Sanlam iTrade CFD Brochure

What are CFDs?

In a nutshell a CFD (Contract For Difference) is an unlisted instrument that is an agreement between a buyer and a seller to exchange the difference in value of a particular underlying asset (like a share) for the period between when the contract is opened and when it is closed. The difference in value is determined by reference to the underlying asset.

CFDs are unlisted and counterparty risk is not guaranteed by an exchange. It is therefore very important that you deal with a big financial institution like Sanlam that will not go bankrupt. Your counterparty will be Sanlam Private Wealth, part of the Sanlam Group.

CFDs are called derivatives because they “derive” their value from the performance of an underlying asset. You don't buy the assets themselves, but enter into a legally binding contract to buy or sell the assets at a predetermined price. CFDs, Futures and Options are classic examples of derivative instruments. CFD’s are unlisted and cost effective alternatives to trading shares directly on the JSE.

When you trade in CFDs there are just two positions you can take: 'long' or 'short' (see Glossary of Terms at the end of this document). When you 'buy long', you're buying a security expecting the price of the underlying shares to rise. Assuming it does so, you will be able to sell or 'close' your position for more than the contract price. When you 'sell short', you're actually selling borrowed shares, expecting the price to fall. If the price does fall, you can buy back the shares for less than the contract cost you and profit from the difference.

Risk:

- At the outset it must be noted that trading in CFDs is more risky than share trading and should only be attempted by individuals who are already familiar with the share market and are comfortable with the concept of gearing.
- Gearing can increase profits, but it can also increase losses. Stop-loss techniques and predetermined exit strategies are an integral part of CFD trading and should be studied before trading as they can assist in limiting losses in volatile market conditions.
- It is important to note that the liability for a holder of either a long or short CFD position is not limited to the initial margin deposited. If the market moves against a position then the holder of that position may be called upon to pay additional funds on short notice to maintain the position or face the risk of being “stopped out” when the initial margin is depleted.

Margin:

- The margin is like a deposit of a percentage of the position you are taking. The margin required by Sanlam iTrade varies from 10% to 40% of the position or exposure, depending on the rating of the share (see the Margin list on the website, also showing which shares you can short sell). The size of the margin required depends on the volatility of the price movements in the share and your own risk profile, determined by iTrade, based on your other investments with us.
- Profits and losses are calculated every day and the margin is adjusted daily. If the share price of the underlying share moved in your favour (up if you are long or down if you are short), you will receive margin money back into your CFD account. If the share price of the underlying share moved against you (down if you are long or up if you are short), margin money will be deducted from your CFD account.
- If the cash in your CFD account is insufficient to cover the daily margin requirement, you must deposit enough money immediately or we can close your position without notice.

Financing Cost:

- Unlike Single Stock Futures (SSFs) where the financing cost until expiry of the SSF is included in the price of the SSF, with CFDs the financing costs is paid daily because there is no expiry date. The financing cost is calculated daily on the value of your exposure. In essence you borrow money from us to pay for the share and pay interest on that and you receive interest if you have a short position.

Features of CFDs:

- Transparent Trading: All CFDs have an underlying share and is traded in the same manner as trading shares. You pay the exact price for the underlying share as it is traded on the JSE spot market, no CFD quotes.
- Price Transparency: CFD prices mirror the underlying share prices exactly, but the dividends and interest are not reflected in the price of a CFD. These cash flows are paid on a daily basis when the position is opened.
- Contract Expiry: CFDs do not expire, so you save on roll-over costs. The only method of getting out of a CFD contract would be to close the CFD position. CFD's may expire and de-list due to a lack of liquidity and or the underlying share has been de-listed.
- Corporate Actions: Dividends are granted to the holder of a long position. Dividend Withholding Tax (DWT) will be deducted from the dividend and paid to SARS. Cash corporate actions will reflect on the clients account. Non cash corporate actions will simply adjust the position of the CFD.

Advantages of trading CFDs versus trading shares:

- Leverage/Gearing: CFDs allow the client full exposure to the underlying share with less capital layout. It requires a small amount of capital layout called the initial margin. At 15% margin, gearing is nearly 7 times.
- Open short positions: CFDs allow the trader to go short the market when it feels the share price is going to fall in future. This allows the trader to profit when the market falls.
- Pairs trading: 'Pairs of stock" is a method used if the trader feels one share will outperform the other. The trader may feel Anglos will outperform Billiton and thus buys Anglos and sells Billiton short.

Brokerage:

Sanlam iTrade charges a brokerage fee on all trades done in a day and there is a minimum broking fee applicable to every transaction.

Position Interest:

Position Interest is paid daily by holders of long positions and received daily by holders of short positions on the value of the exposure of the positions at the end of the business day. The rate of interest applied will be different on long positions and short positions. Position Interest payable on positions held on Friday night will also include Saturday and Sunday (that is three days interest) and positions held the evening prior to a public holiday will thus also include the public holiday (that is two days). The Position Interest Rate is linked to a benchmark rate (for example prime) and will change as the benchmark changes.

Interest on Initial Margin deposit:

Interest is calculated on the opening balance of Initial Margin on deposit and is paid daily to your CFD account.

Cash corporate events:

These include among others: ordinary dividend, special dividend, capital reductions, return of shareholders premium and interest payments on underlying instruments. Long positions receive the amount and short positions pay the amount. These events are processed to accounts on the ex-date (first day after the last-day-to-trade day) but are only available for withdrawal on the pay-date. The pay-date is usually five business days after the ex-date.

Dividend Withholding Tax (DWT) on cash corporate events:

In order for you to receive a dividend (ordinary and special dividends only) on your long position so that it retains its exempt tax status, the dividend is ceded to you by Sanlam iTrade. DWT of 15% will be deducted from the dividend. Sanlam iTrade will collect this amount from your account and pay SARS on your behalf.

Summary of charges for JSE CFDs:

The table details the charges, interest and cash corporate event calculations that are applicable to a CFD trade and the subsequent position. Detailed information about the specific rates/charges can be found on the Sanlam iTrade website.

NB – All costs exclude VAT.

Type	Rate	Effect on holder	Detail
Brokerage	0,35%	Pays	Calculated percentage based on the underlying value at the time of the trade
Minimum Brokerage per transaction	R40 + 0.08% = R49.	Pays	Flat fee **per trade** plus percentage.
Rebate on total Brokerage paid in a quarter	10% to 25% - See CFD costs on the website for sliding scale	Receives	Rebate per account if brokerage exceeds threshold for a calendar quarter
Position Interest – long	Prime Rate less 1%	Pays	Based on the market value of aggregate long positions at the end of every business day
Position Interest – short	Repo Rate less 1.5%	Receives	Based on the market value of aggregate short positions at the end of every business day
Script lending cost - short	0% - Included in interest on short	None	The cost of borrowing script for short positions is included in the position interest.
Interest – Initial Margin deposit	Repo Rate less 1.5%	Receives	Based on the amount of Initial Margin held at the beginning of each business day
Cash corporate events – Long position	Actual	Receives	Based on actual corporate event amount
DWT on dividend corporate events – long positions	20% Dividend Withholding Tax	Pays	Payment of 20% Dividend Withholding Tax to SARS
Cash corporate events – short positions	Actual	Pays	Based on actual corporate event amount

Glossary of terms:

Contract for Difference (CFD):

An agreement between buyer and 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 stock, Index, FX rate or commodity.

Mark to market:

The daily process whereby the value of a CFD position is compared to the previous day's close and the daily profit or loss is calculated. The change in the MTM each day (either up or down) has a cash value and is referred to as variation margin. Variation margin profits are added to the trading balance and variation margin losses are deducted.

Mark to market price;

Price used by Sanlam iTrade to complete the mark to market process. This price is based on the closing price of the underlying instrument.

Long:

Hold a positive number of contracts. A long position is profitable on any CFD if the belief is that the underlying instrument's price will increase in value. A long CFD position implies that the holder wants the price of the underlying instrument to increase.

Short:

Hold a negative number of contracts. A short position is profitable on any CFD if the belief is the underlying instrument's price will decrease in value. Selling short is the term for selling CFDs that the trader does not possess, intending to buy them at the lower price at a later date. It is the opposite of going long (buying a CFD).

Opening a position:

A trade, whether buying or selling, that increases the absolute quantity held after the trade. Thus any trade that moves further away from 0, whether positive or negative.

Closing a position:

A trade, whether buying or selling, that decreases the absolute quantity held after the trade. Thus any trade that moves closer to 0, whether positive or negative.

Initial Margin:

Every trader in the CFD market is required to put up an Initial Margin (deposit) for each contract they trade. This applies to both buyers and sellers. This Initial Margin is returned when the contract is closed out. Initial Margins protect the parties against non-payment of losses by the other party. The amount is normally set at a level designed to cover reasonably foreseeable losses on a position between the close of business on one day and the next. The amount of Initial Margin for each contract varies according to the price volatility of the underlying instrument and is based on the initial margin as published by SAFEX from time to time, but set by Sanlam iTrade.

Intra-day variation margin:

The sum of the profit or loss of each CFD in a portfolio at any point in time during the day (intraday). Over the counter (OTC) Trading in some context other than on a formal exchange such as the JSE Ltd. Also refers to instruments that trade via a dealer network or directly with a large corporate (like Sanlam Private Wealth) as opposed to on a centralised exchange.

Leverage/gearing:

Is the use of given resources in such a way that the potential profit or loss is magnified.

How to register to trade JSE CFDs:

Not an existing Sanlam iTrade client:

1. Go to www.SanlamiTrade.co.za and click on “New Registration” and then “Register”. The minimum to open a CFD account is R20,000.
2. Register online and send us the original signed mandate and FICA documents. If you are a SPI client you still need to complete the online registration and send us the iTrade mandate, but you need not FICA again if your FICA with SPI is complete.
3. We will open a BDA account at the JSE for you. Follow the instructions to open a CFD trading account as explained below

Registering for CFD trading is a simple process if you are a Sanlam iTrade client:

1. Login on www.SanlamiTrade.co.za with your User Name and Password, go to “Trading & Portfolio”, then “CFDs” and click on “Register”.
2. You need to read the CFD Mandate, the ISDA Master Agreement and the ISDA Credit Support Annexure.
3. If you want to proceed to register you have to accept all three agreements and then click on “I have read and agree to be bound by the terms of the mandate and agreements above”. We do not require a hard-copy signed mandate as your electronic acceptance constitutes an agreement.
4. We will create a CFD account for you and link the CFD account to your Iress trading platform.
5. Once the CFD account is linked, transfer funds from your BDA account to your CFD account. Funds transferred before 11 am will be available for trading the next working day.
6. CFDs will be traded on the same Iress trading platform currently used for trading JSE instruments.

representation or warranty is made that any indicative performance or return indicated will be achieved in the future. This document is not an official confirmation of terms, and any transaction that may be concluded pursuant to this document shall be in terms of and confirmed by the signing of appropriate documentation, on terms to be agreed between the parties. The information in the document is also subject to change without notice. Sanlam Private Wealth, or an associated company, may have effected or may effect transactions for its own account in any investment outlined in the document or any investment related to such an investment. Prospective investors should obtain independent advice in respect of any product detailed in this document, as Sanlam Private Wealth provides no investment, tax or legal advice and makes no representation or warranty about the suitability of a product for a particular client or circumstance. Transactions described in this material may give rise to substantial risk and are not suitable for all investors. Sanlam Private Wealth will only provide investment advice if specifically agreed to by Sanlam Private Wealth in appropriate documentation, signed by Sanlam Private Wealth. This information is to be used at your own risks, and Sanlam Private Wealth makes no representation with regards to the correctness of the information herein.

Wealth warning: Trading CFDs can offer significant returns, BUT also subject you to significant losses if the market moves against your position. You may, in a relatively short time, sustain more than a total loss of the funds placed by way of initial margin or deposit. You may be required to deposit a substantial additional sum, at short notice, to maintain your margin balances. If you do not maintain your margin balances your position may be closed out at a loss and you will be liable for any resulting deficit.