



# Merchant Securities

## *Trading Services (CFDs)*

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### CONTRACTS FOR DIFFERENCES - FACTSHEET

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#### [Introduction](#)

Contracts for differences (CFDs) are an agreement between two parties to exchange, at the close of the contract, the difference between the opening price and the closing price, multiplied by the number of reference shares specified within the contract.

The reference shares are the underlying shares specified in the CFD. The performance of the CFD is determined by the performance of the underlying reference share.

#### [Risk Warnings](#)

CFD trading carries a high level of risk, therefore you should only speculate with money you can afford to lose. CFD prices can be very volatile and the resulting losses may require further payments to be made. It is not suitable for all customers and requires that you fully understand the risks involved, seeking independent advice if necessary.

#### [Trading CFDs](#)

Trading CFDs is similar to trading equities. When opening a position you will be quoted a bid and an offer price of the relevant stock exchange which may be adjusted to reflect orders that are greater than the underlying market liquidity. You will then be asked how many CFDs you would like to trade and whether you would like to trade long or short. On opening and closing a position you will be charged a commission. However unlike equities CFDs do not currently attract UK Stamp Duty (tax laws may change), since you do not physically own the underlying equity but rather a derivative that moves in line with underlying investment.

How CFDs do differ from equity trading is that when opening a position you are not required to pay for the full value of the trade but rather you are required to deposit collateral, known as the Initial Margin or Notional Trading Requirement (NTR).

The NTR is calculated as a percentage of the total value of the trade. The amount of NTR varies but is typically 20%. If all your trades were eligible for a 20% margin, you could hold positions worth a total of £50,000, having deposited only £10,000. You would therefore gain five times leverage (or gearing) on the collateral provided.

#### [Financing](#)

Financing is charged on all open positions held overnight and is levied on the total value of the position. For long positions your account will be debited the financing fee, whereas with short positions you will receive the financing fee (subject to interest rate levels). This is only paid when a position is held overnight and paid to your account daily.

Interest is charged at a spread over LIBOR. For example, a long CFD funding charge of 3% over LIBOR, and LIBOR was, say, 5.25%, you would be paying a funding rate of 8.25% per annum. If the contract value were, £100,000, the funding charge would be £22.60 for every day the contract is open. This amount is automatically debited on a daily basis from your CFD account.

If you hold any short CFD positions, we pay you interest on the cash that the sale of the underlying stock would have generated when you open the position.

The CFD based currency is sterling.

### Dividend Adjustments (equity and equity related CFDs)

A dividend adjustment is credited to long positions and debited from short positions held at the close of business on the day before the ex-dividend date. Payment is credited or debited to your account on the ex-dividend date.

### Corporate Actions (equity and equity related CFDs)

In the event of a corporate action CFD positions will be adjusted (for example a rights issue). The adjustment will be to replicate the corporate action on the underlying equity. This will apply to positions held at the close of business on the preceding business day to the ex-corporate action date.

### Trade Example - Opening a long position

A long CFD Position on ABC Plc

You decide to buy ABC Plc. A Merchant Securities CFDs trader quotes you 848/850 and you buy CFD on 2000 shares at 850p. You pay no UK Stamp Duty\*.

#### **Opening Trade**

Price of ABC Plc	850
Number of Shares	2,000
Value of Shares	£17,000.00
UK Stamp Duty	£0.00*
Commission	£85.00 (0.5%)
NTR Required (20%)	£3,400.00
Initial Investment	£3,485.00

\* Tax laws may change

#### **Daily Financing:**

On a nightly basis you pay financing for this position based on sterling LIBOR and the daily closing value of the shares. Your financing rate might be LIBOR + 3.00%.

Assume that this equates to a financing rate of (5.25%+3.00%) 8.25%, and the closing price for the day is 850p.

You will pay  $2000 \times 850p \times 8.25\% / 365 = £3.84$  for holding the position overnight. This will be debited from your account on the next trading day.

15 days later ABC Plc is quoted at 900/902 and you sell a CFD on 2000 shares at 900p.

#### **Closing Trade**

Price of ABC Plc	900
Number of Shares	2,000
Value of Shares	£18,000.00
Commission	£90.00 (0.50%)
Difference in share value	£1,000.00
Total Commission	(175.00)
Financing (15 days)	(£57.60)
Overall Profit on Trade	£767.40

## Trade Example - Opening a short position

A short CFD Position on XYZ Plc

You decide to sell XYZ Plc. A Merchant Securities CFDs trader quotes you 193/195 and you sell CFD on 10,000 shares at 193p. You pay no UK Stamp Duty\*.

### **Opening Short Trade**

Price of XYZ Plc	193
Number of Shares	10,000
Value of Shares	£19,300.00
UK Stamp Duty	£0.00*
Commission	£96.50 (0.5%)
NTR Required (20%)	£3,860.00
Initial Investment	£3,956.50

\* Tax laws may change

### **Daily Financing**

On a nightly basis you receive financing for this position based on sterling LIBOR and the daily closing value of the shares. Your financing rate might be LIBOR - 3.00%.

Assume that this equates to a financing rate of (5.25%-3.00%) 2.25%, and the closing price for the day is 193p.

You will receive  $10,000 \times 193p \times 2.25\% / 365 = £1.19$  for holding the position overnight. This will be credited to your account on the next trading day.

3 days later, XYZ Plc is quoted 1.50/1.52 and you buy back to cover your short position a CFD on 10,000 shares at 1.52p.

### **Closing Short Trade**

Price of XYZ Plc	152
Number of Shares	10,000
Value of Shares	£15,200.00
Commission	£76.00 (0.50%)
Difference in share value	£4100.00
Total commission	£172.50
Financing (3 days)	£3.57
Profit on Trade	£3,931.07

## [How do CFDs compare with traditional share dealing?](#)

As CFDs are margin traded, your deposit can allow you to take a larger position than you would if you were purchasing ordinary equities, offering you a much greater return on your investment. Here is an example of a CFD deal compared to any equity deal, using the above long trade example. In this case, the investor has used the same amount for a CFD deposit to buy ordinary shares instead.

<b>Opening the position:</b>	<b>CFD Deal</b>	<b>Equity Deal</b>
Share price ABC plc	850p	850p
Number of shares	2,000	400
Value of shares	£17,000.00	£3,400.00
Commission	£85.00 (0.5%)	£62.90 (1.85%)
Stamp Duty	£0.00	£17.00
Total value of transaction	£17,085.00	£3,479.90
NTR required (20%)	£3,400.00	£0
Initial investment	£3,485.00	£3,479.90

<b>Closing the position:</b>	<b>CFD Deal</b>	<b>Equity Deal</b>
Share price ABC plc	900p	900p
Number of shares	2,000	400
Value of shares	£18,000.00	£3,600.00
Commission	£90.00 (0.5%)	£66.60 (1.85%)
Difference in share value	£1,000.00	£200.00
Financing (15 days)	£57.60	£0
Profit (difference less charges)	<b>£767.40</b>	<b>£ 53.50</b>
Percentage return on initial investment	<b>22.02%</b>	<b>1.54%</b>

As shown above, for the same initial outlay (excluding charges), you can acquire a much larger position, and make a greater profit.

**Please note: that in the above example, any losses would be equally multiplied.**

Merchant Securities Trading Services (CFDs) is a trading name of IG Markets Ltd

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