# CITY INDEX 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.

## Product

Spread bets on an option are offered by **StoneX Financial Ltd** ("SFL", "we" or "us"), a company registered in England and Wales with registration number 05616586. City Index is a trading name of StoneX Financial Ltd which is authorised and regulated by the Financial Conduct Authority in the United Kingdom with reference number 446717. 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 the buyer the right, but not the obligation, to purchase or sell an underlying asset at a specified price, known as the strike price, before a certain expiry date. The buyer of an option pays an upfront amount (known as the 'premium') to the seller, which is the purchase price for the option.

Options are a versatile financial instrument that can be broken down into two forms: calls and puts. A buyer of a call option has the right to buy an underlying asset for a given price within a given period of time. Buyers (or 'holders') of call options are speculating on an increase in the price of the underlying asset. Sellers (or 'writers') of call options are speculating on a fall in the price of the underlying asset (or for it to remain below the strike price).

A buyer of a put option has the right to sell an underlying asset for a given price within a given period of time. Buyers of put options are speculating on a fall in the price of the underlying asset. Sellers of put options are speculating on a rise in the price of an underlying asset (or for it to remain above the strike price).

Selling options carries inherent risks. A worst-case scenario for a seller of a call option is for the price of the underlying asset to rise far more than the premium that the seller has received. A worst-case scenario for a seller of a put option is for the price of the underlying asset to fall far more than the premium that the seller has received.

A call option is 'in-the-money' if the underlying asset price is above the strike price and is 'out-of-the-money' when it is below the strike price. A put option is 'in-the-money' when the underlying asset price is below the strike price and is 'out-of-the-money' when it is above the strike price. An option is 'at-the-money' when the price of the underlying asset is at or very close to the strike price. The amount by which an option is in-the-money is referred to as the intrinsic value.

A spread bet ("SB") on an option is a leveraged contract entered into with SFL on a bilateral basis. It allows an investor to speculate on rising or falling prices (or volatility) of an option on an underlying market. This may be an index, FX pair, commodity, interest rate or individual equity. An investor in a SB on an option does not actually own the option itself. Rather, investors are speculating on the price of that option.

An investor has the choice to buy (or go "long") the SB to benefit from rising options prices or to sell (or go "short") the SB to benefit from falling options prices (in the case of a call).

The price of an option is derived from a number of factors, such as the price of the asset underlying the option (which may be either the current ("cash") price or a forward ("future") price of the asset), the time remaining until the option expires, the expected future volatility of the price of the asset underlying the option, interest rates and whether the asset underlying the option pays any dividends or interest. Option prices are derived using models (such as Black Scholes) and the aforementioned factors.

For instance, if an investor is long a SB on a FTSE 100 call option and the value of the option increases due to an increase in the FTSE 100 or a rise in the expected volatility of the FTSE 100, at the end of the contract SFL will pay the difference between the closing value of the contract and the opening value of the contract. Conversely, if an investor is long a SB on a call option and the price of the call option falls, at the end of the contract the investor will pay SFL 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. SBs on options will automatically be terminated on the pre-defined expiry date unless the contract is closed before by the client.

The leverage embedded within SBs on options has the effect of potentially magnifying losses when selling options. It is important that investors are aware of the risks involved in trading SBs on options. A buyer of a SB on an option has

a maximum potential loss equal to the premium paid for the option and has an unlimited profit potential. A seller of a SB on an option has a maximum potential profit equal to the premium received for selling the option and has an unlimited maximum potential loss. When selling SBs on options, the margin requirement is equal to the underlying asset's margin factor multiplied by the stake size.

| Position | Required margin |
|---|---|
| Long Call | Stake size x option premium |
| Long Put | Stake size x option premium |
| Short Call | Stake size x underlying margin factor |
| Short Put | Stake size x underlying margin factor |

**Objectives**

There are three potential objectives when trading a SB on an option: (1) to hedge a particular risk; (2) to protect against potential losses as part of a wider portfolio; or (3) to speculate on a particular underlying asset. SBs on options can allow an investor to gain leveraged exposure to the movement in the value of an option (whether up or down), without actually needing to buy or sell the underlying option or the asset underlying the option. The exposure is leveraged since the SB requires a proportion of the notional value of the contract to be paid up front as initial margin and is one of the key features of trading SBs. By way of example, if an investor buys a £10 per point SB on 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, and therefore the SB, will change by £10. This change in the price of the option may arise from a change in the price of the FTSE 100 or a change in the expected volatility of the FTSE 100 or both.

All SBs on options offered by SFL have a pre-defined expiry date, which is the expiry date of the underlying option. As a result, 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.

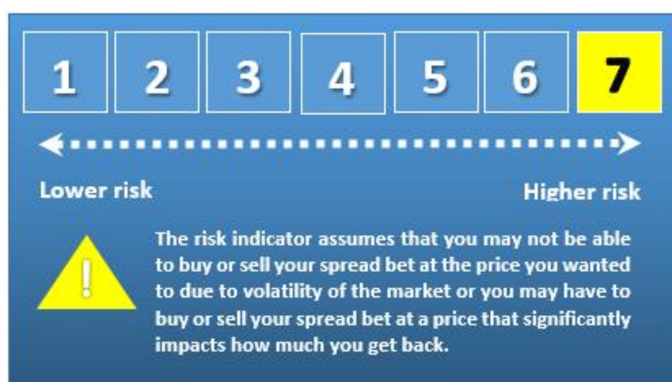
Failure to deposit additional funds in order to meet the margin requirement as a result of a negative price movement may result in the option being automatically terminated by SFL. This will occur when losses exceed the initial margin amount. SFL also retains the ability to unilaterally terminate any SB contract and any of your other open positions where certain events of default have occurred with respect to you (e.g., failing to maintain sufficient margin in your account).

**Intended Retail Investor**

SBs on options are intended for investors who have knowledge of, or are experienced with, leveraged products and who are looking to gain a short-term exposure to the market underlying the option. Likely investors will understand how the prices of options are derived and the key concepts of margin and leverage. They will understand the risk/reward profile of the product compared to trading in the asset underlying the option directly. 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 high level.

Spread bets 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 funds in your account (which includes any funds that are not required to be maintained as margin to keep your positions open).

**Be aware of currency risk.** It is possible to place a long or short spread bet on an option that is denominated 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 SB 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 SFL, 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 relevant 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:

| FTSE Index spread bet Option (held intraday) | | |
|---|---|---|
| **Underlying Index price:** | **P** | 7500 |
| **Option type and Strike:** | **S** | 7500 Call |
| **Option price:** | **Y** | 100 |
| **Trade size :** | **TS** | £10 |
| **Margin %:** | **M** | 5% |
| ***Short Margin Requirement (£):*** | ***MR = P x TS x M*** | *£3750* |
| ***Notional value of the trade (£):*** | ***TN = MR/M*** | *£75,000* |
| ***Long margin Requirement (£):*** | ***MR = Y x 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 SFL is unable to pay out?

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

SBs 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 spread bet 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 StoneX Financial Ltd, Devon House, 58 St Katherine's Way London, E1W 1JP. 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 the City Index 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 Market Information Sheets contain additional information on trading a SB on an underlying option. These can be found on the trading platform.

For retail clients, a mandatory margin close-out rule is applied on an account level basis. This means that when the value of your account (i.e., the net profit and loss, any deposited margin and any other funds) falls below 50% of the initial margin requirement (that was paid to enter into all of the open CFD and/or spread bet positions at any point in time), one or more of your CFD and/or spread bet positions will be closed out. We may set a higher percentage than 50%.

Retail clients who trade leveraged CFDs and spread bets have the benefit of negative account balance protection. Where this is the case, your liability will be limited to the funds in your account (which includes any funds that are not required to be maintained as margin to keep your positions open, regardless of whether those positions relate to this product).

Spread bets are complex instruments and come with a high risk of losing money rapidly due to leverage. **69% of retail investor accounts lose money when trading spread bets with City Index.** You should consider whether you understand how spread bets work and whether you can afford to take the high risk of losing your money.