Key Information Document – commodity vanilla 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.

Vanilla options are provided by **IG Europe GmbH ("IGE"),** a company incorporated in the Federal Republic of Germany and registered in the Düsseldorf Trade Register under number HRB80754. IGE 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

Options are a financial derivative instrument that give the buyer 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 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 the underlying price to rise by no further than the strike price plus premium it was sold for. 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 the underlying price to fall no further than the strike price minus the premium it was sold for. 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 underlying price is above the strike price. A put option is in-the-money when the underlying 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 December Oil – US Crude is currently trading at 6800 then the December Oil – US Crude 6700 call option has 100 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 commodity vanilla option is a financial derivative contract entered into with IG on a bilateral basis. It allows an investor to speculate on rising or falling prices (or volatility) in an underlying commodity. When trading on vanilla options with IG one owns the right to the OTC 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. At initiation and closing of a trade, the client is charged a separate commission. 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.

While the initial investment is equal to the total exposure of the trade when buying, it is important that clients are aware of the risks involved in trading options. When buying options there is a maximum loss, and 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 taken from the client when a buy is initiated, not held in reserve as margin and the client will own the option. Equally when a client sells an option, the premium will be given to the client, with a physical transfer of funds onto the client account. Selling an option will however incur a margin, which is displayed in the product details section of the website multiplied by the stake size.

Objectives
The objective of a commodity vanilla option is to gain access to the underlying commodity without actually trading the instrument. Options have several advantages over an actual commodity trade such as being potentially more cost-efficient, less risky for option buyers, and allowing the trader to employ more complex strategies such as trading on volatility.

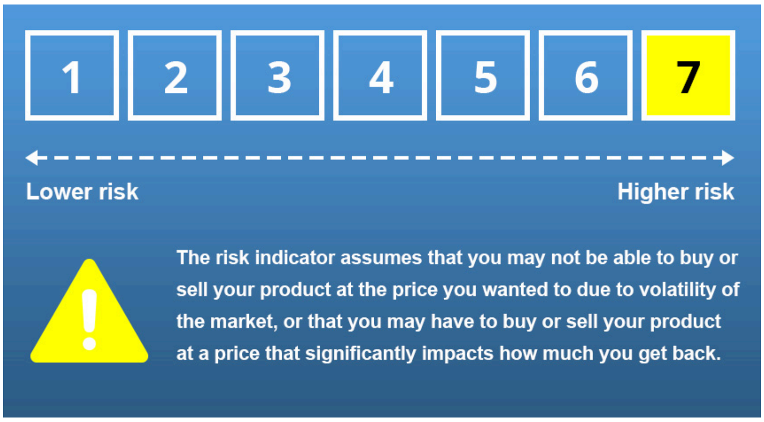
By way of example, if an investor buys 10 contracts of the December Oil – US Crude 6800 call option at a price of 20, the total investment will be $200 (20 x 10 contracts x $1 contract). As per the Black-Scholes model, for each one-point change in the price of the option so the value of the option position changes by $10. As previously stated this change in the options price may arise from a move in the underlying asset, a change in the volatility on the underlying asset, or both.

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 option position where it deems that the terms of the position have been breached.

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.

Vanilla options are leveraged products that, due to underlying market movement, can generate losses rapidly. Losses can exceed the amount invested and you may be required to deposit additional funds. There is no capital protection against market risk, credit risk or liquidity risk. **Be aware of currency risk.** Your profit and loss for a commodity vanilla option is always determined in the base currency of the contract. So when you buy or sell vanilla options on a commodity in a base 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.

In some circumstances, you may be required to make further payments to pay for losses. **The total loss you may incur may significantly exceed the amount invested.**

Market conditions may mean that your vanilla option trade on a commodity is closed at less favourable price, which could significantly impact how much you get back. We may close your open position if you do not maintain enough funds on the account to cover overnight funding charges, the above stated currency risk or 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 (in this case, an investment in a financial instrument) 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 vanilla option. 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:

Commodity vanilla option (held for one day)	
Based on Oil – US Crude data from 2013-09-02 to 2018-08-31 (inclusive)	
Spread:	2.8 points
Commission:	10c per lot

Table 1

LONG Performance scenario	Option value change	Total return on a 10k investment	SHORT Performance scenario	Option value change	Total return on a 10k investment
Favourable	114.66	21466.43	Favourable	115.89	21588.58
Moderate	-18.14	8185.88	Moderate	-18.17	8183.36
Unfavourable	-100	0	Unfavourable	-100	0
Stress	-100	0	Stress	-100	0

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 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?

Trading a vanilla 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	Upon entering and exiting a trade, the client is charged a separate commission fee.
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?

Vanilla 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 an Option trade 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/Verbraucher/BeschwerdenAnsprechpartner/Ansprechpartner/Schlichtungsstelle/schlichtungsstelle_artikel.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.

The product overview on our platform contains additional information on trading a vanilla option on an underlying commodity.