# Key Information Document – CFD 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.

CFD on an option is offered by **Spreadex Limited** ("Spreadex"), a company registered in England and Wales, number 03720378. Spreadex Limited is authorised and regulated by the Financial Conduct Authority in the United Kingdom, register number 190941. Call 01727 895000 or go to www.spreadex.com for more information.

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**You are about to purchase a complex product that may be difficult to understand.**

## What is this product?

### Type

An option is 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, on or before an agreed expiry date. We allow trading on two types of option. The buyer of a call has the right to buy the underlying asset. He is speculating that the price will rise. The buyer of a put has the right to sell the underlying asset. He is speculating that the price will fall.

The buyer of an option pays only a fixed premium but may make (theoretically) unlimited profits if the market goes his way. The seller of an option can at best make only the fixed premium but may face unlimited losses if the market goes against him.

The price of an option at any point in time depends on a number of factors: The price of the underlying asset; the agreed purchase or sale price; the time remaining to maturity; the expected volatility of the underlying asset price; risk free interest rates. The value of your CFD may be affected by changes in any of these factors.

When you trade with Spreadex, you are trading only a CFD. Your trade will be settled in cash according to the value of the option. You will not actually have the right or the obligation to undertake any trade in the underlying market.

Because the profit/loss profile is not symmetrical, the notional trading requirement varies according to whether you have bought or sold the option.

| 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 |

### Objectives

There are three potential objectives of trading a CFD on an option: 1) to limit risk, 2) protect against potential losses as part of a wider portfolio or 3) speculate. CFDs on options can allow an investor to gain leveraged 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 is leveraged since the CFD option only requires a small proportion of the notional value of the contract to be put down upfront as initial margin and is one of the key features of trading options. By way of example, if an investor buys 1 CFD contract of the October FTSE 7400 call option at a price of 20 the total investment will be £200 (20 x £10). As per the Black- Scholes model, for each 1 point change in the price of the option so the value of the option contract changes by £10. 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.

All options offered by Spreadex 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.

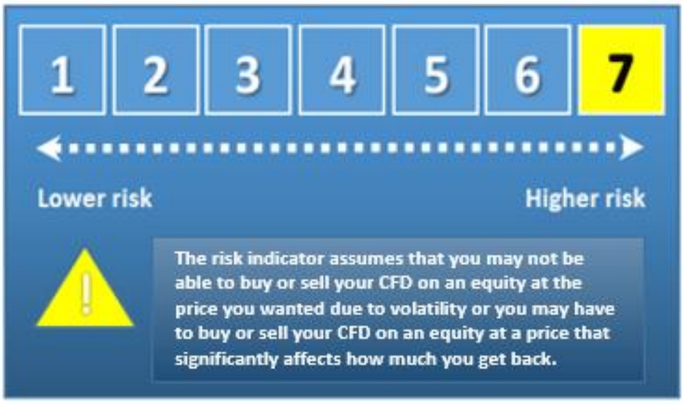
Failure to deposit additional funds in the case of negative price movement may result in the option being auto-closed. We will attempt to liquidate your positions if the value of your account falls to zero (or any pre-agreed credit limit). Spreadex also retains the ability to unilaterally terminate any CFD option contract where it deems that the terms of the contract have been breached.

**Intended Retail Investor**

CFD trading on options is intended for investors who have knowledge of, or are experienced with, leveraged products. Likely investors will have some understanding of how the prices of options are derived, the key concepts of margin and leverage and the fact that losses may exceed deposits. 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.

## 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 on 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**. It is possible to buy or sell a CFD 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.

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 CFD 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.

**Performance Information**

A CFD is a leveraged financial derivative that follows the price of an underlying financial market. A CFD will make gains or incur losses as a result of price movements in the underlying asset. A CFD will be quoted with a buy price and a sell price, with the difference being the spread fee. Spreads will affect the returns of your investment. The price of an option CFD may be affected by factors such as its strike price, volatility of the market, the remaining time until expiration and the price of the underlying instrument.

## What happens if Spreadex Limited is unable to pay out?

If Spreadex is unable to meet its financial obligations to you, you may lose the value of your investment. However, Spreadex segregates all retail client funds from its own money in accordance with the UK FCA's Client Asset rules. Spreadex 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 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 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 a CFD on an option and can I take my money out early?

CFDs on 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 CFD on an option at any time during market hours.

### How can I complain?

If you wish to make a complaint, you should contact our Customer Services Team on 01727 895000, by emailing info@spreadex.com or in writing to Spreadex Limited, Churchill House, Upper Marlborough Road, St Albans, Hertfordshire, AL1 3UU. If you do not feel that your complaint has been resolved satisfactorily, you may refer your complaint to the Financial Ombudsman Service (FOS). See www.financial-ombudsman.org.uk for further information. If your complaint is about an advisory or discretionary manager acting on your account, please contact the firm providing the service.

### 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 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. For retail clients, a mandatory margin close-out rule is applied on an account level basis. This means that when the value of your account (i.e., the net profit and loss, any deposited margin and any other funds) falls below 50% of the initial margin requirement (that was paid to enter into all of the open CFD and/or spread bet positions at any point in time), one or more of your CFD and/or spread bet positions will be closed out. We may set a higher percentage than 50%.

Retail clients who trade leveraged CFDs and spread bets have the benefit of negative account balance protection. Where this is the case, your liability will be limited to the funds in your account (which includes any funds that are not required to be maintained as margin to keep your positions open, regardless of whether those positions relate to this product).

You should ensure that you read the General Terms, including Risk Warning, Order Execution Policy and more which can be found in the Terms and Policies section of our website https://www.spreadex.com/financials/terms-and-conditions/. Such information is also available on request.