



ASX

AUSTRALIAN SECURITIES EXCHANGE

# ASX Listed CFDs™ – An Introduction

ASX Listed CFDs are the first CFDs traded on an ASX market<sup>1</sup>. ASX Listed CFDs are fundamentally different to other CFD products and a fundamentally better trading alternative for most traders.

## What is a CFD?

A CFD (Contract for Difference) is an agreement between a buyer and a seller to exchange the difference in value of a particular instrument between when the contract is opened and when it is closed. The difference is determined by reference to an 'underlying' – a share, index, FX rate or commodity and the period over which the CFD is held.

CFDs are leveraged instruments. This means that you are fully exposed to price movements of the underlying instrument without having to pay the full price of that instrument.

Leverage, however, usually involves more risk than a direct investment in the underlying. It is therefore important to understand both the upside benefits as well as the downside risks.

## Advantages of trading CFDs

CFD related trading and hedging is one of the fastest growing areas in the Australian and European derivatives markets. This popularity has arisen from the following main features:

- **Leverage:** CFDs enable you to obtain full exposure to the price of a share or commodity for a fraction of the price of buying the underlying. CFDs require only a small Initial Margin to secure a trade.
- **Trade rising and falling markets:** With ASX CFDs it is possible to trade from both the long and the short side.
- **Simplicity**
  - *Non-expiry:* CFDs do not have an expiry. They are perpetual in nature. The only way to close a position is to trade the opposite side of the position.
  - *The CFD mirrors the price of the underlying:* Unlike other forms of derivatives (i.e. options and futures), cashflows such as carry costs and dividends are not reflected in the price of a CFD. Instead, cashflows

are paid whilst the position is open, allowing CFD prices to track the underlying instrument rather than trade at a discount or premium, as can be the case in other forms of derivatives.

## A fundamentally better alternative

ASX Listed CFDs combine the main features of currently available CFDs with the unique attributes of exchange traded markets. These include:

### Transparency

- All prices and market depth are fully transparent in the ASX Listed CFD order book. Each trader's order becomes an integral part of the price discovery process.
- Importantly, while prices and market depth are transparent, your identity remains anonymous. This minimises market impact costs (especially those related to others identifying your trading patterns and trading ahead of you).
- All trades are executed on a strict price/time priority. Price/time priority means the first person to enter the best price is traded against first. This results in everyone in the central market order book being treated fairly and consistently.

### Market Independence

ASX is required under the Corporations Act to ensure that its markets are fair, orderly and transparent. ASX ensures a sound operational and front-line regulatory environment for its exchange-traded markets and clearing and settlement facilities.

As the central market operator, ASX is independent of the parties from whom you are receiving advice and dealing through, enabling it to act fairly and impartially.

Having a central market also means there is one standard contract specification for all ASX Listed CFDs, not a different product depending on who you execute through.

<sup>1</sup> For this contract the market is operated by Sydney Futures Exchange Limited ACN 000 943 377

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## Risk management

When trading ASX Listed CFDs, there is no need to worry about undertaking a risk assessment of your trading counterparty or their ability to meet their settlement obligation. In the ASX Listed CFD market all settlement obligations are guaranteed by SFE Clearing Corporation.

When trading ASX Listed CFDs you do not need to verify your margin payments. All ASX Listed CFD margins are calculated by "SPAN", recognized globally as the leading margin calculation system.

SFE Clearing Corporation (SFECC) has a statutory obligation to operate "fair and efficient" clearing and settlement facilities. These facilities are monitored by ASIC and the Reserve Bank of Australia (RBA).

## Product range

### ASX EQUITY CFDs

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Listed over the top 50 stocks on the ASX

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### ASX INDEX CFDs

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ASX S&P/ASX 200 CFD

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ASX DJIA CFD

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### ASX FX CFDs

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ASX AUD/USD CFD

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ASX AUD/EUR CFD

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ASX AUD/JPY CFD

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ASX AUD/NZD CFD

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ASX EUR/USD CFD

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ASX USD/JPY CFD

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ASX NZD/USD CFD

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ASX NZD/JPY CFD

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### ASX COMMODITY CFDs

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ASX Gold CFD

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Additional ASX Listed CFDs will be listed in the future. Please refer to [www.asx.com.au/cfd](http://www.asx.com.au/cfd) for the ASX Listed CFDs currently listed.

## Key features of ASX Listed CFDs

### Long and Short Positions

In contrast to shares, where a trader usually buys and then sells later, with an ASX Listed CFD it is possible to firstly go short (or sell) to exploit falling prices and buy back (or go long) later.

### Daily Settlement

At the end of each trading day, all positions in ASX Listed CFDs are marked to market using the Daily Settlement Price (DSP). Your revalued position becomes the basis upon which any additional margin requirements are determined. Margining is discussed later in this document.

Further details on the Daily Settlement Price (DSP) for the different types of ASX Listed CFDs are available on the ASX website.

### Expiry

ASX Listed CFDs do not expire. The only way to close a position is to trade the opposite side of the contract.

### Corporate Actions:

Any position in an ASX Equity CFD is adjusted to reflect the same economic effect as the security on which the ASX Equity CFD is based. This means that whenever there is a corporate action – such as a dividend, share split, capital repayment, special dividend, bonus issue, takeover etc – the same impact is reflected back into the ASX Listed CFD position.

ASX Index CFDs track indexes, which are adjusted to reflect all corporate actions.

### Trading Hours:

Trading hours vary for the different types of ASX Listed CFDs available. Up-to-date trading hours for all ASX Listed CFDs are available on [www.asx.com.au/cfd](http://www.asx.com.au/cfd)

### Exchange for Physical (EFP)

Traders can convert their ASX Equity or Gold CFD position into stock. This conversion is allowed through the Exchange for Physical (EFP) facility. The EFP facility enables you to complete both sides of the conversion at a set price eliminating the risk of a price movement before you complete the transaction.

Further details are available at [www.asx.com.au/cfd](http://www.asx.com.au/cfd)

## Parties to an ASX Listed CFD transaction

When you first buy (or sell) an ASX Listed CFD it is called an opening transaction. If you then sell (or buy) an ASX CFD to cancel existing bought (or sold) open positions, it is called a closing transaction. The market automatically recognises if a trade is an opening or closing trade.

After the trade occurs, the relationship between the two original contracting parties is broken with the SFE Clearing Corporation becoming the counterparty for both buyer and seller. This process, called novation, is a key tool for managing counterparty risk and is a primary benefit of trading “on exchange”.

## How to track ASX Listed CFDs

ASX Listed CFD codes and prices are available at [www.asx.com.au/cfd](http://www.asx.com.au/cfd). You can set up watch lists and portfolios to assist in the monitoring of your positions. The ASX website also has pricing and other information about the underlying securities and indices.

Many brokers also offer portfolio management systems that enable you to manage positions and trades on-line.

Current ASX Listed CFD prices are also available from all major information vendors such as Reuters, Bloomberg or Iress.

## Margins

Margins are designed to protect the financial stability of the market.

A margin is a payment to ensure that you can meet your obligations. While SFEC calculates the margin requirements, it is your broker who will advise you of your margin obligations and who will collect the payment.

The total margin for ASX Listed CFDs is made up of two components:

### 1 Initial Margins

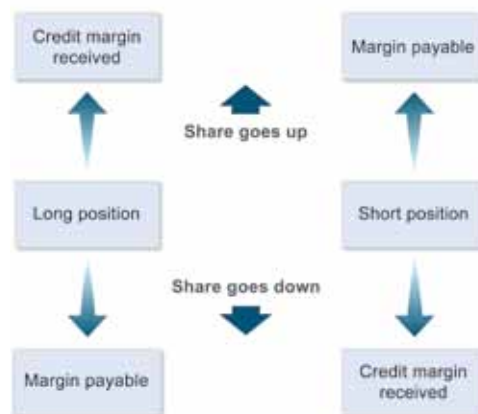
Initial margins apply to both buyers and sellers upon opening a contract. The amount of Initial Margin for each contract varies according to the price volatility of the underlying, but typically is about 5% to 10% of the value of the exposure.

### 2 Variation Margins

In addition to the Initial Margins required to open contracts, any adverse price movements in the market must be covered by further payments, known as Variation Margins. The Variation Margin is based on the end of day marked to market revaluation of an ASX Listed CFD position.

A detailed explanation of the ASX Listed CFD margining process can be found in the online education courses at [www.asx.com.au/cfd](http://www.asx.com.au/cfd)

### Margin implications



## Cashflows

Unlike other forms of derivatives (i.e. options and futures) cashflows such as carry costs and dividends are not reflected in the price of an ASX Listed CFD. Instead cashflows are paid whilst the position is open, allowing ASX Listed CFD prices to track the underlying spot instrument rather than trade at a discount or premium, as can be the case with other types of derivatives.

ASX Listed CFDs have 5 distinctive cashflows that impact on holders of an open position:

- Contract Interest
- Open Interest Charge (OIC)
- Dividend Cashflow
- Franking Credit Cashflow (ASX Equity CFDs only)
- Yield Cashflow (ASX FX CFDs only).

A detailed explanation of the ASX Listed CFD cashflows can be found at [www.asx.com.au/cfd](http://www.asx.com.au/cfd)

## Want to learn more?

ASX has a well established history of providing objective, practical and unbiased education to retail investors and traders. The ASX Listed CFD education program continues this tradition. When trading any form of derivative it is best to be as well equipped as possible.

### Free online education

To help people prepare themselves for the ASX Listed CFD market we have developed a range of free Online Education courses. The modules are specifically designed to take you from CFD fundamentals, for those who have not yet traded CFDs, to advanced CFD trading concepts for the more experienced investor.

You can access the ASX Listed CFD Online education program at [www.asx.com.au/cfd](http://www.asx.com.au/cfd)

### Free seminars

ASX frequently runs ASX Listed CFD seminars/classes. Details of upcoming class seminars are available at [www.asx.com.au/cfd](http://www.asx.com.au/cfd)

### Free trading simulator

Also on [www.asx.com.au/cfd](http://www.asx.com.au/cfd), ASX provides a trading simulator which allows traders and investors to explore the fundamentals of trading ASX Listed CFDs without putting any of their own funds at risk.

## Risks of trading ASX Listed CFDs

ASX Listed CFDs are not suitable for all traders and investors. In light of the risks associated, you should only trade them if you are confident that you understand ASX Listed CFDs and their risks. Before trading ASX Listed CFDs you should carefully assess your experience, investment objectives, financial resources and all other relevant considerations.

### Where can I trade ASX Listed CFDs?

ASX Listed CFDs are traded on the Sydney Futures Exchange's SYCOM<sup>®</sup> trading platform and operate under the SFE (Sydney Futures Exchange) Operating Rules.

Access to SYCOM<sup>®</sup> is facilitated by SFE Full Participants and introducing brokers.

ASX accredits advisers from firms offering ASX Listed CFDs to end customers. This involves the adviser undertaking training and passing an examination created by ASX. A full list of Participants, Brokers and Accredited Advisors is available on [www.asx.com.au/cfd](http://www.asx.com.au/cfd)

### Further information

**w** [www.asx.com.au/cfd](http://www.asx.com.au/cfd)

**e** ASXCFDs@asx.com.auHelpdesk

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