

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 **GAIN Capital UK Limited** (“GAIN”, “we” or “us”), a company registered in England and Wales, number 1761813. City Index is a trading name of GAIN Capital UK Limited which is authorised and regulated by the Financial Conduct Authority in the United Kingdom, register number 113942. Call 0845 355 0801 or go to www.cityindex.co.uk for more information.

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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 contract for difference (“CFD”) on an option is a leveraged contract entered into with GAIN 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 GAIN 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 rising prices in the underlying (in the case of a call) or an increase in volatility; or to sell (or go “short”) the option to benefit from falling prices in the underlying (in the case of a call), or a fall 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 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 contract GAIN will pay the difference between the closing value of the contract and the opening value of the contract. Conversely, if an investor is long and the price of the CFD call option falls, at the end of the contract they will pay GAIN 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.

The leverage embedded within all CFDs on options has the effect of potentially magnifying losses when selling options. 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 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 GAIN 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.

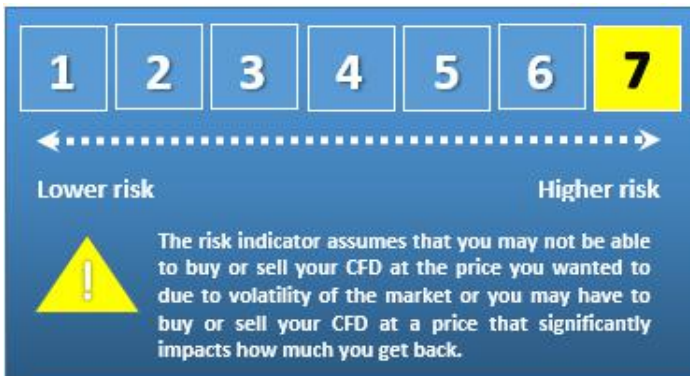
Failure to deposit additional funds in order to meet the margin requirement as a result of a negative price movement may result in the option being auto-closed. This will occur when losses exceed the initial margin amount. GAIN also retains the ability to unilaterally terminate any CFD option contract 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 and who are looking to gain a short-term exposure to financial instruments. Likely investors will have some understanding of how the prices of options are derived, the key concepts of margin and leverage. 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.

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 highest level.

CFDs on options are leveraged products that, due to underlying market movement, can generate losses rapidly. There is no capital protection against market risk, credit risk or liquidity risk. Even though losses may be incurred, Retail clients are subject to negative balance protection which means that 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 GAIN, 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 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. 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:

FTSE Index CFD Option (held intraday)		
Underlying Index price:	P	7500
Option type and Strike:	S	7500 Call
Option price:	Y	100
Trade size (per CFD):	TS	1 lot (£10)
Margin %:	M	5%
Short Margin Requirement (£):	$MR = P \times TS \times M$	£3750
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 GAIN is unable to pay out?

If GAIN is unable to meet its financial obligations to you, you may lose the value of your investment. However, GAIN segregates all retail client funds from its own money in accordance with the UK FCA's Client Asset rules. GAIN 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?

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 it and can I take 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 Client Management Team on 0845 355 0801, by emailing support@cityindex.co.uk or in writing to GAIN Capital UK Limited, Park House, 16 Finsbury Circus, London EC2M 7EB. 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.

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.

Our Market Information sheets contain additional information on trading a CFD on an underlying option. These can be found on the trading platform.

For retail clients, a margin close out rule is applied on an account level basis. This means that when the value of the account falls below 50% of the initial margin requirement (that was paid to enter into all of the open CFD positions at any point in time), one or more CFD positions will be closed out. We may set a higher percentage than 50%.

CFDs are complex instruments and come with a high risk of losing money rapidly due to leverage. **70% of retail investor accounts lose money when trading CFDs with this provider.** You should consider whether you understand how CFDs work and whether you can afford to take the high risk of losing your money.