

Nedbank Capital Contracts for Difference: FAQ

Here is a comprehensive but non-exhaustive list of frequently asked questions that should address most issues associated with CFD's.

What is an equity CFD?

A contract for difference (CFD) is an over-the-counter derivative contract under which two parties agree to exchange the difference between the opening and the closing value of the contract, with reference to an underlying security. Nedbank CFD's allow investors to speculate on the rise or fall of JSE-listed securities, without the need for ownership of the securities.

CFD's are a leveraged product requiring a deposit of cash collateral rather than the payment of the full value of the underlying position. Effectively cash is being borrowed by the long counterparty and lent by the short counterparty to finance the purchase or short sale of the underlying security.

Although CFD's replicate the economic movements of the underlying securities they convey no right or interest in the securities nor entitle holders to any voting rights or STC credits associated with them.

Do I receive voting rights with my CFD?

No. To receive voting rights related to JSE-listed securities you must actually own the securities in your own name, which is not the case for a CFD.

How is a contract value calculated?

The notional value of a CFD is calculated by multiplying the price of the underlying security or reference instrument determined by Nedbank Capital by the number of securities specified in the contract. One CFD is the economic equivalent of one share.

When does my CFD trade expire?

Unlike many other derivative products, CFD's have no fixed expiry date and can remain open for as long or as short a period as required, or until the position is reversed by the investor or Nedbank Capital under the CFD Terms and Conditions.

What is margin and how does it work?

When opening a CFD position a deposit of cash margin is required rather than payment for the full value of the underlying position. The amount of margin required is based on the position and the individual reference instrument volatility. The amount of margin will vary considerably on a day-to-day basis and the individual reference instrument margin requirement may be altered at Nedbank Capital's discretion.

In addition to holding sufficient funds in your account to meet any premium payments and recovery of costs, you are required to make margin available in respect of each order to open a new CFD position, as well as your existing CFD positions. Such margin represents security held by Nedbank Capital for your orders and CFD positions.

You will be notified of the required collateral amount for each order and you should ensure that you have sufficient funds in your margin account to cover that amount.

A list of available reference instruments and current collateral rates is set out in the CFD trading platform, NedTrade.

What are mark-to-market payments?

Mark-to-market payments are payments to be made by you to Nedbank Capital or to you by Nedbank Capital, in accordance with any movements in the reference instrument. Mark-to-market payments reflect the profit or loss with respect to the CFD, which would be realised if the CFD were closed out immediately.

If the reference instrument increases in value while the CFD is open, the short party must pay the amount of the corresponding increase in the CFD value to the long party. Conversely, if the reference instrument decreases in value while the CFD is open, the long party must pay the amount of the corresponding decrease in the CFD value to the short party.

While mark-to-market payments are made only at the end of each business day, CFD values are in fact recalculated continuously. Accordingly, you should ensure that sufficient funds are available to cover such payments at all times.

What happens if my margin account has insufficient funds to meet margin requirements or mark-to-market payments?

You will be notified of any margin breaches using your contact details; however, it is the responsibility of the investor to ensure his or her margin account has sufficient cleared funds at all times to meet margin requirements and mark-to-market payments and Nedbank Capital may act prior to your receipt of any notice. Margin requirements and mark-to-market payments are calculated continuously. If there are insufficient funds in your margin account to meet your margin requirements or mark-to-market payments, your CFD positions may be closed out; your CFD orders may be cancelled; you may be required to pay default interest on the cash shortfall; and your margin account may be closed.

In general, if you transfer funds using internet banking where your account is not a Nedbank account prior to 15:00 on a business day, the transferred funds should clear on the same day. Any other settlement mechanisms into your margin account are likely to result in a delay in the clearing of those funds for approximately 1 to 2 business days.

What are Nedbank Capital's margin rates and what are they based on?

Margin rates applicable to CFD's and orders in respect of each underlying security are set by Nedbank in its sole discretion and published on the NedTrade Trading Platform. The margin rate assigned to a CFD depends largely on the volatility and liquidity of the underlying reference instrument. The current margin rates applicable to standard long and short CFD positions range between 8% and 100%.

What is the premium charge on overnight positions and how does it work?

CFD's are a leveraged product requiring a deposit of cash margin rather than the full value of the underlying position. Effectively, cash is being borrowed by the long counterparty and lent by the short counterparty. As a result, if an investor holds a long CFD position overnight, the investor will be charged, as part of the overall CFD premium, an amount based on the mark-to-market value of the reference instrument of that open position. Conversely, if an investor holds a short CFD position overnight, that investor will be credited with an amount based on the mark-to-market value of the reference instrument. This charge/credit is calculated and paid each business day.

What happens when the underlying reference instrument pays a dividend?

All dividend payments in relation to CFD's occur on the date the reference instrument goes ex dividend, ie the ex dividend date.

If you hold a long position in a CFD at the close of business on the day prior to the ex dividend date of the underlying reference instrument, you will receive an amount equal to the cash dividend on that security. This is not a dividend in tax law, but compensation for a dividend. Thus, the receipt is taxable and no STC benefit is attached to this payment.

If you hold a short position in a CFD at the close of business on the day prior to the ex dividend date, you must pay an amount equal to the cash dividend to Nedbank.

Nedbank Capital can adjust the amount of the manufactured dividend paid to take account of any significant time value-of-money adjustments.

Why don't long positions in CFD's attract STC credits?

To receive dividends and STC credits you must be the beneficial holder of the securities – which is not the case with CFD's. The amount paid as a dividend in respect of a long CFD position represents a manufactured dividend equal in amount to the cash dividend paid by the issuer of the underlying reference instrument, without any STC credits and not exempt from tax.

What happens if the underlying reference instrument is subject to a corporate action (such as a takeover or capitalisation issue)?

Where the underlying security is affected by a corporate action, amendments are likely to be required to any CFD's or orders that refer to that security. Nedbank Capital will in its sole discretion determine such appropriate adjustment, if any, as Nedbank considers necessary to preserve the economic equivalence of the rights and obligations of the parties immediately prior to the event. Examples of corporate actions include capitalisation issues, rights issues, share buybacks, takeovers, and cash returns of capital.

What range of underlying securities are CFD's offered over?

CFD's are currently offered on all Top 40 securities quoted on the JSE. This list is subject to change. Additional reference instruments can be added subject to liquidity of the share and demand by clients. A list of underlying securities in respect of which a short CFD position can be entered into can be obtained from the CFD trading platform, NedTrade.

Which securities are available for CFD short positions?

Not all securities are available for investors to enter into short CFD positions, although most large-capitalisation JSE-listed securities are available. This list of available securities is dependent on the ability of Nedbank Capital to borrow the security at any point in time and is thus subject to change. A list of underlying securities in respect of which a short CFD position can be entered into can be obtained from the CFD trading platform, NedTrade.

What steps are required to open a margin account?

All applicants must read and sign the CFD Terms and Conditions, complete a hard-copy application form and comply with FICA requirements.

Applications to open a margin account are subject to approval by Nedbank. Once an account has been approved, Nedbank will email the client the link to enable NedTrade to be downloaded by the client.

How can I deposit funds into my Nedbank margin account?

Once you have received an email providing you with the link to NedTrade, an account number, a user ID and a password, you will be able to transfer funds into your margin account. Contact Nedbank Capital CFD Division for banking details.

What is the minimum deposit to open an account?

The minimum initial deposit amount required to open an account is R20 000.

Is interest paid on deposited funds?

Funds that are in the client's margin account (whether blocked or not) will earn interest at the rand overnight deposit rate less a maximum of 1.5%.

What is the SAFEY overnight rate?

This is the weighted average of the overnight call deposit rate paid by A1-rated local and F1-rated foreign financial institutions where Safex places its daily margin deposits received by its members. Reuters code SFXROD and Bloomberg code RAONON Index.

What costs will I incur from trading CFD's?

- A charge on entry and exit of CFD's, with a maximum of 0,40% calculated on entry and exit values. A minimum charge of R30 applies.
- A charge is calculated daily on the exposure the long CFD provides to the investor in relation to the underlying reference instrument. The charge will be based on the SAFEY rate plus 2%. The exposure is calculated using the closing market price of the reference instrument. SAFEY is a floating rate and its historical levels can be obtained from the CFD website.
- A credit is earned daily on the exposure the short CFD provides to the investor in relation to the underlying reference instrument. The credit will be based on the SAFEY rate minus 3%. The exposure is calculated using the closing market price of the reference instrument.
- Holders of long CFD positions receive the benefit of an amount equal to the cash dividends paid to holders of the underlying securities. Conversely, holders of short CFD positions must pay an amount equal to the value of any cash dividend paid to holders of the underlying securities.

- Penalty interest will be charged on the SAFEY rate plus 5% when premium payment commitments are not met.
- A charge on entry and exit of CFD's, with a maximum of 0,40% calculated on entry and exit values. A minimum charge of R30 applies.

What are the risks associated with trading CFD's?

CFD's are highly leveraged and carry a high level of risk. CFD's offer exposure to an underlying security with a relatively small cash outlay for the margin. This can have the effect of magnifying potential gains or losses. Investors should note that losses can exceed the amount of margin laid out. Investors may be involuntary closed out due to a variety of reasons including insufficient funds to meet a margin call or where Nedbank Capital is unable to borrow underlying securities required to hedge its exposure to an investor's short position.

How are CFD's traded?

CFD's are traded online via Nedbank's CFD platform, NedTrade that can be downloaded from the website once your margin account has been set up.

How secure and reliable is the trading platform?

The trading platform uses the latest SUN JAVA technology and operates in a fully redundant failover environment to ensure that system downtime is kept to an absolute minimum. Nedbank Capital has an active standby environment at a separate location in the case of a production site failure. Security of the platform is at a very high level, with key processes residing behind secure corporate firewalls, sensitive data being protected through using SSL encryption and role-based permissioning.

Can orders be placed at any time?

Yes. However, investors should note that CFD orders placed outside JSE market hours are unlikely to be accepted by Nedbank Capital until normal trading commences, or Nedbank Capital is otherwise able to purchase or sell the corresponding reference instrument on the JSE, and will remain queued until that time.

Standard market hours for NedTrade is 09:15 to 16:45 on business days.

All orders placed are subject to acceptance by Nedbank Capital at its sole discretion.

How long will my order remain in the market?

You can specify how long you would like your order to remain in the market, assuming the order is not already accepted by Nedbank. Orders placed on the JSE in relation to a reference instrument that will trade on an ex-dividend basis on the following business day will not be cancelled. It is the investor's responsibility to manage his orders, which Nedbank Capital has not accepted yet. Nedbank may also cancel your order where your CFD account does not contain the collateral required for the order.

What is the minimum 'deal size'?

The minimum 'deal size' for a CFD trade is one underlying security.

How are CFD's taxed?

The taxation consequences of investing in Nedbank CFD's depend on your personal circumstances. Please refer to the CFD Terms and Conditions and seek advice from a tax professional.

Glossary

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| Cash distribution / Corporate action | In a long position the client would receive on his CFD the cash equivalent of the corporate action due on the reference instrument. In the case of a short position the cash equivalent is deducted from the client's margin account that is due to Nedbank Capital as result of the corporate action due on the reference instrument. |
| CFD | This is an abbreviation that stands for 'contract for differences'. A CFD is a derivative instrument that allows geared exposure to movements in the price of an underlying reference instrument. The client gets the profit or loss of the movement in the underlying reference instrument. A CFD typically allows a client to gear himself up to 10 times the amount of cash that he has placed on margin account. This benefits the client by allowing him greater equity exposure than he would ordinarily be able to obtain. |
| Closing m-t-m | The closing m-t-m of the reference instrument price multiplied by the CFD positions. Daily m-t-m The difference between the execution price of the CFD and the closing price of the CFD. The CFD price tracks the price of the underlying reference instrument. |
| Dividends | The client would receive on his CFD the cash equivalent of the dividends distributed on the reference instrument. The cash is paid into the client's margin account on the day the reference instrument goes ex-dividend. In the case of a short position the client would have to pay Nedbank Capital the cash equivalent of the dividends distributed on the reference instrument. The cash will be deducted from the client's margin account on the day that the reference instrument goes ex-dividend. Nedbank Capital reserves the right to adjust the value of the cash equivalent received by the client to account for the time value of money. |
| Execution premium | The premium payable by the client to Nedbank Capital when the client physically enters or exits a CFD position. |
| Intermediary fee | A fee charged to Nedbank Capital by brokers on the opening and closing of every position of a broker's client. This charge is remitted to the broker at the end of each month. It is only applicable to broker's clients and has no impact on the ordinary retail client who has no broker. |
| Margin change | The difference between the opening margin and the closing margin that represents the margin change. |
| Margin required | In respect of a given CFD on any date, an amount calculated as: $\text{CFD notional value} \times \text{margin rate}$. |
| Margin requirement | A cash deposit required to be made by the client with Nedbank Capital, calculated with reference to the closing value of the reference instrument on a daily basis. Nedbank Capital reserves the right to increase the margin requirements of the individual reference instruments by imposing a margin based on an assessment of the client's financial status. |

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| M-t-m | Mark to market. |
| Nominal exposure | The reference instrument price multiplied by the quantity of CFD's. |
| Opening m-t-m | The opening m-t-m equals the previous day's closing m-t-m plus or minus any purchases or sales of CFD's during the day. |
| Overnight long premium | An amount, calculated on a daily basis, equal to the CFD notional value, where the reference instrument price is the close of business value of the reference instrument as determined by the JSE, multiplied by a percentage set by Nedbank Capital and applicable to a CFD transaction where an investor buys a CFD, and which percentage will be equal to the SAFEY rate plus a maximum spread of 2% (two percent). The maximum spread will be determined by Nedbank Capital, from time to time, based on the underlying market conditions, which are reflected in the SAFEY rate and will be published on the website. |
| Overnight short premium | An amount, calculated on a daily basis, equal to the CFD notional value, where the reference instrument price is the close of business value of the reference instrument as determined by the JSE, multiplied by a percentage set by Nedbank Capital and applicable to a CFD transaction where the investor sells a CFD, and which percentage will be equal to the SAFEY rate minus a maximum spread of 3% (three percent). The maximum spread will be determined by Nedbank Capital, from time to time, based on the underlying market conditions, which are reflected in the SAFEY rate and will be published on the website. |
| Reference instrument | The underlying listed share whose share price the CFD instrument replicates. |
| Reserved amount | In respect of a given order on any date, an amount calculated as: CFD notional value x margin rate. |
| Short scrip premium | The premium payable by the client to Nedbank Capital for facilitating the short sale of equities. This premium is calculated on the closing value of all reference instruments that are short at the close of business and is included in the overnight short premium. |
| Trading capacity | The cash balance in the margin account less the aggregate of the Aggregate Reserved Amount and the Aggregate Margin Required. |