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Disclosure Statement

Pacific Financial Derivatives Limited

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1. Important Information

Notes

Disclosure Statement **(DS)** means a written document that describes and contains the offer of, and relates specially to the products offered/dealt with. It is a requirement that potential users of Pacific Financial Derivatives Ltd's **(PFD)** products read, understand and acknowledge this **DS**. In preparing this **DS,** we have not considered the personal circumstances of users specifically. We only provide a summary of significant features and risks of these products and or other derivative products.

Disclaimer

To the extent permitted by law, **PFD** neither accepts any responsibility for errors or misstatements, negligent or otherwise, nor for any direct, indirect, consequential or other losses arising from any use of these documents and/or further communication in relation to them.

Purpose

It is a requirement that **PFD** provides a **DS** that clearly describes, for the prudent but non-expert investor, any specific risks associated with trading in contracts or classes of contracts dealt with by **PFD**. Purpose of this **DS** is to provide potential investors with sufficient information in relation to **PFD**' financial products as defined by Section 38 of the Securities Markets Act 1988.

2. Terms & Conditions

The reference to **PFD** in this **DS** is as the issuer of Margin Foreign Exchange **(FX)** products and Derivatives -Contracts for Difference **(CFD)**. When we use the term **"you"** we mean you as the user of Margin Foreign Exchange (**FX**) products and or Derivatives (Contracts for Difference) (**CFD**). When we refer to **"client"** we mean you or another user of PFD' Margin Foreign Exchange (**FX**) products and Derivatives -Contracts for Difference (**CFD**) as applicable

PFD offers trading in Margin Foreign Exchange (**FX**) and Derivatives -Contracts for Difference (**CFD**). These contracts often carry significant risks, highly leveraged and speculative with high degree of risks. You need to be satisfied that these financial products are appropriate to your financial objectives, situation and needs.

PFD recommends that potential users consider seeking financial, legal, taxation and other professional advice to ensure that they fully understand PFD' products and they are appropriate for them before they begin trading in these products.

This **DS** was originally prepared on 1 October 2011, revised on 20 August 2013 and updated on 20 October 2013.

3. No Advisory Services

PFD being an Authorised Futures Dealer is exempt from the Financial Advisors Act 2008 in respect of advice on futures contracts. While **PFD** can offer futures adviser services after collecting enough information as regards client requirements within the scope of the futures adviser service, **PFD** does not provide futures adviser services.

Information we make available

PFD may make information available to you that is generated by it or obtained from third parties. This includes, but is not limited to, market information such as financial market data, quotes, news, reports, graphs or data.

This market information:

(a) is not intended to be advice;

(b) is not endorsed or approved by us and we do not guarantee the accuracy, timeliness, completeness or correct sequencing of such market information;

(c) is available as a service for your own convenience only;

(d) may quickly become unreliable for various reasons including, for example, changes in market conditions or economic circumstances; and is not necessarily up to date.

Except as required by law, **PFD** does not warrant any results from your use or reliance on the market information. **PFD** may discontinue offering market information at any time without notice.

4. About PFD

PFD is a New Zealand registered company, Company Number: 973842. **PFD** is a Margin Foreign Exchange (**FX**) and Derivatives **(CFD)** firm offering execution only services via its on-line trading platform 24/6.

PFD is a registered Financial Service Provider (FSP28944) and must comply with the terms of the Financial Services Providers (Registration and Dispute Resolution) Act 2008. For further details please view http://business.PFDvt.nz/fsp

In terms of **PFD**'s Financial Services Providers registration, **PFD** joined a Financial Dispute Resolution scheme and is an ongoing individual scheme member http://www.fdr.org.nz/member_search/scheme_member/257322. For further information please view https://fdr.org.nz

PFD is an Authorised Futures Dealer in terms of Section 38 of the Securities Markets Act 1988. Authorised Futures Dealers (Pacific Financial Derivatives Limited) Notice 2011 (the Authorisation) is issued by the Financial Markets Authority and it allows **PFD** to generally deal in futures contracts. For further details please view http://www.dia.PFDvt.nz/ MSOS118/On-Line/NZGazette.nsf/658bf950ed55760ccc256ce40072801f/ 36cb719a7c3db2d5cc25791a0055a1bf

It should be noted that **PFD**'s Authorisation as a Futures Dealer does not imply that the Financial Markets Authority approves or endorses **PFD**'s business, trading or solvency and the Financial Markets Authority has not approved **PFD**'s Client Services Agreement **(CSA)**, **PFD**'s General Terms and Conditions **(GT&C)** or this **DS**.

5. Professional Indemnity Insurance

PFD maintains comprehensive professional indemnity insurance, which is appropriate for the size and nature of **PFD**'s business.

6. Complaints Resolution

In the event that you wish to make a compliant, you should first make the compliant in writing detailing the nature of the compliant and send it to the Compliance Officer. Upon receipt of your compliant **PFD** will confirm to you that it has received the same and will endeavour to investigate it and respond to you within 10 days.

In the first instance the Compliance Officer will try and resolve the dispute between the parties, however if a satisfactory outcome cannot be achieved you should refer the matter to Financial Dispute Resolution and follow instructions in http://www.fdr.org.nz/making-complaint

Financial Dispute Resolution
Freepost 231075
P O Box 5730
Wellington 6145
Telephone: +64 4 918 4901
Email: enquires@fdr.org.nz

7. Regulation

The Financial Markets Authority regulates **PFD**. Their contact details are:

Financial Markets Authority
P O Box 106 672
Auckland 1143
Telephone: +64 9 300 0400
Website: www.fma.PFDvt.nz

8. Confirmation by Directors and Senior Management

The Directors and Senior Management of Pacific Financial Derivatives confirm that they have not been convicted of any crimes involving dishonesty under the Crimes Act 1961, the Summary Offences Act 1981 or an offence under the laws of another jurisdiction which is an equivalent offence. They further confirm that they have not been adjudged bankrupt or been expelled from a professional body.

PFD has never been placed in statutory management or receivership.

9. PFD' Products, Contracts & Key Features

PFD offers (a) Margin Foreign Exchange (**FX**) and (b) Derivatives-Contract for Difference **(CFD)** products for which it is the issuer and provider. These are "Over the Counter" (OTC) Contracts.

(a) Margin Foreign Exchange (FX)

Margin Foreign Exchange **(FX)** transactions are over-the-counter ("OTC") Derivatives. "Foreign exchange" (**FX**) generally refers to trading in foreign exchange products (currency) in the spot (cash) markets. Margin foreign exchange products can be differentiated from foreign currency as they allow the investor an opportunity to trade foreign exchange on a margined basis as opposed to paying for the full value of the currency. In other words, investors are required to lodge funds as security (initial Margins) and to cover all losses caused by adverse market movements When clients are making a loss to an extent that they no longer meet the Margin requirements they are required to "top up" their accounts or to "close out" their Position. A Position is a margined FX contract entered into by you.

Foreign exchange is essentially about exchanging one currency for another at an agreed rate. Accordingly, in every exchange rate quotation, there are two currencies. The exchange rate is the price of one currency (the "Base Currency") in terms of another currency (the "Term Currency") such as the price of the NZD in terms of the USD. When you trade, you trade a combination of two currencies known as currency pairs. There is always a long (bought) and a short (sold) side to a trade, which means that you are speculating on the prospect of one of the currencies strengthening and one of the currencies weakening.

When opening a Margin **FX** Contract, **PFD** will quote a bid and offer price for an exchange rate. For example we might quote the NZD against the USD as 0.7999/0.8001. If you thought the NZD was going to rise against the USD you would 'buy' the Margin **FX** Contract and if you thought the NZD was going to fall against the USD you would 'sell' the Margin **FX** Contract.

Unlike Foreign Exchange contracts traded on an Exchange, OTC Foreign Exchange contracts are not standardized but are individually tailored to the particular requirements of the parties involved in the contract i.e. **PFD** and the client. **PFD** makes a market in its products as it regularly states the price at which it is prepared to deal with you. Each transaction which is agreed and entered into is between you and **PFD**. This means both parties act as principals to the transaction and have a direct credit exposure to each other. You do not trade through an Exchange and are not afforded the protections normally associated with exchange-traded Derivatives, such as guarantee arrangements.

The Foreign Exchange contracts offered by **PFD** are denominated in lots. The standard lot size is $100,000 and the currency determining the base value is the forward currency stated. Therefore 1 lot of NZD/USD would be NZD100,000. Variations on the lot size are permitted i.e. 0.10 lots is equal to $10,000 and so on. For product specifications offered by **PFD**, refer http://www.PFD-nz.com/forex.php

Margin **FX** Contracts do not require the physical exchange of one currency for another. Margin **FX** Contracts will always be cash settled and the Margin **FX** Account either credited or debited according to the profit or loss of the trade. Margin **FX** Contracts provide many of the benefits of trading foreign exchange without having to physically hold the currencies. Investors who trade in Margin **FX** Contracts do so for a variety of reasons, two of which are:

(i) Speculation – an attempt to profit from fluctuations in the price of the Base Currency against the Term Currency;

(ii) Hedging – an attempt to counteract the risk of currencies moving against you.

In the case of margined Foreign Exchange Contracts these can be rolled indefinitely until you decide to close out the Position. While holding a position overnight, your account is debited or credited using the applicable overnight Swap Charge or Swap Credit. (Refer item for details).

(b) Derivatives – Contracts for Difference (CFD)

A **CFD** (Contract for Difference) is a product that allows you to trade on the upward or downward price movements of financial markets around the world without buying or selling the underlying asset directly. **CFDs** provide the opportunity to make profits (or losses) from a wide range of markets including indices and commodities. However, you do not own that Underlying instrument or trade it on an exchange by owning a **CFD**. These products are not directly put to the Exchange as you enter into the contract with **PFD**. By entering into a **CFD**, you are either entitled to be paid an amount of money, or required to pay an amount of money, depending on movements in the price of the **CFD**.

The amount of any profit or loss made on a **CFD** will be the net of:

(a) The difference between the price of the **CFD** when the **CFD** position is opened;

(b) The price of the **CFD** when the **CFD** position is closed;

(c) Any Rollover Charges, Rollover Benefits etc relating to the **CFD**.

The **CFD** is a contract between you and **PFD**, which means both parties act as principals to the transaction and have a direct credit exposure to each other. You do not trade through an Exchange and are not afforded the protections normally associated with exchange-traded derivatives, such as guarantee arrangements. **PFD** makes a market in its products as it regularly quotes the price at which it is prepared to deal with the client as principal. **CFD** products are provided by an agreement by which you can make a profit or loss from changes in the market price of the Underlying Product of a **CFD** without actually owning that financial product or having any indirect interest in the financial product.

We offer **CFDs** based on the following underlying instruments:

(a) Gold and silver (Metal **CFDs**);

(b) Commodities (Commodity **CFDs**); and

(c) Equity index futures contracts (Index Futures **CFDs**)

PFD's **CFD** contracts do not result in the physical delivery of the underlying instrument. All of the **CFD** contracts are either closed out by the client taking an offsetting opposite position or if the contract has an expiry, are rolled to the next month if they remain open.

PFD's **CFDS** are based on the underlying futures market and they mimic the contract specifications of that particular contract i.e. quantity, size etc. For specific contract specifications view http://www.PFD-nz.com/futures.php

10. Benefits of trading PFD' Margin FX Contracts

Margin **FX** Contracts can provide important risk management tools for those who manage foreign currency exposures. **PFD** offers its clients the ability to buy and sell foreign currency using Margin **FX** Contracts. This enables clients to protect themselves against adverse currency market swings. The significant benefits of using Margin **FX** Contracts offered by **PFD** as a risk management tool are to protect your exchange rate and provide cash flow certainty. These and other benefits are:

a. Protect an Exchange Rate

PFD provides online trading platforms, enabling clients to trade in OTC Derivatives such as Margin **FX** Contracts over the internet. This facility provides clients with direct access to our system to enable them to buy and sell currency rates to protect themselves against adverse market swings. **PFD** also offers clients a way of managing volatility by using stop loss orders that enable clients to protect themselves against adverse market swings yet secure enhanced market rates when offered. Clients can eliminate downside risk by the use of Stop Orders if the exchange rate reaches a particular level. In addition, clients may also use Limit Orders which allow clients the opportunity to benefit from favourable upside market movements.

b. Access to markets in real time

When using **PFD** you gain access to trading systems which provide you with the opportunity to trade in real time. This gives you an opportunity to react instantly to market news that is affecting markets.

c. Profit potential in falling markets

Since the market is constantly moving, there are always trading opportunities, whether a currency is strengthening or weakening in relation to another currency. When you trade currencies, they literally work against each other. If you think one currency will weaken relative to another, you would sell it and then later, if your view has proved correct, buy it back at a lower price and take your profits.

d. Liquid markets

The foreign exchange market is so liquid that there are always buyers and sellers to trade with. The liquidity of this market, particularly with respect to that of the major currencies, helps ensure price stability and low spreads.

e. Real time streaming quotes and tradable prices

PFD' FX execution systems use the latest highly sophisticated technologies in order to offer you up-to-the-minute quotes. You may check your Accounts and Positions in real time and you may do so 24 hours a day and make a trade based on real-time information. Subject to satisfying the execution limits, all orders are automatically accepted without intervention from **PFD**.

11. Benefits of Trading PFD's CFDs

a. Hedging

You can use **CFDs** to counteract the risk of an investment moving against you. For example, if you own a particular share and anticipate its price falling rather than selling the share, you may elect to open a short **CFD** position over that share. If the price of the share does fall, any losses incurred from ownership of the share will be partially or wholly offset by the profit made on the **CFD** position.

b. Leverage

CFDs enable you to obtain full exposure to a share, currency or commodity for a fraction of the price of buying the underlying financial instrument itself. This is because **CFDs** require you to outlay only a relatively small Initial Margin as a trading deposit. However, it is important to note that as well as working for you, this leverage may work against you. The risk of loss from trading in derivatives and leveraged products can be substantial, and you should carefully consider these risks are in light of your specific financial objectives, needs and circumstances.

c. Market Positions and Strategies

You can use **CFD** trading strategies to profit from both rising and falling markets. However, given the uncertainty of market movements, there is no guarantee that the employment of **CFD** trading strategies will lead to profits and from time to time the employment of trading strategies may lead to losses. It is also important to note that some trading strategies are more complex than others and may have different levels of risk associated with them.

d. Speculation

You may use **CFDs** to speculate on the price of the underlying financial instrument, for example a currency or commodity, with a view to profiting from fluctuations in its price without the need to buy or sell the underlying financial instrument itself.

e. Trade in Small Amounts

The **PFD** system enables you to make transactions in small amounts. When trading in a **CFD** offered by **PFD**, you may deposit the sum that suits you, or the amount which is in line with the amount you are willing to risk.

12. Key Risks in Trading Margin FX & CFD

A. High Degree of Risk

Margin **FX** contracts offered by **PFD** carry a high degree of risk. Any transaction involving currencies is exposed to, among other things, changes in a country's political condition, economic climate, acts of nature and so on, all of which may substantially affect the price or availability of a given currency.

B. Derivatives Risk

The risk of loss in trading Derivatives can be substantial. In considering whether to trade you should be aware of the following:

(a) You could sustain a total loss greater than the amount that you deposit with **PFD** to establish or maintain a contract.

(b) If the Derivatives market moves against your position, you may be required to immediately deposit additional funds as additional Margin in order to maintain your position i.e. to "top up" your Account. Those additional funds may be substantial. If you fail to provide those additional funds, **PFD** may close out your open Positions. You will also be liable for any shortfall resulting from that closure.

(c) Under certain market conditions, it could become difficult or impossible for you to manage the risk of open Positions by entering into opposite positions in another contract or close out existing Positions.

(d) Under certain market conditions the prices of contracts may not maintain their usual relationship with the underlying foreign currency market.

(e) The Margin **FX** contracts offered by **PFD** involve risk. However, the placing of Contingent Orders such as a Stop Order will potentially limit your loss. **PFD** makes no guarantee that Stop Orders will be available at all times or at all price levels.

C. Associated risks in Trading Margin FX & CFD

(a) The risk of loss in trading in derivative contracts can be substantial. **PFD** has a risk management framework within the software supporting the Trading Platforms which, assuming you meet all of your obligations to **PFD** attempts to limit your potential loss to the amount in your account. However, at all times, if you have open positions with us, you could either sustain a total loss of the amount that you deposit with **PFD** to establish or maintain a contract or your loss could exceed that amount i.e. you could lose additional money beyond the funds you have deposited with us. In such situations **PFD** will require those funds to be paid immediately.

(b) If the market moves against your position, you will be required to top up your account in order to maintain your position. If you fail to provide those additional funds towards variation margin, **PFD** may close out some or all of your open positions. You will also be liable for any shortfall resulting from that closure.

(c) Under certain market conditions, it could become difficult or impossible for you to manage the risk of open positions by entering into opposite positions in another contract or Close Out existing positions.

(d) Under certain market conditions, prices of our products may not maintain their usual relationship with the underlying currency market.

(e) A high degree of leverage is obtainable in trading some of the products offered by **PFD** because of the small initial margin requirements which can work against you as well as for you. The use of leverage can lead to large losses as well as large gains. The impact of leverage is that even a slight fluctuation in the market could mean substantial gains when these fluctuations are in your favour, but that could also mean considerable losses if the fluctuations are to your detriment.

D. General Risks In Trading Margin FX & CFD

(a) **Your Money** – Funds deposited with **PFD** are deposited into our client segregated accounts. Notwithstanding that your funds may be at risk in the event of another client's default since individual client funds are not separated from each other.

(b) **Market Risk** – There is no guarantee or assurance that you will make profits, or not make losses, or that any unrealised profits or losses will remain unchanged. Information about prices or rates may be sourced from a number of sources and may not necessarily be current when provided to you. **PFD** does not accept responsibility for this as it is impossible to guarantee prices of your open positions until they are closed out and the price is determined.

(c) **Substantial losses** – Despite closing out open positions, your loss on a transaction could be very substantial. Stop loss orders are instructions placed by the client with **PFD** to close out an open position if a market trades at or through a specific level. Stop loss orders are often be used to attempt to limit or minimise the amount which can be lost on an open position.

(d) **Not a regulated market** – The products offered by **PFD** are OTC derivatives and are not covered by the protections for exchange-traded derivatives arising from any domestic or international exchange rules.

(e) **Currency instability** – Upon closing out an open position that is denominated in a currency other than the currency of your account, you will be able to request that the foreign currency balance be converted to the currency of your account. Any conversion will be at the exchange rate quoted by **PFD.** Until the foreign currency balance is converted, fluctuations in the relevant exchange rate may affect the profit or loss made on the position.

(f) **Market volatility** – Products/contracts offered by **PFD** are subject to many influences which may result in rapid fluctuations in currency and reflect unforeseen events or changes in conditions with the inevitable consequence being market volatility. Given the potential levels of volatility in the **FX** markets, it is recommended that you closely monitor your positions with **PFD** at all times. Due to such volatility, no **FX** products offered by **PFD** may be considered as a safe trade. In certain market conditions such as during extreme price volatility in fast markets, quotes provided by **PFD** may 'gap'. Price gaps are generally a result of unexpected news or unknown data being released (e.g. news of terrorist attacks, revaluation of a currency, geopolitical upheaval or natural disasters).

(g) **Leverage Risk** – Margin **FX** Contracts carry a leverage risk. These contracts enable the user to outlay a relatively small amount as initial Margin to secure an exposure to the underlying currency. You can effectively take a position with the same result as purchasing or selling a currency for less outlay than the equivalent physical transaction and still potentially benefit from a price move. Leverage gives the user the ability to take a greater level of risk for a smaller initial outlay, thus amplifying the risks and rewards.

(h) **Suspended/Halted Underlying Asset Risk:** An underlying financial product may be placed in a trading halt in various circumstances or may be suspended in certain circumstances. **PFD** may, in its absolute discretion, cancel your order in respect of a margined transaction that has not yet been opened, or close any open margined transaction, where the underlying financial product is the subject of a trading halt or suspension. When you place an order for a margined contract with **PFD**, it is likely that we will place a corresponding order to purchase or sell the relevant contract to hedge our market risk. **PFD** has the discretion as to when and if it will accept an order. Without limiting this discretion, it is likely that we will elect not to accept in circumstances where our corresponding order cannot be filled. Accordingly, **PFD** may at any time determine, in our absolute discretion, that we will not permit the entry into a margined transaction over one or more underlying contracts. Should you wish to transfer your position to another broker you would need to close your position on **PFD**'s on-line trading platform and open it with your new broker.

(i) **Under Or Over Hedge Risks** – as a result of your own risk management procedures to match any exposure, you may add to or close out some of your contracts. Please note you are responsible for the cost of any additional hedging of the contracts entered into for adjustment purposes.

(j) **PFD Risk** – Given you are dealing with **PFD** as counterparty to every transaction, you will have an exposure to us in relation to each transaction. This is common to all OTC financial market products. You can assess **PFD**'s financial ability to meet its counterparty obligations by reviewing its financial accounts. You are reliant on **PFD**'s ability to meet its counterparty obligations to you to settle the relevant transaction.

(k) **Counterparty Risk – PFD** may chose to limit its risk exposure by entering into opposite transactions as principal with its hedging counterparties in relation to its exposures to its clients i.e. hold back to back positions. For this purpose, **PFD** maintains Clients Fund Accounts with such counter-parties. It is possible that a hedging counterparty may become insolvent while controlling client money. Therefore any funds paid by clients to **PFD** may not be protected if there is a default in the overall client segregated account as a result of counter-party default.

(l) **Electronic Trading Platforms** – You should be aware that there are a number of risks associated with using internet-based Trading Platforms. Such risks include, but are not limited to, risks related to the use of software and/or telecommunications systems such as software errors and bugs, delays in telecommunications systems, interrupted service, data supply errors, faults or inaccuracies and security breaches. Notifications are via the electronic platform that you use – if you do not actively monitor your open positions via the Trading Platform, you may not be aware when some or all of your open positions are closed out.

(m) **Use and Access to the Website** – You are responsible for providing and maintaining the means by which to access a Trading Platform. While the internet and the World Wide Web are generally reliable, technical problems or other conditions may delay or prevent access. If you are unable to access the internet and thus, the Trading Platform, it will mean you may be unable to trade products offered by **PFD** and you may suffer a loss or earn a profit as a result.

(n) **Extreme Market Situation** – Furthermore, in unforeseen and extreme market situations, **PFD** reserves the right to suspend the operation of our online Trading Platform or any part of it. We will however, endeavor to contact you beforehand in this regard. In such an event, **PFD** may, at its sole discretion (with or without notice), close out your open positions at prices or values it considers fair and reasonable at such a time. Alternatively, **PFD** may impose volume limits on client accounts, at its sole discretion. This could occur if you placed an order and **PFD** deemed the size of the order to have an excessive impact on the risk profile that **PFD** was prepared to take.

13. How to open a Margin FX Contract /CFD?

(a) Electronic Orders

PFD receives orders via **PFD**'s electronic trading systems. Margin **FX/CFD** Contracts can be opened by you by placing an order electronically. **PFD**' electronic trading systems will provide you with a quote and the Contract will be entered into and accepted in accordance with **PFD**'s **(CSA)** and **(GT&C)**. Due to transmission delays which may occur between when you send us your order and our trading server accepting your order, the price offered by us may change before we receive your order. If you place an order and the price changes before the order is received, the order will be accepted by us at the new price. This means the price at which your order is accepted may be different from the price you were quoted. We cannot predict future price movements and our quotes are not a forecast of where we believe currency prices will be at a future time.

(b) Order Acceptance

When you enter an order through the **PFD** Trading platforms, the platforms will automatically give you a summary of the main elements of your order which can be printed by you so that you can check the order is correct. **PFD**'s trading system in general will accept an order. However, **PFD** may not accept an order if, for example, it is not reasonably practicable for us to do so or if the underlying currency/contracts have been suspended. Once your order has been executed, you can access your statement online. The account statement is your confirmation

(c) Stop Loss Orders

PFD's trading systems provide capability to you to place stop loss limits where possible. In determining the level of stop loss, you should consider the amount of funds held as margin and you are responsible for ensuring there are enough funds in your account given the stop level. You should understand that when you place a stop loss order at a particular level,

i. The stop loss order will be executed when the market trades at that price &

ii. **PFD** cannot guarantee that the stop loss will be executed at the level chosen or at any other level, because the market may 'gap'.

(d) Trade Execution Methodology

i. Stop loss orders which have been triggered will be filled first before any market order received is executed, even if some of the stop losses are triggered after the market order is received.

ii. In filling a series of stop losses at different levels which are progressively triggered, the system ensures that a stop loss at a particular level does not receive a fill at any level more favourable than that level. By allocating proportionately in this way, orders which are basically similar are given similar treatment and the last stop loss order(s) to be triggered do not receive the most unfavourable execution.

iii. In the case of a limit stop order where the market has moved past the limit and then back to within the limit, this will then be filled with orders outstanding at the limit price of the order placed.

14. How to close out a Margin FX Contract/CFD ?

A Margin **FX/CFD** Contract can be closed out by you if you place an order that is an offsetting opposite position to an existing Contract and that order is accepted by us.

The order to close out a contract can be placed on **PFD's** trading platforms and due to transmission delays between us, the price offered by us may change before we receive your order. If you place an order and our price changes before the order is received, the order will be accepted by us at the new price. This means the price at which your order is accepted may be different from the price you were quoted. If we accept your order to close out the Contract, the existing Contract is closed out and we determine any debits or credits required to your account

PFD's trading platforms

PFD' trading platforms are **PFD** Trader (MT4) and Kiwi Trader. These will provide you with access to an online trading account which will enable you to trade over the internet. **PFD**' s Trading platforms enable you to:

(a) Trade Margin **FX/CFD** Contracts generally 24 hours a day from Monday to Saturday (NZ time) &

(b) Access information on a wide range of global markets generally 24 hours a day.

The significant feature of **PFD**' Trading platforms are they stream real time prices. However, due to transmission delays between when your order is sent to us and when the order is automatically accepted by our trading server, your order may be accepted at a different price than what was quoted at the time of your order.

15. Rights

PFD offers its products on standard contract terms. For any existing contract, these contract terms cannot be altered either by **PFD** or by you unilaterally. **PFD** only offers products where there is a current liquid market. Therefore your right to terminate, cancel, surrender or otherwise make or obtain payment can only be effected by closing your open contracts. **PFD** does not permit the selling of your open contracts to another person. If for any reason a market becomes illiquid, **PFD** may not be able to close your contract at that time. This is something outside of **PFD**'s control and **PFD** will do everything possible to effect a closing of your contract when market conditions exist. **PFD** has the right to vary new contracts or change the terms when it offers new contracts.

16. How is the exchange rate calculated & quoted by PFD for Margin FX?

PFD has a pool of OTC Derivatives Liquidity Providers **(LPs)** and **PFD's** policy is to offer to clients for trading the **second best price/quote** it receives from its **LPs** at any given point of time. The spreads quoted by **PFD** will be influenced by estimated current spot 'inter-bank' exchange rates, the size of your transaction, expected levels of interest rates, implied volatilities and other market conditions during the life of the contract and the time zone in which you choose to trade. The spreads we publish on our website http://www.PFD-nz.com/spread-comparison.php for major products is our best possible target spreads used in normal market conditions. In tight market conditions, the spread may be even narrower than the spreads quoted. But in periods of volatile markets, the spread may be increased. **PFD** quotes 5 decimal places for most Currency Pairs but the 4th decimal place is classed as the pip.

PFD uses the **first best price/quote** it receives into its liquidity pool from its OTC Derivatives Providers **(LPs)** to clear or hedge its clients' trades.

PFD's trading income generally is the difference between **the first best quote** it uses for clearing or hedging trades with and **the second best quote** it offers to clients for trading.

The decision to transact at a particular exchange rate will generally be the client's decision. However, **PFD** may close out a client's open position if the client fails to meet their Margin requirements and in this situation, the decision to transact at a particular exchange rate would be at **PFD**'s discretion. The price to be paid or received for **FX** products offered by **PFD**, at the time the product is purchased or sold, will be based on the price **PFD** has quoted.

17. Calculating Profit and/or Loss

(a) Foreign Exchange

The profit and/or loss from a transaction is calculated by keeping the units of one of the currencies constant (the base currency) and determining the difference in the number of units of the other currency (the term currency). The profit or loss will be expressed in the units of the currency that is not kept constant.

(b) Derivative Contracts – Contract for Difference

The profit and/or loss from a transaction is calculated by taking the initial bought or sold price and marking it to the current market price.

(c) Realised and Unrealised Profit and/or Loss

Profits and/or losses are realized if both the buy and the sell side of the transaction have been completed and have been matched against each other or Closed Out. Profits and/or losses are unrealized if only one side of the transaction has been completed i.e. it remains an open position.

18. Leverage

Leverage allows you to outlay a relatively small amount, known as the initial margin to secure an exposure to the underlying contract without having to pay the full price. Accordingly, leverage allows you to take a greater level of risk for a smaller initial outlay, thus amplifying the risks and rewards. However, you need to fully understand that **leverage also increases risks and magnifies losses**.

19. Margins

(a) What is Margin?

You are required to maintain a specified amount of cleared funds with us in respect of each open Margin **FX** Contract, referred to as the margin.

(b) Initial Margin

Initial Margin is the amount of the Margin required to open a Margin **FX/CFD** Contract.

(c) Variation margin

The variation Margin is the additional margin we require to ensure that our margin requirements for Margin **FX/CFD** Contract are met at all times.

If the required amount of Margin for all your Margin **FX /CFD** orders exceeds the equity of your account, you must either deposit additional funds with us or alternatively close out existing open Contracts to reduce your required Margin to a level acceptable to us. Under the **CSA** and **GT&C**, failure to meet our Margin requirements is an event of default and we have the right to immediately close out your Contracts.

Any losses resulting from **PFD** closing a Margin **FX/CFD** Contract will be debited to your account and may require you to deposit additional cash with us. Default interest may apply on the amount of any funds shortfall.

PFD does not notify you of margin calls. It is your responsibility to monitor your trading account and fund margin calls accordingly. Please note that certain market conditions or events may trigger extreme volatility, requiring urgent funds to be applied to retain your open positions.

PFD reserves the right to immediately close positions in relation to which margin requirements have not been met, in order to protect against exposure to further losses in the positions.

We may change your Margin requirements at any time by giving you prior notice.

FX margins are typically 0.33% of the Nominal Face Value of the contract. However, you may request greater or lesser leverage. This is at the discretion of **PFD**.

Derivatives – Contract for Difference **(CFD)** margins vary and it is recommended that you view http://www.PFD-nz.com/futures.php to ascertain specific information.

On opening a Contract your account will be charged a margin and this is shown in the summary and indicates the accumulative amount of margins charged. Your positions are valued every second against the current contract price and this amount is either added or deducted from your equity depending if you are making a profit or a loss.

(d) Terms Displayed on the Trading System and Statement

- Balance is the total of deposits and withdrawals plus Closed Profit/Loss.
- Equity is calculated by taking your balance plus Open Profit/Loss, Swaps and Commissions.
- Note a negative figure will be deducted.
- Margin is the accumulative margin charged for each Open contract.
- Free Margin is calculated by taking your equity less the margin.
- Margin Level is calculated as Equity/Margin X %, see below

(e) Accounts with equity less than $5,000

The Margin Level is 150% and if your equity falls below 100%, the greatest loss contract will be closed (stopped out) in order to bring your equity to a level above this liquidation level. If your equity level is still not reached your next greatest loss contract will be closed, and so on until you maintain an equity level above 100%.

(f) Accounts with equity more than $5,000

The Margin Level is 100% and if your equity falls below 50%, the greatest loss contract will be closed (stopped out) in order to bring your equity to a level above this liquidation level. If your equity level is still not reached your next greatest loss contract will be closed, and so on until you maintain an equity level above 50%.

(g) In the Kiwi trader Platform, the stop out level is set at 100%.

20. Interest

PFD does not pay interest on balances held by you.

21. Spreads, Commissions, Swap Credits/Charges & Roll Over Credits/ Charges

(A) Spreads

Spread means the difference between the bid price (price offered) and the ask price (price requested) for the Base Currency expressed as against the Term Currency. The spread is incorporated into the price of the Currency Pair quoted to you and is not an additional fee or charge payable by you. **PFD** makes its income from rebates derived from the spread in the prices of the Base Currencies. The spreads we quote are generally wider that the spreads available in the physical market and the additional spread represent spreads paid to us. In other words, we:

(a) Add an amount to the market ask price when you open a Long Margin **FX** Contract position; and

(b) Subtract an amount from the market bid price when you open a Short Margin **FX** position.

This means you pay more to buy a currency and receive less when you sell a currency.

The spreads we quote are a number of Pips between the bid price and the ask price. A pip is the last decimal place to which an exchange rate is quoted. **PFD** aims to offer the tightest spreads available. The calculation of the price to be paid (or the payout to be received) at the time the Margin **FX** Contract is opened or closed, will be based on market prices available at the time and the expected level of interest rates, implied volatilities and other market conditions during the life of the financial contract.

(B) **Commissions**
(a) **Foreign Exchange (FX)**

With a **PFD** Trader (MT4) account you do not pay commissions on Margin **FX** Contracts you enter. With a Kiwi Trader Gold Zero account, you will pay one pip commission on profit trades and no commission on loss trades.

(b) Derivatives Contracts – Contracts for Difference (CFD)

PFD charges either a brokerage of USD $20.00 per standard lot or 1% spreads mark up. For detailed information on commissions charged per contract please view http://www.PFD-nz.com/futures.php.

(C) **Swap Credits & Swap Charges**
(a) **Foreign Exchange (FX)**

Where a Margin **FX** Contract is held at the close of business on a trading day, a Swap Credit or a Swap Charge will be made to your unrealised Profit/Loss. Contracts are automatically rolled over to the next trading day at the same time that the swap charge/credit is calculated.

Each currency has an interest rate component attached to it, and because Margin **FX** Contracts are traded in Currency Pairs, every trade involves not only two different currencies but also two different interest rates. The Swap Credit or Swap Charge accounts for the difference in the interest rates between the Base Currency and the Term Currency when a Margin **FX** Contract is held overnight (i.e. rolled over to the next business day).

A. A credit will be made to your unrealised Profit/Loss (i.e. your Unrealised Profit will increase or your unrealised Loss will decrease) if at the close of business on the relevant trading day as under:

- you have a Long Margin **FX** Contract and the interest rate that applies to the currency you buy is higher than the interest rate that applies to the currency you sell; or

- you have a Short Margin **FX** Contract and the interest rate that applies to the currency you sell is lower than the interest rate that applies to the currency you buy.

B. A debit will be made to your unrealised Profit/Loss (i.e. your unrealised Profit will be reduced or your Unrealised Loss will be increased) if, at the close of business on the relevant trading day:

- you have a Long Margin **FX** Contract and the interest rate that applies to the currency you buy is lower than the interest rate that applies to the currency you sell; or

- you have a Short Margin **FX** Contract and the interest rate that applies to the currency you sell is higher than the interest rate that applies to the currency you buy.

No Swap Charge is payable to us and no Swap Credit is paid by us if you open and close out a Margin **FX** Contract in the same day.

For the purpose of determining the interest rates for a currency, the interest rate that applies to the currency you buy is the relevant central bank target cash rate for that currency minus a Margin of no more than 0.5% and the interest rate that applies to the currency you sell is the relevant central bank target cash rate for that currency plus a Margin of no more than 0.5%. Interest rates are subject to change. The interest rate that applies to a particular open Margin **FX** Position will be published on our website and shown on your daily statements. You may also contact us for details of the applicable interest rate.

(D) **Derivatives Roll over Credit and Roll over charge**
(a) **Derivatives Contracts – Contracts for Difference (CFD)**

Where a **CFD** position is held at the close of business on a trading day, a Rollover Credit or a Rollover Charge will be made to your unrealised Profit/Loss. Contracts are automatically rolled over to the next Trading Day at the same time that the swap charge/credit is calculated. Each **CFD** has an interest rate component attached to it. The Rollover Credit or Rollover Charge accounts for the difference in the interest rates between the Base Currency

and the Terms Currency when a **CFD** is held overnight (i.e. rolled over to the next business day). A credit will be made to your unrealised Profit/Loss (i.e. your Unrealised Profit will increase or your unrealised Loss will decrease) if at the close of business on the relevant trading day:
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When you close out your **CFD** position, the net amount of the Rollover Charges and Rollover Credits (which forms a part of your Unrealised Profit/Loss) will be credited or debited from your **CFD** account. No Rollover Charge is payable to us and no Rollover Credit is paid by us if you open and close out a **CFD** position in the same day.

The interest rate that applies to a particular open **CFD** position will be available on our website and also shown on your daily statements. You may also contact us for details of the applicable interest rate.

22. Bank Fees

Our banks levy a fee of US $15 to $20 towards international wire payments. When you withdraw funds from your trading account to your overseas bank account, you will receive net amount the bank remits.

Local currency withdrawals incur no charge.

Our banks may charge you nominal fees on foreign inward remittances received to the credit of our accounts. **PFD** will credit to your account the net amount it receives.

23. Credit/Debit Card Fees

PFD does not charge credit/debit card fees. However, you will be charged fees (both inward and outward) by the card processing provider. We recommend that you request the fee schedule from the provider before making a transaction. **PFD** will credit to your account the net amount it receives.

24. Currency Conversion Fee

Funds can be deposited to **PFD** and held in the following currencies: United States Dollars, New Zealand Dollars, British Pound Sterling, Euros, Japanese Yen & Australian Dollars. Your Margin **FX** Account can be denominated in any of the six stated currencies. **PFD** is entitled to charge you a conversion calculation fee for converting amounts into your nominated currency when you deal in a Margin **FX** Contract denominated in a currency other than US Dollars, New Zealand Dollars, British Pound Sterling, Euros, Japanese Yen & Australian Dollars.

Funds are converted at the current spot rate for the conversion of the relevant funds into your nominated currency (being either US Dollars, New Zealand Dollars, British Pound Sterling, Euros, Japanese Yen or Australian Dollars. This means, currently, we have waived the conversion calculation fee for all currency conversions.

Realised profits and losses are converted to your nominated currency (being either US Dollars, New Zealand Dollars, British Pound Sterling, Euros, Japanese Yen or Australian Dollars) immediately on closing the Margin **FX** Contract at the current spot rate.

All Mark to Market Payments, margins, spreads, commissions, swap credits/charges & roll over credits/ charges in relation to that Margin **FX** Contract will be calculated using the Term Currency. To show the effect of these transactions on your Margin **FX** Account, we will notionally convert these transactions to your account currency at the current spot rate. No conversion calculation fee is charged to you for these notional conversions.

25. Right To Alter Fees

PFD reserves the right to alter fees from time to time. This will generally be based on **PFD** passing on increases of fees it is charged from its providers. If an increase is made, **PFD** will update this Disclosure Statement and issue notification to clients.

26. Procedures For Dealing With Client Funds

(a) Accounts

Funds received by **PFD** from you are deposited into segregated accounts in accordance with the Futures Industry (Client Funds) Regulations 1990 (the Regulation). In essence, client funds are held in segregated accounts with banks and regulated brokers on behalf of **PFD**'s clients. The Regulations permits **PFD** to move funds to segregated client funds accounts held by brokers similar to **PFD**. **PFD**'s house funds are not co-mingled with clients' funds.

(b) Funding Your Account

You may fund your account using the bank account details found on our web site. When making a deposit please ensure you state your account number on the reference to ensure timely processing to your account.

PFD accepts credit/debit card payments and these are accounted in **PFD**'s Client Segregated Accounts the same business day.

PFD has a strict policy of not dealing in cash.

(c) Use of Client Funds

The Regulations also details to whom and when payments can be made. All money credited to the client segregated accounts maintained by **PFD** may be used by **PFD** to meet the default of any client of **PFD** or to pay any liability or costs owing by any client to **PFD**.

27. Surplus Liquid Funds Reporting

PFD is required to ensure that its surplus liquid funds exceeds at all times its prescribed liquid funds amount. **PFD**'s surplus liquid funds is the aggregate of all its liquid assets, less any risk based deductions to its liquid assets, less its gross external liabilities.

(a) Compliance Reporter (CR)

PFD' daily liquid funds reporting is monitored by the Compliance Reporter (CR). The current CR is UHY Haines Norton (Auckland) Ltd (UHY), qualified auditors within the meaning of the Securities Act 1978. CR to check each month the monthly report and disclose any breach of the capital adequacy requirements and the semi-annual prospective financial statements to ensure that they do not disclose that **PFD** is likely to breach the capital adequacy requirements. **PFD** must prepare management accounts every two months which must be provided to the CR.

(b) Client Funds Audit

In accordance with section 24 of the Regulations, UHY undertakes quarterly client funds audit and sends the examination report directly to the FMA (www.fma.govt.nz).

(c) Financial Auditing

PFD's financial statements are audited every year on the basis that **PFD** is an issuer in terms of the Financial Reporting Act 1993. **PFD** Auditors are UHY Haines Norton (Auckland) Ltd. **PFD**' business performance and all other information are contained in its annual report, a copy of which may be obtained from the Compliance Officer.

28. Records

PFD emails each client a trading account statement daily. This statement details deposits, withdrawals, equity, utilized margin, free margin, open and settled contract notes as well as floating profit & loss. This statement can also be obtained directly from the on-line trading system. If clients are not receiving or cannot access their account statement they may contact the Compliance Officer for a copy of their account statement.

Details reflected on the on-line trading system/account statement are daily reconciled which matches with **PFD**'s accounting system.

PFD does not charge a fee for client statements.

29. Anti-money laundering and Counter-terrorism financing

By applying for a trading account you agree to the following terms.

You are not aware and have no reason to suspect that:

(a) the money used to fund your trading account or has been or will be derived from or related to any money laundering, terrorist financing or other activities deemed illegal under the applicable laws or otherwise prohibited under any international convention or agreement (illegal activities); or

(b) the proceeds of your trading Account will be used to finance illegal activities; and

(c) you agree to promptly provide us with all information that we reasonably request in order to comply with our obligations under all applicable laws.

In accordance with applicable laws, **PFD** reports, where necessary, any suspicious matters to New Zealand Financial Intelligence Unit.

30. Client Service Agreement (CSA) and General Terms & Conditions (GT&C)

This **DS** should be read in conjunction with our **CSA** and **GT&C**. You must ensure you have read and fully understood the **CSA, GT&C** and this **DS** which sets out our terms and conditions between you and us for the Margin **FX/CFD** Contracts we offer.

31. Disclosure of interests and relationships

All **PFD** employees are paid a fixed salary and may become entitled to a bonus dependent on **PFD**'s profitability and their performance at the discretion of the management.

PFD enters into relationships with Introducing Brokers/Money Managers of which **PFD** pays rebates/commission.

PFD enters into various commercial arrangements with other counterparties on the basis of which either pays commission or receives rebates.

PFD makes its income from the spreads, swaps, commissions and also from trading income.

If you wish to discuss any aspect of this Disclosure Statement please contact the Compliance Officer whose contact details are:

Paul F Louis
Compliance Officer

Physical: 2A, Mt. Eden, Auckland 1024, New Zealand
Mailing: P O Box 10041, Dominion Road, Auckland 1446, New Zealand

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