



Key Information Document – spread bet on a Commodity

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.

Spread bets are provided by **IG Index Ltd (IG)**, a company registered in England and Wales, under number 01190902. IG is authorised and regulated by the Financial Conduct Authority (Register number 114059). See www.ig.com for more information or contact us on 0800 195 3100 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

A spread bet is a leveraged financial derivative entered into with IG on a bilateral basis. It allows an investor to speculate on rising or falling prices in an underlying commodity.

An investor has the choice to buy (or 'go long' on) the spread bet to benefit from rising commodity prices; or to sell (or 'short') the spread bet to benefit from falling commodity prices. The price of the spread bet is derived from the price of the underlying commodity price, which may be either the current ('cash') price or a forward ('future') price.

For instance, if an investor is long an Oil – US Crude spread bet, and the price of the underlying future rises, the value of the spread bet will increase. At the end of the contract, IG will pay the difference between the closing value of the bet and the opening value of the bet. Conversely, if an investor is long and the price of Oil – US Crude falls the value of the spread bet will decrease. At the end of the contract, the investor will pay IG the difference between the closing value of the bet and the opening value of the bet.

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

Objectives

The objective of the spread bet is to allow an investor to gain leveraged exposure to the movement in the value of the underlying commodity (whether up or down), without needing to buy or sell the underlying commodity. The exposure is leveraged since the spread bet only requires a small proportion of the notional value of the bet to be put down as initial margin.

As an example, if an investor buys a spread bet worth £1 per point, with an initial margin of 10% and an underlying commodity price of 6000, the initial investment will be £600 (10% x 6000 x 1). However, the notional value of the bet is £6,000 (6000 x £1). This shows the effect of leverage, in this case 10:1 (1 / 10%). This means that for each one-point change in the price of the underlying commodity, the value of the spread bet changes by £1.

For instance, if the investor is long and the market increases in value, a £1 profit will be made for every one-point increase in the market. However, if the market decreases in value, a £1 loss will be incurred for each point the market decreases in value. Conversely, if an investor holds 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 spread bet being auto-closed. IG also retains the ability to terminate any spread bet where it deems that the terms of the bet have been breached.

Spot and futures spread bets have a pre-defined maturity date but can be exited prior to this date. In the case of futures spread bets, 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, 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.

Intended retail investor

Spread bets are intended for investors who have knowledge of, or experience with, leveraged products. Likely investors will understand how the prices of spread bets 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.

Spread bets are leveraged products that, due to underlying market movement, can generate losses rapidly. Losses can exceed the amount initially 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 the total balance on your account.**

Be aware of currency risk. It is possible to buy or sell spread bets 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 trade is closed at less favourable price, which could significantly impact how much you get back. We may close your open spread bet 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 spread bet. 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 (spot) spread bet (held intraday)		
Commodity opening price:	P	6000
Trade size (£/pt):	TS	£2 per point
Margin %:	M	10%
Margin Requirement (£):	$MR = P \times TS \times M$	£1,200
Notional value of the trade (£):	$TN = MR/M$	£12,000

Table 1

LONG Performance scenario	Closing price (inc. spread)	Price change	Profit/loss	SHORT Performance scenario	Closing price (inc. spread)	Price change	Profit/loss
Stress	5700	-5.0%	-£600	Stress	6300	-5.0%	-£600
Unfavourable	5910	-1.5%	-£180	Unfavourable	6090	-1.5%	-£180
Moderate	6030	0.5%	£60	Moderate	5970	0.5%	£60
Favourable	6090	1.5%	£180	Favourable	5910	1.5%	£180

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 spread bet on an underlying commodity 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?

Spread bets 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 spread bet 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 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 (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 information tab on the platform deal ticket contains additional information about trading on an underlying commodity.