# Key Information Document

CFD on Options

**Key Information Document – CFD on 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.

CFDs are provided by **Monecor (London) Ltd**, the product manufacturer, a company registered in England and Wales, number 00851820. ETX Capital is a trading name of Monecor (London) Limited which is authorised and regulated by the Financial Conduct Authority in the United Kingdom, register number 124721. Call **+44 (0) 20 7392 1494** or go to www.etxcapital.com for more information. This document was created/last updated on 1 April 2020. **You are about to purchase a product that is not simple and may be difficult to understand.**

## What is this product?

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. CFD on Options is one of the contract for difference products which ETX Capital offers and these are over the counter financial products in which orders are executed outside a trading venue such as a regulated market within specific trading hours. The trading of a CFD will be performed by ETX Capital where it agrees to settle in cash the performance of the asset which the client decides to speculate on.

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. Price movements in the value of the underlying asset are measured in points. 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. 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.

A contract for difference ("CFD") on an option allows a client to speculate on rising or falling prices (or volatility) in an underlying instrument. When trading on options with ETX Capital one never actually owns the right to the option. Clients are speculating on the price and value of a particular option. A client has the choice to buy (or go "long") the option to benefit from rising prices in the underlying (or an increase in volatility). 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 and the volatility in the underlying market. All option prices are derived using the Black Scholes formula and the aforementioned parameters. For instance, if a client is long a FTSE 100 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 contract ETX Capital will pay the difference between the closing value of the contract and the opening value of the contract. Conversely, if a client is long and the price of the CFD option falls, at the end of the contract they will pay ETX Capital the difference between the closing value of the contract and the opening value of the contract. An options contract will have a pre-defined expiry date. The contract will automatically be closed out basis the pre-determined settlement rules on this pre-defined expiry date unless the contract is closed before by the client.

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.

## 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 a client to gain exposure to the movement in the value of the underlying instrument (whether up or down), without needing to buy or sell the underlying asset or constituent parts or to gain exposure to the volatility of the underlying instrument. ETX does not offer leverage on option CFDs.

As per the Black- 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 ETX Capital 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 client to determine the most appropriate holding period based on their own individual trading strategy and objectives. ETX does not offer writing (selling) for calls or puts on options.

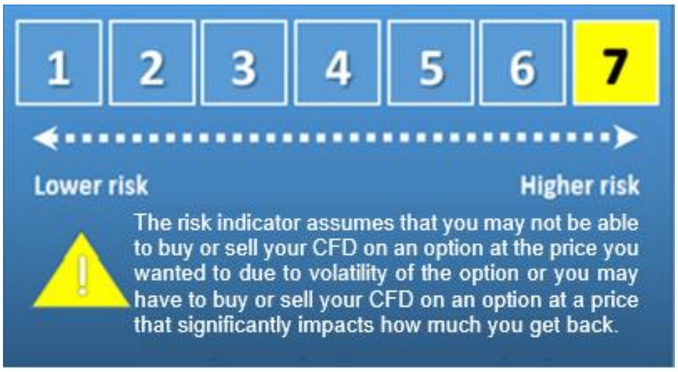
Failure to deposit additional funds in the case of negative price movement may result in the option being auto-closed. This will occur when losses exceed the initial margin amount. ETX Capital also retains the ability to unilaterally terminate any CFD option contract where it deems that the terms of the contract have been breached. For more information and examples of the key features of trading CFDs, please see the ETX website https://www.etxcapital.com/.

### Intended Retail Client

CFDs are intended for clients who have knowledge of, or experience with, leveraged products. Likely clients will understand how the prices of CFDs are derived, the key concepts of margin and leverage, and that losses may exceed deposits. 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. Clients 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 times of high volatility and or macroeconomic uncertainty, asset values may fluctuate significantly and adversely affect a client’s position. Such fluctuations can be even more significant in the case of leveraged products such as CFDs.

## 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.

ETX does not offer leverage on option CFDs. The client is required to hold the full notional value of the option position at current market value. There is no capital protection against market risk, credit risk or liquidity risk. The risks included in this paragraph are non-exhaustive and a comprehensive description of the risks involved can be found at ETX Risk Warning Notice. www.etxcapital.com/en-gb/legal/risk-warning-notice. **Losses may be incurred. Retail clients are subject to negative balance protection and your losses cannot exceed the amount invested.**

**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.

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.

For all retail clients, a margin close-out protection is applied on an account level basis. This means that when the value of the account falls below 100% of the initial margin requirement (that was paid to enter into a CFD positions at any point in time), one or more CFDs positions will be closed out as soon as market conditions allow.

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. 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, and are not an exact indicator. What you get will vary depending on how the market performs and how long you hold the CFD option.
For example, if a client buys £10 per point of the March 2018 FTSE 7500 call option at a price of 160. The total investment will be £1600 (£10 x 160). For each 1 point change in the price of the option the value of the option position changes by £10.

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

| CFD Option | | |
|---|---|---|
| Option type and Strike: | S | 7500 Call |
| Current Option price: | Y | 160 |
| Trade size (per CFD): | TS | £10 |
| Margin %: | M | 100% |
| Notional value of the trade (£): | TN = Y x TS | £1600 |
| Long margin Requirement (£): | MR = (Y x TS) x M | £1600 |

**Table 1:**

| Buying a Call Long Performance Scenario | Closing Price (Inc. Spread) | Price Change | Profit/Loss |
|---|---|---|---|
| Favourable | 200 | 25% | £400 |
| Moderate | 168 | 5% | 80 |
| Unfavourable | 144 | -10% | -£160 |
| Stress | 112 | -30% | -£480 |

The figures shown an example of a trade 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. For more information and examples please see the ETX website. https://www.etxcapital.com/

## What happens if ETX Capital is unable to pay out?

If ETX Capital is unable to meet its financial obligations to you, you may lose the value of your investment. However, ETX Capital segregates all retail client funds from its own money in accordance with the UK FCA's Client Money Rules. ETX Capital 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 one-off, ongoing, incidental and other costs. The following costs and charges will reduce any net profit or increase your losses.

| This table shows the different types of cost categories and their meaning | | |
|---|---|---|
| One-off entry and exit costs | 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. |
| 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. |
| Incidental costs | Distributor fee | We may from time to time where permitted by applicable law share a proportion of our spread, commissions and other account fees with other persons including a distributor that may have introduced you. |

| | | |
|---|---|---|
| Other costs | Rollover costs | We charge you to roll over a futures contract into the next month or quarter, equal to half 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 longer term investment. 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. Please note that a fee charge to your account will be applied for each overnight position carried over.

### How can I complain?

If you wish to make a complaint, you should contact our Client Management Team on**+44 (0) 20 7392 1494** , by emailing customer.service@etxcapital.com or in writing to 26 Finsbury Square, London, EC2A 1DS. 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. For further details please refer to our Complaints Handling Policy at: https://www.etxcapital.com/en-gb/legal/complaints-procedure.

### 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 Legal section of our website contains important information regarding the terms and conditions relating to your trading with ETX Capital. You should ensure that you are familiar with all the terms and any other policies that apply to your account. www.etxcapital.com/en-gb/legal/customer-terms-and-conditions.