

Introduction to Contract for Difference (CFD)

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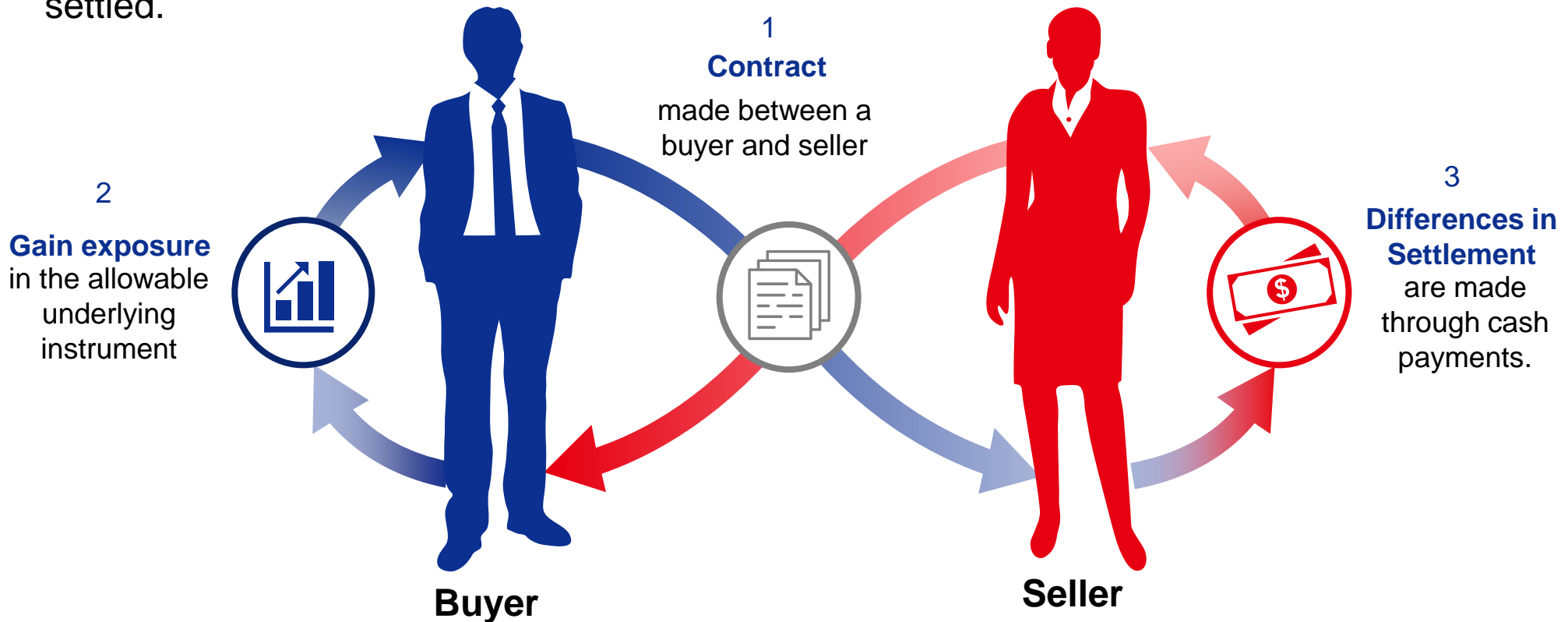
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Contents

- What is CFD?
- DMA vs. Market Maker
- Types of CFDs
- Fees & Commissions
- CFD Overnight Financing
- Margin & Leverage
- Shares CFDs vs. Traditional Share Trading Illustration
- Trading Platform
- Risk(s) Associated with Trading in CFD
- Is CFD Trading Appropriate for You?

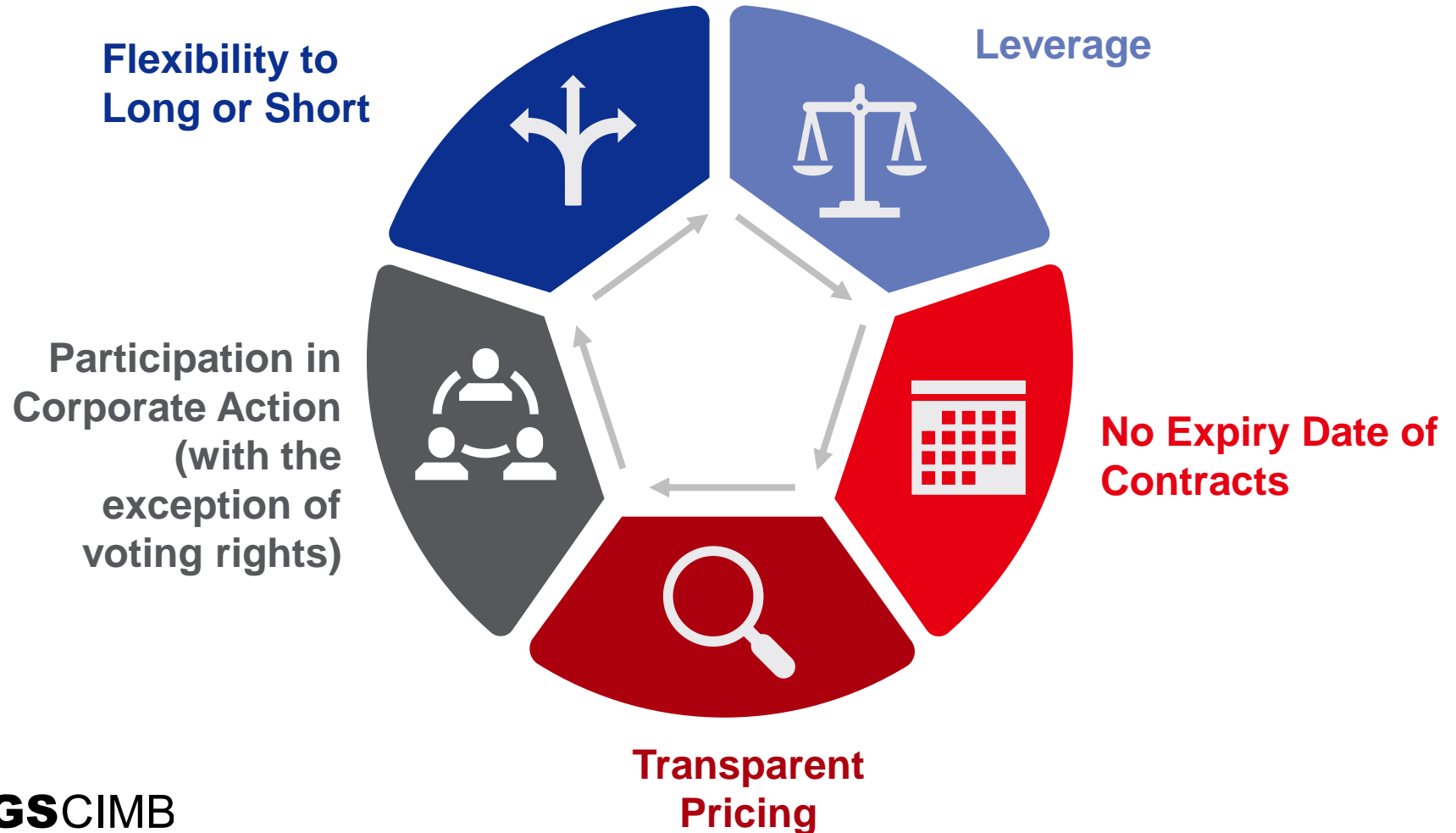
What is Contract for Difference (CFD)?

- CFD is a contract made between a buyer and a seller to gain exposure in the allowable underlying instrument without having to take ownership of the underlying instrument whereby differences in the settlement between the open and closing trade prices are cash settled.



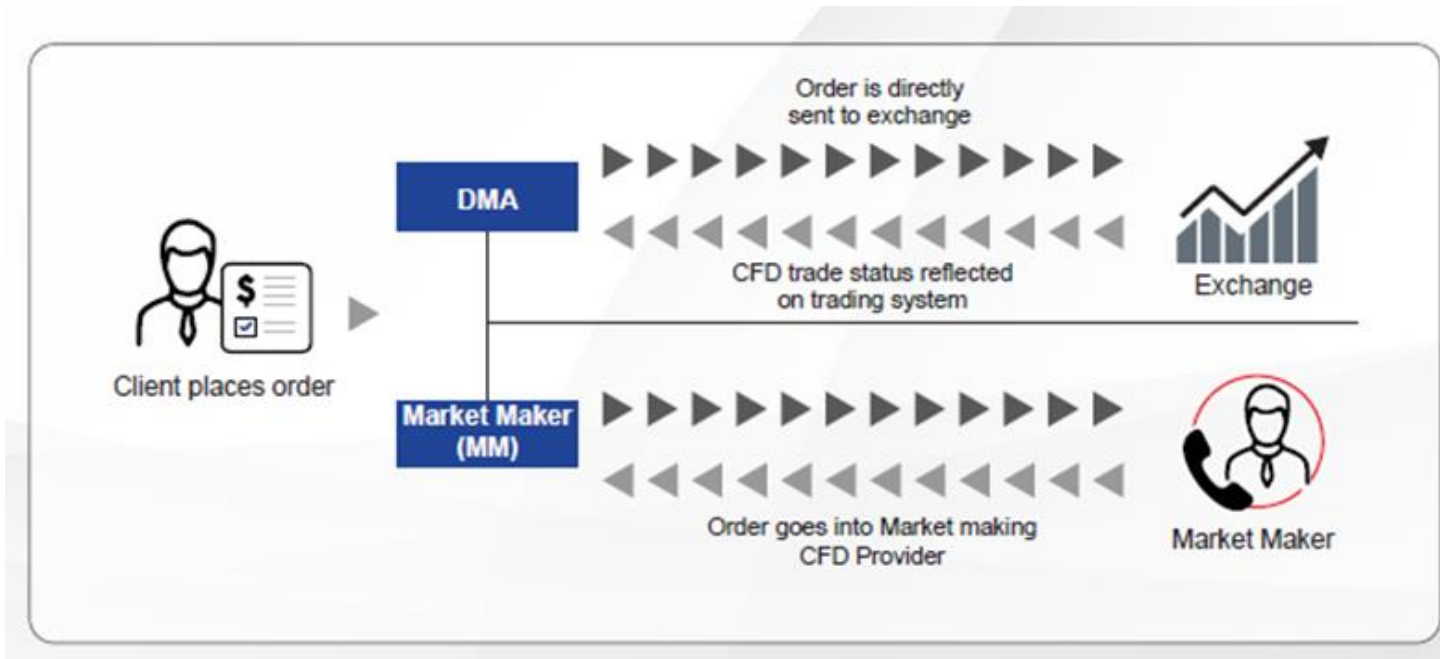
What is Contract for Difference (CFD)?

- Product features and benefits:



Direct Market Access (DMA) vs Market Maker

- Direct Market Access (DMA), is the electronic facility that allows for CFD prices and liquidity to be identical to the underlying stock markets. Investors enter into CFDs at the underlying market price. This means that all orders are executed in real time and the investors can be assured of true market prices.



Direct Market Access (DMA) vs Market Maker

Comparison between Direct Market Access (DMA) and Market Making (MM) Model

	DMA	Market Maker
Liquidity is identical to the exchange	✓	✗
Complete price transparency	✓	✗
Orders flow into the underlying market	✓	✗
Real market liquidity	✓	✗
Participate in the market opening and closing phases	✓	✗
Trades are 100% hedged	✓	✗
Clients are price makers & price takers	✓	✗
CFD provider has the potential to profit from clients losses	✗	✓
Stop losses are triggered into the exchange liquidity	✓	✗
Dealer intervention	✗	✓

Types of CFDs

- **Listed Securities CFDs**

CGS-CIMB Futures provides Direct Market Access for client to trade the listed securities CFDs. This means that all CFD prices and liquidity is the same as the underlying security listed on the relevant exchange.

- **Index CFDs**

Index CFDs offered by CGS-CIMB Futures are not listed in any stock exchange. Their underlying are cash indices on major global exchanges. CGS-CIMB Futures receives prices from a panel of index liquidity providers (or market makers) and streams it to investors on the CFD platform. Investors can view real time Bid/Ask quotes on their CFD platform at any time during index trading hours.

Note: For an updated list of CFD product offered by CGS-CIMB Futures, please visit our website at www.itradecimb.com.my

Settlement Currencies

- All CFDs are settled in their respective settlement currencies. All profits, losses and charges, arising from trades are held in your account in the respective currencies. They are **not automatically converted** to your preferred base currency, although the equivalent amount of which will be shown on the trading platform.
- To check the balance of each currency is in your account, please refer to your statements. You can inform your respective FBR if you wish to perform any foreign currency conversion.

Fees & Commissions

- Commission is charged on each CFD trade and is calculated as a percentage of the full contract value of the underlying stock that is bought or sold.
- Commission amount = Trade quantity * Trade average price * commission rate (% or basis points)

Example:

CFD name	Trade quantity	Trade average price	Commission rate %	Minimum commission	Commission amount
XYZ	1,000	\$10	0.25%	\$15	\$25
ABC	500	\$5	0.25%	\$15	\$15

Note: Please refer to www.itradecimb.com.my for latest commission rates.

CFD Overnight Financing

- A financing fee is charged daily on any CFD positions **held overnight**. It is computed based on the end-of-day marked to market value of your CFD portfolio, and charged on full contract value.
- Overnight financing is charged at an **effective rate (%)** and is debited or credited from your account on a daily basis. There are no finance charges if the position is closed within the same day.

CGS-CIMB Futures Base Rate ("CBR%")	Benchmark Rate Per Market
CGS-CIMB Futures Spread ("FR%")	Financing Spread Rate applied by CGS-CIMB Futures
Effective Rate ("ER%")	FR% +/- CBR%
Long Positions ER%	FR% + CBR%
Short Positions ER%	FR% – CBR%
Accrual Days ("N")	Number of days financing is charged
Monday till Thursday	1 day
Friday	3 days (including Saturday & Sunday)
Number of days in Year ("Y")	360 days (for contracts settled in USD) or 365 days
Overnight Financing	(Position Quantity * Marked-To-Market Price) * ER% * N / Y

Note: Please refer to www.itradecimb.com.my for latest financing rates.

CFD Overnight Financing

Example 1: Long financing on 1,000 XYZ CFD and Marked-To-Market (“MTM”) price \$10 from Day 1 to Day 2

CBR% = 0.98%

FR% = 4.00%

ER% = (4.00% + 0.98%) = 4.98% p.a.

N = 1

Y = 360 (US position)

Long Overnight Financing = $(1,000 * 10) * 4.98\% * 1 / 360 = \1.38

Example 2: Short financing on 1,000 XYZ CFD and MTM price \$10 from Day 1 to Day 2

CBR% = 0.98%

FR% = 4.00%

ER% = (4.00% - 0.98%) = 3.02% p.a.

N = 1

Y = 360 (US position)

Short Overnight Financing = $(1,000 * 10) * 3.02\% * 1 / 360 = \0.83

** In cases where CBR is greater than FR then short overnight financing is credited into account*

Margin and Leverage

- CFDs are leveraged product, you don't need to pay the full value of your exposure in order to trade.
- Margin represents a security deposit that you are required to provide when you first open a position and thereafter throughout the term of the CFD.
- While leverage enables you to spread your capital further, it is important to keep in mind that your profit or loss will still be calculated on the full size of your position. That means both profits and losses can be hugely magnified as compared to your outlay.
- There is no maximum gain on your trading position if the market moves in your favour, but if the market moves against you, you may lose more than the fund you deposited in your account

Example:

	Share CFD	Traditional Share Trading
	Investor buys 1000 XYZ CFD @ \$10	Investor buys 1000 XYZ shares @ \$10
Contract Value	\$10,000	\$10,000
Initial Outlay	(\$1,000)	(\$10,000)
	10% Initial Margin on CFD	Full Value

Margin and Leverage

- CGS-CIMB Futures applies minimum margin as stated in Chapter 3 of the SC Guidelines:

Types of CFD	Minimum margin
Single share CFD	<ul style="list-style-type: none">• 10% for index shares• 20% for non-index shares
Index CFD	<ul style="list-style-type: none">• 5%

- Margin requirement varies for respective underlying assets and CGS-CIMB Futures reserves the rights to vary the margin requirement from time to time. For the latest margin rate, you can login to the trading platform and refer to the **Margin Watchlist** widget.

Share CFDs vs Traditional Share Trading

Illustration 1 - A Profit-Making Trade

	CFD Trading	Traditional Stock Trading
	Buy 1,000 XYZ CFD @ \$10	Buy 1,000 XYZ Shares @ \$10
Initial Outlay	(\$1,000) Upfront payment of 10% Margin is required.	(\$10,000) Payment by settlement date is required.
Contract Value	\$10,000	\$10,000
Commission @ 0.25%	(\$25)	(\$25)
	Sell 1,000 XYZ CFD @ \$11	Sell 1,000 XYZ Shares @ \$11
Contract Value	\$11,000	\$11,000
Gross Profit/(Loss)	\$1,000	\$1,000
Commission @ 0.25%	(\$27.50)	(\$27.50)
Financing Cost *	(\$5.48)	-
Net Profit/(Loss)	(\$1,000 - \$25 - \$27.50 - \$5.48) = \$942.02	(\$1,000 - \$25 - \$27.50) = \$947.50
Return on Initial Outlay	\$942.02 / \$1,000 = 94.20%	\$947.5 / \$10,000 = 9.48%

Share CFDs vs Traditional Share Trading

Illustration 2 - A Loss-Making Trade

	CFD Trading	Traditional Stock Trading
	Buy 1,000 XYZ CFD @ \$10	Buy 1,000 XYZ shares @ \$10
Initial Outlay	(\$1,000) Upfront payment of 10% Margin is required.	(\$10,000) Payment by settlement date is required.
Contract Value	\$10,000	\$10,000
Commission @ 0.25%	(\$25)	(\$25)
	Sell 1,000 XYZ CFD @ \$9	Sell 1,000 XYZ shares @ \$9
Contract Value	\$9,000	\$9,000
Commission @ 0.25%	(\$22.5)	(\$22.5)
Gross Profit/(Loss)	(\$1,000)	(\$1,000)
Financing Cost *	(\$5.48)	-
Net Profit/(Loss)	$(-\$1,000 - \$25 - \$22.50 - \$5.48)$ = (\$1,052.98)	$(-\$1,000 - \$25 - \$22.50)$ = (\$1,047.50)
Return on Initial Outlay	$(\$1,052.98) / \$1,000 = (-105.30\%)$	$(\$1,047.50) / \$10,000 = (-10.48\%)$

Your losses may be magnified due to leverage

Share CFDs vs Traditional Share Trading

- Illustration 1 & 2 show the effect of leverage on substantial financial gains as well as incurring substantial financial losses respectively
- Note: The illustrations assume the trade takes place on a Friday and the subsequent sale takes place on the following Wednesday. Position is held for 5 days. Financing cost* is determined at the CGS-CIMB Futures Base Rate (CBR) plus 3.75% for long positions, minus 3.75% for short positions.

This example uses an effective financing rate of 4% per year / 365 days and assumes no change in valuation price on Monday & Tuesday. CBR is subject to change as it relates to the interbank quoted rate.

Corporate Action and Price Adjustment Event

- A corporate action or price adjustment event may from time to time occur in relation to the underlying asset of the CFD.
- If such an event occurs, CGS-CIMB Futures shall in its absolute discretion determine the appropriate adjustments (if any) to the contract value of any underlying asset which is affected by a corporate action or other adjustment event and/or to the related quantity of shares to which the CFD relates.
- In general, CFD positions are entitled or liable for corporate action such as dividend, bonus issue, rights issue and stock splits.
- CGS-CIMB Futures may, in its absolute discretion, apply corporate action to CFD positions based on its hedge provider's adjustments.

CFD Trading Platform

- CGS-CIMB Futures provides an online CFD trading platform to clients.
- The market feed is delayed by default. User can subscribe to real time market data.
- **Platform features:**



View account
balance summary
and portfolio
positions details



Create and
manage user
defined
Watchlist



Input Buy or
Sell CFD
orders



Input Contingent
orders



Search and View
historical orders
& executed
trades

CFD Trading Platform

- **Order Types:**



Note: For more information on order types, please refer to Education and Guides tab at www.itradecimb.com.my

Risks Associated with trading in CFD

- CFD is a complex, speculative and high risk product with volatile returns, these risks may lead to unfavorable financial outcomes where your losses could exceed your initial deposit.
- You should seek independent advice and consider carefully if this product is appropriate for you in relation to your personal circumstances, investment experience, financial goals and needs. **Until you fully understand the product, benefits and risks associated you should not trade CFDs.**
 - Leverage Risk
 - Counterparty Risk
 - Market Risk
 - Liquidity Risk
 - Gapping Risk
 - Execution Risk
 - Stop Orders are not Guaranteed
 - Foreign Exchange Risk
 - Operational Risk
 - Regulatory Risk



Is CFD Trading Appropriate for You?

- If you are considering to trade CFDs, you should ask yourself:

01

Do you have previous investment/trading experience in financial products such as securities and derivatives?



02

Do you understand the differences between investing in shares and trading in CFD?



03

Do you understand the concepts of leverage, margins and volatility?



04

Are you prepared to monitor and manage the risks of trading?



05

Can you afford to lose all of, or more than the initial capital you put in?



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Disclaimer

PRODUCT DISCLAIMERS

Trading in Contracts for Differences (“CFD”) may not be suitable for customers whose investment objective is preservation of capital or whose risk tolerance is low. Before opening a CFD Account, please read and understand the CFD Warning Statement set out below.

WARNING: Contracts for Difference are speculative derivative products that are highly leveraged and carry significantly greater risk than other investments or products (whether geared or otherwise) such as share trading. They may not be suitable for everyone. You should consider carefully and determine whether CFDs are suitable for you, before deciding whether to open a CFD Account with CGS-CIMB Futures. **IN PARTICULAR, IF YOU CONSIDER YOURSELF TO BE A CONSERVATIVE, RISK-AVERSE INVESTOR, THEN CFDs ARE NOT FOR YOU.**

You should obtain your own investment, financial, legal, taxation and other professional advice as to whether CFDs are appropriate investment or products for you. You should ensure you read and understand the product features and in particular the risks and determine whether these products are suitable for you, before deciding whether to open a CFD Account with CGS-CIMB Futures and trade in CFDs.

Education & Guides

← → ↻ itradecimb.com.my/index.php?ch=st&pg=st_prod&ac=14#

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Contact Details

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 - or Contact us at (603) 2265 8908 or (603) 2303 8908
 - or email us at futuresbroking.my@cgs-cimb.com

Note: Before you start trading CFD with CGS-CIMB Futures, please ensure that you have read and understood the Terms and Conditions for CFD, Disclosure Document, Product Highlights Sheet and Risk Statement which are available at www.itradecimb.com.my.

Thank you