agreements 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.