Key Information Document – limited-risk CFD on a Bond

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.

CFDs are provided by **IG Markets Ltd (IG)**, a company registered in England and Wales, under number 04008957. IG is authorised and regulated by the Financial Conduct Authority (Register number 195355). See www.ig.com for more information or contact us on 0800 195 3100 or +44 207 896 0079.

This document was created/last updated on 1 October 2019.

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

What is this product?

Type

A CFD is a leveraged contract entered into with IG on a bilateral basis. It allows an investor to speculate on rising or falling prices for an underlying bond.

An investor has the choice to buy (or 'go long' on) the CFD to benefit from rising bond prices; or to sell (or 'short') the CFD to benefit from falling bond prices. The price of the CFD is derived from the underlying bond future.

For instance, if an investor is long the German Bund CFD and the price of the underlying bond future rises, the value of the CFD will increase. At the end of the contract, IG will pay the difference between the closing value of the contract and the opening value of the contract. Conversely, if an investor is long and the price of the underlying bond future falls, the value of the CFD will decrease. At the end of the contract, the investor will pay IG the difference between the closing value of the contract and the opening value of the contract.

The leverage embedded within all CFDs has the effect of magnifying both profits and losses.

All limited-risk CFDs 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 CFD is to allow an investor to gain leveraged exposure to the movement in the value of the underlying bond (whether up or down), without needing to buy or sell the underlying bond.

The exposure is leveraged since the CFD only requires a small proportion of the notional value of the bet to be put down as initial margin.

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

1. (Number of contracts x contract size x stop distance) + (limited risk premium x contract size)
2. Number of contracts x contract size x price x margin rate

As an example, if an investor buys one CFD contract with a contract value of £10, with an initial margin of 20% and an underlying bond price of 12000. A guaranteed stop is placed 90 points away and there is a 4-point limited risk premium.

The margin would be calculated as follows:
Calculation 1: (1 x £10 x 90) + (4 x £10) = £940 margin
Calculation 2: 1 x £10 x 12000 x 20% = £24,000 margin
Therefore, the margin requirement is £24,000 (the larger figure of the two).

The margin rate for a limited-risk CFD is the same as the margin rate for a non-limited-risk CFD, in this case 20% of the total exposure. The total exposure or 'notional value' of the contract is £120,000 (12000 x £10). This shows the effect of leverage, in this case 5:1 (1 / 20%).

As the contract size for this market is £10, for every point the underlying market moves the CFD will change in value by £10. For instance, if an investor is long and the market increases in value, a £10 profit will be made for every one-point increase in the market. If the market decreases in value, a £10 loss will be incurred for each point the market decreases. Conversely, if an investor were to hold a short position, a profit is made in line with any decreases and a loss for any increases in the market.

Additional funds may need to be deposited in the case of negative price movement. Failure to do so may result in the CFD being auto-closed.

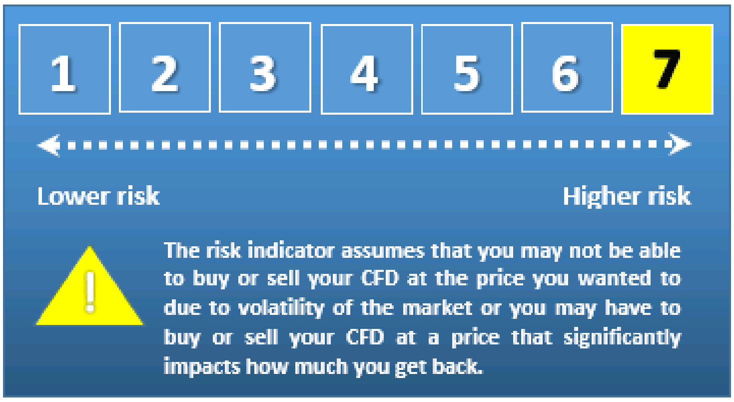
Spot and Futures contracts have a pre-defined maturity date but can be exited prior to this date. In the case of futures contracts, transactions will be automatically rolled over into the next period – ie, from a March expiry into a June expiry, unless you opt out. There is no recommended holding period. 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.

IG also retains the ability to terminate any CFD where it deems that the terms of the contract have been breached.

Intended retail investor
CFDs are intended for investors who have knowledge of, or experience with, leveraged products. Likely investors will understand how the prices of CFDs are derived, the key concepts of margin and leverage, and that losses may exceed deposits in a given position. They will understand the risk/reward profile of the product compared to traditional share dealing, and desire short-term, high-risk exposure to an underlying asset. Investors will also have appropriate financial means, hold other investment types and have 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.

CFDs 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. Please note that without this protection, losses can exceed the amount invested in a given position. There is no capital protection against market risk, credit risk or liquidity risk. **It may be possible to lose the total balance on your account.**

Be aware of currency risk. It is possible to buy or sell CFDs 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 CFD trade is closed at less favourable price, which could significantly impact how much you get back. We may close your open CFD 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 ‘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 CFD. 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:

Bond (spot) CFD (held intraday)		
Bond opening price:	***P***	12000
Trade size (per CFD):	***TS***	10 (10 x £1 contracts)
Margin %:	***M***	20%

Margin requirement (£):	***MR = P x TS x M***	£24,000
Notional value of the trade (£):	***TN = MR/M***	£120,000
Guaranteed stop-loss level	***GSL***	90 points away
Guaranteed stop premium	***GSP***	4

Table 1

LONG Performance scenario	Closing price (inc. spread)	Price change	Profit/loss	SHORT Performance scenario	Closing price (inc. spread)	Price change	Profit/loss
Stress	11400	-5.0%	**-£940**	Stress	12600	5.0%	**-£940**
Unfavourable	11820	-1.5%	**-£940**	Unfavourable	12180	1.5%	**-£940**
Moderate	12060	0.5%	**£600**	Moderate	11940	-0.5%	**£600**
Favourable	12180	1.5%	**£1800**	Favourable	11820	-1.5%	**£1800**

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 UK FCA's client asset rules. IG also participates in the UK's Financial Services Compensation Scheme (FSCS) which covers eligible investments up to £85,000 per person, per firm. See www.fscs.org.uk.

What are the costs?

Trading a CFD on an underlying bond incurs the following costs:

This table shows the different types of cost categories and their meaning			
Spot 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. A currency conversion fee will be charged to your account as a result.
	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.
Spot 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 may cost.
Futures only	**Other costs**	**Rollover costs**	We charge you to roll over a futures contract 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?

CFDs 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 CFD on a bond 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 195 3100, 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 Financial Ombudsman Service (FOS). See www.financial-ombudsman.org.uk 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 FOS.

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 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.

The information tab on the platform deal ticket contains additional information about trading on an underlying bond.