Financing

Other costs, apart from the spread, you need to take into account when dealing in CFDs are the daily financing charges. Financing charges represent the cost of borrowing the capital that is needed in order to open a position. CFDs positions that remain open over-night are subject to those charges, incurred on daily basis.

A long position attracts the financing charges, as effectively, by depositing initial margin, you borrow capital from us to cover the rest of it (i.e. the difference between the initial margin and the total value). For short position, on the other hand, financing interest may be credited to your account, as the opposite applies, meaning, you lend capital to us.

Financing Transactions

Positions held at our designated ‘financing time’ are subject to a financing charge or financing credit (collectively, financing transactions). In addition, positions that are held on Friday at this time will attract a three day financing charge/credit to account for the weekend.

Note: Positions on futures do not incur such treatment as the pricing of the underlying instrument takes any cost of carry into account already.

Long positions attract a financing charge; short positions may receive a financing credit (subject to underlying interest rates).

A financing transaction is calculated based on the notional value of a position and the Effective Financing Rate. The Effective Financing Rate is commonly the 1 week deposit rate of the asset currency, plus (for long positions) or minus (for short positions) a financing ‘spread’ (currently 2.5%).

The simplified equations to calculate long and short financing transactions are as follows:

Long positions:

Daily Financing Transaction = -[value of trade x Effective Financing Rate x 1/360]*

Short positions:

Daily Financing Transaction = [value of trade x Effective Financing Rate x 1/360]*

*or 365 for GBP denominated assets

Note: Where the 1 week deposit rate < financing ‘spread’, a charge will result for both long and short positions.

Additionally, as financing represents the amount of leverage that is financed by us, as one trades with lower leverages, the financing charge will decrease (for long positions) or the financing credit will increase (for short positions).

1. An example of a long financing transaction:

Let’s assume a client has a long position in 2,000 shares (equivalent) of company XYZ. At our daily financing time, this stock is valued at £20. If the current 1 week deposit rate for GBP is 1%, the calculation of a daily long financing charge would be as follows:

Daily (Long) Financing Charge: *-(2,000 x £20) x (1% + 2.5%) x 1/365 = -£3.84*

Let’s assume that the client has traded this stock on a margin requirement of 10%. As such, the client will only be charged 90% of the amount calculated above (so £3.45 is charged to the client’s account).

2. An example of a short financing transaction:

Let’s assume a client has a short position in 500 shares equivalent of company ABC. At our daily financing time, this stock is valued at $300. If the current 1 week deposit rate for USD is 5%, the calculation of a daily short financing credit would be calculated as follows:

Daily (Short) Financing Credit:*(500 x $300) x (5% - 2.5%) x 1/360 = +$10.42*

Let’s assume that the client has traded this stock on a margin requirement of 25%. As such, the client will only receive a financing credit of 25% of the amount calculated above (so $2.60 is credited to the client’s account).

It is worth noting that those charges do not apply for any CFDs with an expiry date (such as for example CFDs on Futures) as the price in the underlying takes that already into account.