



Key Information Document – Spread Bet 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.

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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 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. 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. 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. 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 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. For example, if the December FTSE is currently trading at 7500 then the December FTSE 7400 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 spread bet on an option is a position entered into with IG on a bilateral basis. It allows an investor to speculate on rising or falling prices (or volatility) in an underlying instrument. This may be an index, FX pair, commodity, interest rate or individual equity. When trading on options with IG one never actually owns the right to the option. Clients are speculating on the price and value of a particular 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. For instance, if an investor 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 position IG will pay the difference between the closing value of the position and the opening value of the position. Conversely, if an investor is long and the price of the option falls, at the end of the position they will pay IG the difference between the closing value of the position and the opening value of the position. 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.

As the initial investment is equal to the total exposure of the trade when buying a spread bet on an option is not classed as a leveraged product. It is important that clients are aware of the risks involved in trading options. 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.

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 placing a spread bet on an option: 1) to limit risk, 2) protect against potential losses as part of a wider portfolio or 3) speculate. Spread bets on options can allow an investor to gain 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 when buying is not leveraged since the spread bet option only requires the full notional value of the position to be put down upfront as initial margin. By way of example, if an investor buys £10 per point 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 position 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 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 spread bet option position where it deems that the terms of the position have been breached.

Intended Retail Investor

Placing a spread bet on 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, and the fact that when selling options, potential losses are not limited to the option premium. 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.

Spread bets on options are products that, due to underlying market movement, can generate losses rapidly. When selling an option, losses can exceed the amount invested in a given position and you may be required to deposit additional funds in order to maintain your positions. There is no capital protection against market risk, credit risk or liquidity risk. **It is possible to lose all of the money on your account.**

Be aware of currency risk. It is possible to place a long or short spread bet 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 spread bet 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 (see the section “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 spread bet 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:

UK

FTSE Index spread bet Option (held intraday)		
Underlying Index price:	P	7500
Option type and Strike:	S	7,600 Call
Option price:	Y	100
Trade size :	TS	£10
Margin %:	M	20%
Short Margin Requirement (£):	$MR = P \times TS \times M$	£15,000
Notional value of the trade (£):	$TN = MR/M$	£75,000
Long margin Requirement (£):	$MR = Y \times TS$	£1,000

Table 1

LONG Performance scenario	Closing price (inc. spread)	Price change	Profit/loss	SHORT Performance scenario	Closing price (inc. spread)	Price change	Profit/loss
Favourable	125	25%	£250	Favourable	70	-30%	£300
Moderate	105	5%	£50	Moderate	90	-10%	£100
Unfavourable	90	-10%	-£100	Unfavourable	105	5%	-£50
Stress	70	-30%	-£300	Stress	125	25%	-£250

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 £50,000 per person, per firm. See www.fscs.org.uk.

What are the costs?

Placing a spread bet 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, 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.

How long should I hold it and can I take money out early?

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 spread bet on an option 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 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 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.