Understanding the Risks of Pre-IPO Derivatives

We provide investors with access to financial markets which includes the ability to trade Contracts for Difference (CFDs) and over the counter (OTC) derivatives referenced to unlisted, Pre-IPO (Initial Public Offering) companies.

Trading derivatives on companies that are not yet listed on a public stock exchange (such as the ASX) carries a significantly higher level of risk than standard share trading or public equity CFDs. Under Australia's Design and Distribution Obligations (DDO), we are required to ensure our clients fully understand these risks before accessing this product.

Key Risks

1. You do not own the underlying shares

When you trade a pre-IPO derivative, you are entering into a contract with us to speculate on the price movement of a private company. You do not own the actual equity, you have no voting rights, and you will not receive standard shareholder communications from the underlying company.

2. Pricing and infrequent valuation

Publicly listed companies have live, transparent share prices updated every second on a stock exchange and pre-IPO companies do not. The valuation of a pre-IPO derivative is derived from private funding rounds, independent valuations, or dark market liquidity and this data is updated infrequently.

3. Gapping and market gaps

Private company valuations change in sudden blocks (e.g., when a new funding round closes), the price of a pre-IPO derivative can "gap" significantly. This means the price can open vastly higher or lower than its previous quote without trading smoothly in between and this can trigger sudden margin close-outs before a stop-loss order can be executed.

4. Corporate Action Vulnerability

Pre-IPO companies are dynamic and less restricted than public companies and they may undergo sudden capital restructures, heavy share dilution, delayed IPO timelines, or they may fail to list at all. Any of these events can negatively impact or completely invalidate your derivative contract.

Frequently Asked Questions (FAQs)

What is a pre-IPO derivative?

It is a leveraged financial contract (like a CFD) that allows you to speculate on whether a private, unlisted company’s valuation will rise or fall before it goes public