



## **PRODUCT DISCLOSURE STATEMENT**

\*Western Union Business Solutions is the trade name under which Western Union Business Solutions (USA), LLC offers its services in the United States.

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## 1. Purpose

This Product Disclosure Statement (**Disclosure Statement**) is dated March 26, 2021.

This Disclosure Statement contains information about **FX Forwards, Vanilla Options and Structured Options**. These products are collectively referred to as **Foreign Exchange Contracts** in this Disclosure Statement. Western Union Business Solutions (USA), LLC, doing business as Western Union Business Solutions (**we, our and us**) is providing you with this Disclosure Statement so that you receive important information about these products, including their benefits, risks and costs.

The purpose of this Disclosure Statement is to assist you in understanding the Foreign Exchange Contracts available from us and to help you determine whether these Foreign Exchange Contracts meet your needs. This Disclosure Statement may also assist you in comparing the features of the Foreign Exchange Contracts with other products that you may be considering.

Please read this Disclosure Statement carefully before entering into or purchasing a Foreign Exchange Contract. In the event that you purchase or enter into a Foreign Exchange Contract with us, you should keep a copy of this Disclosure Statement along with any associated documentation for future reference.

The information set out in this Disclosure Statement is general in nature and has been prepared without taking into account your objectives, financial situation or needs. Before making any decision about a Foreign Exchange Contract described in this Disclosure Statement, you should consider whether it is appropriate for you, having regard to your own objectives, financial situation and needs. This Disclosure Statement is not intended to be and does not constitute financial advice or a source of any specific financial recommendations.

You should read all of this Disclosure Statement and the **Terms and Conditions** before making a decision to trade in the Foreign Exchange Contracts described in this Disclosure Statement.

A Foreign Exchange Contract may be suitable for you if you have a reasonable level of understanding of foreign exchange and related markets. We do not make any representation or provide any assurance regarding the suitability of any particular Foreign Exchange Contract and you must be satisfied that any instrument you enter into or purchase is suitable and appropriate for you in light of your experience, objectives, financial resources and other relevant circumstances. If you are not certain about your understanding of these markets and whether a particular product is suitable for you, we strongly suggest you seek independent advice before making a decision about these products.

Transactions in Foreign Exchange Contracts carry a high degree of risk. Consideration should be given to all the potential outcomes of specific Foreign Exchange Contracts and strategies before entering into any of the Foreign Exchange Contracts described in this Disclosure Statement. We encourage you to obtain independent financial advice which takes into account the particular reasons you are considering entering into any Foreign Exchange Contract with us. While this Disclosure Statement addresses certain potential risks associated with entering into or purchasing Foreign Exchange Contracts, it does not disclose all of the risks and other aspects of trading in the Foreign Exchange Contracts. In light of these risks, you should only

undertake those transactions for which you understand the nature of the contracts (and the contractual relationship) into which you are entering and the extent of your exposure to risk.

Independent taxation and accounting advice should also be obtained in relation to the impact of possible foreign exchange gains and losses in light of your particular financial situation.

It is important to understand that the Foreign Exchange Contracts described in this Disclosure Statement are to be used solely for the purpose of hedging currency risk. **Under no circumstances may these Foreign Exchange Contracts be used for investment or speculative purposes.** You should not deal in Foreign Exchange Contracts unless you understand their nature and the extent of your exposure to risk.

The distribution of this Disclosure Statement and the entering into of the Foreign Exchange Contracts described in this Disclosure Statement may be restricted by law in certain jurisdictions. We do not represent that this Disclosure Statement may be lawfully distributed, or that any Foreign Exchange Contracts may be lawfully sold or entered into, in compliance with any applicable registration or other requirements in any such jurisdiction, or pursuant to an exemption available thereunder, or assume any responsibility for facilitating any such transaction. In particular, no action has been taken by us that would permit a public offering of any Foreign Exchange Contracts or distribution of this Disclosure Statement in any jurisdiction where action for that purpose is required. Accordingly, no Foreign Exchange Contracts may be sold, directly or indirectly, and neither this Disclosure Statement nor any advertisement, offering material or other material may be distributed or published in any jurisdiction, except under circumstances that will result in compliance with any applicable laws and regulation. Persons into whose possession this Disclosure Statement comes must inform themselves about, and observe any such restrictions.

We recommend that you contact us if you have any questions arising from this Disclosure Statement or the Terms and Conditions prior to entering into any transactions with us.

If you have any questions or require more information, please contact

Brendan McGrath, National Corporate Risk Manager, Western Union Business Solutions  
Telephone: 250-661-8894  
email: [brendan.mcgrath@westernunion.com](mailto:brendan.mcgrath@westernunion.com)

or refer to our website [www.business.westernunion.com](http://www.business.westernunion.com).

## 2. Important Information

### 2.1 Copies

Copies of this Disclosure Statement are available free of charge. This Disclosure Statement supersedes and replaces any product disclosure statements we have previously provided to you.

### 2.2 Financial Amounts

All financial amounts expressed in this Disclosure Statement are in United States Dollars (**USD**) unless otherwise stated.



## 2.3 Glossary of Terms

Words that are capitalized in this Disclosure Statement, other than headings, have defined meanings. These meanings are found in Section 22 “Glossary of Terms”. We put each defined term in **bold** the first time we use it in this Disclosure Statement.

## 2.4 Counterparty Credit Risk

When you enter into a Foreign Exchange Contract with us, you are exposed to **Counterparty** credit risk against us. That is, you have the risk that we will not meet our obligations to you under the relevant Foreign Exchange Contract.

## 2.5 Examples

To help you understand the Foreign Exchange Contracts described in this Disclosure Statement, we have provided examples of how the products work and what the outcomes may be for you in different scenarios. These examples are shown in boxes throughout this Disclosure Statement. These examples are for illustrative purposes only and do not reflect actual exchange rates or outcomes. In order to assess the merits of any particular Foreign Exchange Contract you should use the actual rates and figures quoted at the relevant time.

# 3. Counterparty

Western Union Business Solutions (USA), LLC, doing business as Western Union Business Solutions, is the entity you will transact with when entering into any Foreign Exchange Contracts with us. In this Disclosure Statement, we refer to Western Union Business Solutions (USA), LLC as your **Counterparty**.

## 3.1 Our Contact Details

Principal Contact: Brendan McGrath, National Corporate Risk Manager  
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Email: [brendan.mcgrath@westernunion.com](mailto:brendan.mcgrath@westernunion.com)  
Website: [www.business.westernunion.com](http://www.business.westernunion.com)

## 3.2 Our Services

We are one of the world’s largest non-bank specialists in foreign exchange and international payments. We work with individuals and companies of all sizes to create solutions that assist their business payments and foreign exchange process challenges to manage risk and costs.

## 3.3 How to Access our Services

After agreeing to our Terms and Conditions and after your application has been approved by us, you will have access to our products and will be able to provide us **Instructions** by:

- Phone - where you can call us and speak to one of our **Representatives** and provide us with Instructions to transact your currency needs;
- Email - where you can email us to provide your account details and Instructions; or

- Online - where we have arranged for your access to our services through our Online Platforms (**Online Platforms**) or Secure File Transfer Protocol (**SFTP**).

### 3.3.1 Online Platforms

We provide a number of Online Platforms to access our different services with varying degrees of accessibility. The Online Platforms provide access for United States business hours only, Global Trading hours only (Monday morning to Friday afternoon), or 7 day a week access.

For eligibility and qualification for these Online Platforms, please contact a Representative. You should consider the risks detailed in this Disclosure Statement and any additional information available on our website prior to accessing any Online Platform.

In some instances you may incur a monthly Online Platform fee, or a monthly fee charged according to the number of transactions effected through the Online Platforms. For more information, contact your Representative.

### 3.3.2 Secure File Transfer Protocol

SFTP is a facility which allows for an information file to be transmitted by a Client at its discretion for transaction related information.

We will, at our sole discretion, qualify Clients for access based upon a number of factors including, volume of transactions, and frequency of transacting with us.

For eligibility and qualification for SFTP please contact a Representative. You should consider the risks detailed in this Disclosure Statement prior to applying for SFTP access.

### 3.4 Additional Information

Our website provides additional general information that may be useful, including information about currency transactions and payment solutions, a resource center and information relating to our company history. You must note that any information in this Disclosure Statement or on our website is general information only and does not take into account your personal financial circumstances and needs.

## 4. Foreign Exchange Overview

Foreign exchange refers to the purchase of one currency and the simultaneous sale of another currency at an agreed **Exchange Rate**. We offer the following Foreign Exchange Contracts: FX Forwards (including Deliverable FX Forwards (**Deliverable Forwards**) and Non-Deliverable FX Forwards (**NDFs**)), Vanilla Options and Structured Options. Separate from the Exchange Rate, you will need to consider the relevant fees associated with your transaction. Certain fees associated with transactions are described for Deliverable Forwards and NDFs in Section 7 “Cost of Deliverable Forwards (Including Future Payments) and NDFs”, for Vanilla Options in Section 10.7 “Cost of a Vanilla Option” and for Structured Options in Section 11.3 “Cost of a Structured Option”. Additional fees may apply to any specific Foreign Exchange Transactions you enter into with us. In some instances you may incur a monthly Online Platform fee, or a monthly fee charged according to the number of transactions effected through the Online Platforms. For more information about fees, contact your Representative.

## 4.1 Determining Exchange Rates

A foreign Exchange Rate is the price of one currency (the **Base Currency**) in terms of another currency (the **Terms Currency**). The Exchange Rate is expressed as a quotation and shows how many units of the Terms Currency will equal one unit of the Base Currency. For example, the foreign Exchange Rate **USDCAD 1.25** means one U.S. dollar is equal to 1.25 Canadian dollars. In this example the USD is the Base Currency and the CAD is the Terms Currency. Please note the above Exchange Rate is hypothetical and used for illustration purposes only. It is not an indicator of future Exchange Rates.

## 4.2 The Foreign Exchange Market

Foreign Exchange Contracts are not entered into on an authorized exchange such as a stock market. There is no official benchmark Exchange Rate for foreign currencies. The foreign exchange market is referred to as an **Over-The-Counter** or **OTC** market, which means that Exchange Rates will often vary when compared between providers.

Exchange Rates are quoted on the **Interbank Market**, which is a wholesale market for **Authorized Exchange Dealers**, with **Interbank Exchange Rates** fluctuating according to supply and demand. This market is restricted to Authorized Exchange Dealers and banks that constantly quote to each other at wholesale Exchange Rates and in minimum parcel sizes.

Factors that influence supply and demand (and therefore the Exchange Rate quoted to you) include:

- interest rate risk. Central banks change interest rates to influence Exchange Rates. An unexpected rate adjustment or other change in interest rates could result in change in Exchange Rates;
- investment inflows/outflows;
- market sentiment or expectations;
- economic factors (including economic data) and political influences including geo-political tensions and other geo-political factors; and
- import/export levels of goods and services.

Exchange Rates quoted in the media generally refer to Interbank Exchange Rates and will usually differ from Exchange Rates quoted to you.

Because Foreign Exchange Contracts are traded OTC you will not be able to reverse your transaction, originally contracted with us, with another provider. You will only be able to reverse or cancel your Foreign Exchange Contract with us.

## 4.3 Currency Limitations

While we try to ensure that you are provided with access to the **Currency Pairs** of your choice, we do not guarantee that we will offer Foreign Exchange Contracts in all Currency Pairs. This may arise for a number of reasons, including restrictions that are imposed on us or if we do not have access to such currencies through our **Correspondent Banks**. We note that certain

currencies, such as emerging market currencies, may present additional risks that you should consider when accessing certain Currency Pairs.

## 5. Forward Foreign Exchange Contracts (FX Forwards)

An FX Forward is a binding agreement between you and us in which one currency is sold or bought against another currency at an agreed Exchange Rate on an agreed date beyond two (2) **Business Days** in the future. FX Forwards can be Deliverable Forwards (where the parties exchange and settle the contract by exchanging the two currencies which have been bought and sold) or they can be NDFs (where the contract is net-settled by one party paying the other an amount in a single currency based on changes in Exchange Rates). This Section 5 applies to Deliverable Forwards (including Future Payments). A description of how an NDF works is set out in Section 6 “Non-Deliverable FX Forwards (NDFs)”.

### 5.1 Purpose of a Deliverable Forward

A Deliverable Forward enables you to fix Exchange Rates to **Hedge** your currency exposure by providing protection against unfavorable Exchange Rate movements between the day on which we agree to enter into a Deliverable Forward (the **Trade Date**) and the day when payment for currency is made (the **Value Date**). A Deliverable Forward may also assist you in managing your cash flow by negating the uncertainty associated with Exchange Rate fluctuations and providing the certainty of a specified cash flow. When a Deliverable Forward is paired with a payment instruction for the delivery of the purchased currency to a beneficiary, we may refer to it as a **Future Payment**.

### 5.2 Deliverable Forward Variables

When you provide Instructions to us for a Deliverable Forward there are a number of variables that need to be agreed between you and us:

- the denomination and amount of the currency being bought or sold;
- the denomination of the currency being exchanged;
- the date in the future you want the contract to mature (Value Date); and
- the Exchange Rate.

### 5.3 Determining Exchange Rates

In determining the Exchange Rate applicable to a Deliverable Forward, we apply **Forward Points** to our **Spot Rate**. We take into account a number of factors in determining Forward Points although in general terms Forward Points reflect:

- the differing interest rates prevailing in the two currencies involved in the Deliverable Forward;
- market **Volatility**; and
- transaction size and our ability to offset the transaction in the Interbank Market.

## 5.4 The Forward Points

The Forward Points can be either a positive or a negative number. Forward Points are added to the Spot Rate to obtain a **Forward Exchange Rate**.

For example, an importer needs to buy Canadian Dollars (**CAD**) in three (3) months' time in exchange for USD and Canadian interest rates are higher than US interest rates. The pricing principle assumes that we buy USD now at the Spot Rate, paying for the USD with CAD. We will pass on the cost of the higher rate of interest that we pay on the CAD. The adjustment, which would be a negative number or a subtraction from the Spot Rate, means that the Forward Exchange Rate would be less favorable than a Spot Rate. The reverse would apply if Canadian interest rates were lower than US interest rates.

## 5.5 How does a Deliverable Forward work?

When you enter into a Deliverable Forward with us you nominate the amount of currency to be bought or sold, the two currencies to be exchanged and the date on which you wish to exchange the currencies. In the case of a Future Payment, you may also designate the beneficiary who will receive the currency which you have purchased.

The currencies that you wish to exchange must be acceptable to us. For a list of available currencies please contact your Representative.

We will determine the Exchange Rate applicable to the Deliverable Forward based on the currencies and the Value Date that you have nominated as well as determinants outlined in Sections 5.3 and 5.4 above.

On the Value Date you are required to deliver the currency that you are exchanging in accordance with the Exchange Rate determined by us and agreed by you at the Trade Date. Upon receipt in cleared funds of the currency that you are selling, we will pay you or your nominated beneficiary the amount of currency that you have purchased.

The examples below in this Section 5.5 are for information purposes only and use rates and figures that we have selected to demonstrate how each product works from the perspective of United States based importers. We will provide United States based exporter examples on request. In order to assess the merits of any particular Deliverable Forward you should use the actual rates and figures quoted at the relevant time.

### Example of a Deliverable Forward

#### Using a Deliverable Forward to cover future obligations

An importer is buying goods from Canada and is scheduled to make a payment of CAD 100,000 in three (3) months' time. The Exchange Rate today is USDCAD 1.3245.

The importer can eliminate its exposure to the Exchange Rate depreciating by entering into a Deliverable Forward. This will allow an Exchange Rate to be fixed for the purchase of CAD

100,000 in three (3) months' time. This guaranteed future Exchange Rate is called the Forward Exchange Rate.

The three (3) month Forward Points are -0.0016 which, when applied to the current Exchange Rate, results in a three (3) month Forward Exchange Rate of 1.3229 (1.3245 minus 0.0016).

In three (3) months' time the importer will buy from us the CAD 100,000 at the Forward Exchange Rate of 1.3229 and will pay USD 75,591.50 (CAD 100,000/1.3229).

The importer will be in a more favorable position if the Exchange Rate on the Value Date is less than the Forward Exchange Rate of 1.3229. If in three (3) months' time the Exchange Rate moves lower to USDCAD 1.31, the importer would have been required to pay USD 76335.88 (CAD100,000/1.31) had it not entered into the Deliverable Forward, costing the importer an additional USD 744.38. In this scenario the importer has saved that amount by entering into the Deliverable Forward.

However, if the Exchange Rate on the Value Date is greater than the Forward Exchange Rate of 1.3229, the importer would be in a less favorable position. If in three (3) months' time, the Exchange Rate moves higher to USDCAD 1.35, the importer would have only paid USD 74,074.07 (CAD 100,000/1.35) had it not entered into the Deliverable Forward. In this scenario the importer is paying an additional USD 1517.43 by entering into the Deliverable Forward.

### **Not using a Deliverable Forward to cover future obligations**

The same importer decides not to enter into a Deliverable Forward. The amount of USD the importer will need to pay in three (3) months' time will depend on the prevailing Exchange Rate quoted at that time.

If in three (3) months' time, the Exchange Rate moves lower to USDCAD 1.29, the importer will be required to pay USD 77,519.38 (CAD 100,000/1.29). The importer did not take the opportunity to protect against unfavorable Exchange Rate movements and has to pay USD 1927.88 more than if the importer had chosen to enter into a Deliverable Forward as described above.

Conversely, if in three (3) months' time, the Exchange Rate moves higher to USDCAD 1.37, the importer will be required to pay USD 72,992.70 (CAD100,000/1.37). The importer did not take the opportunity to protect against unfavorable Exchange Rate movements and has as a result saved money by paying USD 2598.80 less than if the importer had chosen to enter into a Deliverable Forward as described above.

## **5.6 Components and Special Features of a Deliverable Forward**

### **5.6.1 The Term of a Deliverable Forward**

The term of a Deliverable Forward can range between three (3) days to one (1) year, depending on your needs and your credit terms with us. A term longer than one (1) year may be considered by us on a case-by-case basis.

We will, in our sole discretion, determine whether we will offer you Deliverable Forward(s) with specific terms, including the maximum time frame (Trade Date to Value Date). Generally we will take into account a number of factors, including but not limited to:

- current financial position;
- period of incorporation if applicable;
- a credit check through third party agencies;
- credit history; and
- previous history as our Client (if applicable).

### 5.6.2 Open vs. Closed Forward Contracts

Deliverable Forward contracts may be characterized as being either “open” or “closed,” depending on the applicable settlement terms.

#### Open Forward Contract:

An open forward (also called a “window” forward) contract is an agreement to purchase a fixed amount of currency, at a fixed exchange rate, over a previously-agreed period of time (the “window”). These contracts provide the buyer with the flexibility to deliver any portion of the contract value at any point during the previously-agreed “window” period, provided the entire contract is utilized by the end of this period.

#### Closed Forward Contract:

A closed forward contract, or simply a forward contract, is an agreement to purchase a fixed amount of currency, at a fixed exchange rate on a fixed Value Date in the future. Unlike an open forward contract, the buyer is unable to deliver on the contract before the specified Value Date.

### 5.6.3 Rollover

At any time up to the Value Date you may ask us to extend the Value Date of your Deliverable Forward. We refer to this as a **Rollover**. All Rollovers are subject to our prior approval and may be declined at our sole discretion. We will only approve Rollovers where there is an underlying business purpose. We will also consider:

- the extent to which your Deliverable Forward is **In-The-Money**;
- the extent to which your Deliverable Forward is **Out-of-The-Money**; and/or
- the Rollover period you are requesting.

For Rollovers where the Deliverable Forward is deeply Out-of-The-Money, we may require you to close the Deliverable Forward, settle any liabilities owing to us, and enter into a new Deliverable Forward equivalent to your request for the Rollover at market Exchange Rates.

If we agree to extend your Value Date, the Exchange Rate of your Deliverable Forward will be altered. The new Exchange Rate will reflect a number of factors including:

- your existing Forward Exchange Rate from the last Trade Date of the Deliverable Forward;
- the Spot Rate at the time the Rollover is contemplated; and
- market interest rates of the currencies involved in the Rollover consistent with the new Value Date.

It will also reflect any funding implications where your Deliverable Forward is either In-The-Money or Out-of-The-Money. This is determined by us comparing the value of your Deliverable Forward with the prevailing market Spot Rate. If you are an importer and the value of your Deliverable Forward is greater than the prevailing market rate you will have an In-The-Money position (and so you will be extending credit to us); if the value of your Deliverable Forward is less than the prevailing market rate you will have an Out-of-The-Money position (and so we will be extending credit to you). The opposite In-The-Money and Out-of-The-Money scenario applies if you are an exporter.

If we agree to a Rollover, we will send you a Confirmation detailing the amendment as agreed by you and us.

#### **5.6.4 Pre-Delivery of a Deliverable Forward**

After entering into a Deliverable Forward you may wish to bring the agreed Value Date closer to Value Spot. This is called a **Pre-Delivery**. All Pre-Deliveries are subject to our prior approval and may be declined at our sole discretion.

If we agree to the Pre-Delivery we may carry out an Exchange Rate adjustment to the original Forward Exchange Rate to reflect this earlier delivery or Value Date. You should note that while in normal trading conditions an adjustment for Pre-Deliveries or Rollovers may be somewhat marginal, in times of extreme Volatility in the foreign exchange market the adjustment may be significant.

It should also be noted that there is a contract to effect full delivery of the Deliverable Forward no later than the Value Date and any agreement to effect a Pre-Delivery is at our sole discretion.

#### **5.6.5 Partial Pre-Delivery of a Deliverable Forward**

You may also wish to bring the agreed Value Date closer to Value Spot on a portion of the **Notional Amount** of your Deliverable Forward. If we agree to this, we may carry out an Exchange Rate adjustment to the original Forward Exchange Rate on that portion of the amount that you wish to pre-deliver. The balance of the remaining Notional Amount, after the partial Pre-Delivery of the Deliverable Forward, shall remain due at the original Exchange Rate on the original Value Date.



### 5.6.6 Close-out/Cancellation of a Deliverable Forward

We may agree to close-out a Deliverable Forward, or a portion of the Notional Amount of your Deliverable Forward, in the event that you no longer require the currency that you have agreed to purchase on the Value Date. Our decision to agree to a close-out is at all times discretionary and in each case will be subject to payment by you of any costs that we incur in terminating and unwinding your Deliverable Forward, including any Out-of-The-Money position in relation to your Deliverable Forward.

We may also agree to close-out a Deliverable Forward at or around the time of its scheduled maturity and agree to a single cash settlement payment being made (by the party which is Out-of-The-Money to the party which is In-the-Money) in lieu of an exchange of the two referenced currencies. Our decision to agree to such a close-out will be in our sole discretion, subject to agreement on the applicable terms (including the relevant settlement currency and other costs to be incurred by us). Cash settlement will only be approved in limited circumstances where there is an unexpected change in your hedging needs that has affected the underlying business purpose that resulted in you purchasing the original Deliverable Forward.

### 5.6.7 Termination of a Deliverable Forward

Once entered, a Deliverable Forward may only be terminated by us in limited circumstances, which are set out in full in our Terms and Conditions. These circumstances include:

- Failure by you to pay **Initial Margin** or meet a **Margin Call**;
- If you are insolvent, appoint a receiver or administrator for your business or cease to carry on your business;
- If you dispute the validity of a Deliverable Forward; or
- For any other reason set out in the Terms and Conditions.

Where we terminate a Deliverable Forward for any of these reasons you will, in addition to any other amounts owing to us, be liable for any losses and expenses that we incur as a result.

## 5.7 Standing Orders

We may allow you to place an order for a Deliverable Forward that only becomes binding on you when a certain Exchange Rate is reached in the relevant foreign exchange market (the **Client Price**). We refer to this as a **Standing Order**. A Standing Order is not available if you are using our online systems.

Provided that your nominated Client Price has not been reached you will be able to amend or cancel a Standing Order by providing us with a further Instruction.

If the Client Price is reached, then you will be bound to settle the transaction in accordance with our Terms and Conditions, and as detailed in this Section 5.

You will not be able to cancel or amend an order after the Client Price level has been reached if we have completed your order, regardless of whether we have notified you by Confirmation of the completion of your order.

As the foreign exchange market is an OTC market, an external published Exchange Rate that corresponds with your Client Price level is no guarantee that an order will be completed. Published Exchange Rates are typically related to the wholesale or Interbank Market and do not reflect the Client Price or **Retail Price**.

The foreign exchange market can exhibit Volatility and we may not be able to complete all orders at a specific level due to a number of factors including but not limited to:

- market Volatility;
- market Liquidity;
- the size of your order; and or
- incorrect price data feeds.

We will use best endeavors, in good faith, to complete all orders at your nominated Client Price.

## 6. Non-Deliverable FX Forwards (NDFs)

### 6.1 What is an NDF?

A Non-Deliverable FX Forward (NDF) is a type of FX Forward that is cash-settled on the **Value Date**. This means that there is no exchange of currencies at **Settlement**; instead a single amount in one currency (the **Cash Settlement Amount**) will be payable by either you to us, or us to you. This amount is calculated on the specified Fixing Date by reference to the difference in value of the predetermined CAD or foreign currency amount to be bought or sold (the **Notional Amount**) at the agreed Exchange Rate (the **NDF Contract Rate**) and the value of the Notional Amount that you have agreed to buy or sell at the applicable Fixing Rate.

An NDF may be useful in managing the currency risk associated with exporting or importing goods purchased in foreign currency, investing or borrowing overseas, repatriating profits converting foreign currency-denominated dividends, or settling other foreign currency contractual requirements. NDFs are particularly useful where physical exchange of currencies is not required on the Value Date, or in cases where a foreign central bank limits access to a country's domestic financial markets

### 6.2 How does an NDF work?

When you enter into an NDF you nominate the Notional Amount of the **Non-Deliverable Currency** that you wish to purchase or sell, the **Settlement Currency** and the Value Date. We will then determine the **NDF Contract Rate**, the source of the **Fixing Rate** and the **Fixing Date** (which will usually be two (2) Business Days before the Value Date).

The decision as to whether you wish to purchase or sell the Non-Deliverable Currency will depend on the risk you are seeking to hedge:

- If you are concerned about the Non-Deliverable Currency weakening against the Settlement Currency (i.e. you are effectively receiving the Non-Deliverable Currency in

the future), you will enter into an NDF where you elect to sell the Non-Deliverable Currency and purchase the Settlement Currency on the Value Date.

- If you are concerned about the Non-Deliverable Currency strengthening against the Settlement Currency (i.e. you are effectively paying the Non-Deliverable Currency in the future), you will enter into an NDF where you elect to purchase the Non-Deliverable Currency and sell the Settlement Currency on the Value Date.

In each case, the two possible outcomes on the Value Date of an NDF are:

- If the NDF Contract Rate is more favorable for you than the Fixing Rate on the Fixing Date, we will pay you the difference in the Settlement Currency.
- If the NDF Contract Rate is less favorable for you than the Fixing Rate on the Fixing Date, you will be obligated to pay us the difference in the Settlement Currency.

Whether the NDF Contract Rate is more or less favorable will depend on whether you are buying or selling the Notional Amount of the Non-Deliverable Currency and what the Fixing Rate is on the Fixing Date.

The examples below in this Section 6.2 are for information purposes only and use rates and figures that we have selected to demonstrate how each product works from the perspective of United States based importers. We will provide United States based exporter examples on request. In order to assess the merits of any particular NDF you should use the actual rates and figures quoted at the relevant time.

#### Example of an NDF

##### Using an NDF to cover future payables.

A U.S. company is importing goods from Brazil. The company is invoiced in Brazilian Real (**BRL**) and settles their invoices in the same currency. The latest invoice requires the customer to pay the BRL amount of 1,000,000 in three (3) months' time. The Exchange Rate today is USDBRL 4.75.

Due to capital controls in Brazil, there is no Deliverable Forward market for BRL. The importer can, however, eliminate its exposure to the BRL appreciating by entering into an NDF with a Value Date in three (3) months' time.

Assume that the prevailing Forward Points for three (3) months' time is (0.0135) and we offer an NDF Contract Rate of 4.7635 (4.75 plus 0.0135). The importer can then enter into an NDF for a Notional Amount of BRL 1,000,000 with a Value Date of three (3) months and a Fixing Date two (2) Business Days prior to the Value Date at the NDF Contract Rate of 4.7635.

The possible outcomes on the Value Date are described below:

## **1. USDBRL rises at Fixing Date**

If the USDBRL Exchange Rate has appreciated above the NDF Contract Rate (4.7635) on the Fixing Date, the importer will be obligated to pay the difference between the NDF Contract Rate and the Fixing Rate in USD (the Settlement Currency) to us on the Value Date.

For example if the Fixing Rate on the Fixing Date is 4.85, the Fixing Rate Settlement Amount will be USD 206,185.57 (BRL 1,000,000/4.85), the NDF Contract Rate Settlement Amount will be USD 209,929.67 (BRL 1,000,000/4.7635) and the difference of USD 3,744.10 (the Cash Settlement Amount) will be payable by the importer to us.

This Cash Settlement Amount will reduce the benefit that the importer will receive from purchasing BRL at the more favorable spot rate. Given that the importer must purchase BRL in the spot market to settle their invoice, they will pay fewer USD dollars to secure their BRL needs. Should they secure a rate equivalent to the Fixing Rate for their spot purchase, the importer will pay USD 206,185.57 (BRL 1,000,000/4.85). Under the NDF contract, the importer must pay the benefit (being USD 3,744.10) to us. The total of USD 209,929.67 paid by the importer is equivalent to the contracted NDF Exchange Rate of 4.7635.

## **2. USDBRL falls at Fixing Date**

If the USDBRL Exchange Rate has depreciated below the NDF Contract Rate (4.7635) on the Fixing Date, we will pay the difference between the NDF Contract Rate and the Fixing Rate in USD (the Settlement Currency) to the importer on the Value Date.

For example if the Fixing Rate on the Fixing Date is 4.5, the Fixing Rate Settlement Amount will be USD 222,222.22 (BRL 1,000,000/4.5), the NDF Contract Rate Settlement Amount will be USD 209,929.67 (BRL 1,000,000/4.7635) and the difference of USD 12,292.55 (the Cash Settlement Amount) will be payable to us by the importer.

This Cash Settlement Amount will compensate the importer for the larger amount of USD that it will need to settle its BRL invoice as a result of the lower USDBRL Exchange Rate.

## **Not using an NDF to cover future payables.**

The same importer decides not to enter into an NDF. The amount of USD that the importer pays in three (3) months' time will depend on the prevailing USDBRL Exchange Rate in three (3) months.

If the USD goes up (appreciates) the BRL will be less valuable and the importer will pay less USD. For example, if the USDBRL Exchange Rate rises to 5.0 the importer will pay USD 200,000 to settle their BRL invoice.

If the USD goes down (depreciates) the BRL will be more valuable and the importer will pay more USD. For example, if the USDBRL Exchange Rate falls to 4.5 the importer will pay USD 222,222.22 to settle their BRL invoice.

### 6.3 How the NDF Contract Rate is Determined

The NDF Contract Rate is a Forward Exchange Rate determined by us. For an explanation of how we determine Forward Exchange Rates, please refer to Section 5.3 “Determining Exchange Rates”, above.

### 6.4 How the Fixing Rate is Determined

On the Fixing Date, the Fixing Rate applicable to an NDF will be determined by us by reference to an independent market rate source used by the financial markets industry and published at the time specified in the transaction Confirmation. The independent market rate sources which we use provide us with an Exchange Rate for each currency against USD.

If you have entered into an NDF in which either the Settlement Currency or the Non-Deliverable Currency is USD, the Fixing Rate applicable to your NDF will be the Exchange Rate which we obtain from the independent market rate source.

If you have entered into an NDF in which neither the Settlement Currency nor the Non-Deliverable Currency is USD, we will determine the Fixing Rate applicable to your NDF by crossing independent market rates sourced by us for each currency against USD on the Fixing Date. Depending on the sources used, the market rates used to determine the Fixing Rate applicable to your NDF may be obtained at different times on the Fixing Date.

The market rate sources which will be used to determine the Fixing Rate for each NDF are specified in the transaction Confirmation which we provide to you. For more information about the independent market rate sources which we use, contact your Representative.

### 6.5 How the Cash Settlement Amount is Determined

On the Fixing Date, we will calculate the Cash Settlement Amount using the Notional Amount of the NDF, the NDF Contract Rate, and the Fixing Rate.

The Cash Settlement Amount will be the net difference between the **NDF Contract Rate Settlement Amount** and the **Fixing Rate Settlement Amount**, where:

- The NDF Contract Rate Settlement Amount equals the Notional Amount of the NDF converted into the Settlement Currency at the NDF Contract Rate; and
- The Fixing Rate Settlement Amount equals the Notional Amount of the NDF converted into the Settlement Currency at the Fixing Rate.

Depending on the terms of your NDF (in particular, whether you are buying or selling the Non-Deliverable Currency) the difference between these amounts will be payable by you to us, or by us to you.

Where you are effectively selling the Non-Deliverable Currency to us on the Value Date:

- If the NDF Contract Rate Settlement Amount is greater than the Fixing Rate Settlement Amount, we will pay you the difference.

- If the NDF Contract Rate Settlement Amount is less than the Fixing Rate Settlement Amount, you will pay us the difference.

Where you are effectively buying the Non-Deliverable Currency from us on the Value Date:

- If the NDF Contract Rate Settlement Amount is less than the Fixing Rate Settlement Amount, we will pay you the difference.
- If the NDF Contract Rate Settlement Amount is greater than the Fixing Rate Settlement Amount, you will pay us the difference.

## **6.6 Components and Special Features of an NDF**

### **6.6.1 The Term of an NDF**

The term of an NDF can range between three (3) days to one (1) year depending on your needs and your credit terms with us. A term longer than one (1) year may be considered by us on a case-by-case basis.

### **6.6.2 Settlement of an NDF**

NDFs are cash-settled, which means there is no physical exchange of currencies between you and us. Instead, as outlined above, one party pays the other a cash amount (the Cash Settlement Amount) in the Settlement Currency on the Value Date.

### **6.6.3 Changing the Value Date of an NDF**

You may want to bring forward or extend the Value Date of an existing NDF. We may choose to accommodate any such request in our sole discretion.

If we agree to change the Value Date of an existing NDF, we will cancel the original NDF and enter into a new NDF with the revised Value Date. There will also be a new NDF Contract Rate (and therefore a new NDF Contract Rate Settlement Amount). Cancelling the remaining balance of the original NDF will result in a profit or loss to you, depending on the prevailing Exchange Rates relative to the Contract Rate of the original NDF. This profit or loss will be built into the Contract Rate for the new NDF.

### **6.6.4 Close-out/Cancellation of an NDF**

We may agree to close-out an NDF at any time up to and including the Fixing Date. Our decision to agree to a close-out is at all times discretionary and in each case will be subject to payment by you of any costs that we incur in terminating and unwinding your NDF.

### **6.6.5 Termination of an NDF**

Once entered, an NDF may only be terminated by us in limited circumstances, which are set out in full in our Terms and Conditions. These circumstances include:

- Failure by you to pay **Initial Margin** or meet a **Margin Call**;

- If you are insolvent, appoint a receiver or administrator for your business or cease to carry on your business;
- If you dispute the validity of a Deliverable Forward; or
- For any other reason set out in the Terms and Conditions.

Where we terminate an NDF for any of these reasons you will, in addition to any other amounts owing to us, be liable for any losses and expenses that we incur as a result.

## **6.7 Standing Orders**

We may allow you to place an order for an NDF that only becomes binding on you when a certain Exchange Rate is reached in the relevant foreign exchange market (the **Client Price**). We refer to this as a **Standing Order**. A Standing Order is not available if you are using our online systems.

Provided that your nominated Client Price has not been reached you will be able to amend or cancel a Standing Order by providing us with a further Instruction.

If the Client Price is reached, then you will be bound to settle the transaction in accordance with our Terms and Conditions, and as detailed in this Section 6.

You will not be able to cancel or amend an order after the Client Price level has been reached if we have completed your order, regardless of whether we have notified you by Confirmation of the completion of your order.

As the foreign exchange market is an OTC market, an external published Exchange Rate that corresponds with your Client Price level is no guarantee that an order will be completed. Published Exchange Rates are typically related to the wholesale or Interbank Market and do not reflect the Client Price or **Retail Price**.

The foreign exchange market can exhibit Volatility and we may not be able to complete all orders at a specific level due to a number of factors including but not limited to:

- market Volatility;
- market Liquidity;
- the size of your order; and or
- incorrect price data feeds.

We will use best endeavors, in good faith, to complete all orders at your nominated Client Price.

## 7. Cost of Deliverable Forwards (including Future Payments) and NDFs

### 7.1 Exchange Rate

We set our Exchange Rate to you by applying a **Retail Mark Up** to the Interbank Exchange Rate that we receive from our **Hedging Counterparties**. The Retail Mark Up is a factor in how we make a profit. We determine this Retail Mark Up by taking into account a number of factors, including:

- the size of the transaction measured in currency amount, where the smaller the transaction size, the larger the Retail Mark Up may be;
- the Currency Pair, where the less **Liquidity** in the pair the greater the Retail Mark Up may be;
- market Volatility, where high Volatility may result in an increased Retail Mark Up;
- the **Time Zone** you choose to trade and when trading on public holidays or weekends may see increased Retail Mark Ups; and
- the frequency with which you trade with us, where the more frequently you transact the Retail Mark Up may be reduced.

### 7.2 Cost to you

Because we do not pay interest to you for amounts that we hold as Initial Margin or Margin Call, there will be an interest cost to you if you are required to pay an Initial Margin or a Margin Call (see Section 13 “Credit Requirements” for more details). That cost will be equivalent to the interest that you would have otherwise earned (if any) if you had held those amounts in your own bank account.

When you enter into an FX Forward you agree to make a physical payment of one currency to us in exchange for the physical receipt of another currency (for a Deliverable Forward), or for an amount to be settled to or from you (for an NDF). The amount that you pay to us is determined by the Exchange Rate that we agree at the Trade Date.

The Exchange Rate to which we agree will take into consideration the factors described in Section 7.1 “Exchange Rate”.

You will not be charged any additional entry fees for a Deliverable Forward or NDF at the Trade Date. However, other additional fees may apply in connection with Foreign Exchange Transactions you enter into with us. For example, in some instances you may incur a monthly Online Platform fee, or a monthly fee charged according to the number of transactions effected through the Online Platforms that we provide to you. For more information about fees generally or the fees applicable to any specific transaction, please contact your Representative.

For further information on the Online Platform fees that may be applicable, contact your Representative.



## 8. Benefits of Deliverable Forwards (including Future Payments) and NDFs

The potential benefits of entering into a Deliverable Forward or an NDF with us are:

- Deliverable Forwards and NDFs can help you manage the risk inherent in currency markets by predetermining the Exchange Rate and Value Date on which you will purchase or sell a given amount of foreign currency against another currency. This can provide you with protection against adverse foreign exchange movements between the time that you deal (Trade Date) and the Value Date. They can also assist you in managing your cash flow by negating the uncertainty associated with Exchange Rate fluctuations impacting a specified cash flow.
- Deliverable Forwards and NDFs are flexible - Value Dates and Notional Amounts can be tailored to meet your requirements.
- NDFs can provide you with protection against foreign Exchange Rate movements for currencies that cannot otherwise be bought and sold freely.

## 9. Risks of Deliverable Forwards (including Future Payments) and NDFs

Deliverable Forwards and NDFs are only suitable for persons who understand and accept the risks involved in dealing in Foreign Exchange Contracts involving foreign Exchange Rates. We recommend that you obtain independent financial and legal advice before entering into a Deliverable Forward or an NDF.

The following are some of the risks that are associated with Deliverable Forwards and NDFs:

- **Opportunity Loss.** Once the Forward Exchange Rate has been set, you will not be able to take advantage of preferential Exchange Rate movements that occur after the Trade Date and prior to the Value Date. By protecting against potential unfavorable Exchange Rate movements, you are not able to take advantage of favorable Exchange Rate movements and will be required to trade at an Exchange Rate that is less favorable to you than the prevailing Exchange Rate on the Value Date.
- **Market Volatility.** The foreign exchange markets in which we operate are OTC and can change rapidly. These markets are speculative and volatile with the risk that prices will move quickly. When this occurs the value of your Deliverable Forward or NDF contracts with us may be significantly less than when you entered into the contract. We cannot guarantee that you will not take losses (including where your Deliverable Forwards or NDFs with us are Out-of-The-Money) or that any unrealized profit or losses will remain unchanged for the term of the Deliverable Forward or NDF. You need to monitor your Deliverable Forwards and NDFs with us carefully and provide Instructions in a timely fashion to the extent you want to request adjustments in response to market changes.
- **Amendments/Cancellations.** Rollovers, Pre-Deliveries or close-out/cancellation of a Deliverable Forward or NDF may result in a financial loss to you. We will provide a quote for such services based on market conditions prevailing at the time of your request as detailed Section 5.6 “Components and Special Features of a Deliverable Forward” and Section 6.6 “Components and Special Features of an NDF”. We are not obligated to

satisfy such a request, and you may be required to hold an FX Forward to its scheduled maturity.

- **Cooling-off.** There is no cooling-off period. This means that once your Instruction to enter into an FX Forward has been accepted by us, you are unable to cancel your FX Forward without incurring a cost.
- **Default Risk.** If you fail to pay an Initial Margin or a Margin Call in accordance with the Terms and Conditions or fail to provide Settlement on the Value Date we may terminate your Deliverable Forward or NDF. In the event that we do, you will be liable for all costs that we incur including the payment of any Out-of-The-Money position that exists with respect to your Deliverable Forward or NDF.

Other general risks associated with the Foreign Exchange Contract and the financial services we provide are outlined elsewhere in this document, including in Section 12 “Additional Risks”.

## 10. Vanilla Options

### 10.1 What is a Vanilla Option?

A Vanilla Option is an agreement between two parties (you as ‘the buyer’ of the Vanilla Option and us as ‘the seller’ of the Vanilla Option) that gives you the right but not the obligation to exchange an amount of one currency for an amount of another currency at an agreed Exchange Rate on an agreed date in the future (**Expiry Date**). Vanilla Options can be either deliverable or non-deliverable. A Vanilla Option is deliverable (a **DVO**) where, upon exercise, the parties are obligated to settle the option by physically exchanging the two referenced currencies at the agreed Exchange Rate. A Vanilla Option is non-deliverable (an **NDVO**) where the parties nominate one of the two currencies to be the settlement currency and the other currency to be the non-deliverable currency. NDVOs are cash settled at maturity.

Vanilla Options (both DVOs and NDVOs) may be a **Put Option** (a right to sell currency) or a **Call Option** (a right to buy currency).

Vanilla Options enable you to protect against a worst case Exchange Rate. They allow you to **Hedge** your currency exposure by providing protection against unfavorable currency movements between the time that you buy a Vanilla Option and the Expiry Date. At the same time you are also able to participate in any favorable currency movements that exist on the Expiry Date.

When you enter into a Vanilla Option you will be required to pay a non-refundable **Premium** for the Vanilla Option. This is described further in Section 10.7 “Cost of a Vanilla Option”. Because you have purchased the right but not the obligation to Exercise the Vanilla Option, you will not have to effect **Settlement** of the Vanilla Option if you elect not to Exercise.

### 10.2 Vanilla Option Variables

When you buy a Vanilla Option you nominate:

- the Currency Pair (and, in the case of an NDVO, the settlement currency and the non-deliverable currency);

- the Notional Amount;
- the **Strike Rate**; and
- the Expiry Date.

The Currency Pair in your Vanilla Option must be acceptable to us.

We only offer “European” style Vanilla Options. This means that you may only Exercise the Vanilla Option on the Expiry Date.

### 10.3 Vanilla Option at the Expiry Date

At the Expiry Date of a Vanilla Option the prevailing Spot Rate that applies to the Currency Pair will either be less favorable than the Strike Rate or more favorable than the Strike Rate.

- **If the Spot Rate is less favorable than the Strike Rate**

It will be more advantageous for you to Exercise your Vanilla Option and exchange the Currency Pair. If you Exercise your Vanilla Option in accordance with its terms on the Expiry Date (see Section 10.4 “Exercising a Vanilla Option”, below), you will then be required to exchange currencies with us at the Strike Rate two (2) Business Days after the Expiry Date if your Vanilla Option is a DVO. If your Vanilla Option is an NDVO, we will pay you a cash settlement amount in the settlement currency two (2) Business Days after the Expiry Date reflecting the difference between the Strike Rate and the Spot Rate.

- **If the Spot Rate is more favorable than the Strike Rate**

It will be more advantageous for you to let your Vanilla Option lapse. This is because the Spot Rate on the Expiry Date will provide you with a more favorable Exchange Rate than the Strike Rate. As a result you may choose to exchange currencies at the more favorable Spot Rate.

### 10.4 Exercising a Vanilla Option

To Exercise your Vanilla Option you must:

- Provide us with a **Notice of Exercise**. We are obligated and must accept the Notice of Exercise.
- The Notice of Exercise must be given no later than the **Expiry Time** on the Expiry Date as detailed on the trade Confirmation.
- A Notice of Exercise can be given to us by Phone, Fax, or Electronic Mail (Email).

If your Vanilla Option is In-The-Money (i.e., the prevailing Spot Rate is less favorable than the Strike Rate) at the Expiry Time on the Expiry Date and you have not yet taken the actions above to Exercise we will Exercise the option on your behalf.

If a Vanilla Option is not Exercised, it will lapse at the Expiry Time.

The examples below in this Section 10.4 are for information purposes only and use rates and figures that we have selected to demonstrate how each product works from the perspective of an importer or exporter, as indicated. We will provide alternative examples on request. In order to assess the merits of any particular Vanilla Option you should use the actual rates and figures quoted at the relevant time.

#### **Example of a Vanilla Option – Put Option (Deliverable)**

A United States exporter will be receiving CAD 100,000 in three (3) months' time for goods sold in Canada. The exporter can sell the CAD in three (3) months' time but cannot budget the right amount of USD they will receive because the Exchange Rate in three (3) months' time is unknown.

If the exporter did nothing, the amount of USD received in three (3) months' time for the CAD 100,000 will depend on the prevailing Exchange Rate at that time.

- If the USDCAD Exchange Rate goes up (the USD appreciates), less USD will be received when it comes time to sell the CAD and the exporter is in a less favorable position.
- If the USDCAD Exchange Rate goes down (USD depreciates), more USD will be received when it comes time to sell the CAD and the exporter is in a more favorable position.

The exporter can hedge its exposure to the Exchange Rate appreciating above a certain Exchange Rate by buying a CAD Put Option (an option to sell CAD against USD). This will enable the exporter to protect against a worst case Exchange Rate while giving it the opportunity to participate in favorable Exchange Rate movements at the Expiry Date.

The current Spot Rate is 1.3245 and the Forward Exchange Rate is 1.3229.

The exporter enters into a CAD Put Option with the following terms (nominating the Strike Rate, Notional Amount and Expiry Date):

- Currency Pair: USDCAD;
- Option type: CAD Put Option;
- Strike Rate: 1.311.34;
- Notional Amount: CAD 100,000;
- Expiry Date: three (3) months after Trade Date;
- Expiry Time: 10:00am Eastern time;
- Settlement Date: two (2) Business Days after the Expiry Date; and
- Premium: USD 2,100 (calculated by us, payable by the exporter).

### Outcome on the Expiry Date

- If the Exchange Rate is lower than 1.311.34, (say 1.32), the exporter will let the CAD Put Option lapse and may sell CAD at the prevailing Exchange Rate of 1.32 for Settlement on the Settlement date, (although there is no obligation to do so). If the exporter sells CAD at 1.32 (receiving USD 75,757.58 for CAD 100,000) then this is a new transaction independent of the CAD Put Option.
- If the Exchange Rate is greater than 1.311.34, (say 1.331.36), the exporter would Exercise the CAD Put Option and receive USD 74,626.87 (USD100,000/1.311.34) for CAD 100,000 at the agreed Strike Rate of 1.311.34 on the Settlement Date.

In the example above if the Strike Rate nominated by the exporter had been higher the Premium payable would have been lower.

### Example of a Vanilla Option – Call Option (Deliverable)

A United States importer needs to pay CAD 100,000 in three (3) months' time for goods purchased overseas. The importer can buy the CAD in three (3) months' time but cannot budget the right amount of USD because the Exchange Rate in three (3) months' time is unknown.

If the importer did nothing, the amount of USD needed to pay in three (3) months' time for the CAD 100,000 will depend on the prevailing Exchange Rate quoted at that time.

- If the USDCAD Exchange Rate goes up (the USD appreciates), less USD will be required when it comes time to pay for the CAD and the importer is in a more favorable position.
- If the USDCAD Exchange Rate goes down (USD depreciates), more USD will be required when it comes time to pay for the CAD and the importer is in a less favorable position.

The importer can hedge its exposure to the Exchange Rate depreciating below a certain Exchange Rate by buying a CAD Call Option (an option to buy CAD against USD). This will enable the importer to protect against a worst case Exchange Rate while giving it the opportunity to participate in favorable Exchange Rate movements at the Expiry Date.

The current Spot Rate is 1.3245 and the Forward Exchange Rate is 1.3229.

The importer enters into a CAD Call Option with the following terms (nominating the Strike Rate, Notional Amount and Expiry Date):

- Currency Pair: USDCAD;
- Option type: CAD Call Option;

- Strike Rate: 1.3000;
- Notional Amount: CAD 100,000;
- Expiry Date: Three (3) months after Trade Date;
- Expiry Time: 10:00 am Eastern time;
- Settlement Date: two (2) Business Days after the Expiry Date; and
- Premium: USD 2,500 (calculated by us, payable by the importer).

#### **Outcome on the Expiry Date**

- If the Exchange Rate is higher than 1.3000, say 1.3400, the importer will let the CAD Call Option lapse and may use USD to buy CAD at the Exchange Rate of 1.3400 for Settlement on the Settlement Date (although there is no obligation to do so). If the importer purchases CAD at 1.3400 (which would cost the importer USD 74,626.87 (USD 100,000/1.34) then this is a new transaction independent of the CAD Call Option.
- If the Exchange Rate is below 1.3000, say 1.28, the importer would Exercise the CAD Call Option and exchange USD for CAD at the agreed Strike Rate of 1.3000 and will pay USD 76,923.08 (CAD 100,000/1.3000) on the Settlement Date.

In the example above if the Strike Rate nominated by the importer had been lower, the Premium payable would also have been lower.

#### **Example of a Vanilla Option – Put Option (Non-Deliverable)**

An importer needs to pay **BRL** 100,000 in three (3) months' time for goods purchased from a supplier in Brazil. The importer can buy the BRL in three (3) months' time but cannot budget the right amount of USD because the Exchange Rate in three (3) months' time is unknown.

If the importer did nothing, the amount of USD needed to pay in three (3) months' time for the BRL 100,000 will depend on the prevailing Exchange Rate quoted at that time.

- If the USDBRL Exchange Rate goes up (USD appreciates), less USD will be required when it comes time to pay for the BRL and the importer is in a more favorable position.
- If the USDBRL Exchange Rate goes down (USD depreciates), more USD will be required when it comes time to pay for the BRL and the importer is in a less favorable position.

The importer can hedge its exposure to the Exchange Rate depreciating below a certain Exchange Rate by buying a USD Put Option (an option to sell USD against BRL). This will enable the importer to protect against a worst case Exchange Rate while giving it the opportunity to participate in favorable Exchange Rate movements at the Expiry Date.

The current Spot Rate is 2.75 and the Forward Exchange Rate is 2.80.

The importer enters into a NDVO that is a USD Put Option with the following terms (nominating the Strike Rate, Notional Amount, Expiry Date and the settlement/non-deliverable currencies):

- Currency Pair: USDBRL (with USD as the settlement currency and BRL as the non-deliverable currency);
- Option type: USD Put Option;
- Strike Rate: 2.75;
- Notional Amount: BRL 100,000;
- Expiry Date: Three (3) months after Trade Date;
- Expiry Time: 10:00 am Eastern time;
- Settlement Date: two (2) Business Days after the Expiry Date; and
- Premium: USD 3,000 (calculated by us, payable by the importer).

#### **Outcome on the Expiry Date**

- If the Exchange Rate is less than 2.75, say 2.50, the importer would Exercise the USD Put Option and we will pay the importer USD 3,637 (BRL 100,000/2.50 minus BRL 100,000/2.75), reflecting the appreciation of BRL versus USD during the term of the option.
- If the Exchange Rate is greater than 2.75, say 3.00, the importer will let the USD Put Option lapse and may use USD to buy BRL at the Exchange Rate of 3.00 for Settlement on the Settlement Date (although there is no obligation to do so). If the importer purchases BRL at 3.00 (which would cost the importer USD 33,333.33 (BRL 100,000/3.00) then this is a new transaction independent of the USD Put Option.

### **10.5 Terminating/Closing a Vanilla Option**

You may ask us to close a Vanilla Option at any time up to the Expiry Time on the Expiry Date. We may, in our discretion, provide you with a quote for the cost of such cancellation. These costs may be significant. Our quote will be based on the cost of reversing or offsetting your Vanilla Option at the time of your request. The same variables that are relevant to the determination of the Premium will be relevant to determining this cost. These are set out in Section 10.7 “Cost of a Vanilla Option” below.

### **10.6 Standing Orders**

We may allow you to place an order for a Vanilla Option that only becomes binding on you when a certain Exchange Rate is reached in the relevant foreign exchange market (the **Client Price**).

We refer to this as a **Standing Order**. A Standing Order is not available if you are using our online systems.

Provided that your nominated Client Price has not been reached you will be able to amend or cancel a Standing Order at any time by providing us with a further Instruction.

If the Client Price is reached, then you will be bound to settle the transaction in accordance with our Terms and Conditions, and as detailed in this Section 10.

You will not be able to cancel or amend an order after the Client Price level has been reached if we have completed your order, regardless of whether we have notified you by Confirmation of the completion of your order.

As the foreign exchange market is an OTC market, an external published Exchange Rate that corresponds with your Client Price level is no guarantee that an order will be completed. Published Exchange Rates are typically related to the wholesale or Interbank Market and do not reflect the Client Price or **Retail Price**.

The foreign exchange market can exhibit Volatility and we may not be able to complete all orders at a specific level due to a number of factors including but not limited to:

- market Volatility;
- market Liquidity;
- the size of your order; and/or
- incorrect price data feeds.

We will use best endeavors, in good faith, to complete all orders at your nominated Client Price.

## **10.7 Cost of a Vanilla Option**

### **10.7.1 Premium**

When you buy a Vanilla Option, you will be required to pay us a non-refundable Premium, in cleared funds, within two (2) Business Days of the Trade Date unless you have purchased a Vanilla Option with deferred Premium. We will accept Premium payments in either US Dollars or either currency of the Vanilla Option Currency Pair. We set the Premiums we offer to you in purchasing a Vanilla Option by applying a Retail Mark Up to the **Interbank Premium** we receive from our wholesale commercial relationships.

### **10.7.2 Deferred Premium**

A Vanilla Option with a deferred Premium is exactly the same as a regular Vanilla Option except payment of the Premium is deferred to the Expiry Date. If you let your Put Option or Call Option lapse, you will still be required to pay the Premium.



### 10.7.3 Calculating Premium

When calculating Premiums, we take into account the following variables on a transaction-by-transaction basis:

- the Currency Pair;
- the Notional Amount;
- the Strike Rate – the more favorable the Strike Rate you require, the higher the Premium that will be payable;
- the Expiry Date – the longer the time period between the Trade Date and Expiry Date the higher the Premium that will be payable;
- current market Exchange Rates of the underlying Currency Pair;
- the **Interest Rate Differential** of the countries whose currencies make up the Currency Pair; and
- market Volatility and Liquidity.

When calculating a deferred Premium, we first calculate the Premium taking into account the factors set out above (the **Base Premium**), then we add an additional amount based on the time value of money using one of the following two methods:

- As a percentage of the Base Premium using then current interest rates (typically one year benchmark deposit rates in both currencies and interpolated as required) calculated over the period between the Trade Date and Expiry Date. For example, if the interest rate is based on a prime rate of 5% plus 2%, a Base Premium of \$1,000 USD would become a Premium of \$1,070 if deferred for one year ( $\$1,000 + \$1,000 \times 0.07$ ).
- As an adjustment to the **Strike Rate** of the Vanilla Option in basis point terms. For example, a Base Premium of \$1,000 USD, if deferred, could be expressed in basis point terms. Assuming the Strike Rate of a USD/USD Put Option of 1.0200 on USD \$100,000 notional trade, the Strike Rate would be adjusted by 100 basis points to a level of 1.0100.

Additional fees may apply in respect of any specific Vanilla Option you enter into with us. For more information about fees, contact your Representative.

### 10.8 Benefits of Vanilla Options

The potential benefits of using Vanilla Options include:

- A Vanilla Option can provide protection against unfavorable movements in the Exchange Rate during the term of the Vanilla Option.
- Vanilla Options are flexible, where the Strike Rate, Expiry Date and Notional Amount can be tailored to your needs.

- Unless you Exercise your Vanilla Option you are not committed to exchange currencies at the Expiry Date. Consequently you are able to participate in favorable Exchange Rate movements.

## 10.9 Risks of Vanilla Options

Vanilla Options are only suitable for persons who understand and accept the risks involved in dealing in Foreign Exchange Contracts. We recommend that you obtain independent financial and legal advice before entering into a Vanilla Option.

Some of the risks associated with using Vanilla Options include:

- **Market Volatility.** The foreign exchange markets in which we operate are OTC and can change rapidly. These markets are speculative and volatile with the risk that prices will move quickly. When this occurs the value of your Vanilla Option may be significantly less than when you entered into the contract. We cannot guarantee that you will not incur losses, (where your Vanilla Option is Out-of-The-Money) or that any unrealized profit or losses will remain unchanged for the term of the Vanilla Option. You need to monitor your Vanilla Options with us carefully.
- **Amendments.** You cannot amend or change the Expiry Date of a Vanilla Option. In that regard it is less flexible than some other foreign exchange hedging products.
- **Cancellations.** The close-out/cancellation of a Vanilla Option may result in a financial loss to you. We may provide a quote for such services based on market conditions prevailing at the time of your request. We are not obligated to satisfy such a request, and you may be required to hold a Vanilla Option to maturity.
- **Total Loss of Value or Out of the Money Position.** A Vanilla Option may expire worthless, causing the holder of the Vanilla Option to lose its entire Premium.
- **Cooling-off.** There is no cooling-off period. This means that once your Instruction to enter into a Vanilla Option has been accepted by us, you are unable to cancel your Vanilla Option without incurring a cost.
- **Default Risk.** In accordance with the Terms and Conditions, if you fail to provide Settlement on the Value Date, we may terminate your Vanilla Option. In the event that we do, you will be liable for all costs that we incur.

Other general risks associated with Foreign Exchange Contracts and the financial services we provide are outlined elsewhere in this document, including in Section 12 “Additional Risks”.

## 11. Structured Options

### 11.1 What is a Structured Option?

A Structured Option describes a group of foreign exchange contracts that have been developed as foreign exchange risk management alternatives to FX Forwards and Vanilla Options. A Structured Option is an agreement to exchange a specified amount of one currency for another

currency at an Exchange Rate that is determined by reference to agreed mechanisms within each particular Structured Options product.

Our Structured Options are created through the concurrent sale and purchase of two or more Call Options and/or Put Options. A Call Option is an agreement that gives the buyer the right (but not the obligation) to buy a currency at a specified price at a specified time. A Put Option is an agreement that gives the buyer the right (but not the obligation) to sell a currency at a specified price at a specified time. In any structure you may be both ‘the buyer’ of an option (i.e., you are buying an option from us) and ‘the seller’ of an option (i.e., you are selling an option to us). Notwithstanding the use of these terms, we are always the Counterparty to you with respect to the Structured Options product.

Depending on the Structured Option that is created, there may be certain conditions attached to one or more of the Put Options or Call Options within the structure that are triggered if an agreed Exchange Rate trades in the spot foreign exchange market during the term of the Structured Option. We refer to these as **Trigger Rates**. A Trigger Rate may be either a **Knock-In Rate** or a **Knock-Out Rate**. A Knock-In Rate is an Exchange Rate that must be traded (at or beyond) in the spot foreign exchange market for the buyer’s right pursuant to a Call Option or a Put Option to become effective (i.e., the Call Option or Put Option is contingent on the Knock-In Rate being triggered). A Knock-Out Rate is an Exchange Rate that if traded (at or beyond) in the spot foreign exchange market will result in the buyer’s right pursuant to a Call Option or Put Option terminating (i.e. the Call Option or Put Option terminates if the Knock-Out Rate is triggered).

Our default position is that where a Trigger Rate is applicable it will apply for the term of the Structured Option. It is possible however to apply a shorter term to the Trigger Rate. We refer to these shorter terms as **Windows**.

Typical trigger Windows include “last month” (where the Trigger Rate is only effective in the last month of the Structured Option), “last week” (where the Trigger Rate is only effective in the last week of the Structured Option), “last day” (where the Trigger Rate is only effective on the last day of the Structured Option), and “at Expiry” (where the Trigger Rate is only effective at the Expiry Time of the Structured Option).

You can ask us to provide you with a Window at any time before you enter into a Structured Option. If a Window is nominated, the Spot Rate may trade at or beyond the Trigger Rate before the trigger is live without you being knocked-in or knocked-out. The Spot Rate will only be compared to the Trigger Rate during the Window. By choosing a Window, the Trigger Rate will be less favorable to you than if there were no Window in place. The Protection Rate, which is the agreed worst case Exchange Rate from your perspective that applies to a Structured Option, will also be less favorable to you than if there was no Window in place. These rates will be less favorable the shorter the period of the Window.

Set out below is a description of each of the Structured Options products that we currently provide. We also provide non-deliverable Structured Options. Please contact your Representative for more information.

## 11.2 Our Structured Options

The examples that are used within the description of each Structured Option product in this Section 11.2 are for information purposes only and use rates and figures that we have selected

to demonstrate how each product works from the perspective of United States based importers. We will provide United States based exporter examples of the requested Structured Option on request. In order to assess the merits of any particular Structured Option you should use the actual rates and figures quoted at the relevant time.

Each of the examples below assumes the following:

- An importer is buying goods from Canada and is scheduled to make a payment of CAD 100,000 (Notional Amount) in six (6) months' time.
- The current Spot Rate USDCAD is 1.3245.
- The six month Forward Exchange Rate is 1.3229.

### 11.2.1 Synthetic Forward

A Synthetic Forward Contract uses option contracts to replicate a standard FX Forward. Like a standard FX Forward, a Synthetic Forward enables to you to fix Exchange Rates to hedge your currency exposure by providing protection against unfavorable Exchange Rate movements and negating the uncertainty associated with Exchange Rate fluctuations.

Entering into a Synthetic Forward entails either (1) buying a Put and selling a Call (resulting in an obligation to *sell* a currency) or (2) buying a Call and selling a Put (resulting in the obligation to *buy* a currency), at a specified Exchange Rate on a specified date in the future. At expiry, there will be an obligation to exchange the notional amount at the specified Exchange Rate regardless of where the underlying Spot Rate is trading.

A Synthetic Forward is non-deliverable where the parties nominate one of the two currencies to be the settlement currency and the other to be the non-deliverable currency. If your Synthetic Forward is non-deliverable, it will be cash-settled at maturity, like an NDF or a non-deliverable Vanilla Option.

Unlike a standard FX Forward, a Synthetic Forward can only be set for a fixed date in the future, so it is not possible to specify an "open" contract. For more information about "open" and "closed" forward contracts, please see Section 5.6.2 (Open vs. Closed Forward Contracts) of this Disclosure Statement.

#### Example of a Synthetic Forward

The importer needs to pay CAD 100,000 in six months' time. The Exchange Rate today is USDCAD 1.3245 and the six-month Forward Exchange Rate is USDCAD 1.3229. To eliminate its exposure to the Exchange Rate depreciating the importer enters into a Synthetic Forward with the following terms:

- Strike Rate: 1.3229
- Notional Amount: CAD 100,000
- Expiry Date: 6 months

### Outcome at Expiry Time

In six months' time the importer will buy CAD 100,000 from us at the Strike Rate of 1.3229, regardless of whether the prevailing Spot Rate is higher or lower than 1.3229.

### Benefits of a Synthetic Forward

- Synthetic Forwards can help you manage the risk inherent in currency markets by predetermining the Exchange Rate and Expiry Date on which you will purchase or sell a given amount of foreign currency against another currency. This can provide you with protection against adverse foreign exchange movements between the time that you deal (Trade Date) and the Expiry Date. They can also assist you in managing your cash flow by negating the uncertainty associated with Exchange Rate fluctuations impacting a specified cash flow.

### Risks of a Synthetic Forward

- Once the Strike Rate has been set, you will not be able to take advantage of preferential Exchange Rate movements that occur after the Trade Date and prior to the Expiry Date. By protecting against potential unfavorable Exchange Rate movements, you are not able to take advantage of favorable Exchange Rate movements and will be required to trade at an Exchange Rate that is less favorable to you than the prevailing Exchange Rate on the Value Date.
- You cannot amend or change the Expiry Date of a Synthetic Forward. In that regard it is less flexible than some other foreign exchange hedging products.

### 11.2.2 Collar

A Collar is a Structured Option which allows you to protect against the risk that the Spot Rate will be less favorable than a nominated Exchange Rate (the Protection Rate). It also gives you the ability to participate in favorable movements in the Spot Rate between the Protection Rate and a **Participation Rate**.

A Collar is structured by entering into two concurrent options. In the first you buy a Put Option (an option to sell) from us at the Protection Rate. In the second you sell a corresponding Call Option (an option to buy) to us at the Participation Rate.

A Collar always provides you with protection at the Protection Rate.

#### Example of a Collar

The importer enters into a Collar with the following terms:

- Protection Rate: 1.3000
- Participation Rate: 1.3500
- Expiry Date: 6 months

### **Possible Outcomes at Expiry Time**

- If the Spot Rate is less favorable than the Protection Rate (1.3000), say 1.28, the importer will buy CAD 100,000 at 1.3000.
- If the Spot Rate is more favorable than the Participation Rate (1.3500), say 1.3600, the importer will be obligated to buy CAD 100,000 at 1.3500.
- If the Spot Rate lies between the Protection Rate (1.3000) and the Participation Rate (1.3500), say 1.33, the importer will be able to buy CAD 100,000 at 1.33 (although there is no obligation to do so).

### **Benefits of a Collar**

- There is protection at all times with a known worst case Exchange Rate (Protection Rate).
- An ability to participate in favorable Exchange Rate movements to the level of Participation Rate.

### **Risks of a Collar**

- Participation in favorable Exchange Rate movements is capped at the Participation Rate.
- If the Spot Rate at Expiry Time is more favorable than the Participation Rate you will be obligated to trade at the Participation Rate.

### **11.2.3 Leveraged Collar**

A Leveraged Collar has the same basic features as a Collar, with the exception that the Protection Rate and/or the Participation Rate are enhanced relative to the Collar. The reason for this is that if the Spot Rate at Expiry Time exceeds the Participation Rate you will be obligated to trade an amount in excess of the standard Collar. The amount that you will be required to trade will depend on the **Leverage Ratio** that you have agreed to. Also, depending on the Leverage Ratio, the Notional Amount you will be hedging will be less than you would be hedging in the case of a basic Collar.

A Leveraged Collar is structured by entering into two concurrent options. In the first you buy a Put Option from us at the Protection Rate. In the second you sell a corresponding Call Option to us at the Participation Rate. The Notional Amount of the Call Option that you sell will be equal to the Notional Amount of the Put Option that you have bought multiplied by an agreed Leverage Ratio.

If we agree to enter into a Leveraged Collar with you we will determine any credit requirements based off the Notional Amount multiplied by the Leverage Ratio.

### Example of a Leveraged Collar

The importer enters into a Leveraged Collar with the following terms:

- Notional Amount: CAD 50,000
- Protection Rate: 1.3100
- Participation Rate: 1.3600
- Expiry Date: 6 months
- Leverage Ratio: 1:2

#### Possible Outcomes at Expiry Time

- If the Spot Rate is less favorable than the Protection Rate (1.3100), say 1.3000, the importer will buy CAD 50,000 at 1.3100.
- If the Spot Rate is more favorable than the Participation Rate (1.3600), say 1.38, the importer will be obligated to buy CAD 100,000 (Notional Amount x Leverage Ratio (2)) at 1.3600.
- If the Spot Rate lies between the Protection Rate (1.3100) and the Participation Rate (1.3600), say 1.331.35, the importer will be able to buy CAD at 1.331.35 (although there is no obligation to do so).

#### Benefits of a Leveraged Collar

- An ability to achieve more favorable Protection/ Participation Rate compared to a standard Collar structure.
- An ability to participate in favorable Exchange Rate movements to the level of the Participation Rate.
- Protection at all times with a known worst case Exchange Rate, although for a lower Notional Amount depending on the Leverage Ratio.

#### Risks of a Leveraged Collar

- Participation in favorable currency movements is capped at the level of the Participation Rate.
- If the Spot Rate at Expiry Time is less favorable than the Protection Rate you will be protected for only the Notional Amount (which is a smaller amount than the amount you have protection for in a basic Collar, depending on the Leverage Ratio).

- If the Spot Rate at Expiry Time is more favorable than the Participation Rate you will be obligated to trade up to twice the Notional Amount at the less favorable Participation Rate.

#### 11.2.4 Collar Plus

The Collar Plus is a Structured Option which allows you to protect against the risk that the Spot Rate will be less favorable than a nominated Exchange Rate (the **Protection Rate**). It also gives you the potential to achieve an Exchange Rate better than the Spot Rate if the market settles between the Protection Rate and the Participation Rate at the Expiry Time.

A Collar Plus is structured by entering into three concurrent options. In the first you buy a Put Option from us at the Protection Rate. In the second you sell a Call Option to us at the Participation Rate. In the third you buy an additional Put Option from us at the Participation Rate with a Knock-Out Rate at the Protection Rate. If the Knock-Out Rate hasn't been triggered at Expiry (or during a Window), you will exercise your right to deal at the Participation Rate, provided the market has settled between the Protection Rate and Participation Rate. If the Knock-Out Rate has been triggered at Expiry (or during a Window), then the third option ceases to exist but you still retain the right to deal at the Protection Rate.

<b>Example of a Collar Plus</b>	
The importer enters into a European style Collar Plus with the following terms:	
• Protection Rate:	1.2900
• Notional Amount:	CAD50,000
• Participation Rate:	1.3500
• Knock-Out Rate at Expiry:	1.2900
• Expiry Date:	3 months
<b>Possible Outcomes at Expiry Time</b>	
<ul style="list-style-type: none"> <li>• If the Spot Rate is less favorable than the Protection Rate (1.2900), say 1.2700, the importer will buy CAD50,000 at 1.2900.</li> <li>• If the Spot Rate is 1.32, which lies between the Protection Rate (1.2900) and the Participation Rate (1.3500), the importer will buy CAD50,000 at 1.3500 (at the Participation Rate).</li> <li>• If the Spot Rate is more favorable than the Participation Rate (1.3500), the importer will buy CAD 50,000 at 1.3500 (at the Participation Rate).</li> </ul>	



**Benefits of a Collar Plus**

- Ability to achieve a known Protection Rate at all times.
- Ability to deal at the Participation Rate should the market settle between the Protection and Participation Rates and provided the Knock-Out Rate has not been triggered.

**Risks of a Collar Plus**

- Participation in favorable exchange rate movements is capped at the Participation Rate.
- If the Spot Rate at the Expiry Time is more favorable than the Participation Rate you will be obligated to trade at the Participation Rate.
- The protection rate on the Collar Plus is typically worse than a comparable Collar.

**11.2.5 Leveraged Collar Plus**

The Leveraged Collar Plus has the same basic features as a Collar Plus, with the exception that the Protection Rate and/or the Participation Rate are enhanced relative to the Collar Plus. The reason for this is that if the market is more favorable than the Participation Rate at the Expiry Time you will be obligated to trade an amount in excess of the standard Collar Plus at the Participation Rate. The amount that you will be required to trade will depend on the Leverage Ratio that you have agreed to.

A Leveraged Collar Plus is structured by entering into three concurrent options. In the first you buy a Put Option from us at the Protection Rate. In the second you sell a Call Option to us at the Participation Rate. The Notional Amount of the Call Option that you sell to us will be equal to the Notional Amount of the Put Option that you have bought multiplied by an agreed Leverage Ratio. In the third you buy an additional Put Option from us at the Participation Rate with a Knock-Out Rate at the Protection Rate. If the Knock-Out Rate hasn't been triggered at Expiry (or during a Window), you will exercise your right to deal at the Participation Rate, provided the market has settled between the Protection and Participation Rates. If the Knock-Out Rate has been triggered at Expiry (or during a Window), then the third option ceases to exist but you still retain the right to deal at the Protection Rate.

<b>Example of a Leveraged Collar Plus</b>	
The importer enters into a European style Leveraged Collar Plus with the following terms:	
• Protection Rate:	1.30 (this Protection Rate is an improvement on the Protection Rate for a comparable Collar Plus)
• Notional Amount:	CAD50,000
• Leverage Ratio:	1:2
• Participation Rate:	1.36

- Knock-out Rate at Expiry: 1.30
- Expiry Date: 3 months

#### **Possible Outcomes at Expiry Time**

- If the Spot Rate is less favorable than the Protection Rate (1.30), the importer will buy CAD50,000 at 1.30.
- If the Spot Rate is 1.32 which is between the Protection Rate (1.30) and the Participation Rate (1.36), the importer will buy CAD50,000 at 1.36 (at the Participation Rate).
- If the Spot Rate is more favorable than the Participation Rate (1.36), the importer will buy CAD 100,000 at 1.36 (at the Participation Rate).

#### **Benefits of a Leveraged Collar Plus**

- Ability to achieve a known Protection Rate at all times.
- Ability to deal at the Participation Rate should the market settle between the Protection Rate and Participation Rate and provided the Knock-Out Rate has not been triggered.
- Ability to achieve a Protection Rate that is significantly enhanced than what could be achieved under a comparable Collar Plus.

#### **Risks of a Leveraged Collar Plus**

- If the Spot Rate is more favorable at expiry than the Participation Rate, you will be obligated to trade a multiple of the Notional Amount at the Participation Rate. The final amount is calculated as the Notional Amount multiplied by the Leverage Ratio.
- Participation in favorable exchange rate movements is capped at the Participation Rate.
- The protection rate on a leveraged Collar Plus is typically worse than a Leveraged Collar.

#### **11.2.6 Participating Forward**

The Participating Forward is a Structured Option which allows you to protect against the risk that the Spot Rate will be less favorable than a nominated Exchange Rate (the Protection Rate). It also gives you the ability to participate in favorable movements in the Spot Rate by allowing you to trade a portion of your Notional Amount at a favorable Spot Rate at Expiry Time.

A Participating Forward is structured by entering into two concurrent options. In the first you buy a Put Option from us at the Protection Rate. In the second you sell a Call Option to us at the Protection Rate. The Call Option that you sell will be for a percentage (**Obligation Percentage**) of the Notional Amount of your Put Option determined by the level of the Protection Rate you nominate.

A Participating Forward always provides you with protection at the Protection Rate.

<b>Example of a Participating Forward</b>
<p>The importer enters into a Participating Forward with the following terms:</p> <ul style="list-style-type: none"> <li>• Protection Rate: 1.2900</li> <li>• Obligation Percentage: 50%</li> <li>• Expiry Date: 6 months</li> </ul>
<p><b>Possible Outcomes at Expiry Time</b></p> <ul style="list-style-type: none"> <li>• If the Spot Rate is less favorable than the Protection Rate (1.2900), say 1.27, the importer will buy CAD 100,000 at 1.2900.</li> <li>• If the Spot Rate is more favorable than the Protection Rate (1.2900), say 1.34, the importer will be obligated to buy CAD 50,000 (CAD 100,000 x 50%) at 1.2900. The importer will then be able to buy the remaining CAD 50,000 at 1.34 (although there is no obligation to do so).</li> </ul>

### **Benefits of a Participating Forward**

- There is an ability to partially participate in favorable Exchange Rate movements.
- There is protection at all times with a known worst case Exchange Rate.

### **Risk of a Participating Forward**

- The Protection Rate will be less favorable than the rate applicable to a comparable Deliverable Forward. The less favorable Protection Rate is the cost of being able to partially participate in favorable Exchange Rate movements.
- If the Spot Rate at Expiry Time is more favorable than the Protection Rate you will be obligated to trade a proportion of your Notional Amount at the less favorable Protection Rate.

### **11.2.7 Participating Collar**

The Participating Collar is a Structured Option which allows you to protect against the risk that the Spot Rate will be less favorable than a nominated Exchange Rate (the Protection Rate). It also gives you the ability to participate in favorable movements in the Spot Rate on a portion of your exposure between the Protection Rate and the Participation Rate at Expiry Time.

A Participating Collar is structured by entering into three concurrent options. First, you buy a Put Option from us at the Protection Rate. Second, you sell a Call Option to us at the Protection Rate. The Call Option that you sell to us will be for a percentage of the Notional Amount of your Put Option (the **Obligation Percentage**). Third, you sell a second Call Option to us at the Participation Rate. The Notional Amount of this third option (the second Call Option that you sell to us) will be equal to (1) the Notional Amount of the Put Option bought from us, less (2) the Notional Amount of the first Call Option that you sell to us.

By electing this type of structure over a Participating Forward you will be able to improve the level of your Protection Rate or increase your Participation Percentage to take greater advantage of favorable movements in the Spot Rate or a combination of both.

A Participating Collar always provides you with protection at the Protection Rate.

<b>Example of a Participating Collar</b>
<p>The importer enters into a Participating Collar with the following terms:</p> <ul style="list-style-type: none"> <li>• Protection Rate: 1.2950</li> <li>• Participation Rate: 1.34</li> <li>• Notional Amount: CAD 100,000</li> <li>• Obligation Percentage: 50%</li> <li>• Expiry Date: 6 months</li> </ul>
<p><b>Possible Outcomes at Expiry Time</b></p> <ul style="list-style-type: none"> <li>• If the Spot Rate is less favorable than the Protection Rate (1.2950), say 1.27, the importer will buy CAD 100,000 at 1.2950.</li> <li>• If the Spot Rate is more favorable than the Protection Rate (1.2950), and less favorable than the Participation Rate (1.34), say 1.32, the importer will be obligated to buy CAD 50,000 at the Protection Rate (1.2950). The importer will then be able to buy the remaining CAD 50,000 at the prevailing Spot Rate (1.32) (although there is no obligation to do so).</li> <li>• If the Spot Rate is more favorable the Participation Rate (1.34), say 1.36, the importer will be obligated to buy CAD 50,000 at the Protection Rate (1.2950), and will be obligated to buy the balance CAD 50,000 at the Participation Rate (1.34).</li> </ul>

### **Benefits of a Participating Collar**

- The Protection Rate is more favorable than the Protection Rate applicable to a comparable Participating Forward.
- There is the ability to partially participate in favorable Exchange Rate movements up to the level of the Participation Rate.

- There is protection at all times with a known Protection Rate.

### Risks of a Participating Collar

- The Protection Rate will be less favorable than the Forward Exchange Rate applicable to a comparable Deliverable Forward.
- If the Spot Rate at Expiry Time is more favorable than the Protection Rate but less favorable than the Participation Rate you will be obligated to trade a portion of the Notional Amount (Notional Amount multiplied by the Obligation Percentage) at the less favorable Protection Rate.
- If the Spot Rate at Expiry Time is more favorable than the Participation Rate you will be obligated to trade a second amount, the Participation Percentage, at the less favorable Participation Rate.

### 11.2.8 Leveraged Participating Collar

A Leveraged Participating Collar has the same basic features as a Participating Collar, with the exception that the Protection Rate and/or the Participation Rate are enhanced relative to the Participating Collar. The reason for this is that if the Spot Rate at the Expiry Time exceeds the Participation Rate you will be obligated to trade an amount in excess of the standard Participating Collar at the Participation Rate. The amount that you will be required to trade will depend on the Leverage Ratio that you have agreed to.

A Leveraged Participating Collar is structured by entering into three concurrent options. First, you buy a Put Option from us at the Protection Rate. Second, you sell a Call Option to us at the Protection Rate. The Call Option that you sell to us will be for a percentage of the Notional Amount of your Put Option (the **Obligation Percentage**). Third, you sell a second Call Option to us at the Participation Rate. The Notional Amount of this third option (the second Call Option that you sell to us) will be equal to (1) the Notional Amount of the Put Option bought from us, multiplied by an agreed Leverage Ratio, less (2) the Notional Amount of the first Call Option that you sell to us.

If we agree to enter into a Leveraged Participating Collar with you, we will determine any credit requirements based off of the Notional Amount multiplied by the Leverage Ratio.

A Leveraged Participating Collar always provides you with protection at the Protection Rate.

<b>Example of a Leveraged Participating Collar</b>
<p>The importer enters into a Leveraged Participating Collar with the following terms:</p> <ul style="list-style-type: none"> <li>• Protection Rate: 1.30</li> <li>• Participation Rate: 1.35</li> <li>• Notional Amount: CAD 100,000</li> </ul>

- Obligation Percentage: 50%
- Expiry Date: 6 months
- Leverage Ratio: 1:2

#### **Possible Outcomes at Expiry Time**

- If the Spot Rate is less favorable than the Protection Rate (1.30), say 1.28, the importer will buy CAD 100,000 at 1.30.
- If the Spot Rate is more favorable than the Protection Rate (1.30), and less favorable than the Participation Rate (1.35), say 1.34, the importer will be obligated to buy CAD 50,000 at the Protection Rate (1.30). The importer will then be able to buy the remaining CAD 50,000 at the prevailing Spot Rate (1.34) (although there is no obligation to do so).
- If the Spot Rate is more favorable the Participation Rate (1.35), say 1.37, the importer will be obligated to buy CAD 50,000 at the Protection Rate (1.30), and will be obligated to buy CAD 150,000 at the Participation Rate (1.35).

#### **Benefits of a Leveraged Participating Collar**

- The Protection Rate is more favorable than the Protection Rate applicable to a comparable Participating Collar.
- There is the ability to partially participate in favorable Exchange Rate movements up to the level of the Participation Rate.
- There is protection at all times with a known Protection Rate.

#### **Risks of a Leveraged Participating Collar**

- The Protection Rate will be less favorable than the Forward Exchange Rate applicable to a comparable Forward Exchange Contract.
- If the Spot Rate at the Expiry Time is more favorable than the Protection Rate you will be obligated to trade a percentage of the Notional Amount at the less favorable Protection Rate.
- You are unable to participate in favorable currency movements beyond the Participation Rate. If the Spot Rate is more favorable than the Participation Rate you will be obligated to trade a multiple of the Notional Amount at the less favorable Participation Rate.

#### **11.2.9 Ratio Forward**

A Ratio Forward is a Structured Option that gives you the ability to trade at an enhanced Exchange Rate relative to a comparative Deliverable Forward. A Ratio Forward will always provide you with a guaranteed worst case Exchange Rate allowing you to protect against the

risk that the Spot Rate is less favorable at Expiry Time of the contract. However, the Notional Amount against which you have downside protection is less than the amount hedged in a comparative Deliverable Forward, depending on the Leverage Ratio.

Because there is a ratio component associated with this Structured Option you may be obligated to exchange an amount of currency that is greater than the Notional Amount (i.e. the Notional Amount multiplied by a Leverage Ratio).

A Ratio Forward is structured by entering into two concurrent options. In the first you buy a Put Option from us at the **Enhanced Rate**. In the second you sell a Call Option to us at the Enhanced Rate. The Notional Amount of the Call Option that you sell to us will be equal to the Notional Amount of the Put Option that you have bought from us multiplied by the Leverage Ratio. A Ratio Forward always provides you with partial protection at the Enhanced Rate but only for a Notional Amount that is smaller than the Notional Amount hedged in a comparative Deliverable Forward.

If we agree to enter into a Ratio Forward with you we will determine any credit requirements based off the Notional Amount multiplied by the Leverage Ratio.

<b>Example of a Ratio Forward</b>
The importer enters into a Ratio Forward with the following terms: <ul style="list-style-type: none"><li>• Enhanced Rate: 1.34</li><li>• Notional Amount: CAD 50,000</li><li>• Leverage Ratio (Bought: Sold): 1:2</li><li>• Expiry Date: 6 months</li></ul>
<b>Possible Outcomes at Expiry Time</b> <ul style="list-style-type: none"><li>• If the Spot Rate is less favorable than the Enhanced Rate (1.34), say 1.30, the importer will buy CAD 50,000 at 1.34.</li><li>• If the Spot Rate is more favorable than the Enhanced Rate (1.34), say 1.36, the importer will be obligated to buy CAD 100,000 at 1.34.</li></ul>

**Benefits of a Ratio Forward**

- An ability to achieve an Enhanced Rate relative to the comparative Forward Exchange Rate.
- Protection at all times with a known worst case Exchange Rate, although for a lower Notional Amount depending on the Leverage Ratio.

## Risks of a Ratio Forward

- You will be obligated to trade a multiple (Leverage Ratio) of the Notional Amount at the Enhanced Rate if the Spot Rate is more favorable than the Enhanced Rate at Expiry Time. If the Spot Rate at Expiry Time is less favorable than the Enhanced Rate, you will be protected only for the Notional Amount (which is a smaller amount than you would have protection for in a comparative Deliverable Forward, depending on the Leverage Ratio)
- You are unable to participate in favorable currency movements beyond the Enhanced Rate. If the Spot Rate is more favorable than the Enhanced Rate you will be obligated to trade a multiple of the Notional Amount at the less favorable Enhanced Rate.

### 11.2.10 Tracker

The Tracker is a Structured Option which allows you to protect against the risk that the Spot Rate will be less favorable than a nominated Exchange Rate (the Protection Rate) at expiry. It also gives you the potential to participate in favorable movements in the Spot Rate beyond a predetermined level (the Activation Rate).

A Tracker is structured by entering into three concurrent options. In the first, you buy a Put Option from us at the Protection Rate. In the second, you sell a Call Option to us—also at the Protection Rate. In the third, you buy an additional Call Option from us at the Activation Rate. The Call Option that you buy from us may be for a percentage of the Notional Amount (which will reduce your potential participation in favorable market movements); however, in the example below the Call option is for the full Notional Amount.

The first two options create a synthetic FX Forward, providing you with full protection should the market settle below the Protection Rate at expiry, and obligating you to deal at the Protection Rate should the market settle between the Protection Rate and the Activation Rate at expiry. The third option allows you to participate in favorable movements in the Spot Rate beyond the Activation Rate at expiry, however participation in favorable Spot Rate movements above the Activation Rate is adjusted by the difference between the Protection Rate and the Activation Rate.

A Tracker always provides you with protection at the Protection Rate.

#### Example of a Tracker

The importer enters into a Tracker with the following terms:

- Protection Rate: 1.3000
- Notional Amount: CAD 100,000
- Activation Rate: 1.3400
- Expiry Date: 6 months



### **Possible Outcomes at Expiry Time**

- If the Spot Rate is less favorable than the Protection Rate (1.3000), say 1.2800, the importer will buy CAD 100,000 at the Protection Rate (1.3000).
- If the Spot Rate lies between the Protection Rate (1.3000) and the Activation Rate (1.3400), say 1.3300, the importer will buy CAD 100,000 at the Protection Rate (1.3000).
- If the Spot Rate is more favorable than the Activation Rate (1.3400), the importer will buy CAD 100,000 at a rate equal to the Protection Rate (1.3000) plus the difference between the Spot Rate and the Activation Rate (1.3400). If the Spot Rate is 1.3600, for example, the importer would buy CAD 100,000 at a rate of 1.3200 (1.3000 + (1.3600 – 1.3400))

### **Benefits of a Tracker**

- There is an ability to partially participate in favorable Exchange Rate movements.
- There is protection at all times with a known Protection Rate.

### **Risks of a Tracker**

- The Protection Rate will be less favorable than the rate applicable to a comparable Deliverable Forward. The less favorable Protection Rate is the cost of being able to partially participate in favorable Exchange Rate movements.
- If the Spot Rate at Expiry Time is more favorable than the Activation Rate, you will be obligated to trade the Notional Amount at a less favorable adjusted Exchange Rate.

#### **11.2.11 Leveraged Tracker**

The Leveraged Tracker has the same basic features as a Tracker, with the exception that the Protection Rate and/or the Activation Rate are enhanced relative to the standard Tracker. The reason for this is that if the Spot Rate is between the Protection Rate and the Activation Rate at the Expiry Time you will be obligated to trade an amount in excess of the standard Tracker at the Protection Rate. If the market finishes more favourably than the Activation Rate at the Expiry Time, you will still be obligated to trade an amount in excess of the standard Tracker, but the rate will be improved from the Protection Rate. The amount that you will be required to trade will depend on the Leverage Ratio that you have agreed to. Also, depending on the Leverage Ratio, the Notional Amount you will be hedging may be less than you would be hedging in the case of a standard Tracker.

A Leveraged Tracker is structured by entering into three concurrent options. In the first, you buy a Put Option from us at the Protection Rate. In the second, you sell a Call Option to us at the

Protection Rate. The Notional Amount of the Call Option you sell to us will be equal to the Notional Amount of the Put Option that you have bought multiplied by an agreed Leverage Ratio. In the third, you buy an additional Call Option from us at the Activation Rate. The Call Option that you buy from us may be for a percentage of the Leveraged Amount (which will reduce your potential participation in favorable market movements); however, in the example below the Call Option is for the full Leveraged Amount.

The first two options create a Ratio Forward, providing you with protection for the Notional Amount at the Protection Rate, and obligating you to deal a multiple of the Notional Amount at the Protection Rate should the market settle above the Protection Rate at expiry. The third option allows you to participate in favorable movements in the Spot Rate beyond the Activation Rate at expiry, however participation in favorable Spot Rate movements above the Activation Rate is adjusted by the difference between the Protection Rate and the Activation Rate.

If we agree to enter into a Leveraged Tracker with you, we will determine any credit requirements based off the Notional Amount multiplied by the Leverage Ratio.

<b>Example of a Leveraged Tracker</b>
<p>The importer enters into a Leveraged Tracker with the following terms:</p> <ul style="list-style-type: none"> <li>• Protection Rate: 1.3100</li> <li>• Notional Amount: CAD 50,000</li> <li>• Leverage Ratio: 1:2</li> <li>• Activation Rate: 1.3500</li> <li>• Expiry Date: 6 months</li> </ul>
<p><b>Possible Outcomes at Expiry Time</b></p> <ul style="list-style-type: none"> <li>• If the Spot Rate is less favorable than the Protection Rate (1.3100), the importer will buy CAD 50,000 at the Protection Rate (1.3100).</li> <li>• If the Spot Rate lies between the Protection Rate (1.3100) and the Activation Rate (1.3500), say 1.3300, the importer will be obligated to buy CAD 100,000 at the Protection Rate (1.3100).</li> <li>• If the Spot Rate is more favorable than the Activation Rate (1.3500), the importer will buy CAD 100,000 at a rate equal to the Protection Rate (1.3100) plus the difference between the Spot Rate and the Activation Rate (1.3500). If the Spot Rate is 1.3700, for example, the importer would buy CAD 100,000 at a rate of 1.3300 (1.3100 + (1.3700 – 1.3500))</li> </ul>

### **Benefits of a Leveraged Tracker**

- An ability to achieve an enhanced Protection Rate compared to a standard Tracker structure.
- There is an ability to partially participate in favorable Exchange Rate movements.
- There is protection at all times with a known Protection Rate (although for a lower Notional Amount, depending on the Leverage Ratio).

### **Risks of a Leveraged Tracker**

- If the Spot Rate at the Expiry Time is less favorable than the Protection Rate, you will be protected only for the Notional Amount.
- If the Spot Rate at the Expiry Time is more favorable than the Protection Rate but less favorable than the Activation Rate, you will be obligated to trade a multiple of the Notional Amount at the less favorable Protection Rate.
- If the Spot Rate at the Expiry Time is more favorable than the Activation Rate, you will be obligated to trade a multiple of the Notional Amount at a less favorable adjusted Exchange Rate.

#### **11.2.12 Accelerator**

The Accelerator is a Structured Option which allows you to protect against the risk that the Spot Rate will be less favorable than a nominated Exchange Rate (the **Protection Rate**) at expiry. It also gives you the potential to participate in favorable movements in the Spot Rate beyond a predetermined level (the **Activation Rate**).

An Accelerator is structured by entering into three concurrent options. In the first, you buy a Put Option from us at the Protection Rate. In the second, you sell a Call Option to us—also at the Protection Rate. The Call Option that you sell to us will be for a percentage (the **Obligation Percentage**) of the Notional Amount. In the third, you buy an additional Call Option from us at the Activation Rate. The Call Option that you buy from us may be for a percentage of the Notional Amount (which will reduce your potential participation in favorable market movements); however, in the example below the Call Option is for the full Notional Amount.

The first two options create a Participating Forward, providing you with full protection should the market settle below the Protection Rate at expiry, and obligating you to deal a percentage of the Notional Amount at the Protection Rate should the market settle between the Protection Rate and the Activation Rate at expiry. The third option allows you to participate in favorable movements in the Spot Rate beyond the Activation Rate at expiry, however participation in favorable Spot Rate movements above the Activation Rate is adjusted by the difference between the Protection Rate and the Activation Rate.

An Accelerator always provides you with protection at the Protection Rate.

### Example of an Accelerator

The importer enters into an Accelerator with the following terms:

- Protection Rate: 1.2900
- Notional Amount: CAD 100,000
- Obligation Percentage: 50%
- Activation Rate: 1.3400
- Expiry Date: 6 months

#### Possible Outcomes at Expiry Time

- If the Spot Rate is less favorable than the Protection Rate (1.2900), say 1.2700, the importer will buy CAD 100,000 at the Protection Rate (1.2900).
- If the Spot Rate lies between the Protection Rate (1.2900) and the Activation Rate (1.3400), say 1.3200, the importer will buy CAD 50,000 (CAD 100,000 x 50%) at the Protection Rate (1.2900). The importer will then be able to buy the remaining amount at the prevailing Spot Rate (1.3200), although there is no obligation to do so.
- If the Spot Rate is more favorable than the Activation Rate (1.3400), the importer will buy CAD 100,000 at a rate equal to the Protection Rate (1.2900) plus the difference between the Spot Rate and the Activation Rate (1.3400). If the Spot Rate is 1.3600, for example, the importer would buy CAD 100,000 at a rate equal to 1.3100 (1.2900 + (1.3600 – 1.3400)).

#### **Benefits of an Accelerator**

- There is an ability to partially participate in favorable Exchange Rate movements.
- There is protection at all times with a known Protection Rate.

#### **Risks of an Accelerator**

- The Protection Rate will be less favorable than the rate applicable to a comparable Deliverable Forward or Participating Forward. The less-favorable Protection Rate is the cost of being able to partially participate in favorable Exchange Rate movements.

- If the Spot Rate at Expiry Time is more favorable than the Protection Rate (but less favorable than the Activation Rate) you will be obligated to trade a proportion of the Notional Amount at the less-favorable Protection Rate.
- If the Spot Rate at Expiry Time is more favorable than the Activation Rate, you will be obligated to trade the Notional Amount at a less-favorable adjusted Exchange Rate.

### 11.2.13 Knock-In

A Knock-In is a Structured Option which allows you to protect against the risk that the Spot Rate will be less favorable than your nominated Exchange Rate (the Protection Rate) while giving you the potential to take advantage of favorable currency movements to the level of the Knock-In Rate. If the Knock-In Rate is triggered at any time before Expiry Time (or during a Window) you will be obligated to trade at the Protection Rate on Expiry Time.

A Knock-In is structured by entering into two concurrent options. In the first you buy a Put Option from us at the Protection Rate. In the second you sell a Call Option to us at the Protection Rate with a Knock-In Rate (an option to buy contingent upon the Spot Rate triggering the Knock-In Rate in the foreign exchange market before Expiry Time (or during a Window)). The Call Option will only come into existence if the Spot Rate triggers the Knock-In Rate.

<b>Example of a Knock-In</b>	
The importer enters into a Knock-In with the following terms:	
•	Protection Rate: 1.3000
•	Knock-In Rate: 1.36
•	Expiry Date: 6 months
<b>Possible Outcomes at Expiry Time</b>	
a)	If the Knock-In Rate (1.36) has not been triggered:
•	If the Spot Rate is less favorable than the Protection Rate (1.3000), say 1.28, the importer will buy USD 100,000 at 1.3000.
•	If the Spot Rate is more favorable than the Protection Rate (1.3000), say 1.33, the importer will be able to buy USD at the Spot Rate (1.33) at Expiry Time (although there is no obligation to do so).
b)	If the Knock-In Rate (1.36) has been triggered:
•	If the Spot Rate is more favorable than the Protection Rate (1.3000), say 1.32, the importer will be obligated to buy USD 100,000 at 1.3000.

- If the Spot Rate is less favorable than the Protection Rate of 1.3000, say 1.28, the importer will buy USD 100,000 at 1.3000.

### Benefits of a Knock-In

- An ability to participate in favorable Exchange Rate movements to the level of the Knock-In Rate.
- Protection at all times with a known worst case Exchange Rate (Protection Rate).

### Risks of a Knock-In

- Participation in favorable Exchange Rate movements is capped at the Knock-In Rate.
- The Protection Rate will be less favorable than the comparable Forward Exchange Rate.
- If the Spot Rate triggers the Knock-In Rate you will be obligated to trade at the Protection Rate, which may be less favorable than the Spot Rate.

#### 11.2.14 Leveraged Knock-In

A Leveraged Knock-In has the same basic features as a Knock-In, with the exception that the Protection Rate and/or the Knock-In Rate are enhanced relative to the Knock-In. The reason for this is that if the Spot Rate triggers the Knock-In Rate, you will be obligated to trade an amount in excess of the standard Knock-In. The amount that you will be required to trade will depend on the Leverage Ratio that you have agreed to. Also, depending on the Leverage Ratio, the amount you will be hedging will be less than you would be hedging in the case of a basic Knock-In.

A Leveraged Knock-In is structured by entering into two concurrent options. In the first you buy a Put Option from us at the Protection Rate. In the second you sell a Call Option to us at the Protection Rate with a Knock-In Rate (an option to buy contingent upon the Spot Rate triggering the Knock-In Rate in the foreign exchange market before Expiry Time (or during a Window)). The Call Option will only come into existence if the Spot Rate triggers the Knock-In Rate during the term of the Leveraged Knock-In. The Notional Amount of the Call Option that you sell to us will be equal to the Notional Amount of the Put Option that you have bought multiplied by an agreed Leverage Ratio.

If we agree to enter into a Leveraged Knock-In with you we will determine any credit requirements based off the Notional Amount multiplied by the Leverage Ratio.

#### Example of a Leveraged Knock-In

The importer enters into a Leveraged Knock-In with the following terms:

- Notional Amount: CAD 50,000
- Protection Rate: 1.3100

- Knock-In Rate: 1.38
- Expiry Date: 6 months
- Leverage Ratio: 1:2

#### **Possible Outcomes at Expiry Time**

- a) If the Knock-In Rate (1.38) has not been triggered:
- If the Spot Rate is less favorable than the Protection Rate (1.3100), say 1.28, the importer will buy CAD 50,000 at 1.3100.
  - If the Spot Rate is more favorable than the Protection Rate (1.3100), say 1.36, the importer will be able to buy CAD 100,000 at 1.36 (although there is no obligation to do so).
- b) If the Knock-In Rate (1.38) has been triggered:
- If the Spot Rate is more favorable than the Protection Rate (1.3100), say 1.36, the importer will be obligated to buy CAD 100,000 at 1.3100.
  - If the Spot Rate is less favorable than the Protection Rate (1.3100), say 1.28, the importer will buy CAD 50,000 at 1.3100.

#### **Benefits of a Leveraged Knock-In**

- An ability to achieve an enhanced Protection Rate comparative to a standard Knock-In structure.
- An ability to participate in favorable Exchange Rate movements to the level of the Knock-In Rate.
- Protection at all times with a known worst case Exchange Rate (Protection Rate), although for a lower Notional Amount depending on the Leverage Ratio.

#### **Risks of a Leveraged Knock-In**

- Participation in favorable currency movements is capped at the level of the Knock-In Rate. If the Spot Rate at Expiry Time is less favorable than the Protection Rate you will be protected for only the Notional Amount (which is a smaller amount than the amount you would have protection for in a basic Knock-In, depending on the Leverage Ratio).
- If the Knock-In Rate is triggered during the term and the Spot Rate is more favorable than the Protection Rate at Expiry Time, you will be obligated to trade a multiple of the Notional Amount at the less favorable Protection Rate.

### 11.2.15 Knock-In Collar

A Knock-In Collar is a Structured Option which allows you to protect against the risk that the Spot Rate will be less favorable than a nominated Exchange Rate (the Protection Rate) while giving you the potential to take advantage of favorable currency movements to the level of a Knock-In Rate. If the Knock-In Rate is triggered before Expiry Time (or during a Window) you are knocked in to a collar structure.

A Knock-In Collar is structured by entering into two concurrent options. In the first you buy a Put Option from us at the Protection Rate. In the second you sell a Call Option to us at the Participation Rate with a Knock-In Rate (an option to buy contingent upon the Spot Rate triggering the Knock-In Rate before Expiry Time (or during a Window)). This Call Option will only come into existence if the Spot Rate triggers the Knock-In Rate during the term of the Knock-In Collar.

<b>Example of a Knock-In Collar</b>	
The importer enters into a Knock-In Collar with the following terms:	
<ul style="list-style-type: none"><li>• Protection Rate: 1.30</li><li>• Knock-In Rate: 1.36</li><li>• Participation Rate: 1.32</li><li>• Expiry Date: 6 months</li></ul>	
<b>Possible Outcomes at Expiry Time</b>	
a)	If the Knock-In Rate (1.36) has not been triggered:
<ul style="list-style-type: none"><li>• If the Spot Rate is less favorable than the Protection Rate (1.30), say 1.28, the importer will buy CAD 100,000 at 1.30.</li><li>• If the Spot Rate is more favorable than the Protection Rate (1.30), say 1.34, the importer will be able to buy CAD 100,000 at 1.34 (although there is no obligation to do so).</li></ul>	
b)	If the Knock-In Rate (1.36) has been triggered:
<ul style="list-style-type: none"><li>• If the Spot Rate is less favorable than the Protection Rate (1.30), say 1.28, the importer will buy CAD 100,000 at 1.30.</li><li>• If the Spot Rate is more favorable than the Participation Rate (1.32), say 1.3500, the importer will be obligated to buy CAD 100,000 at 1.32.</li><li>• If the Spot Rate lies between the Protection Rate (1.30) and the Participation Rate (1.32) say 1.31, the importer will be able to buy CAD 100,000 at 1.31 (although there is no obligation to do so).</li></ul>	



**Benefits of a Knock-In Collar**

- An ability to participate in favorable Exchange Rate movements to the level of the Knock-In Rate. When the Knock-In Rate has been triggered participation in favorable movements to the Participation Rate remains possible.
- Protection at all time with a known worst case Exchange Rate.

**Risks of a Knock-In Collar**

- The Protection Rate will be less favorable than the comparable Forward Exchange Rate and the comparable standard Knock-In structure.
- Participation in favorable movements in the Exchange Rate is capped to the level of the Participation Rate.
- If the Spot Rate triggers the Knock-In Rate before Expiry Time (or during a Window) and the Spot Rate is more favorable than the Participation Rate at Expiry Time you will be obligated to trade at the Participation Rate.

**11.2.16 Leveraged Knock-In Collar**

A Leveraged Knock-In Collar has the same basic features as a Knock-In Collar, with the exception that the Protection Rate and/or the Participation Rate and/or the Knock-In Rate are enhanced relative to the Knock-In Collar. The reason for this is that if the Spot Rate triggers the Knock-In Rate you will be obligated to trade an amount in excess of the standard Knock-In Collar. The amount that you will be required to trade will depend on the Leverage Ratio that you have agreed to.

A Leveraged Knock-In Collar is structured by entering into two concurrent options. In the first you buy a Put Option from us at the Protection Rate. In the second you sell a Call Option to us at the Participation Rate with a Knock-In Rate (an option to buy contingent upon the Spot Rate triggering the Knock-In Rate before the Expiry Time (or during a Window)). This Call Option will only come into existence if the Spot Rate triggers the Knock-In Rate during the term of the Knock-In Collar. The Notional Amount of the Call Option that you sell to us will be equal to the Notional Amount of the Put Option that you have bought multiplied by an agreed Leverage Ratio.

<b>Example of a Leveraged Knock-In Collar</b>	
The importer enters into a Leveraged Knock-In Collar with the following terms:	
•	Protection Rate: 1.3000
•	Knock-In Rate: 1.3600
•	Participation Rate: 1.33
•	Expiry Date: 6 months

- Leverage Ratio: 1:2

#### **Possible Outcomes at Expiry Time**

- a) If the Knock-In Rate (1.3600) has not been triggered:
  - If the Spot Rate is less favorable than the Protection Rate (1.3000), say 1.28, the importer will buy CAD100,000 at 1.3000.
  - If the Spot Rate is more favorable than the Protection Rate (1.3000), say 1.34, the importer will be able to buy CAD100,000 at the 1.34 (although there is no obligation to do so).
- b) If the Knock-In Rate (1.36) has been triggered:
  - If the Spot Rate is less favorable than the Protection Rate (1.3000), say 1.28, the importer will buy CAD100,000 at 1.3000.
  - If the Spot Rate is more favorable than the Participation Rate (1.33), say 1.36, the importer will be obligated to buy CAD200,000 at 1.33 (CAD100,000 multiplied by the Leverage Ratio).
  - If the Spot Rate lies between the Protection Rate (1.3000) and the Participation Rate (1.33) say 1.32, the importer will be able to buy CAD100,000 at 1.32 (although there is no obligation to do so).

#### **Benefits of a Leveraged Knock-In Collar**

- An ability to achieve an enhanced Protection Rate comparative to a standard Knock-In Collar structure
- An ability to participate in favorable Exchange Rate movements to the level of the Knock-In Rate. When the Knock-In Rate has been triggered, participation in favorable movements to the Participation Rate remains possible.
- There is protection at all times with a known worst case Exchange Rate.

#### **Risks of a Leveraged Knock-In Collar**

- The Protection Rate will be less favorable than the comparable Forward Exchange Rate.
- Participation in favorable movements in the Exchange Rate is capped to the level of the Participation Rate.
- If the Spot Rate triggers the Knock-In Rate before the Expiry Time (or during a Window) and the Spot Rate is more favorable than the Participation Rate at Expiry you will be obligated to trade a multiple of the Notional Amount at the less favorable Participation Rate.

#### **11.2.17 Knock-In Participating Forward**

A Knock-In Participating Forward is a Structured Option which allows you to protect against the risk that the Spot Rate will be less favorable than a nominated Exchange Rate (the Protection

Rate). It also gives you the ability to participate in favorable movements in the Spot Rate on a percentage of your Notional Amount, provided that a Knock-In Rate is not triggered during the term of the structure (or during a Window).

A Knock-In Participating Forward is structured by entering into three concurrent options. In the first you buy a Put Option from us at the Protection Rate. In the second you sell a Call Option to us at the Protection Rate. The Call Option that you sell to us will be for a percentage of the Notional Amount of your Put Option (the Obligation Percentage).

In the third option you sell a Call Option to us at the Protection Rate with a Knock-In Rate (an option that is contingent upon the Spot Rate triggering the Knock-In Rate before Expiry Time (or during a Window)). The amount of third option will be equal to the Notional Amount of the first option multiplied by the Obligation Percentage of the second option.

<b>Example of a Knock-In Participating Forward</b>	
The importer enters into a Knock-In Participating Forward with the following terms:	
<ul style="list-style-type: none"><li>• Protection Rate: 1.30</li><li>• Knock-In Rate: 1.37</li><li>• Obligation Percentage: 50%</li><li>• Expiry Date: 6 months</li></ul>	
<b>Possible outcomes at Expiry Time</b>	
a)	If the Knock-In Rate (1.37) has not been triggered:
<ul style="list-style-type: none"><li>• If the Spot Rate is less favorable than the Protection Rate (1.30), say 1.28, the importer will buy CAD 100,000 at 1.30.</li><li>• If the Spot Rate is more favorable than the Protection Rate (1.30), say 1.33, the importer will be obligated to buy CAD 50,000 at 1.30. The importer will then be able to buy the remaining CAD at 1.33 (although there is no obligation to do so).</li></ul>	
b)	If the Knock-In Rate (1.37) has been triggered:
<ul style="list-style-type: none"><li>• If the Spot Rate is less favorable than the Protection Rate (1.30), say 1.28, the importer will buy CAD 100,000 at 1.30.</li><li>• If the Spot Rate is more favorable than the Protection Rate (1.30), say 1.33, the importer will be obligated to buy CAD 100,000 at 1.30.</li></ul>	

### **Benefits of a Knock-In Participating Forward**

- There is the ability to participate in favorable Exchange Rate movements, provided the Knock-In Rate has not been triggered.

- There is protection at all times with a known Protection Rate.
- The Protection Rate and/or the Obligation Percentage are more favorable than the rates applicable to a comparable Participating Forward.

### **Risks of a Knock-In Participating Forward**

- The Protection Rate will be less favorable than the Exchange Rate applicable to a comparable Deliverable Forward even when applying the Knock-In Rate.
- Part of your exposure must be traded at the Protection Rate at Expiry Time. If the Spot Rate at Expiry Time is more favorable than the Protection Rate you will be obligated to trade at the less favorable Protection Rate.
- If the Spot Rate triggers the Knock-In Rate before Expiry Time (or during a Window) and the Spot Rate is more favorable than the Protection Rate you will be obligated to trade the full Notional Amount of the structure at the Protection Rate.

### **11.2.18 Leveraged Knock-In Participating Forward**

A Leveraged Knock-In Participating Forward has the same basic features as a Knock-In Participating Forward, with the exception that the Protection Rate and/or the Knock-In Rate are enhanced relative to the Knock-In Participating Forward. The reason for this is that if the Spot Rate triggers the Knock-In Rate you will be obligated to trade an amount in excess of the standard Knock-In Participating Forward. The amount that you will be required to trade will depend on the Leverage Ratio that you have agreed to.

A Leveraged Knock-In Participating Forward is structured by entering into three concurrent options. In the first you buy a Put Option from us at the Protection Rate. In the second you sell a Call Option to us at the Protection Rate. The Call Option that you sell to us will be for a percentage of the Notional Amount of your Put Option. In the third option you sell a Call Option to Us at the Protection Rate with a Knock-In Rate (an option that is contingent upon the Spot Rate triggering the Knock-In Rate before the Expiry Time (or during a Window)). The amount of third option will be equal to the Notional Amount of the first option multiplied by the Leverage Ratio less the Obligation Percentage of the second option.

<b>Example of a Leveraged Knock-In Participating Forward</b>
<p>The importer enters into a Leveraged Knock-In Participating Forward with the following terms:</p> <ul style="list-style-type: none"> <li>• Protection Rate: 1.31</li> <li>• Knock-In Rate: 1.38</li> <li>• Obligation Percentage: 50%</li> <li>• Expiry Date: 6 months</li> <li>• Leverage Ratio: 1:2</li> </ul>

### **Possible Outcomes at Expiry Time**

a) If the Knock-In Rate (1.38) has not been triggered:

- If the Spot Rate is less favorable than the Protection Rate (1.31), say 1.3000, the importer will buy CAD100,000 at 1.31.
- If the Spot Rate is more favorable than the Protection Rate (1.31), say 1.3500, the importer will be obligated to buy CAD50,000 at 1.31. The importer will then be able to buy the remaining CAD at 1.3500 (although there is no obligation to do so).

b) If the Knock-In Rate (1.38) has been triggered:

- If the Spot Rate is less favorable than the Protection Rate (1.31), say 1.3000, the importer will buy CAD100,000 at 1.31.
- If the Spot Rate is more favorable than the Protection Rate (1.31), say 1.3500, the importer will be obligated to buy CAD200,000 at 1.31 (USD 100,000 multiplied by the Leverage Ratio).

### **Benefits of a Leveraged Knock-In Participating Forward**

- There is the ability to participate in favorable Exchange Rate movements, provided the Knock-In Rate has not been triggered.
- There is protection at all times with a known Protection Rate.
- The Protection Rate and/or the Obligation Percentage are more favorable than the rates applicable to a comparable Knock-In Participating Forward.

### **Risks of a Leveraged Knock-In Participating Forward**

- The Protection Rate will be less favorable than the Exchange Rate applicable to a comparable Forward Exchange Contract even when applying the Knock-In Rate.
- Part of your exposure must be traded at the Protection Rate at the Expiry Time. If the Spot Rate at the Expiry Time is more favorable than the Protection Rate you will be obligated to trade at the less favorable Protection Rate.
- If the Spot Rate triggers the Knock-In Rate before the Expiry Time (or during a Window) and the Spot Rate is more favorable than the Protection Rate at the Expiry Time, you will be obligated to trade a multiple of the Notional Amount at the less favorable Protection Rate.

### **11.2.19 Knock-In Reset**

The Knock-In Reset is a Structured Option which allows you to protect against the risk that the Spot Rate will be less favorable than a nominated Exchange Rate (the Protection Rate). It also gives you the ability to participate in favorable movements in the Spot Rate provided that a

Knock-In Rate is not triggered. If the Knock-In Rate is triggered, then you must deal at an agreed rate (the **Reset Rate**), which would be similar to the Exchange Rate of a comparable Deliverable Forward. The Reset Rate will be more favorable than the Protection Rate and less favorable than the Knock-In Rate.

A Knock-In Reset is structured by entering into three concurrent options. In the first you buy a Put Option from us at the Protection Rate with a Knock-Out Rate (an option to sell that ceases to exist if the Spot Rate triggers the Knock-Out Rate before Expiry Time (or during a Window)). In the second you buy a Put Option from us at the Reset Rate with a Knock-In Rate (an option that is contingent upon the Spot Rate triggering the Knock-In Rate before Expiry Time (or during a Window)). In the third you sell a Call Option to us at the Reset Rate with a Knock-In Rate (an option that is contingent upon the Spot Rate triggering the Knock-In Rate before Expiry Time (or during a Window)). All options will have the same Notional Amount, and the Knock-Out and Knock-In Rates will be at the same Exchange Rate.

<b>Example of a Knock-In Reset</b>	
The importer enters into a Knock-In Reset with the following terms:	
<ul style="list-style-type: none"> <li>• Protection Rate: 1.30</li> <li>• Reset Rate: 1.32</li> <li>• Knock In Rate: 1.37</li> <li>• Knock Out Rate 1.37</li> <li>• Expiry Date: 6 months</li> </ul>	
<b>Possible Outcomes at Expiry Time</b>	
<p>a) If the Knock-In/Out Rate (1.37) has not been triggered:</p> <ul style="list-style-type: none"> <li>• If the Spot Rate is less favorable than the Protection Rate (1.30), say 1.28, the importer will buy CAD 100,000 at 1.30.</li> <li>• If the Spot Rate is more favorable than the Protection Rate (1.30), say 1.34, the importer will be able to buy CAD 100,000 at 1.34 (although there is no obligation to do so).</li> </ul>	
<p>b) If the Knock-In/Out Rate (1.37) has been triggered:</p> <ul style="list-style-type: none"> <li>• If the Spot Rate is less favorable than the Reset Rate (1.32), say 1.3000, the importer will buy CAD 100,000 at the Reset Rate of 1.32.</li> <li>• If the Spot Rate is more favorable than the Reset Rate (1.32), say 1.33, the importer will be obligated to buy CAD 100,000 at the Reset Rate of 1.32.</li> </ul>	

## Benefits of a Knock-In Reset

- There is the ability to participate in favorable Exchange Rate movements on the full Notional Amount, provided the Knock-In/Out Rate has not been triggered.
- There is protection at all times with a known Protection Rate.
- Should the Knock-In/Out Rate be triggered, you will be knocked in to the Reset Rate that is more favorable to you than the Protection Rate available for a standard Knock-In structure.

## Risks of a Knock-In Reset

- The Protection Rate will be less favorable than the Exchange Rate applicable to a comparable Deliverable Forward and a comparable standard Knock-In.
- If the Knock-In/Out Rate is triggered you will be obligated to trade the full Notional Amount at the Reset Rate that could be less favorable to you than the Spot Rate at Expiry Time.

### 11.2.20 Leveraged Knock-In Reset

The Leveraged Knock-In Reset has the same basic features as a Knock-In Reset, with the exception that the Protection Rate and/or the Reset Rate are enhanced relative to the Knock-In Reset. The reason for this is that if the Spot Rate triggers the Knock-In Rate you will be obligated to trade an amount in excess of the standard Knock-In Reset. The amount that you will be required to trade will depend on the Leverage Ratio that you have agreed to.

A Leveraged Knock-In Reset is structured by entering into three concurrent options. In the first you buy a Put Option from us at the Protection Rate with a Knock-Out Rate (an option to sell that ceases to exist if the Spot Rate triggers the Knock-Out Rate before the Expiry Time (or during a Window)). In the second you buy a Put Option from us at the Reset Rate with a Knock-In Rate (an option that is contingent upon the Spot Rate triggering the Knock-In Rate before the Expiry Time (or during a Window)). In the third you sell a Call Option to us at the Reset Rate with a Knock-In Rate (an option that is contingent upon the Spot Rate triggering the Knock-In Rate before the Expiry Time (or during a Window)). The bought Put Options will have the same Notional Amount, and the amount of the sold Call Option will be equal to the Notional Amount of the second Put Option multiplied by the Leverage Ratio. The Knock-Out and Knock-In Rates will be at the same Exchange Rate for all options.

#### Example of a Leveraged Knock-In Reset

The importer enters into a Leveraged Knock-In Reset with the following terms:

- Protection Rate: 1.30
- Reset Rate: 1.34
- Knock In Rate: 1.38

- Knock Out Rate 1.38
- Expiry Date: 6 months
- Leverage Ratio: 1:2

#### **Possible Outcomes at Expiry Time**

- a) If the Knock-In/Out Rate (1.38) has not been triggered:
- If the Spot Rate is less favorable than the Protection Rate (1.30), say 1.28, the importer will buy CAD100,000 at 1.30.
  - If the Spot Rate is more favorable than the Protection Rate (1.30), say 1.34, the importer will be able to buy CAD100,000 at 1.34 (although there is no obligation to do so).
- b) If the Knock-In/Out Rate (1.38) has been triggered:
- If the Spot Rate is less favorable than the Reset Rate (1.34), say 1.28, the importer will buy CAD100,000 at the Reset Rate of 1.34.
  - If the Spot Rate is more favorable than the Reset Rate (1.34), say 1.35, the importer will be obligated to buy CAD200,000 at the Reset Rate of 1.34 (CAD100,000 multiplied by the Leverage Ratio).

#### **Benefits of a Leveraged Knock-In Reset**

- There is the ability to participate in favorable Exchange Rate movements on the full Notional Amount, provided the Knock-In/Out Rate has not been triggered.
- There is protection at all times with a known Protection Rate.
- Should the Knock-In/Out Rate be triggered, you will be knocked in to the Reset Rate that is more favorable to you than the Protection Rate available for a standard Knock-In structure.

#### **Risks of a Leveraged Knock-In Reset**

- The Protection Rate will be less favorable than the Exchange Rate applicable to a comparable Forward Exchange Contract and a comparable standard Knock-In.

If the Knock-In/Out Rate is triggered you will be obligated to trade a multiple of the Notional Amount at the Reset Rate that could be less favorable to you than the Spot Rate at the Expiry Time.



### 11.2.21 Knock-In Convertible

The Knock-In Convertible is a Structured Option which allows you to protect against the risk that the Spot Rate will be less favorable than a nominated Exchange Rate (the Protection Rate) while giving you the potential to take advantage of favorable currency movements to the level of a Knock-In Rate. If the Knock-In Rate is triggered before Expiry Time (or during a Window), you will be obligated to trade at the Protection Rate on Expiry Time unless a Knock-Out Rate has also been triggered. If the Knock-Out Rate is triggered, you are left with a Vanilla Option and no obligation. Please see Section 10 of this Disclosure Statement for more information about Vanilla Options.

A Knock-In Convertible is structured by entering into two concurrent options. In the first you buy a Put Option from us at the Protection Rate. In the second you sell a Call Option to us at the Protection Rate with a Knock-In Rate and a Knock-Out Rate (an option to buy contingent upon the Spot Rate triggering the Knock-In Rate prior to Expiry Time that ceases to exist if the Spot Rate triggers the Knock-Out Rate prior to Expiry Time (or during a Window)).

<b>Example of a Knock-In Convertible</b>	
The importer enters into a Knock-In Convertible with the following terms:	
<ul style="list-style-type: none"><li>• Protection Rate: 1.30</li><li>• Knock-In Rate: 1.36</li><li>• Knock-Out Rate: 1.28</li><li>• Expiry Date: 6 months</li></ul>	
<b>Possible Outcomes at Expiry Time</b>	
a)	If the Knock-Out Rate has not been triggered and the Knock-In Rate has been triggered: <ul style="list-style-type: none"><li>• If the Spot Rate is less favorable than the Protection Rate (1.30), say 1.29, the importer will buy CAD 100,000 at 1.30.</li><li>• If the Spot Rate is more favorable than the Protection Rate (1.30), say 1.33, the importer will be obligated to buy CAD 100,000 at the Protection Rate (1.30).</li></ul>
b)	If the Knock-Out Rate has not been triggered and the Knock-In Rate has not been triggered: <ul style="list-style-type: none"><li>• If the Spot Rate is less favorable than the Protection Rate (1.30), say 1.29, the importer will buy CAD 100,000 at 1.30.</li><li>• If the Spot Rate is more favorable than the Protection Rate (1.30), say 1.33, the importer will be able to buy CAD 100,000 at 1.33 (although there is no obligation to do so).</li></ul>

- c) If the Knock Out Rate (1.28) has been triggered:
- If the Spot Rate is less favorable than the Protection Rate (1.30), say 1.29, the importer will buy CAD 100,000 at 1.30.
  - If the Spot Rate is more favorable than the Protection Rate (1.30), say 1.33, the importer will be able to buy CAD 100,000 at 1.33 (although there is no obligation to do so).

### **Benefits of a Knock-In Convertible**

- Protection at all time with a known worst case Exchange Rate (Protection Rate).
- Ability to participate in favorable currency movements.
- If the Knock-Out Rate has been triggered and the Knock- In Rate has not been triggered participation in favorable movements is possible to any level.

### **Risks of a Knock-In Convertible**

- If the Knock-Out Rate has not been triggered participation in favorable movements is capped at the Knock-In Rate.
- If the Knock-Out Rate has not been triggered and the Spot Rate triggers the Knock-In Rate before Expiry Time (or during a Window) and the Spot Rate is more favorable than the Protection Rate at Expiry Time you will be obligated to trade at the less favorable Protection Rate.

### **11.2.22 Leveraged Knock-In Convertible**

The Leveraged Knock-In Convertible has the same basic features as a Knock-In Convertible, with the exception that the Protection Rate and/or the Knock-In or Knock-Out Rate are enhanced relative to the Knock-In Convertible. The reason for this is that if the Spot Rate triggers the Knock-In Rate you will be obligated to trade an amount in excess of the standard Knock-In Convertible. If the Knock-In Rate is triggered before the Expiry Time (or during a Window), you will be obligated to trade a multiple of the Notional Amount at the Protection Rate on Expiry unless a Knock-Out Rate has also been triggered. If the Knock-Out Rate is triggered, you are left with a Vanilla Option and no obligation.

A Leveraged Knock-In Convertible is structured by entering into two concurrent options. In the first you buy a Put Option from us at the Protection Rate. In the second you sell a Call Option to Us at the Protection Rate with a Knock-In Rate and a Knock-Out Rate (an option to buy contingent upon the Spot Rate triggering the Knock-In Rate prior to the Expiry Time that will cease to exist if the Spot Rate triggers the Knock-Out Rate prior to the Expiry Time (or during a Window)). The Call Option that you sell to us will be for the Notional Amount of the Put Option multiplied by the Leverage Ratio.

### Example of a Leveraged Knock-In Convertible

The importer enters into a Leveraged Knock-In Convertible with the following terms:

- Protection Rate: 1.32
- Knock-In Rate: 1.38
- Knock-Out Rate: 1.29
- Expiry Date: 6 months
- Leverage Ratio: 1:2

#### Possible Outcomes at Expiry Time

- a) If the Knock-Out Rate has not been triggered and the Knock-In Rate has been triggered:
  - If the Spot Rate is less favorable than the Protection Rate (1.32), say 1.30, the importer will buy CAD100,000 at 1.32.
  - If the Spot Rate is more favorable than the Protection Rate (1.32), say 1.3500, the importer will be obligated to buy CAD200,000 at the Protection Rate (1.32).
- b) If the Knock-Out Rate has not been triggered and the Knock-In Rate has not been triggered:
  - If the Spot Rate is less favorable than the Protection Rate (1.32), say 1.30, the importer will buy CAD100,000 at 1.32.
  - If the Spot Rate is more favorable than the Protection Rate (1.32), say 1.3500, the importer will be able to buy CAD100,000 at 1.3500 (although there is no obligation to do so).
- c) If the Knock-Out Rate (1.29) has been triggered and the Knock-In Rate has not been Triggered:
  - If the Spot Rate is less favorable than the Protection Rate (1.32), say 1.30, the importer will buy CAD100,000 at 1.32.
  - If the Spot Rate is more favorable than the Protection Rate (1.32), say 1.3500, the importer will be able to buy CAD100,000 at 1.3500 (although there is no obligation to do so).

#### Benefits of a Leveraged Knock-In Convertible

- Protection at all time with a known worst case Exchange Rate (Protection Rate).
- Ability to participate in favorable currency movements.

- If the Knock-Out Rate has been triggered and the Knock-In Rate has not been triggered participation in favorable movements is possible to any level.

### Risks of a Leveraged Knock-In Convertible

- If the Knock-Out Rate has not been triggered participation in favorable movements is capped at the Knock-In Rate.
- If the Knock-Out Rate has not been triggered and the Spot Rate triggers the Knock-In Rate before the Expiry Time (or during a Window) and the Spot Rate is more favorable than the Protection Rate at the Expiry Time you will be obligated to trade a multiple of the Notional Amount at the less favorable Protection Rate.

### 11.2.23 Knock-Out Participating

The Knock-Out Participating is a Structured Option which allows you to protect against the risk that the Spot Rate will be less favorable than a nominated Exchange Rate (the Protection Rate). It also gives you the ability to participate in favorable movements in the Spot Rate on a percentage of your Notional Amount provided that a Knock-Out Rate has not been triggered during the term of the structure.

A Knock-Out Participating is constructed by entering into three concurrent options. In the first you buy a Put Option from us at the Protection Rate. In the second you sell a Call Option to us at the Protection Rate. The Call Option that you sell to us will be for a percentage of the Notional Amount of your Put Option (the Obligation Percentage). In the third option you sell a Call Option to us at the Protection Rate with a Knock-Out Rate (an option to buy that ceases to exist if the Spot Rate triggers the Knock-Out Rate before Expiry Time (or during a Window)). The Notional Amount for the Call Option that you sell to us will be equal to the Notional Amount of the first option less the Notional Amount of the second option (calculated by applying the Obligation Percentage).

<b>Example of a Knock-Out Participating</b>	
The importer enters into a Knock-Out Participating with the following terms:	
<ul style="list-style-type: none"> <li>• Protection Rate: 1.30</li> <li>• Knock-Out Rate: 1.3000</li> <li>• Obligation Percentage: 50%</li> <li>• Expiry Date: 6 months</li> </ul>	
<b>Possible Outcomes at Expiry Time</b>	
<p>a) If the Knock-Out Rate has not been triggered:</p> <ul style="list-style-type: none"> <li>• If the Spot Rate is more favorable than the Protection Rate (1.30), say 1.33, the importer will be obligated to buy CAD 100,000 at 1.30.</li> </ul>	

- If the Spot Rate is less favorable than the Protection Rate (1.30), say 1.28, the importer will buy CAD 100,000 at 1.30.
- b) If the Knock-Out Rate has been triggered:
  - If the Spot Rate is less favorable than the Protection Rate (1.30), say 1.28, the importer will buy CAD 100,000 at 1.30.
  - If the Spot Rate is more favorable than the Protection Rate (1.30), say 1.33, the importer will be obligated to buy CAD 50,000 at 1.30. The importer may also buy the remaining CAD 50,000 at 1.33 (although there is no obligation to do so).

### **Benefits of a Knock-Out Participating**

- An ability to participate in favorable Exchange Rate movements on a portion of your exposure if the Knock-Out Rate is triggered.
- Protection at all times with a known worst case Exchange Rate.
- The Protection Rate and/or the Obligation Percentage are more favorable than the Exchange Rates applicable to a comparable standard Participating Forward.

### **Risk of a Knock-Out Participating**

- The Protection Rate will be less favorable than the Exchange Rate applicable to a comparable Deliverable Forward.
- If the Spot Rate at Expiry Time is more favorable than the Protection Rate and the Knock-Out Rate has not been triggered, you will be obligated to trade at the less favorable Protection Rate.
- If the Spot Rate at Expiry Time is more favorable than the Protection Rate and the Knock-Out Rate has been triggered, you will be obligated to trade the Obligation Percentage at the less favorable Protection Rate.

### **11.2.24 Leveraged Knock-Out Participating**

The Leveraged Knock-Out Participating has the same basic features as a Knock-Out Participating, with the exception that the Protection Rate and/or the Knock-Out Rate are enhanced relative to the Knock-Out Participating. The reason for this is that if the Spot Rate does not trigger the Knock-Out Rate you will be obligated to trade an amount in excess of the standard Knock-Out Participating.

A Leveraged Knock-Out Participating is constructed by entering into three concurrent options. In the first you buy a Put Option from us at the Protection Rate. In the second you sell a Call Option to Us at the Protection Rate. The Call Option that you sell to us will be for a percentage of the Notional Amount of your Put Option. In the third option you sell a Call Option to us at the Protection Rate with a Knock-Out Rate (an option to buy that ceases to exist if the Spot Rate triggers the Knock-Out Rate before Expiry (or during a Window)). The Notional Amount for the third Call Option that you sell to us will be equal to the Notional Amount of the first option multiplied by the

leverage ratio and less the Notional Amount of the second option (calculated by applying the Obligation Percentage).

<b>Example of a Leveraged Knock-Out Participating</b>
<p>The importer enters into a Leveraged Knock-Out Participating with the following terms:</p> <ul style="list-style-type: none"><li>• Protection Rate 1.30</li><li>• Knock-Out Rate 1.2950</li><li>• Obligation Percentage 50%</li><li>• Expiry Date 6 months</li><li>• Leverage Ratio: 1:2</li></ul>
<p><b>Possible Outcomes at Expiry Time</b></p> <p>a) If the Knock-Out Rate has not been triggered:</p> <ul style="list-style-type: none"><li>• If the Spot Rate is more favorable than the Protection Rate (1.30), say 1.33, the importer will be obligated to buy CAD200,000 at 1.30.</li><li>• If the Spot Rate is less favorable than the Protection Rate (1.30), say 1.28, the importer will buy CAD100,000 at 1.30.</li></ul> <p>b) If the Knock-Out Rate has been triggered;</p> <ul style="list-style-type: none"><li>• If the Spot Rate is less favorable than the Protection Rate (1.30), say 1.29, the importer will buy CAD100,000 at 1.30.</li><li>• If the Spot Rate is more favorable than the Protection Rate (1.30), say 1.33, the importer will be obligated to buy CAD50,000 at 1.30. The importer may also buy any remaining CADneed at 1.33 (although there is no obligation to do so).</li></ul>

### **Benefits of a Leveraged Knock-Out Participating**

- An ability to participate in favorable Exchange Rate movements on a portion of your exposure if the Knock-Out Rate is triggered.
- Protection at all times with a known worse case Exchange Rate.
- The Protection Rate and/or the Obligation Percentage are more favorable than the Exchange Rates applicable to a comparable standard Participating Forward.

### **Risk of a Leveraged Knock-Out Participating**

- The Protection Rate will be less favorable than the Exchange Rate applicable to a comparable Forward Exchange Contract.

- If the Spot Rate at the Expiry Time is more favorable than the Protection Rate and the Knock-Out Rate has not been triggered, you will be obligated to trade a multiple of the Notional Amount at the less favorable Protection Rate.
- If the Spot Rate at the Expiry Time is more favorable than the Protection Rate and the Knock-Out Rate has been triggered you will be obligated to trade the Obligation Percentage at the less favorable Protection Rate.

### 11.2.25 Knock-Out Reset

The Knock-Out Reset is a Structured Option that gives you the benefit of achieving an enhanced Exchange Rate (the Enhanced Rate) compared to the equivalent Forward Exchange Rate provided that the Spot Rate remains within a specified range for the entire term of the structure. A Knock-Out Reset will always provide you with a guaranteed worst case Exchange Rate allowing you to protect against the risk that the Spot Rate is less favorable at Expiry Time of the contract.

A Knock-Out Reset is structured by entering into the following four concurrent options:

- i) You buy a Put Option from us at the Enhanced Rate with a double Knock-Out Rate (an option to sell that ceases to exist if either Knock-Out Rate is triggered before Expiry Time (or during a Window)).
- ii) You sell a Call Option to us at the Enhanced Rate with a double Knock-Out Rate (an option to sell that ceases to exist if either Knock-Out Rate is triggered before Expiry Time (or during a Window)).
- iii) You buy a Put Option from us at the Reset Rate with a double Knock-In Rate (an option to sell that only exists if either Knock-In Rate is triggered before Expiry Time (or during a Window)).
- iv) You sell a Call Option to us at the Reset Rate with a double Knock-In Rate (an option to sell that only exists if either Knock-In Rate is triggered before Expiry Time (or during a Window)).

<b>Example of a Knock-Out Reset</b>
<p>The importer enters into a Knock-Out Reset with the following terms:</p> <ul style="list-style-type: none"> <li>• Enhanced Rate: 1.33</li> <li>• Reset Rate: 1.29</li> <li>• Knock-In/Out Rates: 1.38 and 1.28</li> <li>• Expiry Date: 6 months</li> </ul>
<b>Possible outcomes at Expiry Time</b>

- a) If the higher Knock-In/Out Rate (1.38) or the lower Knock-In/Out Rate (1.28) has not been triggered:
  - the importer will be obligated to buy CAD 100,000 at 1.33.
- b) If the higher Knock-In/Out Rate (1.38) or the Lower Knock-In/Out Rate (1.28) has been triggered:
  - the importer will be obligated to buy CAD 100,000 at 1.29.

### **Benefits of a Knock-Out Reset**

- Ability to achieve an Enhanced Rate over the comparative Forward Exchange Rate if the Knock-In/Out Rate has not been triggered.
- Protection at all time with a known worst case Exchange Rate.

### **Risks of a Knock-Out Reset**

- If either Knock-In/Out Rate is triggered you will be trading at the Reset Rate that is less favorable than the comparative Forward Exchange Rate.
- There is potential to be transacting at an Exchange Rate that is less favorable than the Spot Rate at Expiry Time.

### **11.2.26 Leveraged Knock-Out Reset**

The Leveraged Knock-Out Reset has the same basic features as a Knock-Out Reset, with the exception that the Enhanced Rate, the Reset Rate and/or the Knock-In/Out Rates are enhanced relative to the Knock-Out Reset. The reason for this is that if the Spot Rate triggers the Knock-In/Out Rate you will be obligated to trade an amount in excess of the standard Knock-Out Reset.

A Leveraged Knock-Out Reset is structured by entering into the following four concurrent options:

- (i) You buy a Put Option from us at the Enhanced Rate with a double Knock-Out Rate (an option to sell that ceases to exist if either Knock-Out Rate is triggered before the Expiry Time (or during a Window)).
- (ii) You sell a Call Option to us at the Enhanced Rate with a double Knock-Out Rate (an option to sell that ceases to exist if either Knock-Out Rate is triggered before the Expiry Time (or during a Window)).
- (iii) You buy a Put Option from us at the Reset Rate with a double Knock-In Rate (an option to sell that only exists if either Knock-In Rate is triggered before the Expiry Time (or during a Window)).
- (iv) You sell a Call Option to us at the Reset Rate with a double Knock-In Rate (an option to buy that only exists if either Knock-In Rate is triggered before the Expiry Time (or during a Window)). The Notional Amount of this option will be for the same Notional Amount as the bought Put Option at the Reset Rate multiplied by the Leverage Ratio.



### Example of a Leveraged Knock-Out Reset

The importer enters into a Leveraged Knock-Out Reset with the following terms:

- Enhanced Rate 1.34
- Reset Rate 1.2950
- Knock-In/Out Rates 1.37 and 1.27
- Expiry Date 6 months
- Leverage Ratio: 1:2

#### Possible outcomes at Expiry Time

- a) If the higher Knock-In/Out Rate (1.37) or the lower Knock-In/Out Rate (1.27) has not been triggered:
  - the importer will be obligated to buy CAD100,000 at 1.34.
- b) If the higher Knock-In/Out Rate (1.37) or the Lower Knock-In/Out Rate (1.27) has been triggered:
  - the importer will be obligated to buy CAD200,000 at 1.2950.

#### Benefits of a Leveraged Knock-Out Reset

- Ability to achieve an Enhanced Rate over the comparative Forward Exchange Rate if the Knock-In/Out Rate has not been triggered.
- Protection at all time with a known worst case Exchange Rate.

#### Risks of a Leveraged Knock-Out Reset

- If either Knock-In/Out Rate is triggered you will be trading at the Reset Rate in a multiple of the Notional Amount (Notional Amount multiplied by the Leverage Ratio) that is less favorable than the comparative Forward Exchange Rate.
- There is potential to be transacting at an Exchange Rate that is less favorable than the Spot Rate at the Expiry Time.

#### 11.2.27 Knock-Out Convertible

The Knock-Out Convertible is a Structured Option which allows you to protect against the risk that the Spot Rate will be less favorable than a nominated Exchange Rate (the Protection Rate). It also gives you the ability to participate in favorable movements in the Spot Rate provided that a Knock-Out Rate is triggered during the term of the structure.

A Knock-Out Convertible is structured by entering into two concurrent options. In the first you buy a Put Option from us at the Protection Rate. In the second, you sell a Call Option to us at the Protection Rate with a Knock-Out Rate (an option to buy that ceases to exist if the Knock-Out Rate is triggered before the Expiry Time (or during a Window)).

<b>Example of a Knock-Out Convertible</b>	
The importer enters into a Knock-Out Convertible with the following terms:	
<ul style="list-style-type: none"> <li>• Protection Rate: 1.3000</li> <li>• Knock-Out Rate: 1.29</li> <li>• Expiry Date: 6 months</li> </ul>	
<b>Possible outcomes at Expiry Time</b>	
<p>a) If the Knock-Out Rate (1.29) has not been triggered:</p> <ul style="list-style-type: none"> <li>• If the Spot Rate is less favorable than the Protection Rate (1.3000), say 1.29, the importer will buy CAD 100,000 at 1.3000.</li> <li>• If the Spot Rate is more favorable than the Protection Rate (1.3000), say 1.33, the importer will be obligated to buy USD 100,000 at 1.3000.</li> </ul> <p>b) If the Knock-Out Rate (1.29) has been triggered:</p> <ul style="list-style-type: none"> <li>• If the Spot Rate is less favorable than the Protection Rate (1.3000), say 1.28, the importer will buy CAD 100,000 at 1.3000.</li> <li>• If the Spot Rate is more favorable than the Protection Rate (1.3000), say 1.33, the importer may buy CAD at 1.33 (although there is no obligation to do so).</li> </ul>	

### **Benefits of a Knock-Out Convertible**

- An ability to participate in favorable Exchange Rate movements if the Knock-Out Rate has been triggered.
- Protection at all times with a known worst case Exchange Rate.

### **Risks of a Knock-Out Convertible**

- The Protection Rate will be less favorable than the Exchange Rate applicable to a comparable Deliverable Forward.
- If the Spot Rate at Expiry Time is more favorable than the Protection Rate and the Knock-Out Rate has not been triggered, you will be obligated to trade at the less favorable Protection Rate.

## 11.2.28 Leveraged Knock-Out Convertible

A Leveraged Knock-Out Convertible has the same basic features as a Knock-Out Convertible, with the exception that the Protection Rate and/or the Knock-Out Rate are enhanced relative to the Knock-Out Convertible. The reason for this is that if the Spot Rate triggers the Knock-Out Rate, you will have the ability to participate in favorable movements in the Spot Rate. If the Knock-Out Rate is not triggered and the market is more favorable than the Protection Rate at Expiry Time, you will be required to trade an amount in excess of the standard Knock-Out Convertible. The amount that you will be required to trade will depend on the Leverage Ratio that you have agreed to. Also, depending on the Leverage Ratio, the amount you will be hedging will be less than you would be hedging in the case of a basic Knock-Out Convertible.

The Leveraged Knock-Out Convertible is a Structured Option which allows you to protect against the risk that the Spot Rate will be less favorable than a nominated Exchange Rate (the Protection Rate). It also gives you the ability to participate in favorable movements in the Spot Rate provided that a Knock-Out Rate is triggered during the term of the structure.

A Leveraged Knock-Out Convertible is structured by entering into two concurrent options. In the first you buy a Put Option from us at the Protection Rate. In the second, you sell a Call Option to us at the Protection Rate with a Knock-Out Rate (an option to buy that ceases to exist if the Knock-Out Rate is triggered before Expiry Time (or during a Window)). The notional amount of the call option that you sell to us will be equal to the notional amount of the put options that you have bought multiplied by the agreed leverage ratio.

If we agree to enter into a Leveraged Knock-Out Convertible with you we will determine any credit requirements based off the Notional Amount multiplied by the Leverage Ratio.

<b>Example of a Leveraged Knock-Out Convertible</b>	
The importer enters into a Leveraged Knock-Out Convertible with the following terms:	
<ul style="list-style-type: none"><li>• Notional Amount: USD 50,000</li><li>• Protection Rate: 1.31</li><li>• Knock-Out Rate: 1.30</li><li>• Expiry Date: 6 months</li><li>• Leverage Ratio: 1:2</li></ul>	
<b>Possible outcomes at Expiry Time</b>	
a)	If the Knock-Out Rate (1.30) has not been triggered: <ul style="list-style-type: none"><li>• If the Spot Rate is less favorable than the Protection Rate (1.31), say 1.30, the importer will buy CAD50,000 at 1.31.</li><li>• If the Spot Rate is more favorable than the Protection Rate (1.31), say 1.33, the importer will be obligated to buy CAD100,000 at 1.31.</li></ul>

- b) If the Knock-Out Rate (1.30) has been triggered:
- If the Spot Rate is less favorable than the Protection Rate (1.31), say 1.28, the importer will buy CAD50,000 at 1.31.
  - If the Spot Rate is more favorable than the Protection Rate (1.31), say 1.33, the importer may buy CAD at 1.33 (although there is no obligation to do so).

### **Benefits of a Leveraged Knock-Out Convertible**

- An ability to achieve an enhanced Protection and/or Knock-Out Rate comparative to a standard Knock-Out Convertible structure.
- An ability to participate in favorable Exchange Rate movements if the Knock-Out Rate has been triggered.
- Protection at all times with a known worst case Exchange Rate, although for a lower Notional Amount depending on the Leverage Ratio.

### **Risks of a Leveraged Knock-Out Convertible**

- The Protection Rate will be less favorable than the Exchange Rate applicable to a comparable Deliverable Forward. If the Spot Rate at Expiry Time is less favorable than the Protection Rate you will be protected for only the Notional Amount (which is a smaller amount than the amount you would have protection for in a basic Knock-Out Convertible, depending on the Leverage Ratio).
- If the Spot Rate at Expiry Time is more favorable than the Protection Rate and the Knock-Out Rate has not been triggered, you will be obligated to trade a multiple of the Notional Amount at the less favorable Protection Rate.

### **11.2.29 Knock-In Improver**

The Knock-In Improver is a Structured Option which allows you to protect against the risk that the Spot Rate will be less favorable than a nominated Exchange Rate (the Protection Rate). It also gives you the potential to take advantage of favorable currency movements, or improve the Protection Rate if the Knock-Out Rate is not triggered before Expiry (or during a Window).

A Knock-In Improver is structured by entering into three concurrent options. In the first you buy a Put Option from us at the Protection Rate. In the second you sell a Call Option to us at the Protection Rate with a Knock-In Rate (an option to buy contingent upon the Spot Rate triggering the Knock-In Rate before Expiry (or during a Window)). This Call Option will only come into existence if the Spot Rate triggers the Knock-In Rate during the Window. In the third you buy an additional Put Option from us at the Protection Rate with a Knock-Out Rate. This is effectively the “improving” option and if the Knock-Out Rate hasn’t been triggered prior to expiry (or during a Window) and the Spot Rate is less favorable than the Protection Rate, this Put Option is closed out at market and the value can be used to improve the overall Protection Rate of the first Put Option at Expiry.

### Example of a Knock-In Improver

The importer enters into a Knock-In Improver with the following terms:

- Protection Rate: 1.30
- Notional Amount: USD50,000
- Knock-In Rate: 1.36
- Knock-Out Rate : 1.27
- Expiry Date: 3 months

#### Possible Outcomes at Expiry Time

##### **If the Knock-In and Knock-Out Rates have not been Triggered**

- Spot Rate is more favorable than the Protection Rate (1.30), say 1.32, the importer may sell USD50,000 at 1.32.
- Spot Rate is less favorable than the Protection Rate (1.30), say 1.28, the importer may sell USD50,000 at 1.32 (1.30 Protection adjusted for the “improving” Option Close out at 1.28).

##### **If the Knock-In Rate (1.36) has been Triggered and Knock-Out Rate has not been Triggered**

- Spot Rate is more favorable than the Protection Rate (1.30), say 1.37, the importer will sell USD50,000 at 1.30.
- Spot Rate is less favorable than the Protection Rate (1.30), say 1.28, the importer may sell USD50,000 at 1.32 (1.30 Protection adjusted for the “improving” Option Close out at 1.28).

##### **If the Knock-In Rate has not been Triggered and Knock-Out Rate (1.27) has been Triggered**

- Spot Rate is less favorable than the Protection Rate (1.30), say 1.25, the importer may sell USD50,000 at 1.30.
- Spot Rate is more favorable than the Protection Rate (1.30), say 1.33, the importer may sell USD50,000 at 1.33.

##### **If the Knock-In Rate (1.36) has been Triggered and Knock-Out Rate (1.27) has been Triggered**

- Spot Rate is less favorable than the Protection Rate (1.30), say 1.25, the importer may sell USD50,000 at 1.30.

- Spot Rate is more favorable than the Protection Rate (1.30), say 1.35, the importer **will** sell USD50,000 at 1.30.

### **Benefits of a Knock-In Improver**

- Ability to achieve a known Protection Rate at all times.
- Ability to deal at the market Spot Rate at Expiry (should the Knock-In Rate not be Triggered).
- Ability to see the overall Protection Rate improve significantly if the Spot Rate should move against you and the Knock-Out Rate is not Triggered due to the “improving” option being closed out at market and the value being used to improve your overall Protection rate.

### **Risks of a Knock-In Improver**

- If the Spot Rate is more favorable at expiry than the Protection Rate, and the Knock-In Rate is Triggered, you will be obligated to trade at a less favorable Exchange Rate than the Spot Rate at Expiry.
- The Protection Rate on the Knock-In Improver option will be less favorable than that of an equivalent standard knock in option.

### **11.2.30 Leveraged Knock-In Improver**

The Leveraged Knock-In Improver has the same basic features as a Knock-In Improver, with the exception that the Protection Rate and/or the Knock-In and /or the Knock-Out Rates are enhanced relative to the Knock-in Improver. The reason for this is that if the Spot Rate triggers the Knock-In Rate you will be obligated to trade an amount in excess of the standard Knock-In Improver. The amount that you will be required to trade will depend on the Leverage Ratio that you have agreed to.

A Leveraged Knock-In Improver is structured by entering into three concurrent options. In the first you buy a Put Option from us at the Protection Rate. In the second you sell a Call Option to us at the Protection Rate with a Knock-In Rate (an option to buy contingent upon the Spot Rate triggering the Knock-In Rate before Expiry (or during a Window)). The Notional Amount of the Call Option that you sell to us will be equal to the Notional Amount of the Put Option that you have bought multiplied by an agreed Leverage Ratio and will only come into existence if the Spot Rate triggers the Knock-In Rate during the term of the Leveraged Knock-In Improver. In the third you buy a Put Option at the Protection Rate with a Knock-Out Rate. This is effectively the “improving” option and if the Knock-Out Rate hasn’t been triggered prior to Expiry (or during a Window) and the Spot Rate is less favorable than the Protection Rate, this Put Option is closed out at market and the value can be used to improve the overall Protection Rate of the first Put Option at Expiry.

### Example of a Leveraged Knock-In Improver

The importer enters into a Leveraged Knock-In Improver with the following terms:

- Protection Rate: 1.31 (this Protection Rate is an improvement on the Protection Rate for a comparable Knock-In Improver)
- Notional Amount: USD50,000
- Leverage Ratio: 1:2
- Knock-In Rate : 1.38
- Knock-out Rate: 1.26
- Expiry Date: 3 months

#### Possible Outcomes at Expiry Time

##### If the Knock-In and Knock-Out Rates have not been Triggered

- Spot Rate is more favorable than the Protection Rate (1.31), say 1.34, the importer may sell USD50,000 at 1.34.
- Spot Rate is less favorable than the Protection Rate (1.31), say 1.28, the importer may Buy USD50,000 at 1.34 (1.31 Protection adjusted for the “improving” Option Close out at 1.28).

##### If the Knock-In Rate (1.38) has been Triggered and Knock-Out Rate has not been Triggered

- Spot Rate is more favorable than the Protection Rate (1.31), say 1.39, the importer will sell USD100,000 (USD50,000 multiplied by the Leverage Ratio) at 1.31.
- Spot Rate is less favorable than the Protection Rate (1.31), say 1.28, the importer may sell USD50,000 at 1.34 (1.31 Protection adjusted for the “improving” Option Close out at 1.28).

##### If the Knock-In Rate has not been Triggered and Knock-Out Rate (1.26) has been Triggered

- Spot Rate is less favorable than the Protection Rate (1.31), say 1.25, the importer may sell USD50,000 at 1.31.
- Spot Rate is more favorable than the Protection Rate (1.31), say 1.35, the importer may sell USD50,000 at 1.35.

##### If the Knock-In Rate (1.38 has been Triggered and Knock-Out Rate (1.26) has been Triggered

- Spot Rate is less favorable than the Protection Rate (1.31), say 1.25, the importer may sell USD50,000 at 1.31.

- Spot Rate is more favorable than the Protection Rate (1.31), say 1.39, the importer **will** sell USD100000 at 1.31.

### Benefits of a Leveraged Knock-In Improver

- Ability to achieve a known Protection Rate at all times.
- Ability to deal at the market Spot Rate at Expiry (should the Knock-In Rate not be Triggered).
- Ability to see the overall Protection Rate improve significantly if the Spot Rate should move against you and the Knock-Out Rate is not triggered due to the “improving” option being closed out at market and the value being used to improve your overall Protection rate.
- Ability to achieve a Protection Rate that is significantly enhanced as compared to what could be achieved under a FX Forward or comparable Knock-In Improver.

### Risks of a Leveraged Knock-In Improver

- If the Spot Rate is more favorable at expiry than the Protection Rate, and the Knock-In Rate is triggered, you will be obligated to trade a multiple of the Notional Amount (based on the Leverage Ratio) at a less favorable Exchange Rate than the market Spot Rate at Expiry.
- If the Spot Rate at Expiry is less favorable than the Protection Rate you will only have the right to deal the Notional Amount at the Protection Rate.

#### 11.2.31 Extendible Forward

An Extendible Forward is a Structured Option (with a payout structure like an FX Forward) which allows you to protect against the risk that the Spot Rate will be less favorable than the nominated Exchange Rate (the “Protection Rate”) while also giving you the potential to have additional protection for an additional period(s) after the Expiry Date depending on the level of the Spot Rate at Expiry.

An Extendible Forward will be documented as four concurrent options, but the payoffs will be as shown in the example below. At the Expiry Date, the payoff will resemble that of an ordinary FX Forward. However, if the Spot Rate is more favorable than the Protection Rate, you will be obligated to trade an amount equal to the Notional Amount (the **Contingent Amount**) at the Protection Rate at the Expiry of the extended period.

#### Example of an Extendible Forward

An importer needs to hedge USD50,000 every three months. The importer enters into an Extendible Forward with the following terms:



- Protection Rate: 1.31
- Notional Amount: USD50,000
- Contingent Amount: USD50,000
- Expiry Date: 3 months (with second obligation, if applicable, extending to an additional 3 months)

#### **Possible Outcomes at Expiry Date**

- If the Spot Rate is less favorable than the Protection Rate (1.31), say 1.28, the importer will sell USD50,000 at the Protection Rate (1.31). The importer may purchase another product from us to hedge the remaining USD50,000 it needs to hedge for the next three months.
- If the Spot Rate is more favorable than the Protection Rate (1.31), say 1.34, the importer will sell USD50,000 at the Protection Rate (1.31) and be obligated to sell an additional USD50,000 at the Protection Rate (1.31) in three months' time.

#### **Benefits of an Extendible Forward**

- An Extendible Forward provides an enhanced Exchange Rate (Protection Rate) relative to a comparative FX Forward for both the initial Expiry Date and the Expiry Date applicable to the extended period.
- Protection at all times at a known worst case Protection Rate.

#### **Risks of an Extendible Forward**

- If the Spot Rate is more favorable at Expiry than the Protection Rate, you will be obligated to trade at a less favorable Exchange Rate than the Spot Rate.
- If the Spot Rate is more favorable at Expiry than the Protection Rate, there is an obligation created at a date out in the future that is OTM and that could potentially be at a less favorable Exchange Rate than the Spot Rate.

#### **11.2.32 Leveraged Extendible Forward**

A Leveraged Extendible Forward has the same basic features as an Extendible Forward, with the exception that the Protection Rate is enhanced relative to the Extendible Forward. The reason for this is that if the Spot Rate does not trigger the Knock-In Rate during the Window or on the Expiry Date you will be obligated to trade an amount in excess of the standard Extendible Forward. The amount that you will be required to trade will depend on the Leverage Ratio that you have agreed to.

### Example of a Leveraged Extendible Forward

An importer needs to hedge at least USD50,000 now and at least USD100,000 in three months. The importer enters into a Leveraged Extendible Forward with the following terms:

- Protection Rate: 1.32
- Leverage Ratio 1:2
- Notional Amount: USD50,000
- Contingent Amount: USD100,000 (Notional Amount multiplied by Leverage Ratio)
- Expiry Date: 3 months (with second obligation, if applicable, extending to an additional 3 months)

#### Possible Outcomes at Expiry Date

- If the Spot Rate is less favorable than the Protection Rate (1.32), say 1.30, the importer will sell USD50,000 at the Protection Rate (1.32). The importer may purchase another product from us to hedge the remaining USD 100,000 it needs to hedge for the next three months.
- If the Spot Rate is more favorable than the Protection Rate (1.32), say 1.34, the importer will sell USD50,000 at the Protection Rate (1.32) and be obligated to sell an additional USD100,000 at the Protection Rate (1.32) in three months' time.

#### Benefits of a Leveraged Extendible Forward

- A Leveraged Extendible Forward provides an enhanced Exchange Rate (Protection Rate) relative to a comparative FX Forward and comparable Extendible Forward for both the initial Expiry Date and the Expiry Date applicable to the extended period.
- Protection at all times at a known worst case Protection Rate.

#### Risks of a Leveraged Extendible Forward

- If the Spot Rate is more favorable at Expiry than the Protection Rate, you will be obligated to trade a multiple of the Notional Amount at a less favorable Exchange Rate than the Spot Rate.
- If the Spot Rate is more favorable at Expiry than the Protection Rate, there is an obligation created at a date out in the future in an amount that is potentially twice the Notional Amount of the standard Extendible Forward and that could be at a less favorable Exchange Rate than the Spot Rate. Therefore, the Leveraged Extendible

Forward is only suitable for you if you need to hedge at least the Notional Amount multiplied by the Leverage Ratio in the extended period.

### 11.2.33 Capped Forward with Protection

The Capped Forward with Protection is a Structured Option which gives you the ability to trade at an enhanced Exchange Rate relative to a comparative Deliverable Forward, provided that the Spot Rate does not deteriorate beyond a predetermined level at expiry (the **Cap Rate**). A Capped Forward with Protection always provides you with a guaranteed Protection Rate (which is an implied rate, based on the parameters of the Capped Forward with Protection).

A Capped Forward with Protection is structured by entering into four concurrent options. In the first you buy a Put Option from us at the Enhanced Rate. In the second, you sell a Call Option to us—also at the Enhanced Rate. In the third, you sell an additional Put Option to us at the less-favorable Cap Rate. In the fourth, you purchase an additional Put Option from us at the less-favorable Cap Protection Rate.

The first two options create a synthetic FX Forward, and you will trade at the Enhanced Rate should the market settle above the Cap Rate at expiry. However, should the market settle below the Cap Rate at expiry, the third option will cause your Exchange Rate to be adjusted downwards, and you will be obligated to trade at an Exchange Rate that is less favorable than the Enhanced Rate. If the market settles between the Cap Rate and the Cap Protection Rate at expiry, your Exchange Rate will be equal to the prevailing Spot Rate plus the difference between the Enhanced Rate and the Cap Rate. The fourth option will provide you with protection if the market settles below the Cap Protection Rate at expiry—in such a scenario, you will trade at the Protection Rate (which is equal to the Cap Protection Rate plus the difference between the Enhanced Rate and the Cap Rate).

A Capped Forward with Protection always provides you with protection at the Protection Rate.

#### Example of a Capped Forward with Protection

The importer enters into a Capped Forward with Protection with the following terms:

- Enhanced Rate: 1.3100
- Notional Amount: CAD 100,000
- Cap Rate: 1.2900
- Cap Protection Rate: 1.2700
- Protection Rate (Implied):  $1.2900 (1.2700 + (1.3100 - 1.2900))$
- Expiry Date: 6 months

### **Possible Outcomes at Expiry Time**

- If the Spot Rate is less favorable than the Cap Protection Rate (1.2700), the importer will buy CAD 100,000 at the Protection Rate (1.2900). The Protection Rate is equal to the Cap Protection Rate (1.2700) plus the difference between the Enhanced Rate (1.3100) and the Cap Rate (1.2900).
- If the Spot Rate lies between the Cap Protection Rate (1.2700) and the Cap Rate (1.2900), the importer will buy CAD 100,000 at rate equal to the Spot Rate plus the difference between the Enhanced Rate (1.3100) and the Cap Rate (1.2900). If the Spot Rate is 1.2800, for example, the importer would buy CAD 50,000 at a rate of 1.3000 ( $1.2800 + (1.3100 - 1.2900)$ ).
- If the Spot Rate lies between the Cap Rate (1.2900) and Enhanced Rate (1.3100), say 1.3000, the importer will buy CAD 100,000 at the Enhanced Rate (1.3100).
- If the Spot Rate is more favorable than the Enhanced Rate (1.3100), say 1.3300, the importer will buy CAD 100,000 at the Enhanced Rate (1.3100).

### **Benefits of a Capped Forward with Protection**

- An ability to achieve an Enhanced Rate relative to the comparable Forward Exchange Rate.
- There is protection at all times with a known Protection Rate.

### **Risks of a Capped Forward with Protection**

- If the Spot Rate at Expiry Time is more favorable than the Enhanced Rate you will be obligated to trade at the less-favorable Enhanced Rate.
- The Enhanced Rate will be less favorable than the rate applicable to a comparable Capped Forward.

#### **11.2.34 Leveraged Capped Forward with Protection**

The Leveraged Capped Forward with Protection has the same basic features as the Capped Forward with Protection, with the exception that the Enhanced Rate and/or the Cap Rate are enhanced relative to the standard Capped Forward with Protection. The reason for this is that if the Spot Rate is more favorable than the Enhanced Rate at Expiry Time you will be obligated to trade an amount in excess of the standard Capped Forward with Protection at the Enhanced Rate. The amount that you will be required to trade will depend on the Leverage Ratio that you have agreed to. Also, depending on the Leverage Ratio, the Notional Amount you will be hedging may be less than you would be hedging in the case of a standard Capped Forward with Protection.

A Leveraged Capped Forward with Protection is structured by entering into four concurrent options. In the first you buy a Put Option from us at the Enhanced Rate. In the second, you sell a Call Option to us—also at the Enhanced Rate (the Notional Amount of the Call Option that you sell to us will be equal to the Notional Amount of the Put Option that you have bought multiplied by an agreed Leverage Ratio). In the third, you sell an additional Put Option to us at the less-favorable Cap Rate. In the fourth, you purchase an additional Put Option from us at the less-favorable Cap Protection Rate.

The first two options create a Ratio Forward, and you will trade at the Enhanced Rate should the market settle above the Cap Rate at expiry. If the Spot Rate lies between the Cap Rate and the Enhanced Rate at expiry, you will deal the Notional Amount at the Enhanced Rate; however if the Spot Rate at expiry exceeds the Enhanced Rate, you will be obligated to deal a multiple of the Notional Amount at the Enhanced Rate. Should the market settle below the Cap Rate at expiry, the third option will cause your Exchange Rate to be adjusted downwards, and you will be obligated to trade the Notional Amount at an Exchange Rate that is less favorable than the Enhanced Rate. If the market settles between the Cap Rate and the Cap Protection Rate at expiry, your Exchange Rate will be equal to the prevailing Spot Rate plus the difference between the Enhanced Rate and the Cap Rate. The fourth option will provide you with protection if the market settles below the Cap Protection Rate at expiry—in such a scenario, you will trade the Notional Amount at the Protection Rate (which is equal to the Cap Protection Rate plus the difference between the Enhanced Rate and the Cap Rate).

If we agree to enter into a Leveraged Capped Forward with Protection with you, we will determine any credit requirements based off the Notional Amount multiplied by the Leverage Ratio.

<b>Example of a Leveraged Capped Forward with Protection</b>	
The importer enters into a Leveraged Capped Forward with Protection with the following terms:	
• Enhanced Rate:	1.3200
• Notional Amount:	CAD 50,000
• Leverage Ratio:	1:2
• Cap Rate:	1.3000
• Cap Protection Rate:	1.2700
• Protection Rate (Implied):	1.2900 (1.2700 + (1.3200 – 1.3000))
• Expiry Date:	6 months
<b>Possible Outcomes at Expiry Time</b>	
• If the Spot Rate is less favorable than the Cap Protection Rate (1.2700), the importer will buy CAD 50,000 at the Protection Rate (1.2900). The Protection Rate is equal to	

the Cap Protection Rate (1.2700) plus the difference between the Enhanced Rate (1.3200) and the Cap Rate (1.3000).

- If the Spot Rate lies between the Cap Protection Rate (1.2700) and the Cap Rate (1.3000), the importer will buy CAD 50,000 at a rate equal to the Spot Rate plus the difference between the Enhanced Rate (1.3200) and the Cap Rate (1.3000). If the Spot Rate is 1.2900, for example, the importer would buy CAD 50,000 at a rate of 1.3100 ( $1.2900 + (1.3200 - 1.3000)$ ).
- If the Spot Rate lies between the Cap Rate (1.3000) and Enhanced Rate (1.3200), the importer will buy CAD 50,000 at the Enhanced Rate (1.3200).
- If the Spot Rate is more favorable than the Enhanced Rate (1.3200), say 1.3400, the importer will buy CAD 100,000 at the Enhanced Rate (1.3200).

### **Benefits of a Leveraged Capped Forward with Protection**

- An ability to achieve a more favorable Enhanced Rate compared to a standard Capped Forward with Protection structure.
- There is protection at all times with a known Protection Rate (although for a lower Notional Amount, depending on the Leverage Ratio).

### **Risks of a Leveraged Capped Forward with Protection**

- If the Spot Rate at Expiry Time is more favorable than the Enhanced Rate you will be obligated to trade a multiple of the Notional Amount at the less-favorable Enhanced Rate.
- If the Spot Rate at Expiry Time is less favorable than the Cap Protection Rate you will be protected for only the Notional Amount (which may be a smaller amount than you have protection for in a standard Capped Forward with Protection, depending on the Leverage Ratio).
- The Enhanced Rate will be less favorable than the rate applicable to a comparable Leveraged Capped Forward.

## **11.2.35 Target Accrual Redemption Forward (TARF)**

A Target Accrual Redemption Forward (TARF) allows you to protect against the risk that the Spot Rate will be less favorable than a nominated Exchange Rate (the **Enhanced Rate**) on certain agreed Fixing Dates during an agreed term provided that an agreed amount of gain (the **Target Bucket**) has not already been reached. We express the Target Bucket as a number of foreign exchange points (**Points**). Once all the Points have been gained, the Target Bucket will be redeemed and the TARF will terminate. Given this feature, a TARF should only be used as a complementary product to supplement your existing hedging strategy.

At the trade date of a TARF, the following variables will be agreed between you and us:

- the term;
- the Expiry Date;
- the fixing frequency;
- the maximum Notional Amount (this is the total amount that can be exchanged in a TARF);
- the Notional Amounts which will be exchanged on each Fixing Date (the amount may be the same for all Fixing Dates or may vary between Fixing Dates);
- the denomination of the currency being exchanged;
- the Leverage Ratio (for a Leveraged TARF);
- the Enhanced Rate which will apply at each Fixing Date (the rate may be the same for all fixing Dates or may vary between Fixing Dates);
- the method for adjustment (i.e. Notional Amount or Enhanced Rate) which shall be determined in our sole discretion; and
- the Target Bucket.

The below examples are based off of the method of adjustment to Notional Amount, and should you wish to see an example of a TARF using the method of adjustment to the Enhanced Rate, an example of same can be provided upon request. If all the Points in the Target Bucket have not been redeemed, then on the next Fixing Date one of the following outcomes will occur:

- If the Spot Rate is more favorable than the Enhanced Rate you will be obligated to buy the Fixing Date Notional Amount at the Enhanced Rate;
- If the Spot Rate is less favorable than the Enhanced Rate and the Points remaining within the Target Bucket are equal to or exceed the number of Points between the Spot Rate and the Enhanced Rate you will buy the Fixing Date Notional Amount at the Enhanced Rate and the Target Bucket balance will be reduced by an amount equivalent to the number of Points between the Spot Rate and the Enhanced Rate;
- If the Spot Rate is less favorable than the Enhanced Rate and the Points balance in the Target Bucket is less than the number of Points between the Spot Rate and the Enhanced Rate you will trade at an amount less than the Fixing Date Notional Amount for such Fixing Date Since all the Points in the Target Bucket will have been redeemed, any remaining Fixing Dates are cancelled.

## Example of a TARF – Notional Amount Adjustment

As part of his hedging strategy, an importer needs to buy EUR 500,000 a month over the next 6 months for a total of EUR 3,000,000 over the next six month period. The current EURUSD Spot Rate is 1.10 and the equivalent Forward Exchange Rate is 1.1150. The importer has a budget rate of 1.09 and is not willing to enter into any hedge that may obligate him to settle at an Exchange Rate higher than this. The importer is wary about simply placing a market order to buy at 1.09 as the Exchange Rate may not fall that low. The importer is also willing to accept the risk that he may not be able to buy the full EUR 3,000,000 at 1.09 or that he may be obligated to take the full amount at 1.09 should EURUSD depreciate. He would like to start to hedge against unfavorable currency movements sooner rather than later for budgeting/planning purposes.

The importer enters into a TARF with the following terms:

- Enhanced Rate 1.09 each Fixing Date
- Target Bucket 900 Exchange Rate points
- Fixing Dates Monthly – 6 Months
- Fixing Date Notional Amount EUR 500,000 each Fixing Date
- Maximum Notional Amount EUR 3,000,000
- Adjustment Method Notional Amount

### Possible Outcomes at Expiry Time

- On the first Fixing Date, EURUSD Spot Rate is trading at 1.11. The importer sells USD and buys EUR 500,000 at 1.09 and his Target Bucket is reduced by 200 to 700.
- On the second Fixing Date, EURUSD Spot Rate is trading at 1.08. The importer sells USD and buys EUR 500,000 at 1.09. The Target Bucket is unaffected.
- On the third Fixing Date, EURUSD Spot Rate is trading at 1.15. The importer sells USD and buys EUR 500,000 at 1.09. The Target Bucket is reduced by 600 points, with just 100 points left.
- On the fourth Fixing Date, EURUSD Spot Rate is trading at 1.11. As the importer only has 100 points left in the Target Bucket the importer sells USD and buys EUR 250,000 at 1.09 (remaining points divided by the difference between the enhanced rate and the spot rate, multiplied by the monthly notional amount) and Fixing Dates five and six are cancelled.



After the fourth Fixing Date, the importer has achieved cover of EUR1,750,000 at 1.09. For the remaining EUR1,250,000 the importer can buy a different product to hedge this need based on its objectives at that stage, or deal at the prevailing Spot Rate for the final Fixing Dates. It should be noted that the Spot Rate available when the Target Bucket is fully redeemed can be significantly worse than the Enhanced Rate and any hedge entered into at such time may be on less favorable terms than available on the date when the TARF was entered into.

If the Target Bucket is not fully redeemed early, the importer will continue to deal at 1.09 up to and including Fixing Date six and any remaining Points in the Target Bucket at Fixing Date six expire.

### **Benefits of a TARF**

- Ability to achieve an Enhanced Rate over the comparative Forward Exchange Rate until all the Points in the Target Bucket are redeemed.
- A degree of protection is guaranteed from the outset equivalent to the number of Points in the Target Bucket. While there are Points remaining in the Target Bucket, you will always receive a benefit versus the Spot Rate to the value specified in the Target Bucket.

### **Risks of a TARF**

- Once all the Points in the Target Bucket have been redeemed there is no further protection. This may occur before the final Fixing Date, which will mean that the Notional Amount traded at the Enhanced Rate will be less than the maximum Notional Amount. Consequently, you may need to trade at a less favorable Spot Rate, as compared to the Enhanced Rate, for any remaining need outstanding after all Points in the Target Bucket are redeemed.
- If the Spot Rate is more favorable than the Enhanced Rate on a Fixing Date (and all the Points in the Target Bucket have not been redeemed) you will be obligated to trade at the less favorable Enhanced Rate.
- A TARF generally has an extended term compared to other hedging products and as a result, there is a greater risk that during the term of a TARF the Enhanced Rate will no longer be favorable when compared to the prevailing Spot Rate.

### **11.2.36 Leveraged TARF**

A Leveraged TARF has the same basic features as a TARF, with the exception that if, at a Fixing Date, the Spot Rate is more favorable than the Enhanced Rate, you will be obligated to deal the monthly Notional Amount multiplied by the Leverage Ratio at the Enhanced Rate for that Fixing Date. The Target Bucket is unaffected should this happen, which means that, if the Spot Rate remains more favorable than the Enhanced Rate for a prolonged period, you will be obligated to deal a larger amount. The exact amount will be agreed by you and us at the trade date up to a



Enhanced Rate and the Spot Rate, multiplied by the Notional Amount. Fixing Date six is cancelled.

After the fifth Fixing Date the importer has achieved cover of EUR 2,750,000 at 1.08. For the remaining EUR3,250,000 the importer can buy a different hedge based on its objectives at that stage, or deal at the prevailing Spot Rate for the final Fixing Dates. It should be noted that the Spot Rate available when the Target Bucket is fully redeemed can be significantly worse than the Enhanced Rate, and any hedge entered into at such time may be on less favorable terms than available on the date when the TARF was entered into.

If the Target Bucket is not fully redeemed early, the importer will continue to deal at 1.08 up to and including Fixing Date six and any remaining Points in the Target Bucket at Fixing Date six expire.

### **Benefits of a Leveraged TARF**

- Ability to achieve an Enhanced Rate over the comparative Forward Exchange Rate until all Points in the Target Bucket are redeemed.
- The Enhanced Rate is likely to be more favorable than other leveraged products you are considering.
- A degree of protection is guaranteed from the outset equivalent to the number of Points in the Target Bucket. You will always receive a benefit versus the Spot Rate to the value specified in the Target Bucket.

### **Risks of a Leveraged TARF**

- As well as the risks listed above describing the TARF, the Leveraged TARF has a reduced likelihood of offering full protection. With a TARF if your requirement is USD500,000, you can deal USD500,000 at the Enhanced Rate provided you have not utilized all the Points in your Target Bucket. However, with a Leveraged TARF, to deal the maximum amount at the Enhanced Rate, the Spot Rate will need to be more favorable than the Enhanced Rate at every Fixing Date.
- If the Spot Rate is more favorable than the Enhanced Rate, you will be obligated to buy the Fixing Date Notional Amount multiplied by the Leverage Ratio at the Enhanced Rate and cannot participate in any favorable moves beyond that level. For example, if the Spot Rate moved beyond the Enhanced Rate by the first Fixing Date and remained above the Enhanced Rate for the term of the Leveraged TARF contract, you would be obligated to deal the Maximum Notional Amount at the Enhanced Rate and would not be able to take advantage of favorable movements in the Exchange Rate.

### **11.2.37 European Knock-In Target Accrual Redemption Forward (EKI TARF)**

A European Knock-In Target Accrual Redemption Forward (**EKI TARF**) is a Structured Option which allows you to protect against the risk that the spot rate will be less favorable than a

nominated exchange rate (the Enhanced Rate) on certain agreed Fixing Dates during an agreed term provided that an agreed amount of gain (the **Target Bucket**) has not already been reached. We express the Target Bucket as a number of foreign exchange points (**Points**). Once all the Points have been gained, the Target Bucket will be redeemed and the EKI TARF will terminate. Given this feature, an EKI TARF should only be used as a complementary product to supplement your existing hedging strategy.

In contrast to a standard TARF, an EKI TARF also allows you the potential to participate in favorable market movements on each Fixing Date, provided the Knock-In Rate is not triggered. Should the prevailing Spot Rate be more favorable than the Enhanced Rate on a Fixing Date but less favorable than the specified Knock-In Rate, there will be no obligation and you will be free to deal as much or as little as desired at the prevailing Spot Rate. If the prevailing Spot Rate exceeds the Knock-In Rate on a Fixing Date, you will be obligated to deal the maximum Notional Amount at the less-favorable Enhanced Rate. Assuming the Target Bucket has not been exhausted (resulting in the EKI TARF expiring early), the structure will run to the final Expiry Date as per a normal option.

At the trade date of an EKI TARF, the following variables will be agreed between you and us:

- the term;
- the Expiry Date;
- the fixing frequency;
- the maximum Notional Amount (this is the total amount that can be exchanged in an EKI TARF);
- the Fixing Date Notional Amounts which will be exchanged at each Fixing Date (the amount may be the same for all Fixing Dates or may vary between Fixing Dates);
- the denomination of the currency being exchanged;
- the Leverage Ratio (for a Leveraged EKI TARF);
- the Enhanced Rate which will apply at each Fixing Date (the rate may be the same for all Fixing Dates or may vary between Fixing Dates);
- the Knock-In rate which will apply at each Fixing Date (the rate may be the same for all Fixing Dates or may vary between Fixing Dates);
- the method for adjustment (i.e. Notional Amount or Enhanced Rate) which shall be determined in our sole discretion; and
- the Target Bucket.

The below examples are based off of the method of adjustment to Notional Amount, and should you wish to see an example of an EKI TARF using the method of adjustment of an adjustment to the Enhanced Rate, an example of same can be provided upon request. If all the Points in the Target

Bucket have not been redeemed, then on the next Fixing Date one of the following outcomes will occur:

- If the prevailing Spot Rate is **more** favorable than the Knock-In rate you will be obligated to buy the Fixing Date Notional Amount at the Enhanced Rate;
- If the prevailing Spot Rate is **less** favorable than the Enhanced Rate and the Points remaining within the Target Bucket are equal to or exceed the number of Points between the Spot Rate and the Enhanced Rate you will buy the Fixing Date Notional Amount at the Enhanced Rate and the Target Bucket balance will be reduced by an amount equivalent to the number of Points between the Spot Rate and the Enhanced Rate;
- If the prevailing Spot Rate settles **between** the Enhanced Rate and the Knock-In rate, you are free to trade any amount at the prevailing Spot Rate (with no obligation) and the Points balance in the Target Bucket will not be affected.

<b>Example of an EKI TARF – Notional Amount Adjustment</b>	
<p>As part of his hedging strategy, an importer needs to buy CAD 500,000 a month over the next 6 months for a total of CAD 3,000,000. The current USDCAD Spot Rate is 1.3250 and the equivalent Forward Exchange Rate is 1.3230. The importer has a budget rate of 1.3500 and is not willing to enter into any hedge that may obligate him to settle at an Exchange Rate lower than this. The importer is wary about simply placing a market order to buy at 1.3500 as the Exchange Rate may not rise that high. The importer is also willing to accept the risk that he may not be able to buy the full CAD 3,000,000 at 1.3500 or that he may be obligated to take the full amount at 1.3500 should USDCAD appreciate. He would like to start to hedge against unfavorable currency movements sooner rather than later for budgeting/ planning purposes.</p> <p>The importer enters into an EKI TARF with the following terms:</p>	
• Enhanced Rate	1.3500 (each Fixing Date)
• European Knock In Rate	1.3800 each Fixing Date
• Target Bucket	900 Exchange Rate points
• Fixing Dates	Monthly – 6 Months
• Fixing Date Notional Amount	CAD 500,000 each month
• Maximum Notional Amount	CAD 3,000,000
• Adjustment Method	Notional Amount

### **Possible Outcomes at Expiry Time**

- On the first Fixing Date, USDCAD Spot Rate is trading at 1.3100. The importer sells USD and buys CAD500,000 at 1.3500 and his Target Bucket is reduced by 400 Points to 500.
- On the second Fixing Date, USDCAD Spot Rate is trading at 1.3600. The importer may buy any amount of USD at the prevailing spot rate (no obligation), and the Target Bucket is unaffected.
- On the third Fixing Date, USDCAD Spot Rate is trading at 1.3900 (exceeding the Knock In Rate). The importer sells USD and buys CAD500,000 at 1.3500. The Target Bucket is unaffected.
- On the fourth Fixing Date, USDCAD Spot Rate is trading at 1.2800. As the importer only has 500 points left in the Target Bucket the importer sells USD and buys CAD 357,142.86 at 1.3500. The notional amount traded is equal to the remaining points in the Target Bucket divided by the difference between the Enhanced Rate and the Spot Rate, multiplied by the monthly Notional Amount. The fifth and sixth Fixing are cancelled.

After the fourth Fixing Date, the importer has achieved cover of CAD 1,357,142.86 at 1.3500. For the remaining CAD1,642,857.14 the importer can buy a different product to hedge this need based on its objectives at that stage, or deal at the prevailing Spot Rate for the final Fixing Dates. It should be noted that the Spot Rate available when the Target Bucket is fully redeemed can be significantly worse than the Enhanced Rate and any hedge entered into at such time may be on less favorable terms than available on the date when the EKI TARF was entered into.

If the Target Bucket is not fully redeemed early, the importer will continue to deal at 1.3500 up to and including Fixing Date six and any remaining Points in the Target Bucket at Fixing Date six expire.

### **Benefits of an EKI TARF**

- Ability to achieve an Enhanced Rate over the comparative Forward Exchange Rate until all the Points in the Target Bucket are redeemed.
- A degree of protection is guaranteed from the outset equivalent to the number of Points in the Target Bucket.
- Ability to participate in favorable market movements, provided the Knock-In Rate is not triggered on a Fixing Date.

## Risks of an EKI TARF

- Once all the Points in the Target Bucket have been redeemed there is no further protection. This may occur before the final Fixing Date, which will mean that the Notional Amount traded at the Enhanced Rate will be less than the maximum Notional Amount. Consequently, you may need to trade at a less favorable Spot Rate, as compared to the Enhanced Rate, for any remaining need outstanding after all Points in the Target Bucket are redeemed.
- If the prevailing Spot Rate is more favorable than the Knock-In Rate on a Fixing Date (and all the Points in the Target Bucket have not been redeemed) you will be obligated to trade at the less favorable Enhanced Rate.
- An EKI TARF generally has an extended term compared to other hedging products and as a result, there is a greater risk that during the term of an EKI TARF the Enhanced Rate will no longer be favorable when compared to the prevailing Spot Rate.

### 11.2.38 Leveraged EKI TARF

A **Leveraged EKI TARF** has the same basic features as an EKI TARF, with the exception that if, on a Fixing Date, the prevailing Spot Rate is more favorable than the Knock-In Rate, you will be obligated to deal the monthly Notional Amount *multiplied by the Leverage Ratio* at the less-favorable Enhanced Rate. The Target Bucket remains unaffected should this happen, which means that, if the Spot Rate remains more favorable than the Knock-In Rate for a prolonged period, you will be obligated to deal a larger amount. The exact amount will be agreed upon between you and us up to a maximum Leverage Ratio of 1:2. This is done to further improve the Enhanced Rate, or to increase the amount of Points in the Target Bucket.

#### Example of a Leveraged EKI TARF – Notional Amount Adjustment

As part of his hedging strategy, an importer needs to buy CAD1,000,000 a month over the next 6 months for a total of CAD 6,000,000. The current USDCAD Spot Rate is 1.3250 and the equivalent Forward Exchange Rate is 1.3230. The importer has a budget rate of 1.3500 and is not willing to enter into any hedge that may obligate him to settle at an Exchange Rate lower than this. He is wary about simply placing a market order to buy at 1.3500 as the Exchange Rate may not rise that high. He is also willing to accept the risk that he may not be able to buy the full CAD6,000,000 at 1.3500 or that he may be obligated to take the full CAD6,000,000 at 1.3500 should USDCAD appreciate as this is in line with his budget. He would like to start hedging against unfavorable currency movements sooner rather than later for budgeting/planning purposes.

The importer enters into a Leveraged EKI TARF with the following terms:

- Enhanced Rate 1.3500 each Fixing Date
- Knock-In rate 1.4000 each Fixing Date

- |                               |                           |
|-------------------------------|---------------------------|
| • Target Bucket               | 1000 Exchange Rate points |
| • Fixing Dates                | Monthly – 6 Months        |
| • Fixing Date Notional Amount | CAD 500,000 each month    |
| • Leverage Ratio              | 1:2                       |
| • Maximum Notional Amount     | CAD 6,000,000             |
| • Adjustment Method           | Notional Amount           |

### **Possible Outcomes at Expiry Time**

- On the first Fixing Date, USDCAD Spot Rate is trading at 1.3100. The importer sells USD and buys CAD 500,000 at 1.3500 and his Target Bucket is reduced by 400 Points to 600.
- On the second Fixing Date USDCAD Spot Rate is trading at 1.3350. The importer sells USD and buys CAD 500,000 at 1.3500. The Target Bucket is reduced by 150 Points to 450.
- On the third Fixing Date USDCAD Spot Rate is trading at 1.3800. The importer may buy any amount of CAD at the prevailing spot rate (no obligation), and the Target Bucket is unaffected.
- On the fourth Fixing Date USDCAD Spot Rate is trading at 1.4100 (exceeding the Knock In Rate). The importer sells USD and buys CAD 1,000,000 (the Notional Amount *multiplied by the Leverage Ratio*) at 1.3500. The Target Bucket is unaffected.
- On the fifth Fixing Date, USDCAD Spot Rate is trading at 1.2900. As the importer only has 450 Points left in the Target Bucket, CAD 375,000 is purchased at 1.3500. The notional amount traded is equal to the remaining points divided by the difference between the Enhanced Rate and the Spot Rate, multiplied by the Notional Amount. The sixth Fixing Date is cancelled.

After the fifth Fixing Date the importer has achieved cover of CAD 2,375,000 at 1.3500. For the remaining CAD3,675,000 the importer can buy a different hedge based on its objectives at that stage, or deal at the prevailing Spot Rate for the final Fixing Dates. It should be noted that the Spot Rate available when the Target Bucket is fully redeemed can be significantly worse than the Enhanced Rate and any hedge entered into at such time may be on less favorable terms than available on the date when the EKI TARF was entered into.

If the Target Bucket is not fully redeemed early, the importer will continue to deal at 1.3500 up to and including Fixing Date six and any remaining Points in the Target Bucket at Fixing Date six expire.



## **Benefits of a Leveraged EKI TARF**

- Ability to achieve an Enhanced Rate over the comparative Forward Exchange Rate until all Points in the Target Bucket are redeemed.
- The Enhanced Rate is likely to be more favorable than other leveraged products you are considering.
- Ability to participate in favorable market movements, provided the Knock-In Rate is not triggered on a Fixing Date.
- A degree of protection is guaranteed from the outset equivalent to the number of Points in the Target Bucket.

## **Risks of a Leveraged EKI TARF**

- As well as the risks listed above describing the EKI TARF, the Leveraged EKI TARF has a reduced likelihood of offering full protection. With an EKI TARF if your requirement is CAD 500,000, you can deal CAD 500,000 at the Enhanced Rate provided you have not utilized all the Points in your Target Bucket. However, with a Leveraged EKI TARF, to deal the maximum amount at the Enhanced Rate, the Spot Rate will need to be more favorable than the Knock-In Rate at every Fixing Date.
- If the prevailing Spot Rate is more favorable than the Knock-In Rate, you will be obligated to buy the Fixing Date Notional Amount multiplied by the Leverage Ratio at the Enhanced Rate and cannot participate in any favorable moves beyond that level. For example, if the Spot Rate moved beyond the Knock-In Rate by the first Fixing Date and remained above the Knock-In Rate for the term of the Leveraged EKI TARF contract, you would be obligated to deal the Maximum Notional Amount at the Enhanced Rate and would not be able to take advantage of favorable movements in the Exchange Rate.

### **11.3 Cost of a Structured Option**

#### **11.3.1 Interest**

We do not pay interest to you for amounts that we hold as Initial Margin or receive as a Margin Call so there will be an interest cost to you if you are required to pay Initial Margin or meet a Margin Call (see Section 13 “Credit Requirements” for more details). That cost will be equivalent to the interest that you would have otherwise earned (if any) if you had held those amounts in your own bank account.

#### **11.3.2 Premium**

We, in consultation with you, set the variables associated with any Structured Option at particular levels in order to create a “No Premium” cost structure. When setting those variables, we take into account a variety of factors, similar to those used in calculating Premiums:

- The Notional Amount, the term, and any other rates applicable to a particular structure (Participation Rate, Knock-In/Out Rates);

- Current market foreign Exchange Rates and the interest rates of the countries whose currencies are being contracted; and
- Market Volatility.

Where a “No Premium” structure is created, there is no up-front Premium payable for a Structured Option. Instead, the cost to you is embedded in the overall transaction structure (including any option sold by you to us for which we do not pay you a premium). If however, you wish to nominate an improved Protection Rate or any other Exchange Rate or variable associated with a particular Structured Option, an up-front non-refundable Premium may be payable. We will calculate the amount of the Premium and advise you of the amount before you enter into the transaction. Where applicable, Premiums must be paid in cleared funds within two (2) Business Days of the Trade Date.

### **11.3.3 Exchange Rate**

We set our Exchange Rate to you by applying a Retail Mark Up to the Interbank Exchange Rate that we receive from our Hedging Counterparties. The Retail Mark Up is a factor in how we make a profit. We determine this Retail Mark Up by taking into account a number of factors, including:

- the size of the transaction measured by Notional Amount, where the smaller the Notional Amount the larger the Retail Mark Up may be;
- the Currency Pair where the less Liquidity in the pair the greater the Retail Mark Up may be;
- market Volatility where high Volatility may result in an increased Retail Mark Up;
- the Time Zone you choose to trade in where if trading on public holidays or weekends may see increased Retail Mark Ups; and
- the frequency with which you transact with us, where the more frequently you transact the Retail Mark Up may be reduced.

Additional fees may apply to any specific Structured Option you enter into with us. For more information about fees, contact your Representative.

### **11.4 Exercising a Structured Option**

To Exercise your Structured Option you need to:

- Provide us with a Notice of Exercise. We are obligated and must accept the Notice of Exercise.
- The Notice of Exercise must be given no later than the Expiry Time on the Expiry Date as detailed on the trade Confirmation.
- A Notice of Exercise can be given to us by Phone, Fax, or Electronic Mail (Email).

If your Structured Option is In-The-Money (i.e. the prevailing Spot Rate is less favorable than the Protection Rate) at the Expiry Time on the Expiry Date and you have not yet taken the actions above to Exercise we will Exercise the option on your behalf.

If a Structured Option is not Exercised it will lapse at the Expiry Time.

### 11.5 Standing Orders

We may allow you to place an order for a Structured Option that only becomes binding on you when a certain Exchange Rate is reached in the relevant foreign exchange market (the **Client Price**). We refer to this as a **Standing Order**. A Standing Order is not available if you are using our online systems.

Provided that your nominated Client Price has not been reached you will be able to amend or cancel a Standing Order at any time by providing us with a further Instruction.

If the Client Price is reached, then you will be bound to settle the transaction in accordance with our Terms and Conditions, and as detailed in this Section 11.

You will not be able to cancel or amend an order after the Client Price level has been reached if we have completed your order, regardless of whether we have notified you by Confirmation of the completion of your order.

As the foreign exchange market is an OTC market, an external published Exchange Rate that corresponds with your Client Price level is no guarantee that an order will be completed. Published Exchange Rates are typically related to the wholesale or Interbank Market and do not reflect the Client Price or **Retail Price**.

The foreign exchange market can exhibit Volatility and we may not be able to complete all orders at a specific level due to a number of factors including but not limited to:

- market Volatility;
- market Liquidity;
- the size of your order; and/or
- incorrect price data feeds.

We will use best endeavors, in good faith, to complete all orders at your nominated Client Price.

### 11.6 Benefits of Structured Options

We have described the particular benefits that attach to each Structured Option that we provide in Section 11.2 “Our Structured Options”, above. In addition, the following are general potential benefits of Structured Options:

- Structured Options can help you manage the risk inherent in currency markets by predetermining the Exchange Rate and Value Date on which you will purchase or sell a given amount of foreign currency against another currency. This can provide you with protection against unfavorable foreign Exchange Rate movements between the Trade

Date and the Value Date. This may also assist you in managing your cash flow by negating the uncertainty associated with Exchange Rate fluctuations for the certainty of a specified cash flow.

- Structured Options are flexible. Value Dates and Notional Amounts can be tailored to meet your requirements. You also have additional flexibility to participate in certain favorable Exchange Rate movements and may be able to achieve an enhanced Exchange Rate comparable to the equivalent Forward Exchange Rate depending on the Structured Option that you enter.

## 11.7 Risks of Structured Options

Structured Options are only suitable for persons who understand and accept the risks involved in dealing in Foreign Exchange Contracts involving foreign Exchange Rates. We recommend that you obtain independent financial and legal advice before entering into a Structured Option. We have described some of the potential risks that attach to each Structured Option that we provide in Section 11.2 “Our Structured Options”, above. Structured Options are complex and risky structured financial products and may not be suitable for your particular risk management or hedging strategy. Attempting to anticipate movement in the foreign exchange markets entails significant risk, including that currency trading involves positioning in anticipation of movements in exchange rates which can change dramatically over short periods of time, particularly during times of political or economic unrest or as a result of actions taken by central banks, which may be intended directly to affect prevailing exchange rates.

In addition the following are some general risks associated with Structured Options:

- **Market Volatility.** The foreign exchange markets in which we operate are OTC and can change rapidly. These markets are speculative and volatile with the risk that prices will move quickly. When this occurs the value of your Structured Option may be significantly less than when you entered into the contract. We cannot guarantee that you will not take losses, (where your Structured Option is Out-of-The-Money) or that any unrealized profit or losses will remain unchanged for the term of the Structured Option. You need to monitor your Structured Options with us carefully, providing us with Instructions in a timely fashion to the extent you want to make adjustments in response to market changes.
- **Amendments/Cancellations.** Pre-Deliveries or the close-out/cancellation of a Structured Option may result in a financial loss to you. We will provide a quote for such services based on market conditions prevailing at the time of your request. We are not obligated to satisfy such a request, and you may be required to hold a Structured Option to maturity.
- **Product Risk.** Complicated payout features can accentuate the Market Risk of a transaction in a Structured Option. These features can result in a relatively small change in the price, value, or other market factors related to a Structured Option having a significant impact on the value of the Structured Option. Structured Options with such features may include collars, exotic options and options with either Knock-In or Knock-Out rights.

- **Cooling-off.** There is no cooling-off period. This means that once your Instruction to enter into a Structured Option has been accepted by us, you are unable to cancel your Structured Option without incurring a cost.
- **Default Risk.** If you fail to pay an Initial Margin or a Margin Call in accordance with the Terms and Conditions or fail to provide Settlement on the Value Date we may terminate your Structured Option. In the event that we do, you will be liable for all costs that we incur including the payment of any Out-of-The-Money position that exists with respect to your Structured Option.

Other general risks associated with Foreign Exchange Contracts and the financial services we provide are outlined elsewhere in this document, including in Section 12 “Additional Risks”.

## 12. Additional Risks

In addition to the product specific risks discussed elsewhere in this Disclosure Statement, the following additional risks may apply whenever you enter any Foreign Exchange Contract with us:

- **Counterparty Risk.** When you enter into a Foreign Exchange Contract you are relying on our financial ability as Counterparty to be able to perform our obligations to you. As a result you are exposed to the risk that we become insolvent or otherwise are unable to meet our obligations to you under the Foreign Exchange Contract, including any obligation we may have to repay to you any excess margin you have delivered to us.
- **Hedging Counterparty Risk.** There is also a risk that the Hedging Counterparties with whom we contract to mitigate our exposure when acting as principal to the Foreign Exchange Contract with you (by taking related offsetting or mitigating positions) may not be able to meet their contractual obligations to us. This means that we could be exposed to the insolvency of our Hedging Counterparties and to defaults by Hedging Counterparties. If a Hedging Counterparty is insolvent or defaults on its obligations to us, then this could result in us not receiving amounts we are owed and increase the risk that we default on our obligations to you.
- **Operational Risk.** Operational risk arises through your reliance on our systems and processes to price, settle and deliver your transactions efficiently and accurately. In the event of a breakdown of our systems or processes you may incur loss as a result of delays in the execution and Settlement of your transactions. You are also exposed to operational risk through our reliance on our Hedging Counterparties systems and processes to price, settle and deliver transactions efficiently and accurately. In the event of a breakdown of our Hedging Counterparties’ systems or processes you may also incur loss as a result of delays in the execution and Settlement of your transactions.
- **Conflicts of Interest.** We enter into transactions with a number of different Clients and Hedging Counterparties that may be in conflict with your interests under the Foreign Exchange Contract you have entered into with us. We are not required to prioritize your interests when dealing in Foreign Exchange Contracts with you. See further detail under “Conflicts of Interests, Incentives and Risk” in Section 16 below.

- **Future Performance.** It is not possible for either us or you to predict the future performance of any Foreign Exchange Contract based on historical performance. The price or value of any Foreign Exchange Contract over the term of a transaction may bear little relation to the historical price or value of that Foreign Exchange Contract. Prior observed patterns, or relationships between implied and realized values, may break down suddenly.
- **Liquidity Risk.** A Foreign Exchange Contract may involve some degree of liquidity risk. Liquidity risk is the risk that a party may be unable, or cannot easily, unwind or transfer a particular position in a timely manner at or near the previous market price or at all. Liquidity risks can vary greatly depending on the terms of the particular Foreign Exchange Contract.
- **Legal, Regulatory or Tax Risk.** There is a risk that legal, tax or regulatory changes could occur during the term of a Foreign Exchange Contract. Such changes may affect the value of the Foreign Exchange Contract. In addition to these risks, there may be other factors such as accounting and tax treatment issues that you should consider.

We are not registered with the Commodity Futures Trading Commission as a Commodity Trading Advisor, as a Swap Dealer, or in any other capacity. We are not a member of the National Futures Association. Protections that would otherwise be available under the Commodity Exchange Act, the rules of the Commodity Futures Trading Commission, or the rules of the National Futures Association will not be available to you in connection with your relationship with or transactions with us.

### 13. Credit Requirements

At any time during the term of a Foreign Exchange Contract, we may require you to make a payment as security for your payment obligations on the Value Date.

When you open or enter into a Foreign Exchange Contract with us, you immediately create a liability to us (at the Trade Date not the Value Date or Expiry Date), which can increase with adverse market movements. Over the life of a Foreign Exchange Contract, as the Spot Rate moves, the **Marked to Market** value of the contract may be In-The-Money or Out-of-The-Money or **At-the-Money**. That is, if the contract had to be cancelled at any time, it would result in a gain (if In-The-Money), a loss (if Out-of-The-Money) or breakeven (if At-the-Money). To manage this **Market Risk**, we may initially secure the contract by requiring you to pay an amount of money, which shall be determined by us at our sole discretion and deposited with us as security in connection with a Foreign Exchange Contract. We call this an Initial Margin. During the term of the Foreign Exchange Contract we may also require you to make additional payments to further secure the Foreign Exchange Contracts you hold with us. We call these payments Margin Call. Alternatively we may apply a **Credit Limit** against the Market Risk or a combination of a Credit Limit, Initial Margin and/or Margin Call.

All Initial Margin and Margin Call payments will be applied to satisfy your payment obligation on the Value Date.

### 13.1 Initial Margins

An Initial Margin is an amount of money that is payable to us, calculated as a percentage of the Notional Amount of your Foreign Exchange Contract. If you are required to pay an Initial Margin, we will notify you at the time you enter into the Foreign Exchange Contract.

An Initial Margin is taken to secure our potential risk exposure resulting from adverse currency movements that negatively impact the value of the funds you have agreed to purchase from us. An Initial Margin is a prepayment by you of your payment obligations on the Value Date and will be applied to the Settlement of your Foreign Exchange Contract. An Initial Margin is not a deposit and we do not pay interest on an Initial Margin.

We may determine the Initial Margin percentage at our discretion in accordance with the Terms and Conditions and any other applicable documentation (including any facilities letters). Factors that influence this include:

- your credit standing, as assessed by us;
- Currency Pair and amount you are transacting (more exotic currencies or those currencies that are not commonly exchanged may require a larger Initial Margin);
- the Value Date of your Foreign Exchange Contract (the longer the Value Date from the Trade Date the higher the Initial Margin);
- foreign exchange market Volatility (Currency Pairs that are exhibiting high Volatility or lack of Liquidity may require a higher Initial Margin);
- external economic conditions (in times of economic downturn we may require a higher Initial Margin);
- the frequency with which you transact with us (where your credit history with us factors into the Initial Margin required).

### 13.2 Margin Calls

We will monitor the Marked to Market value of all of your foreign exchange positions with us on an ongoing basis. Should any of your Foreign Exchange Contracts move Out-of-The-Money in excess of the Initial Margin or your Credit Limit, or a combination of both, we may secure the resulting increased risk through a Margin Call.

A Margin Call is an amount of money that you are required to pay to us to reduce our risk exposure (which may, subject to certain conditions, be calculated on a net basis where there are multiple transactions outstanding between us) to a level acceptable to us. If a Margin Call is required, we will advise you. In the absence of default by you of your payment obligations to us all Margin Call amounts will be applied at the Value Date to the Settlement of your Foreign Exchange Contract(s). A Margin Call is not a deposit and we do not pay interest on a Margin Call; money paid to us as Initial Margin or as a Margin Call is not segregated from our other proprietary assets.

**Payment of a Margin Call must be made within two (2) Business Days of our request. If you fail to pay a Margin Call, we may at our discretion, choose to close some or all of**

**your Foreign Exchange Contracts by applying the prevailing market foreign Exchange Rate. In such circumstances you will be liable to us for all costs associated with terminating the relevant contracts.**

### **13.3 Credit Limits**

We may choose to waive the requirement of an Initial Margin (or subsequent Margin Call), by allocating a Credit Limit. A Credit Limit is dependent upon your credit history/rating, strength of financial statements, as well as other factors determined at our sole discretion. We may review and amend your Credit Limit at any time.

We may apply a Credit Limit against each individual Foreign Exchange Contract that you enter into or against your entire portfolio of Foreign Exchange Contracts. Please refer to the Terms and Conditions for further information on Credit Limits.

## **14. Instructions, Confirmations and Telephone Conversations**

The commercial terms of a particular Foreign Exchange Contract will be agreed and binding from the time your Instructions are received and accepted by us. This may occur verbally over the phone, electronically or in any other manner set out in our Terms and Conditions.

Shortly after entering into or buying a Foreign Exchange Contract from us, we will send you a Confirmation outlining the agreed commercial terms of the transaction. This Confirmation is intended to reflect the transaction that you have entered into with us. It is important that you check the Confirmation to make sure that it accurately records the terms of the transaction. You should note however, that there is no cooling-off period and that you will be bound once your original Instruction has been accepted by us regardless of whether you sign or acknowledge a Confirmation. In the event that there is a discrepancy between your understanding of the Foreign Exchange Contract and the Confirmation it is important that you raise this with us as soon as possible (and in no event later than twenty-four (24) hours after receipt of the Confirmation).

Conversations with our dealing room are recorded in accordance with standard market practice. We do this to ensure that we have complete records of the details of all transactions. Recorded conversations are retained for a limited time and are usually used when there is a dispute and for staff monitoring purposes. If you do not wish to be recorded you will need to inform your Representative. We will not enter into any transaction over the telephone unless the conversation is recorded.

## **15. Dispute Resolution and Errors**

You should address any basic operational issues relating to products or services described in this Disclosure Statement to your Representative. You should also contact your Representative promptly if you notice an error or omission in any regulatory reporting we are making regarding your transactions. We submit regulatory reporting on certain Foreign Exchange Contracts to the swap data repository at the Depository Trust & Clearing Corporation or "DTCC".

If you have a complaint or concern regarding your Representative, Foreign Exchange Contracts you have entered into, a legal or regulatory concern, a concern relating to a conflict of interest, or



any other concern, then you may contact us by telephone at 1-888-987-7612 or by email at [CorporateNAClientSupport@WesternUnion.com](mailto:CorporateNAClientSupport@WesternUnion.com).

## 16. Conflicts of Interest, Incentives and Risks

We conduct our business according to the principle that we must manage conflicts of interest (**Conflicts of Interest**) fairly, both between ourselves and our Clients, between our employees and our Clients and between one Client and another. Our policy is to take all reasonable steps to maintain and operate effective organizational and administrative arrangements to identify and manage relevant Conflicts of Interest. Our Senior Management is responsible for ensuring that our systems, controls and procedures are adequate to identify and manage Conflicts of Interest. The compliance, risk and legal departments assist in the identification and monitoring of actual and potential Conflicts of Interest. Considering the business activities related to the product portfolio we offer, Conflicts of Interest may arise in situations that include (but are not necessarily limited to) when we: a) publish research reports, offer webinars, attend conferences or otherwise express independent viewpoints, b) provide information (as further discussed below), or c) engage in trades with other counterparties that have hedging objectives that are similar to yours.

We may offer product information solely incidental to entering into a Foreign Exchange Contract with you. Even if we offer such information, we are acting solely in our capacity as your Counterparty in an arm's length transaction and not as an advisor to you. It is important that you exercise your independent judgment in determining whether you should enter into a particular transaction or engage in a particular trading strategy. By entering into a Foreign Exchange Contract with us, you are representing that you have independently assessed the suitability of the transaction or trading strategy. You should ensure that you have appropriate policies and procedures in place at your organization to ensure that the persons responsible for making any trading decisions on your behalf are capable of doing so, and you are encouraged to seek independent advice. No communication (oral or written) made by us is an assurance or guarantee as to the expected results of a Foreign Exchange Contract. You should assume we have an economic incentive to be a Counterparty to a trade with you.

Our employees may be compensated based on revenue earned by us from Clients, and we may pay employees more for selling products or services on which we make more money. In addition, our employees may participate in short-term and/or long-term incentive programs focusing on a particular class of products or services, including Foreign Exchange Contract sales. Certain employees may also be eligible to earn annual trips and other awards and recognition throughout a given year. Our employees do not receive specific payments or commissions for providing you with information about financial products. Our employees may broadly be divided into 2 specific categories: staff and dealer/sales representatives. Our staff includes directors, managers, and administration personnel. Our staff is remunerated primarily by base salary. We also provide a company bonus and revenue sharing plan to staff, which is payable when predetermined budget targets are achieved for each branch. Our dealer/sales representatives are also remunerated primarily by a salary. Individual dealer/sales representatives may also be paid bonuses or commissions based on a percentage of revenue gained from new Clients and/or the number of new accounts which each sales representative acquires.

## 17. Pre-Delivery, Cancellation, and other Modifications

### 17.1 Pre-Delivery – Vanilla Option

In some circumstances, Clients may be permitted to take pre-delivery of the underlying currency before the scheduled termination or expiration of a contract. In the case of a Vanilla Option, this would involve taking delivery of the underlying currency prior to the Vanilla Option's Expiry Date (i.e., a "pre-delivery" on the Vanilla Option).

A pre-delivery of a Vanilla Option is achieved by us booking two offsetting forward contracts (one buy, one sell) on the required pre-delivery date against the fixed future position at the Protection Rate, or worst case rate of the Vanilla Option, which is also a fixed rate on a fixed date in the future. At the expiry of the Vanilla Option, your right or obligation to *settle* at the Protection Rate will be diminished by the offsetting forward contract that matures at the same time; **however, it is important that you understand the Vanilla Option itself remains in force until expiry, regardless of pre-delivered amounts.** When you are the buyer and the Vanilla Option is exercised at expiry, the forward contract and the Vanilla Option will offset each other with zero settlement. Alternatively, when you are the buyer and the Vanilla Option is not exercised (if the market has moved in your favor) then there may be a net settlement payable to you, as the forward contract will be In-the-Money.

#### Example of a Pre-Delivery – Vanilla Option

- On the Trade Date, we enter into a Vanilla Option. The Vanilla Option expires in three months' time (the Expiry Date). Upon the Expiry Date, the Client will have the right, but not the obligation, to exercise the Vanilla Option, and pursuant to its terms, to receive USD 150,000 from us in exchange for paying to us approximately **GBP £75,000** (i.e., the applicable GBPUSD exchange rate is 2.0000).
- Part way through the Vanilla Option term, the Client needs to raise USD 75,000 for its business.
- Accordingly, Client enters into two forward transactions with us:
  - The first forward contract is pre-delivered. Pursuant to its terms, upon execution we will pay to the Client USD 75,000 and the Client will pay to us approximately GBP £37,500. Following the pre-delivery, neither party owes the other any further obligations under this transaction.
  - The second forward contract is scheduled to settle on the Expiry Date. Upon settlement, the Client will pay us USD 75,000 and we will pay the Client approximately GBP £37,500.

#### Possible outcomes at Expiry Time

- If the Client exercises the Vanilla Option on the Expiry Date:
  - Under the Vanilla Option, the Client receives USD 150,000 from us and pays approximately GBP £75,000 to us.

- Under the forward contract (i.e., the second forward transaction referred to above), Client pays us USD 75,000 and receives approximately £37,500 from us.
- If Client does not exercise the Vanilla Option on the Expiry Date:
  - No payments are required under the Option.
  - Under the forward (i.e., the second forward transaction referred to above), the Client pays us USD 75,000 and receives approximately GBP £37,500 from us.

## 17.2 Pre-Delivery – Structured Options

In some circumstances, Clients may also be permitted to take pre-delivery of the underlying currency before the scheduled termination or expiration of a Structured Option. This would involve taking delivery of the underlying currency prior to the Structured Option’s Expiry Date (i.e., a “pre-delivery” on the Structured Option). Depending on what we agree to, the pre-delivery may be achieved by us booking two offsetting forward contracts (one buy, one sell) on the required pre-delivery date against the fixed future position at a set date in the future.

Below we set out an example of a pre-delivery using one type of Structured Option. Given the differences among the available Structured Options, the pre-delivery of any particular Structured Option may vary from the example below and you will need to discuss the terms of any proposed pre-delivery of a Structured Option with your Representative. While we have not provided examples using all of the different Structured Options we currently offer, we can provide you with additional examples on request.

### Example of a Pre-Delivery of a Structured Option - Collar

- On the Trade Date, we enter into a Collar with a Client in Canada. The Collar expires in three months’ time (the Expiry Date). Upon the Expiry Date, the Client has protection on buying \$100,000 USD at a **Protection Rate** of 1.35 and participation to a Participation Rate of 1.30.
- Part way through the Collar term, the Client needs to use USD 100,000 for its business. Prior to expiry we will allow the Client to take delivery of the funds at the Protection Rate (1.3500).
- Accordingly, Client enters into two forward transactions with us:
  - The first forward contract is pre-delivered. Pursuant to its terms, upon execution we will pay to the Client USD 100,000 and the Client will pay to us approximately CAD 135,000 ( $\$100,000 \times 1.35$ ). Following the pre-delivery, neither party owes the other any further obligations under this transaction.
  - The second forward contract is scheduled to settle on the Expiry Date. Upon settlement, the Client will pay us USD 100,000 and we will pay the Client approximately CAD 135,000.

### **Possible outcomes at Expiry Time**

- If USDCAD is trading above the Protection Rate (1.3500) on the Expiry Date:
  - Under the Collar, the Client exercises their USD Call Option and receives USD 100,000 from us and pays CAD 135,000 to us.
  - Under the forward contract (i.e., the second forward transaction referred to above), Client pays us USD 100,000 and receives approximately CAD 135,000 from us. Both positions are netted out to zero and there is no settlement required from the Client.
- If USDCAD is trading below the Participation Rate (1.3000) on the Expiry Date:
  - Under the Collar, the Client is obligated to purchase USD 100,000 from us at the participation rate (1.3000) and pays CAD 130,000 to us.
  - Under the forward (i.e., the second forward transaction referred to above), the Client pays us USD 100,000 and receives approximately CAD 135,000 from us. We will net settle the amounts and make a payment of CAD 5000 to the Client (CAD 135000-130000 –)
- If USDCAD is trading between the Protection Rate and Participation Rate, say 1.32, on the Expiry Date:
  - Under the Collar there is no obligation to the Client
  - Under the forward (i.e., the second forward transaction referred to above), the Client pays us USD 100,000 and receives approximately CAD 135,000 from us. We will net settle the amounts at the prevailing market rate (1.32) and make a payment of CAD 3000 to the Client (CAD 135000-132000).

### **17.3 Cancellations**

Cancellations occur when the parties no longer intend to take delivery of underlying currencies based on a change in a Client's commercial need for the funds (subject to our prior approval). For example, a Vanilla Option is cancelled by booking an offsetting Vanilla Option that matures on the same date as the original Vanilla Option. A net payment is made upon booking the offsetting Vanilla Option (payment from Client to us if a Client is Out-of-The-Money, payment from us to Client if Client is In-The-Money).

### **17.4 Pricing**

Cancellation and pre-delivery pricing is determined based on the same factors used for the pricing of the original Foreign Exchange Contract, taking into account prevailing market exchange rates, the remaining term of the contract, the Forward Rate, interest rates in relevant currencies, and volatility associated with such currencies.

We may in our sole discretion require you to settle any Out-of-the-Money amounts due prior to approving any pre-delivery or cancellation. We may also, in our sole discretion, allow Out-of-the-Money or In-the-Money amounts to be restructured into the pricing of a new Foreign Exchange Contract upon cancellation of a Foreign Exchange Contract.

## **17.5 Additional Information and Approvals**

Pre-deliveries, cancellations, or other modifications require our approval and may also require that we do additional diligence on you and your trading activity. We may require additional information prior to granting our approval for any such pre-deliveries, cancellations or modifications in our sole discretion, and further reserve the right to terminate a Foreign Exchange Contract, the Terms and Conditions, or our entire relationship with you in the event we determine that you have made misrepresentations or false statements, or that you have engaged in manipulative, deceptive or fraudulent conduct.

## **18. Terms and Conditions and Other Documentation**

### **18.1 Terms and Conditions**

Each Foreign Exchange Contract you enter into will be subject to the Terms and Conditions, the **Application Form** and the Confirmation. You will be required to sign the Terms and Conditions and the Application Form before entering into a Foreign Exchange Contract with us for the first time.

The Terms and Conditions constitute a master agreement and set out all of the terms of the relationship between you and us that are applicable to the Foreign Exchange Contracts described in this Disclosure Statement.

The Terms and Conditions are important and you should read them carefully before entering into any Foreign Exchange Contracts. They cover a number of important terms including how transactions are executed, our respective rights and obligations, events of default and rights of termination.

We recommend that you seek your own professional advice in order to fully understand the consequences of entering into a Foreign Exchange Contract.

### **18.2 Other Information**

In addition to our Terms and Conditions you will also need to provide us with the following signed documentation together with such other "Know Your Customer" information (including credit related information) that we may require:

- Settlement Authorization form; and
- Online Platforms configuration form.

A copy of these forms can be obtained by contacting your Representative.

The main checks that are relevant to the accreditation of a Client are:

- verification of a Client's identity in accordance with relevant **AML Laws**;
- a successful credit check conducted through a third party credit agency;
- a risk assessment considering relevant factors such as the nature of a Client's business and the country where the Client will make or receive payments; and
- a check of Client and Client's principal officers and beneficial owners against relevant government issued sanction lists.

After your application has been accepted you may apply for a Foreign Exchange Contract in accordance with the Terms and Conditions.

## 19. Concerns

Our primary goal is to provide you with superior customer service with your global payment solutions. To achieve this, we would like to hear from you if you are dissatisfied with our customer service or any of the Foreign Exchange Contracts provided to you. This information can be directed by phone, fax or e-mail to:

**Brendan McGrath**

National Corporate Risk Manager

Telephone: 250-661-8894

Email: [brendan.mcgrath@westernunion.com](mailto:brendan.mcgrath@westernunion.com)

## 20. Taxation

Taxation law is complex and its application will depend on a person's individual circumstances. When determining whether or not the Foreign Exchange Contracts are suitable you should consider the impact it will have on your own taxation position and seek professional advice on the tax implications the Foreign Exchange Contracts may have for you.

## 21. Privacy

In the course of providing foreign exchange services we may collect information about you. The information that we obtain from you or other people associated with your request is for the purpose of processing your foreign exchange transactions. Certain information may be required by us in order to comply with laws and regulations, including anti-money laundering laws.

We may use your information to send you details about our products and services. If you do not wish to receive such information please let us know. We may also disclose information about you to third party service providers (such as credit checking agencies) who assist us in our business operations and service provision.

We are committed to complying with all privacy laws and regulations. A copy of our Privacy Statements can be viewed anytime on our website at:  
<http://business.westernunion.com/about/compliance/>

## 22. Glossary of Terms

**Activation Rate** is the Strike Rate applicable to the third leg of certain Structured Options (e.g. Accelerator; Tracker) and is, where applicable, the level above which the Exchange Rate which you realize on a Structured Option may improve due to favorable market movements at the Expiry Time.

**AML Laws** means all applicable laws and related regulations with respect to anti-money laundering and counter-terrorist financing, as amended or replaced from time to time.

**Application Form** means application forms and identity documents that a Client must complete and provide to us before we establish a Client trading facility, as determined by us.

**At-The-Money** is where the entry price of a Foreign Exchange Contract is at the current market price level.

**Authorized Exchange Dealers** are any type of financial institution that has received authorization from a relevant regulatory body to act as a dealer involved with the trading of foreign currencies.

**BRL** means Brazilian Real.

**CAD** means Canadian Dollar.

**Base Currency** is defined in Section 4.1 “Determining Exchange Rates”.

**Base Premium** is defined in Section 10.7.3 “Calculating Premium”.

**Business Day** means, in connection with any Foreign Exchange Contract, a day which is a Business Day in accordance with the Terms and Conditions and the Confirmation.

**Call Option** means an agreement that gives a Client the right (but not the obligation) to buy a currency at a specified price at a specific time.

**Cap Protection Rate** is the Strike Rate applicable to the fourth leg of certain Structured Options (e.g. Capped Forward with Protection) and is, where applicable, the level below which the Exchange Rate which you realize on a Structured Option will no longer deteriorate due to unfavorable market movements at the Expiry Time.

**Cap Rate** is the Strike Rate applicable to the third leg of certain Structured Options (e.g. Capped Forward with Protection) and is, where applicable, the level below which the Exchange Rate which you realize on a Structured Option may deteriorate due to unfavorable market movements at the Expiry Time.

**Cash Settlement Amount** means, in respect of an NDF, the amount payable by either us or by you on the Value Date. The Cash Settlement Amount equals the difference between the NDF Contract Rate Settlement Amount and the Fixing Rate Settlement Amount, as determined by us.

**Client** means an entity or person who signs our Terms and Conditions.

**Client Price** is defined in Section 5.7 “Standing Orders”.

**CNY** means Chinese Renminbi.

**Confirmation** means written or electronic correspondence from us that sets out the agreed commercial details of a Foreign Exchange Contract.

**Contingent Amount** means, where applicable, a future amount which you may be obligated to trade (at a second Expiry Time) in connection with a Structured Option.

**Correspondent Bank** means a financial institution that performs services for us in connection with Foreign Exchange Contracts.

**Counterparty** in this Disclosure Statement means us.

**Credit Limit** means a Client facility provided by us, at our sole discretion, for transacting in Foreign Exchange Contracts without the need for providing Initial Margin at the Trade Date.

**Currency Pair** means the currency that is bought and the currency that is sold in a Foreign Exchange Contract.

**Deliverable Forward** is a legally binding agreement between you and us to exchange one currency for another currency at an agreed Exchange Rate on a Value Date more than two (2) Business Days after the Trade Date.

**Disclosure Statement** means this Product Disclosure Statement.

**DVO** means a deliverable Vanilla Option.

**Enhanced Rate** means the Exchange Rate applicable to a Structured Option that is more favorable than the equivalent Forward Exchange Rate at the Expiry Date.

**Exchange Rate** is the value of one currency for the purpose of conversion to another.

**Exercise** means an election by the buyer of a Vanilla Option to buy or sell currency (as applicable) at the Strike Rate on the Expiry Date.

**Expiry Date** means the date on which a Vanilla Option or Structured Option expires.

**Expiry Time** is the time of day on the Expiry Date that a Vanilla Option or Structured Option expires.

**Fixing Date** means, (i) with respect to an NDF, the date specified by us on which the Fixing Rate is determined and the Cash Settlement Amount is calculated by us; and (ii) with respect to a TARF, each date specified by us for determining the Spot Rate applicable to each Settlement of the TARF.

**Fixing Rate** means the Exchange Rate determined by us by reference to an independent rate source at the agreed time on the Fixing Date and used to calculate the Cash Settlement Amount for an NDF.



**Fixing Rate Settlement Amount** means the Notional Amount of an NDF converted into the Settlement Currency at the Fixing Rate.

**Foreign Exchange Contracts** in this Disclosure Statement are FX Forwards, Vanilla Options and Structured Options.

**Forward Exchange Rate** is the Exchange Rate at which we agree to exchange one currency for another at a future date when we enter into a Deliverable Forward.

**Forward Points** are the points added to or subtracted from the current Exchange Rate to calculate a Forward Exchange Rate.

**Future Payment** is a type of Deliverable Forward, in which the Deliverable Forward is paired with a payment instruction for the delivery of the currency you have purchased to a beneficiary.

**FX Forward** is a legally binding agreement between a Client and us to effect a Deliverable Forward or an NDF in accordance with any Instruction.

**GBP** means British Pounds.

**Hedge** means activity initiated in order to mitigate or reduce currency exposure to adverse unfavorable price or currency movements, by taking a related offsetting or mitigating position, such as a Deliverable Forward or NDF.

**Hedging Counterparties** the counterparties with whom we contract to mitigate our exposure when acting as principal to the Foreign Exchange Contracts by taking related offsetting or mitigating positions.

**Initial Margin** means an amount of money which shall be determined by us in our sole discretion and deposited with us as security in connection with a Foreign Exchange Contract.

**Instructions** is a request by a Client for us to provide services, including any request for services made by mail, electronic mail, telephone, or other means, which request may be accepted or rejected in our absolute discretion.

**Interbank Exchange Rate** means the wholesale Spot Rate that we receive from the foreign exchange Interbank Market.

**Interbank Market** means the wholesale markets for transacting in foreign exchange restricted to Authorized Exchange Dealers and banks.

**Interbank Premium** means the wholesale Premium that we receive from the foreign exchange Interbank Market.

**Interest Rate Differential** is the difference in interest rates prevailing in the currency that is bought and the currency that is sold.

**In-The-Money** means where the current market price/Exchange Rate for the Currency Pair in a Foreign Exchange Contract is less favorable than the contractual price/Strike Rate for the Foreign Exchange Contract.

**Knock-In Rate** means, where applicable, the Exchange Rate that must be traded at or through in the spot foreign exchange market before the Expiry Time for the buyer's right pursuant to a Call Option or Put Option to become effective.

**Knock-Out Rate** means, where applicable, the Exchange Rate that must be traded at or through in the spot foreign exchange market before the Expiry Time for the buyer's right pursuant to a Call Option or Put Option to terminate.

**Leverage Ratio** means the multiple used to increase the Notional Amount obligation at the Expiry Time of a **Leveraged Structured Option** (e.g.1:2).

**Leveraged Structured Option** means any Structured Option that includes a Leverage Ratio.

**Liquidity** is the ability to buy or sell a Currency Pair without a real effect on the price.

**Margin Call** is an additional payment required by us as security in connection with a Foreign Exchange Contract.

**Marked to Market** refers to the market value of a Foreign Exchange Contract prior to the Value Date.

**Market Risk** means the risk of adverse movements in the value of a transaction due to movements in Exchange Rates over time.

**NDF or Non-Deliverable Forward** means a contract for the sale or purchase of foreign currency that is settled by the parties netting the value of the NDF Contract Rate against the Fixing Rate in a specified Settlement Currency on a specified date that is more than two (2) Business Days after the Trade Date.

**NDF Contract Rate** means the Exchange Rate agreed between us and the Client which shall be compared to the Fixing Rate to determine the Cash Settlement Amount on the Fixing Date.

**NDF Contract Rate Settlement Amount** means the Notional Amount of an NDF converted into the Settlement Currency at the NDF Contract Rate.

**NDVO** means a non-deliverable Vanilla Option.

**Non-Deliverable Currency** means, in respect of an NDF, the currency nominated as the non-deliverable currency.

**Notice of Exercise** means the notice given by the Buyer of its intention to exercise a Vanilla Option or Structured Option in accordance with its terms.

**Notional Amount** means the predetermined USD or foreign currency amount to be bought or sold pursuant to a Foreign Exchange Contract.

**Obligation Percentage** is 100% of the Notional Amount value of a Structured Option less the Participation Percentage.

**Online Platforms** means our proprietary online system(s) for booking prices in Foreign Exchange Contracts and for making international payments.

**Out-of-The-Money** means when the current market price/Exchange Rate of the Currency Pair in a Foreign Exchange Contract is more favorable than the contractual price/Strike Rate of the Foreign Exchange Contract.

**OTC or Over-The-Counter** is a decentralized market, without a central physical location, where market participants trade with one another through various communication modes.

**Participation Percentage** means the percentage of the Notional Amount of a Structured Option that may be able to participate in favorable currency movements at the Expiry Time.

**Participation Rate** means the most advantageous Exchange Rate that can potentially be achieved in a Structured Option as agreed by us and you.

**Pre-Delivery** is where after entering into a Deliverable Forward, the agreed Value Date is brought closer to the Spot Rate Value Date.

**Premium** means the amount payable by you to us on the Trade Date of a Vanilla Option or Structured Option.

**Protection Rate** means the worst case Exchange Rate that can be achieved in a Structured Option as agreed by us and you.

**Put Option** means an agreement that gives the buyer the right (but not the obligation) to sell a currency at a specified price at a specific time.

**Representative** means a person designated to act on behalf of us in the provision of financial services (specifically Foreign Exchange Contracts).

**Reset Rate** means the Exchange Rate that will apply to the exchange of a Currency Pair where an applicable Knock-In or Knock-Out Rate has been triggered in a Structured Option.

**Retail Mark Up** is an amount added to the Interbank Exchange Rate to obtain the Retail Price.

**Retail Price** is the sum of the Interbank Exchange Rate and Retail Mark Up.

**Rollover** is the process of extending the Value Date of an open Deliverable Forward.

**Senior Management** means a group of high-level executives, determined by us from time to time, that actively participate in the daily supervision, planning and administrative processes of our business.

**Settlement** is the total amount, including the cost of currency acquisition as well as any fees and charges, Client owes to us.

**Settlement Currency** means, in respect of an NDF, the currency in which the Cash Settlement Amount is to be paid.

**Settlement Authorization Form** is an agreement under which a Client authorizes its bank to debit Client's account for amounts owed to us for Settlement of Foreign Exchange Contract obligations.

**SFTP** is our system for access to files, file transfer, and file management for Client's transactions.

**Spot Rate** means the Exchange Rate for Settlement on a Value Date of up to two (2) Business Days from the date the transaction was entered.

**Standing Order** is defined in Section 5.7 "Standing Orders".

**Strike Rate** is the Exchange Rate at which the parties have agreed to exchange the Currency Pair on the Value Date if the Vanilla Option is Exercised on the Expiry Date.

**Structured Options** means an agreement to exchange a specified amount of one currency for another currency at a foreign Exchange Rate created through the concurrent sale and purchase of two or more Call Options and/or Put Options as described in this Disclosure Statement.

**Terms and Conditions** means the Master Terms and Conditions Agreement and the Options Trading Terms and Conditions, including all attached schedules, as amended from time to time.

**Terms Currency** is defined in Section 4.1 "Determining Exchange Rates".

**Time Zone** is any one of the world's 24 divisions that has its own time.

**Trade Date** is the day you and we agree to a Foreign Exchange Contract.

**Trigger Rate** means a Knock-In or Knock-Out Rate as applicable.

**USD** means United States Dollars.

**Value Date** is the day where payment for currency is made.

**Value Spot** is where the Value Date is two (2) Business Days after the Trade Date.

**Value Today** is where the Trade Date and Value Date are the same day.

**Value Tomorrow** is where the Value Date is one (1) Business Day after the Trade Date.

**Vanilla Option** means a Call Option or Put Option that has standardised terms and no special or unusual features as described in this Disclosure Statement.

**Volatility** is the pace at which prices move higher or lower.

**Window** is defined in Section 11.1 "What is a Structured Option?".