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† Link names are the navigation sequence through the IB website menu bar located at the top of every IB web page.

The Problem

Trading costs for stock come in the form of commissions, execution cost, and financing costs. A great deal of attention is paid to commissions which are explicit, and with the advent of smart routers, more attention is being paid to execution cost. But despite the fact that most trade cost comes from financing charges or lack of interest paid, little attention is focused on financing rates because they are not transparent.

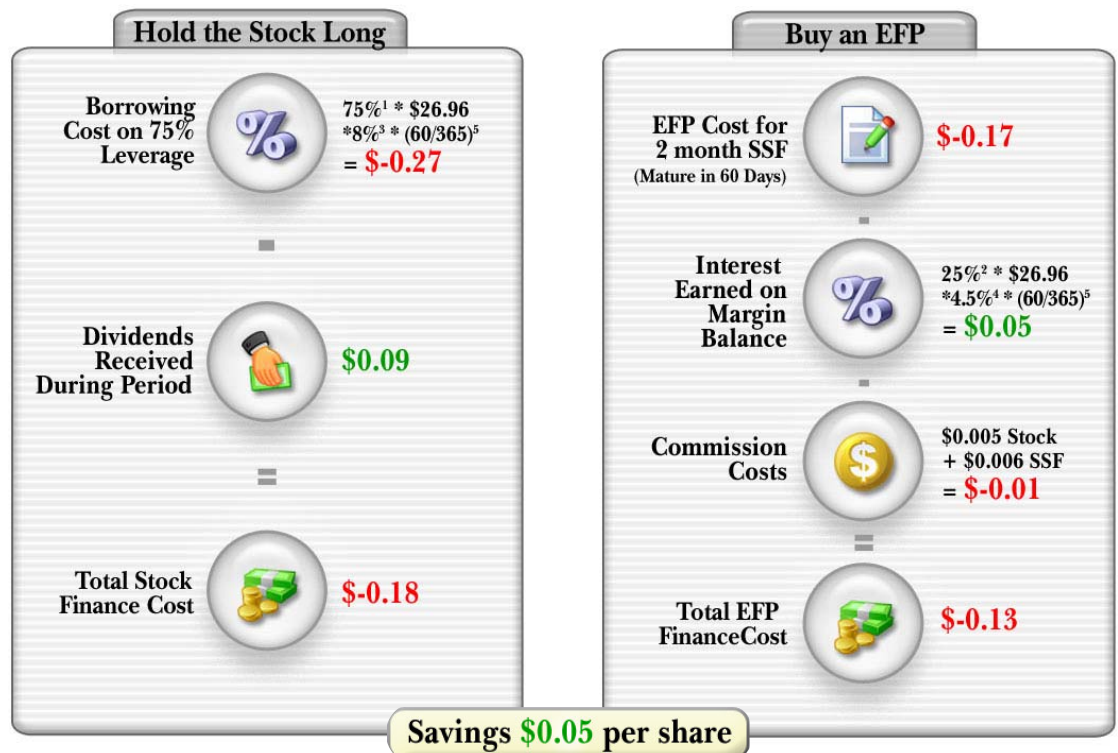
The Solution

An Exchange of Futures for Physical (EFP) allows the swap of a long or short stock position for a Single Stock Future (SSF). SSFs have an interest rate built into their price that is determined competitively by numerous market participants, rather than a single broker who can ignore rates. IB displays the EFP spread on an annualized basis net of dividends for easy comparison with broker interest rates.

A Stock vs. EFP Cost Comparison

Long Stock Comparison

Hold 1 share long of Microsoft for 60 days with 25% of the stock value held in cash as margin.



¹ Borrowed % • ² 20% SSF Requirement + 5% excess from stock sale • ³ Interest Charged • ⁴ Interest Earned • ⁵ % of Year

At the end of the sixty day period, 1 share of Microsoft stock is held under each scenario. The trade cost savings of \$0.05 from entering into an EFP to purchase an SSF instead of holding the stock would significantly reduce the cost of holding stock.

Any stock, options or futures symbols displayed are for illustrative purposes only and are not intended to portray a recommendation.

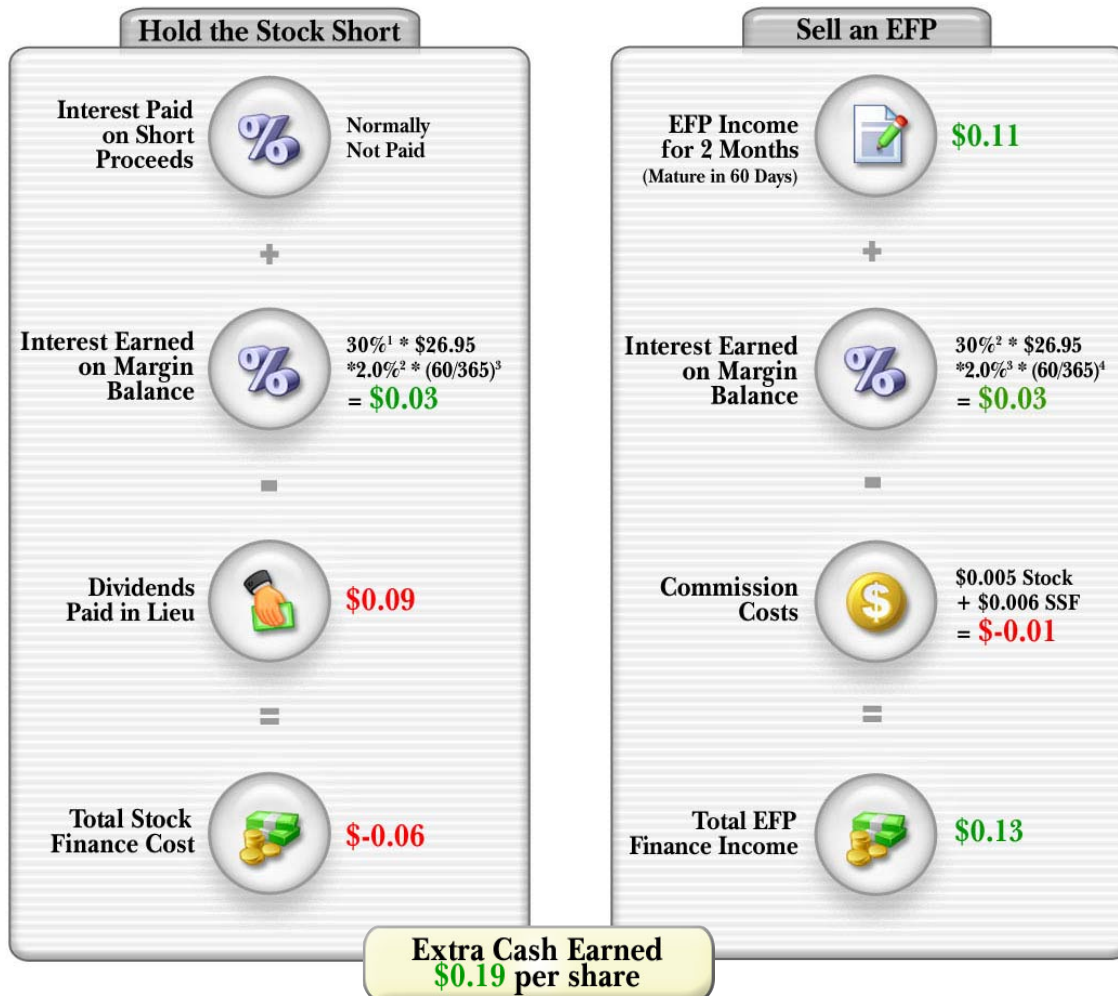
Security futures trading involves the risk of loss, including the possibility of loss greater than your initial investment. Security futures may not be suitable for all investors. Consult your broker or financial advisor before trading. All investors will be required to review risk disclosure materials and meet suitability requirements established by their brokers. You should carefully review all disclosure statements and ensure you understand the risks of trading security futures.



A Stock vs. EFP Comparison (Continued)

Short Stock Comparison

Go short 1 share of Microsoft for 60 days with 30% of the stock value held in cash as margin.



¹ Margin % • ² 20% SSF Requirement + 10% excess from stock buy-in • ³ Interest Earned • ⁴ % of Year

At the end of the sixty day period 1 share of Microsoft stock is short under each scenario. The extra finance income of \$0.19 from entering into an EFP instead of shorting the stock would significantly increase trade income. The \$0.19 short sale income differential is a result of most brokers not paying interest on short sale proceeds.

- Increased leverage, SSFs have only a 20% margin requirement.
- Elimination of US dividend withholdings for non-US investors.
- Ability to sell SSFs short on a downtick.

Taking Advantage of EFPs

The default display for EFPs is the stock vs. Single Stock Future spread. EFPs can also be displayed in a basis point which can be directly compared to broker interest rates. This direct comparison is achieved by netting dividends and annualizing the EFP spread. ⁽¹⁾



Underly...	Exch	Description	Bid Size Time in Force	Bid Price Action	Ask Price Quantity	Ask Size Type	Last Price Lmt. Price	Last Size Aux. Price	Divi... Tran...	Change Cancel	High Status	Low Dest.
IBM	IBEFP	Future EFP: - (100) IBM ...	100	572.5 bp	587.5 bp	100			0.00			
IBM	SMART...	Stock	3	75.97	76.00	17	76.00	3		+0.78	76.00	75.52
IBM	ONE	AUG06 Futures IBM1CQ6	105	76.04	76.14	100	75.39		0.00			
IBM	IBEFP	Future EFP: - (100) IBM ...	100	540.0 bp	555.0 bp	100			0.00			
IBM	ONE	SEPD6 Futures IBM1CU6	100	76.35	76.45	100	75.71		0.00			
IBM	IBEFP	Future EFP: - (100) IBM ...	100	535.0 bp	552.5 bp	100			0.30			
IBM	ONE	DECD6 Futures IBM1CZ6	100	77.07	77.18	100	76.43		0.30			
MSFT	IBEFP	Future EFP: - (100) MSF...	400	157.5 bp	662.5 bp	400			0.09			
MSFT	SMART...	Stock (NMS)	602	24.40	24.41	671	24.41	1		+0.19	24.46	24.33
MSFT	ONE	SEPD6 Futures MSFT1CU6	10	24.40	24.51	410	24.40	8	0.09	+0.11	24.40	24.40
MSFT	IBEFP	Future EFP: - (100) MSF...	400	440.0 bp	597.5 bp	400			0.18			
MSFT	ONE	DECD6 Futures MSFT1CZ6	400	24.61	24.76	400	24.51		0.18			
GE	IBEFP	Future EFP: - (100) GE +...	400	540.0 bp	582.5 bp	400			0.25			
GE	SMART...	Stock	40	32.62	32.63	225	32.62	1		-0.07	32.80	32.59
GE	ONE	DECD6 Futures GE1CZ6	400	32.98	33.05	400	33.10		0.25			

To activate the basis point display, right-click the top of the bid or ask price column and choose *Display EFP prices in basis points*. EFPs may then be bought or sold by clicking the basis point bid or ask price. To swap a long stock position for a long SSF, click the ask EFP basis point price. To swap a long short position for a short SSF, click the bid EFP basis point price. EFPs may be added to the main trading window by entering a symbol and the *Comb/IBE FP* asset type. They may also be added to the SpreadTrader by typing a symbol and selecting *Show EFP for XXX*.

The top twenty EFP basis point calculations may also be displayed in the market scanners to highlight interest rate opportunities.

⁽¹⁾ Interactive Brokers LLC is not liable for any losses resulting from inaccuracies in the EFP basis point calculations due to the misreporting of dividends or market data.