Key Information Document – Short OTC Option Contract

Purpose

This document provides you with key information about this investment product. It is not marketing material. The information is required by law to help you understand the nature, risks, costs, potential gains and losses of this product and to help you compare it with other products.

Short OTC Option Contracts are offered by **CMC Markets UK plc** ("CMC"), a company registered in England and Wales, number 2448409. CMC Markets UK plc is authorised and regulated by the Financial Conduct Authority in the United Kingdom, register number 173730. Call 020 7170 8200 or go to www.cmcmarkets.com for more information.

This document was last updated on 26th September 2023.

You are about to purchase a product that is not simple and may be difficult to understand.

What is this product?

Options are financial derivatives. This product is a Short Over-The-Counter (OTC) Option Contract ("**Short OTC Option Contract**") entered into with CMC on a bilateral basis. It allows an investor to speculate on rising or falling prices in an underlying instrument (or volatility). Selling options is often referred to as 'writing options'.

You can enter into two types of Short OTC Option Contracts, either:

- A Call Option, which provides the holder (buyer) with a right (but not an obligation) to buy an underlying asset at the Strike Price or, where an option is cash-settled, receive a cash payment (the Premium) if the underlying price is above the Strike Price, at a specified Expiration Date and Expiration Time. If you are the writer (seller) of a Call Option, you have the obligation to sell an underlying asset, or where an option is cash-settled, make a cash payment if the holder exercises the option.
- A Put Option which provides the holder (buyer) with a right (but not an obligation) to sell an underlying asset at the Strike Price or, where an option is cash-settled, receive a cash payment (the Premium) if the underlying price is below the Strike Price, at a specified Expiration Date and Expiration Time. If you are the writer (seller) of a Put Option you have the obligation to buy an underlying asset, or where an option is cash-settled, make a cash payment if the holder exercises the option.

In respect of OTC Option Contracts, other factors that can impact the value include but are not limited to, the remaining time to expiry or implied volatility of the underlying asset. This means that even if the value of the underlying asset has not changed, the value of the OTC Option Contract may change.

You will receive a Premium for providing us with the option that we may exercise under the Short OTC Option Contract. However, you must pay to us, or hold, cash in your Account as Margin (as calculated in accordance with the Margin Rate and described in CMC's Cost Disclosure document available on our website) to cover any potential losses that you may incur from your exposure under the Short OTC Option Contract.

Your Short OTC Option Contract will automatically come to an end at the specified time on the Expiry Date. If the relevant attributes are not met on the Expiry Date (in respect of the Strike Price), the option will not be exercised, and will automatically expire. You will retain the Premium you received for being exposed to the option.

If the relevant attributes are met on the Expiry Date (in respect of the Strike Price), the option will be automatically exercised, and you will be 'in the money'. In this scenario, you will owe us an amount linked to the value of the option on the Expiry Date depending on the underlying price on the Expiry Date, (you may owe significantly more than the premiums you received for providing the option to us).

Selling options carries inherent risks and your losses under a Short OTC Option Contract are potentially unlimited. A worst-case scenario for a call seller is a strong market rally far greater than the premium received. A worst-case scenario for a put seller is a downward market move far greater than the premium received. Retail investors benefit from negative balance protection. If you are a retail investor, we will close out your Short OTC Option Contract before the Expiry Date if the amount that you would have to pay us upon the exercise of our option under the Short OTC Option Contract is the same as, or exceeds, the total amount of cash held in your Account (including your Margin).

In this scenario, your Short OTC Option Contract will be closed out, and you will lose all the cash held in your Account with us, less the Premium. If you have a negative Cash balance on your Account, we will waive our right to claim the deficit and your Account will be returned to a zero (0) balance.

We calculate the value of a Short OTC Option Contract on an ongoing basis for the purposes of determining when we may have to close-out your Short OTC Option Contract before the Expiry Date.

Objectives

The objective of a Short OTC Option Contract is to allow an investor to express a view on volatility or direction, and the movement in the value of the underlying asset (whether up or down). A Short OTC Option Contract provides an investor with a Premium for providing the option right, but in return the investor is exposed to movements in the value of the option.

Short OTC Option Contracts have a pre-defined expiry date and automatically either expire or are cash settled at the specified time on the Expiry Date. Short OTC Option Contracts may be closed before the expiry date if the Investor does not deposit additional funds as Margin in the case of a negative price movement. Retail customer losses will be limited to all the capital in their Account due to Negative Balance Protection (which will be more than the Premium it receives for providing the Short OTC Option Contract).

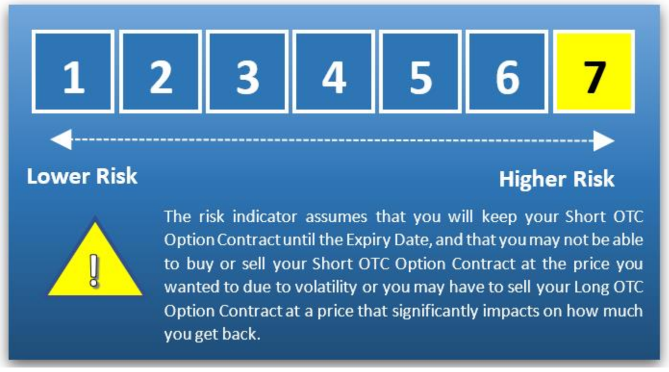
There is no recommended holding period for a Short OTC Option Contract, and it is down to the discretion of each individual investor to determine the most appropriate holding period based on their own individual trading strategy and objectives. CMC retains the ability to unilaterally terminate any Short OTC Option Contract where it deems that the terms of that Contract have been breached.

Intended Retail Investor

Short OTC Option Contracts are intended for investors who have knowledge of, or experience with, derivatives investment products. Likely investors will understand how the prices of put and call options are derived and the key concept of margin. They will understand the risk/reward profile of the product compared to traditional share dealing, and desired exposure to an underlying asset. Investors will also have appropriate financial means, hold other investment types and have the ability to bear losses of the total amount invested (i.e. the entirety of the cash held in their Account), or if they are a Professional Client, be able to bear losses exceeding the capital invested.

What are the risks and what could I get in return?

Risk indicator



The summary risk indicator is a guide to the level of risk of this product compared to other products. It shows how likely it is that the product will lose money because of movements in the markets or because we are not able to pay you.

We have classified this product as 7 out of 7, which is the highest risk class. This rates the potential losses from future performance of the product at a very high level.

Short OTC Option Contracts are complex instruments that, due to underlying market movements, can generate losses rapidly. There is no capital protection against market risk, credit risk or liquidity risk.

Be aware of currency risk. It is possible to buy or sell a Short OTC Option Contract in a currency which is different to the base currency of your account. The final return you may get depends on the exchange rate between the two currencies. This risk is not considered in the indicator shown above.

This product does not include any protection from future market performance so you could lose some or all of your investment. Retail customers will benefit from Negative Balance Protection, which means your losses in respect of your Short OTC Option Contract will be limited to the total amount of cash that you hold in your Account with us.

If we are not able to pay you what is owed, you could lose your entire investment. However, you may benefit from a consumer protection scheme (see the section "what happens if we are unable to pay you"). The indicator shown above does not consider this protection.

Investment Performance Information

What are the main factors likely to affect your future returns?

Market Risk is the risk that the value of the underlying market that the Short OTC Option Contract is derived from will increase or decrease due to changes in market risk factors. The standard market risk factors are price movements, volatility, time to expiration, interest rates and foreign exchange rates (where applicable).

What could affect my return positively?

Favourable changes in the market risk factors for the underlying market may positively impact the value of your Contract.

What could affect my return negatively?

Unfavourable changes in the market risk factors for the underlying market and your trading costs, including any third- party costs, may negatively impact the value of your Contract. The market risk factors for this product mean that your returns may be negatively impacted even where the value of the underlying asset price remains the same.

What outcome might you expect where the Contract is closed under severely adverse market conditions?

Under severely adverse market conditions, your losses are potentially unlimited. Retail customers are limited to the risk of losing all the cash held on their Accounts with us due to Negative Balance Protection.

What happens if CMC Markets UK plc is unable to pay out?

If CMC is unable to meet its financial obligations to you, you may lose the value of your investment. However, CMC segregates all retail client funds from its own money in accordance with the UK FCA's Client Asset rules. CMC also participates in the UK's Financial Services Compensation Scheme (FSCS) which covers eligible investments up to £85,000 per person, per firm. See www.fscs.org.uk.

What are the costs?

This table shows the different types of cost categories and their meaning			
One-off costs	**Entry costs**	Spread	The impact of the costs you pay when entering your investment, which includes spread costs
	Exit costs	Spread and currency conversion (where appl.)	The impact of the costs you pay when exiting your investment, which includes spread cost and currency conversion costs (where the account currency is different from the currency for the Long OTC Option Contract)
Ongoing costs	**Portfolio transaction costs**	Not applicable	The impact of the costs of us buying and selling underlying investments for the product.
	Other ongoing costs	Not applicable	The impact of the costs we take for any ongoing administration of your investment.
Incidental Costs	**Performance related fees**	Not applicable	The impact of the costs for any performance related fees payable in connection with your investment
	Carried interest	Not applicable	The impact of any carried interest costs related to your investment

There are no ongoing or incidental costs charged by CMC. Further information on the specific costs applied by CMC can be found in our Cost Disclosure document available on our website.

How long should I hold it and can I take money out early?

Short OTC Option Contract are intended for short term trading, but also for longer term investments in cases where Contracts have far dated Expiry Dates. There is no recommended holding period, no cancellation period and therefore no cancellation fees. You can open and close a Short OTC Option Contract at any time during trading hours and your Short OTC Option Contract will either close on its Expiry Date, or earlier if you do not maintain sufficient Margin and/or your losses may exceed the amount of cash you hold in your Account with us.

How can I complain?

If you wish to make a complaint, you should contact our Client Management Team on 020 7170 8200, by emailing clientmanagement@cmcmarkets.co.uk or in writing to CMC Markets UK plc, 133 Houndsditch, London EC3A 7BX. If you do not feel that your complaint has been resolved satisfactorily, you may refer your complaint to the Financial Ombudsman Service (FOS). See www.financial-ombudsman.org.uk for further information. If your complaint is about an advisory or discretionary manager acting on your account, please contact the firm providing the service.

Other relevant information

If there is a time lag between the time you place your order and the moment it is executed, your order may not be executed at the price you expected. Ensure your internet signal strength is sufficient before trading. The Legal Documents section of our website contains important information regarding your account. You should ensure that you are familiar with all the terms and policies that apply to your account.

The Product Overview on our platform contains additional information on trading a Short OTC Option Contract. Additional information on costs can be found on our website.