

CFDs are complex instruments and come with a high risk of losing money rapidly due to leverage. Please ensure you fully understand the risks involved.

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Margin call definition

What is margin call?

A margin call is the term used to describe the alert sent to a trader to notify them that the capital in their account has fallen below the minimum amount needed to keep a position open. A margin call can mean that the trader has to put up additional funds to balance the account, or close positions to reduce the maintenance margin required.

Margin call can also be used to describe the status of your account – i.e. you are 'on margin call' because the funds in your account are below the margin requirement.

When you trade with leveraged products – such as CFDs – there are two types of margin: a deposit margin, needed to open the position, and a maintenance margin, needed to keep the position open. It is the failure to uphold the latter that will trigger a margin call.

If a trade starts to lose money, the funds in your account may no longer be enough to keep the position open and your provider will ask you to top up your account in order to bring your balance up to the minimum margin – this notification is a margin call. If you top up your funds, the position will remain open. If not, your provider may close the position and any losses incurred will be realised.

The term margin call came from the practice of brokers calling their clients to notify them of the account deficit. But these days, most margin calls are delivered by email.

Learn how the [margin policy](#) we have in place helps to reduce your risk of slipping into a negative balance on your account.

Help and support

[Get answers](#)

Or ask about **opening an account** on [1800 601 799](#), or [+61 3 9860 1799](#), or helpdesk.au@ig.com

If you're calling from NZ, you can contact us on [0800 442 150](#)

We're here 24 hours a day, except from 7am to 5pm Saturdays (AEST).

Learn more about margin calls

Discover IG's margin requirements and margin call procedure.

What is CFD Trading?

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What is **CFD** **Trading** and How **Does it Work?**

A CFD or “Contract For Difference” is a derivative product which allows you to trade on the price movements of assets and indexes across local and international markets. While being complex, what they offer traders is quite simple. CFDs enable you to enter the market with only a fraction of the value of the asset you are buying, amplifying the potential for gains and losses, also known as leverage. Because a CFD focuses on price movements it is also possible to short a product, meaning the trader expects the price of an asset to decrease and profit from this movement. Lastly they enable the trader to take a position without having to take ownership of the underlying asset. This makes CFDs ideal for traders who want to gain a larger market exposure for a fraction of the full value while being able to enter and exit trades quickly.

With CFDs you don't have ownership of the actual assets. Rather, you exchange the price difference of the underlying asset, from the time that the contract was opened to when it is closed. This closing date or contract expiry date is not fixed, making CFDs different from other forms of derivatives, like futures. Your contract can be for the short term or continue for the long term

One advantage of trading CFDs is that you can speculate on price movements in any direction, up or down. The gain or loss that you make will depend on whether your forecast pans out. With CFDs, you can trade a large variety of assets, including currencies, equities, indices, cryptocurrencies (including bitcoin) and commodities.

It is necessary to understand how CFDs work before trying your hand at it.

Video: **CFD Trading** **Explained**



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How Do **CFDs** Work?

To understand the whole process, you need to first know the concept of margin trading. Leveraged CFDs allow you to gain wide exposure to price movements, without needing to invest the total trade value. This means that leverage allows you to gain wider exposure to the market than what you could have done with the capital in your trading account.

Trade CFDs - What is **CFD Margin**?

When you start trading CFDs, you will need to open a “margin account,” preferably with a regulated broker. The broker will allow you to trade larger positions, by offering leverage. This means that you get the opportunity to magnify your earnings, with a small capital investment from your end. However, remember that leverage can also magnify losses. So, choose your leverage wisely.

To maintain your margin account, a fixed minimum amount of capital has to be present in the account at all times, to serve as a cushion against potential losses. This is known as the “initial margin” or “deposit margin.” It is the difference between the funds you borrow from your broker and the full trade value of your position.



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In case you incur losses, and the capital in your account is depleted below the required level, the broker will issue a “margin call.” This means that you will need to deposit the required amount in your account, known as the “maintenance margin.”

Suppose the shares of XYZ Company are trading at \$130 per share. You decide to buy 10,000 units of a contract at this price. Now, if you had to pay the total value of this contract, it would cost you:

$$\text{\$130} \times 10,000 = \text{\$130,000}.$$

By using leverage, you can gain exposure to the same number of shares, but with a lower capital investment. If the required margin is 5% of the total trade value, you will be required to pay only \$6.50 per CFD unit, in your trading account as margin.

So, your total margin requirement will be
 $(0.05 \times 130,000) = \text{\$6,500}.$

This is significantly less than \$130,000 but you get the same level of exposure, as if you had bought the shares directly. Plus, you are entitled to 100% of the gains. On the other hand, you will also bear 100% of any losses.

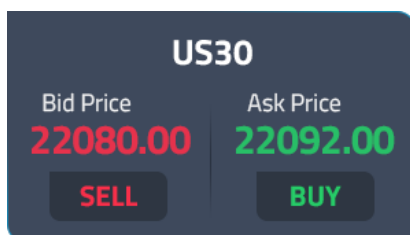
This margin percentage will depend on the country from where you trade. Different regulatory bodies have different limits for leverage. These limits have been put in place to protect traders against significant losses during time of heightened volatility.

Going “Long” or “Short” in CFD Trading

When you trade CFDs, you can speculate on whether the market prices will move up or down. If you believe that the prices will rise in the future, you buy the underlying asset or “go long.” But, if you think that prices will decline in future, you sell the asset, or “go short.” You still get to exchange the difference between prices at open and close, but you get a chance to benefit from declining prices as well

An Example of Leveraged CFD Trading

Suppose you want to trade CFDs, where the underlying asset is the US30, known as the “Dow Jones Industrial Average Index.” Let us suppose that the US30 is trading at:



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Bid/Ask Spread

Now, “bid” is the selling price. This is what you sell the asset at. The higher of the two is the “ask price” or buy price; the rate at which you buy the asset. The difference between these two prices is the “spread.” This is your cost of trading. Depending on how liquid your asset is and your choice of broker, the spread can be tight or wide. For instance, a broker can source quotes from a large pool of liquidity providers to offer you the tightest bid/ask spreads.

Now, getting back to the trade, you decide to buy 5 contracts of US30 because you think that the US30 price will rise in the future. Your margin rate is 1% . This means that you need to deposit 1% of the total position value into your margin account.

So, you need to deposit
 $1\% \times (5 \times \text{US30})$
 $1\% \times (5 \times 22092.00)$
= USD1105

In the next hour, if the price moves to 22100.00/22112.00, you have a winning trade. You could close your position by selling at the current (bid) price of US30 which is 22100.00

Your profit here will be
 $5 \times (22100.00 - 22092.00)$
= USD40

In this case, the price moved in your favor. But, had the price declined instead, moving against your prediction, you could have made a loss. This continuous evaluation of price movements and resultant profit/loss happens daily. Accordingly, it leads to a net return (positive/negative) on your initial margin. In the loss scenario where your free equity, (account balance+ Profit/Loss) falls below the margin requirements (1105), the broker will issue a margin call. If you fail to deposit the money, and the market moves further against you, when your free equity reaches the 50% of your initial margin the contract will be closed at the current market price, known as the “stop out.”



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Notice how a small difference in price can offer opportunities to trade? This small difference is known as “pip” or “percentage in point.” For Indices, 1 pip is equal to a price increment of 1.0 which is also called an Index point. In the forex market, like in the above example, it is used to denote the smallest price increment in the price of a currency. For assets like the AUD/USD, which include the US Dollar, a pip is represented up to the 4th decimal place. But, in case of pairs that include the Japanese Yen, like the AUD/JPY, the quote is usually up to 3 decimal places.

This continuous evaluation of price movements and resultant profit/loss happens daily. Accordingly, it leads to a net return (positive/negative) on your initial margin. In case your initial margin is lower, the broker will issue a margin call. If you fail to deposit the money, the contract will be closed at the current market price. This process is known as “marking to market.”

If the price of US30	To	You Could Gain or Lose (for a long position)
Rises by +1%	22300.80/ 22312.80	USD 1044.00
Declines by -1%	21859.20/ 21871.20	USD -1164.00

How to Hedge Using CFDs?

Now, “bid” is the selling price. This is what you sell the asset at. The higher of the two is the “ask price” or buy price; the rate at which you buy the asset. The difference between these two prices is the “spread.” This is your cost of trading. Depending on how liquid your asset is and your choice of broker, the spread can be tight or wide. For instance, a broker can source quotes from a large pool of liquidity providers to offer you the tightest bid/ask spreads.

A significant advantage of CFD trading is the opportunities to hedge your portfolio against short-term market volatility, within an existing position. Hedging is a strategy you can use when you want to invest to protect against downside risks. You can also limit your gains to do this.

So, let's say you have an equity portfolio worth AUD 150,000, consisting of prominent shares on the ASX 200 index. These are split up in 10 tranches of AUD 15,000 each. You could own AUD 15,000 worth of Adelaide Brighton shares and AUD 15,000 worth of ANZ Banking Group Ltd.

Now, if you believe that both these companies might suffer a short-term dip in share price, due to a bad earnings report, you could offset some of the potential loss by going short on them through a CFD.



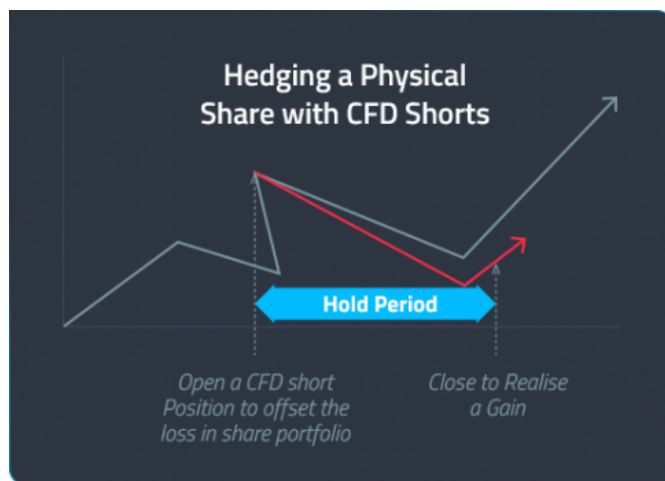
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Instead of selling these shares in the open market, you assume two CFD short positions in Adelaide Brighton and ANZ Banking Group Ltd. About 10% of the market exposure, which is AUD 3,000, could be required to set up this hedge.

But, why choose a CFD short rather than simply selling the shares and buying them again later, after the price drops? The reason to choose the CFD route could be:

You will attract capital gains when you sell your shares, which is taxable. This will be unnecessary, unless you want to get rid of these assets once and for all. In CFDs, you won't need to pay stamp duty and trading costs will be limited to margin and spread.

If the market does go downwards, the losses in your equity portfolio will be offset by your short CFD positions.



Hold Period

Now, after the market closes each day, any CFD position open in your account could incur holding costs. This depends on the applicable holding rate, as well as the direction of your position; based on which the cost can be negative or positive. The holding cost is one of the costs of trading CFDs.

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