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 the risks. Before trading ASX Listed CFDs you should carefully assess your experience, investment objectives, financial resources and all other relevant considerations and consult your adviser. Among the main risks of trading ASX Listed CFDs are the following:

Implications of leverage

Leverage (or gearing) is the use of given resources in such a way that the potential positive or negative outcome is magnified.

ASX Listed CFDs are leveraged. They offer the potential to make a higher return from a smaller initial outlay than for a non-leveraged transaction such as direct share investing.

The example illustrates the effect of leverage on a long ASX Equity CFD position. The table compares the possible purchase of 10,000 long ASX Equity CFDs and 10,000 shares. The higher percentage return from the ASX Equity CFDs demonstrates how leverage can work.

The initial outlay of capital is small relative to the total position value. Consequently, a relatively small market movement has a proportionately larger impact on the amount of funds supporting the position.

It is important to remember that leverage can work both for and against you by magnifying gains and losses.

Additional margin calls and unlimited loss

It is important to note that the liability for a holder of either a long or short ASX Listed CFD position is not limited to the margin paid.

If the market moves against a position or margin levels are increased, then the holder of that position may be called upon to pay additional funds on short notice to maintain the position.

If a holder of a position fails to comply with a request from their broker for additional funds within the time prescribed, the broker may close out the position. In addition, the holder will still be liable for any further losses that may have resulted from the position being closed out.

Note: The potential for loss is not limited to the amount of money paid as Initial and Variation Margins. Adverse market moves can result in losses being a multiple of the Initial Margin originally provided to support the position.

For a holder of a short position, a continuing adverse market price movement (e.g. market price rise), can result in theoretically unlimited losses being accumulated.

OPENING CONTRACT VALUE	SHARE	ASX LISTED CFD
Quantity purchased	10,000	10,000
Price	$20.00	$20.00
Position value	$200,000	$200,000
Capital outlay (Assume initial margin for CFD = 5%)	$200,000	$10,000

MARKET/CLOSING CONTRACT VALUE	SHARE	ASX LISTED CFD
Quantity held	10,000	10,000
Market/closing price	$18.00	$18.00
Position value	$180,000	$180,000
Gross profit/loss	-$20,000	-$20,000
Gross return on initial capital outlay	-10.00%	-200.00%

Foreign exchange risk

Not all ASX Listed CFDs are denominated in Australian Dollars.

It is important to keep in mind that when trading ASX Commodity or overseas Index CFDs all profits/losses are denominated in the currency of the particular product. For example, the ASX DJIA CFD is denominated in USD.

The following list indicates the currency denomination of each ASX Index and Commodity CFD.

ASX LISTED CFDS	CURRENCY DENOMINATION
ASX DJIA CFD	USD
ASX Gold CFD	USD

Liquidity risk

Market conditions (for example, lack of liquidity) may increase the risk of loss by making it difficult to effect transactions or close out existing positions.

Normal pricing relationships may not exist in certain circumstances. For example, normal pricing relationships may not exist in periods of high buying or selling pressure, high market volatility or lack of liquidity in the market for a particular ASX Listed CFD.

Gapping, whereby a market price falls or rises without the opportunity to trade, can result in significant losses even when a stop loss has been put on. This is because it may not be possible to transact at the nominated price if the market has gapped.

ASX Listed CFD traders may reduce liquidity risk by combining ASX Listed CFD positions with ASX Exchange Traded Options. The result is similar to a guaranteed stop loss. More details are available on the ASX Website at **www.asx.com.au/cfd**.

Furthermore, there are limited circumstances in which ASX may expire and delist the contract.

Market disruptions / emergencies and issue resolution

ASX Listed CFD transactions are subject to the rules, procedures, and practices of ASX and ASX Clearing Corporation. Under the ASX24 Operating Rules, certain trading disputes between market participants (for example errors involving traded prices that do not bear a relationship to fair market or intrinsic value) may lead to ASX cancelling or amending a trade. In these situations your consent is not required for the cancellation of a trade.

In some circumstances underlying instruments or securities may be halted, suspended from trading or have their quotations withdrawn from the exchange. These factors will directly affect an ASX Listed CFD's value.