



CFD Trading Fact Sheet

What is a CFD?

A CFD is simply an agreement to exchange the difference in value of a particular share between the time at which a contract is opened and the time at which it is closed.

CFD trading is very similar to normal share dealing. You deal at the cash price of the share, and pay a commission which is calculated as a percentage of the value of the transaction. Our standard commission rate for UK shares is just 0.10%
When you open a position, however, you do not have to pay for the full value of the shares. Instead you put up a deposit, from just 5% for some shares.

Interest and dividend adjustments

CFDs have no fixed expiry date, giving you the freedom to close your position when you choose. While your position remains open, your account is debited or credited to reflect interest and dividend adjustments.

Long positions

Your account is debited to reflect interest adjustments and credited to reflect any dividends. This mirrors the effect of buying shares in the normal way, where you no longer earn interest on the cost of the shares, but do receive dividends.

Short positions

Your account is credited with interest adjustments and debited to reflect any dividends. This mirrors the effect of selling shares, where you earn interest on the

proceeds of the sale, but cease to receive dividends.

The applicable interest rates will be set out in your account opening letter.

Dividend adjustments are applied at the amount of the net dividend, if you have an open position in a share on the ex-dividend date.

The best way to see how a CFD works is through an example.

Example: Buying Vodafone

Trade at the market price and pay just an initial deposit to open your position, plus a small commission. It's that simple...

Opening the position

It is April and you decide that Vodafone is looking cheap. The stock is quoted at 140/141p in the market, and you buy 20,000 shares as a CFD at 141p, the offer price.

Instead of putting up the full value of the shares (141p x 20,000), you need only supply a deposit of 5% or £1410.

Closing the position

By late May Vodafone has risen steadily to 158/159p in the market and you decide to take your profit. You sell 20,000 shares at 158p, the bid price.

Your profit on the trade is calculated as follows:

Profit on trade

Closing level 158p

Opening level 141p

Difference 17p

Profit on trade: 17p x 20,000 = £3400

To calculate the overall result on the transaction you would also have to take into account the commission you have paid and the interest and dividend adjustments. The next example includes these calculations.

Detailed CFD Example: Selling Aviva

For the active trader, stock markets have one major disadvantage: it is not easy to go short. When you trade CFDs, it is as easy to go short as to go long.

This example shows how you can use a CFD to sell a share short, and also contains details of how dividends and interest rate adjustments work.

Opening the position

It is February and you think Aviva is about to fall. The share is quoted in the market at 737/738p. You sell 5000 shares as a CFD at 737p, the bid price.

You supply a deposit of 5% or £1843 to open the trade. The commission on the transaction is 0.10% or £37 (5000 shares x 737p x 0.10%). There is no stamp duty to pay.

Because you have taken a short position, your account is credited to reflect interest adjustments and debited to reflect any dividends.

Interest adjustments

The interest credit on your position is calculated daily, by applying the applicable interest rate to the daily closing value of the position.

In this example, the applicable interest rate might be 2.5% and the closing price of the shares on a particular day might be 734p, giving a closing value of £36,700 (i.e. 5000 shares x 734p).

So the interest credit for the position for this particular day would be £2.51 (i.e. $£36,700 \times 2.5\% / 365$).

Interest adjustments are calculated daily and posted to your account on a weekly basis.

Dividend adjustment

In March your position is still open at the time of the Aviva ex-dividend date. The amount of the net dividend is 7p per share and this is debited from your account.

The adjustment is calculated as follows:

5000 shares x 7p = £350

Closing the position

By early April, Aviva has risen to 763/764p in the market and you decide to cut your loss and close the position. You buy 5000 shares at 764p, the offer price.

The commission on the transaction is 0.10% or £38 (5000 shares x 764p x 0.10%).

Your loss on the trade is calculated as follows:

Loss on trade

Closing level 764p

Opening level 737p

Difference 27p

Loss on trade: 27p x 5000 = £1350

Calculating the overall result

To calculate the overall loss on the transaction you also have to take account of the commission you have paid and the interest and dividend adjustments. In this example, you might have held the position for 65 days, earning a total interest credit of, say, £166. You have been debited a dividend adjustment of £350.

The overall result of the trade is a loss, calculated as follows:

Overall loss

Loss on trade -£1350

Commission -£75

Interest adjustment £166

Dividend adjustment -£350

Overall loss -£1609