Key Information Document – CFD 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: CFD on an option

Manufacturer of the Product: StoneX Financial Ltd, a company registered in 120 London Wall Moor House, 1st Floor London, EC2Y 5ET United Kingdom, number 05616586 and is authorized and regulated by the Financial Conduct Authority with reference number 446717.

Distributor of the Product: StoneX Europe Ltd ("SEL", "we" or "us"), a company registered in Cyprus, number HE 409708. StoneX Europe Ltd which is authorised and regulated by the Cyprus Securities and Exchange Commission. Call +357 22090062 or go to www.FOREX.com/ie 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 contract for difference ("CFD") on an option is a leveraged contract entered into with SEL 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 CFD 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 CFD to benefit from rising options prices or to sell (or go "short") the CFD 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 CFD 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 SEL 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 CFD on a call option and the price of the call option falls, at the end of the contract the investor will pay SEL 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. CFDs 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 CFDs 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 CFDs on options. A buyer of a CFD 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 CFD 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 CFDs on options, the margin requirement is equal to the underlying asset's margin factor multiplied by quantity.

Position	Required margin
Long Call	Quantity x option premium
Long Put	Quantity x option premium
Short Call	Quantity x underlying margin factor
Short Put	Quantity x underlying margin factor

Objectives

There are three potential objectives when trading a CFD 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. CFDs 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 CFD 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 CFDs. By way of example, if an investor buys 1 CFD contract on the US SP 500 call option at a price of €20 the total investment will be €20 (€20 x 1). As per the Black-Scholes model, for each 1 point change in the premium of the option, will change by €1. This change in the price of the option may arise from a change in the price of the US SP 500 or a change in the expected volatility of the US SP 500 or both.

Term

All CFDs on options offered by SEL 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 SEL. This will occur when losses exceed the initial margin amount. SEL also retains the ability to unilaterally terminate any CFD 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

CFDs 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.

There is no recommended or minimum holding period for this product. Please see below section: "How long should I hold it and can I take money out early?"
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 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 buy or sell a CFD 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 CFD 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 SEL, 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 CFD. 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:

Option CFD Assumptions (Long Call)		
Underlying Index price:	P	€5,570
Option Strike price:	S	€5,575
Opening Option Price Premium:	Y	€30
Closing Option Price Premium:	C	€35
Trade Size (Quantity):	Q	1
Opening Option Contract Premium:	OP= Y x Q	€30
Closing Option Contract Premium:	COP=C x Q	€35
Margin Requirement:	M = COP	€35
Profit or Loss:	PL= COP - OP	€5

Option CFD Assumptions (Short Call)		
Underlying Index price:	P	€5,570
Underlying Index margin %	M	5%
Option Strike price:	S	€5,575
Opening Option Price Premium:	Y	€30
Closing Option Price Premium:	C	€35
Trade Size (Quantity):	Q	1
Opening Option Contract Premium:	OP= Y x Q	€30
Closing Option Contract Premium:	COP=C x Q	€35
Margin Requirement:	M = P x M x Q	€278.5
Profit or Loss:	PL= OP - COP	-€5

LONG CALL Performance Scenario	Closing Price (inc. spread)	Price Change	Profit/Loss	SHORT CALL Performance Scenario	Closing price (inc. spread)	Price Change	Profit/Loss
Favorable	€30.45	1.5%	€0.45	Favorable	€29.55	-1.5%	€0.45
Moderate	€30.15	0.5%	€0.15	Moderate	€29.85	-0.5%	€0.15
Unfavorable	€29.55	-1.5%	-€0.45	Unfavorable	€30.45	1.5%	-€0.45
Stress	€28.5	-5%	-€1.5	Stress	€31.5	5%	-€1.5

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 SEL is unable to pay out?

If SEL is unable to meet its financial obligations to you, you may lose the value of your investment. However, SEL segregates all retail client funds from its own money in accordance with the CySEC Safeguarding of Clients Funds rules. SEL also participates in the Cyprus Investor Compensation Fund (ICF) which covers eligible investments up to €20,000 per person, per firm. See https://www.cysec.gov.cy/en-GB/complaints/tae/.

What are the costs?

Before you begin to trade CFDs on Options, you should familiarize yourself with all associated costs and charges for which you will be liable. These charges will reduce any net profit or increase your potential losses.

The tables below show the amounts that are taken from your investment to cover different types of costs. These amounts depend on how much you invest, how long you hold the product and how well the product does. The amounts shown here are illustrations based on an example of a notional investment amount of USD €30 and exit from the investment (closure of the position) on the same day.

CFD's on Options (US SP 500)

Costs Over Time			**If you exit (close your position) on a predefined date**	
			SHORT	**LONG**
Total Costs:			€5.00	€5.00
Cost Impact:			16.6%	16.6%
One-off costs upon entry or exit (Standard and Raw Accounts)				
Entry & Exit Costs	**Variable Premium Spreads**	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. The spread in CFD's on Options is Variable based on the premiums.	€5.00	16.6%
	Back to Base	Any realised profits and losses, adjustments, fees and charges that are denominated in another currency will automatically converted to the base currency of your account. Back to base currency conversions may be up to and including +/- 0.5% away from our quoted prices or rates from time to time.		
Incidental Costs taken under specific conditions (Standard and Raw Accounts)				
Other Costs	**Inactivity Fee**	If there is no trading activity or no open positions for a period of 12 months or more you will be charged an inactivity fee of €15. For non-EUR accounts inactivity fee please visit our Cost's & Charges policy.		

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 +357 22090062, by emailing support.en@forex.com, or in writing to StoneX Europe Ltd. No. 2 Nikokreontos, 5th Floor, 1066 Nicosia, Cyprus. For more details please refer to the SEL's Complaints Handling Policy indicated in the Company's website www.forex.com/ie. 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 http://www.financialombudsman.gov.cy 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.**

The 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%.