Key Information Document - CFD on a Bond

Purpose

This document is aimed at providing you with key information regarding this specific investment product and should not be taken as marketing material. It is a legal requirement to provide this information in order to help you understand the nature, risks, costs, potential gains and losses related to this product and to enable you to compare this product against other products on offer.

Contract for difference ("CFD") on a bond is offered by **Admiral Markets AS** (“AM”, “we” or “us”), a company registered in Estonia – registration number 10932555. Admiral Markets AS is authorised and regulated by the Estonian Financial Supervision Authority (EFSA) – activity license number 4.1-1/46. The registered office for Admiral Markets AS is: Ahtri 6a, 10151 Tallinn, Estonia. Please call +372 6309 300 or go to www.admiralmarkets.com for more information.

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You are about to purchase a product that is highly sophisticated and may be difficult to understand.

What Is This Product?

Type A contract for difference (“CFD”) is a leveraged contract entered into with AM on a bilateral basis. It allows an investor to speculate on rising or falling prices in an underlying bond future contract.

An investor has the option to buy (or go “long”) the CFD in an attempt to benefit from rising bond prices; or to sell (or go “short”) the CFD to benefit from falling bond prices. CFD price is derived from that of the underlying bond future. For instance, if an investor is long the German Bund future CFD and the price of the underlying bond future rises, the value of the CFD will increase in turn. Once the contract is over, AM will pay the investor the difference between the closing value of the contract and the opening value of the contract, i.e. the investor’s profit. On the other hand, if an investor is long and the price of the underlying bond future falls, the value of the CFD will also decrease – so, at the end of the contract the investor will pay AM the difference between the closing value of the contract and the opening value of the contract. CFDs referencing the underlying bond future price have a pre-defined expiry date – detailing the date upon which the contract will close automatically. Bond CFDs must always be settled financially, and cannot be settled by the physical or deliverable settlement of any other asset(s). CFD leverage also has a magnifying effect on both profits and losses.

Objectives

The objective of the CFD is to enable an investor to gain leveraged exposure to the movement in the value of the underlying bond future (whether that be upwards or downwards), without the need to actually buy, sell or otherwise transfer the underlying future or the constituent asset. The exposure is leveraged since the CFD 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 CFDs.

For example, if an investor buys 2.0 CFDs, each representing 1 underlying bond futures, with an initial margin amount of 10.0% and an underlying bond price of USD 10,000, the initial investment will be USD 10,000 x 2.0 x 1.0 x 10.0% = USD 2,000. The effect of leverage, in this case 1:10 (1 / 10.0%) has resulted in a notional value of the contract of USD 20,000 (2.0 x USD 10,000).
This means that for each 1 point change in the price (i.e. a change by 0.01) of the underlying market so the value of the CFD changes by USD 0.02. For instance, if the investor is long and the market increases in value, a USD 0.02 profit will be made for every 1 point increase in that market. Conversely, if the market decreases in value, a USD 0.02 loss will be incurred for each point the market decreases in value. On the other hand, if an investor holds a short position, a profit is made in-line with any decreases in that market, and a loss for any increases there.

A future CFD on a bond has a predefined expiry date. The length of the holding period is generally limited by the expiration date and remains at the discretion of each individual investor, based on their trading strategy, style and intended outcome – there is no recommended length for this period of time.

Automatic closure of a CFD may occur if an investor fails to deposit additional funds with which to meet the margin requirement as a result of a negative price movement. This will happen when an account's valuation (equity) decreases to a certain percentage of the initial margin amount. Before a bond CFD expires, investors will be given the option to trade the next front month contract – e.g., prior to closing out a November contract, AM provides a December contract. AM does not roll investors' open positions in future CFDs over to the next front month contracts. Therefore any remaining open positions will be auto-closed at expiry date without prior notice to the Investor.

The Intended Retail Investor

This product is intended for investors who already have an understanding and previous experience in dealing with leveraged products. Commonly, before committing any capital investors will already understand how prices of CFDs are derived, have a clear grasp of the concepts of margin and leverage and understand the fact that all deposits to the trading account may be completely lost. They should also understand the risk/reward profile of the product when compared to that of share dealing. It is also obligatory for investors to have the appropriate financial means and ability to bear a loss of the initial amount invested.

What Are the Potential Risks and Returns?

Risk Indicator

The risk indicator assumes that you may not be able to buy or sell your CFD at the price you wanted to due to volatility of the market or you may have to buy ar sell your CFD at a price that significantly impacts how much you get back.

1	2	3	4	5	6	7

Lower risk ← → Higher risk

The risk indicator above is a summary of the level of risk that this product has when compared to other products. It signifies how likely it is that the product will lose money because of market movements or because we are not able to pay you.
We have deemed this product to be 7 out of 7, which is the highest-possible risk class. This rates the potential losses from future performance of the product at a very high level.

CFDs are leveraged products that, due to movements within the underlying market, can rapidly generate losses. Losses may amount to the total value of an initial investment. There are no means of protection of your capital against market risk, credit risk or liquidity risk.

Be aware of currency risk. It is possible to buy or sell CFDs in a currency which is different to the base currency of your account. The final sum you may receive in return depends on the exchange rate between the two currencies. This risk has not been considered in the risk indicator you can see above.

Conditions in the market may mean that your CFD trade on a bond is closed at a less favourable price, which could significantly impact the level of returns you receive. We reserve the right to close your open CFD contract if you do not maintain the minimum margin that is required, if you are in debt to AM, or if you contravene market regulations. This process may be automated.

Future market performance is not protected against, 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 Admiral Markets AS is unable to pay you"). The risk indicator you can see above does not consider these protections.

Performance Scenarios

The scenarios outlined in this section are designed to show you how your investment could perform. It would be good practice to compare them with the relative scenarios of other products. These scenarios are an estimate of future performance based on past evidence on how the value of this investment may vary, and are, by no means, an exact indicator. Any returns you receive depend on how the market performs and how long you hold the CFD for. The stress scenario signifies what you may receive in extreme market circumstances and does not take into account a situation where we are not able to pay you.

The following assumptions have been used to create the scenarios in Table 1:

Bond CFD (held intraday)		
Bond opening price:	P	10 000
Trade size:	TS	2
Margin:	M	10 %
Margin requirement (USD):	MR = P x TS x M	2 000
Notional value of the trade (USD):	TN = MR / M	20 000

Table 1

LONG Performance scenario	Closing price (bid)	Price change	Profit/Loss (USD)	SHORT Performance scenario	Closing price (offer)	Price change	Profit/Loss (USD)
Favourable	10 150	1.5 %	300	Favourable	9 850	-1.5 %	300
Moderate	10 050	0.5 %	100	Moderate	9 950	-0.5 %	100
Unfavourable	9 850	-1.5 %	-300	Unfavourable	10 150	1.5 %	-300
Stress	9 500	-5.0 %	-1 000	Stress	10 500	5.0 %	-1 000

The figures shown include all product costs. 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 costs that you may need to pay to them. Your personal tax situation, which may also affect how much you get in return, is also not taken into account here.

What Happens If Admiral Markets AS Is Unable to Pay Out?

If AM is unable to meet its financial obligations to you, you may lose the value of your investment. However, AM segregates all retail client funds from its own money. AM also participates in the Estonian guarantee fund (Tagatisfond) providing retail clients with additional financial protection. This fund will compensate 100% of deposits of Admiral Markets AS clients (up to EUR 20,000). Individuals are eligible under the compensation scheme and smaller businesses may be eligible. Generally-speaking, larger businesses are excluded from the compensation scheme. See www.tf.ee.

What Are the Costs?

Trading a CFD on an underlying bond future incurs the following costs:

This table shows the different types of cost categories and their meaning		
One-off entry or exit costs	Spread	The difference between the buy price ("offer price") and the sell price ("bid 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 using the median prices of applicable FX pairs in the trading platform, where the median price is calculated as (offer price - bid price) / 2.
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?

As stated above, these products have no recommended holding period, nor cancellation period and, therefore, no cancellation fees. Opening and closing of a CFD on a bond can be done at any time during market hours.

How Can I Complain If I Need To?

If you are dissatisfied with the service provided by Admiral Markets AS you may in the first instance contact our Client Management Team on +372 6309 300, by email to compliance@admiralmarkets.com or in writing to Admiral Markets AS at Ahtri 6a, 10151 Tallinn, Estonia.

You can also refer to the European Commission’s Online Dispute Resolution Platform.

Other Relevant Information

If there is a 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. You should ensure that your Internet connection is sufficiently strong enough before trading. The Documents 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 contract specifications contain additional information on trading a CFD on an underlying bond. These can be found on the trading platform and on the website www.admiralmarkets.com.