



**SAXO CAPITAL MARKETS (AUSTRALIA) PTY LTD**

# COUNTERPARTY RISK POLICY - HEDGING

## 1. Background

The Australian Securities & Investments Commission ("**ASIC**") released Regulatory Guide 227 - *Over-the-counter contracts for difference: Improving disclosure for retail investors* ("**RG 227**") in August 2011. In RG 227 ASIC has identified seven disclosure benchmarks for over-the-counter contracts for difference and equivalent products ("**OTC CFDs**") to help retail investors understand the risks associated with these products, assess their potential benefits and decide whether investment in the products is suitable for them.

Saxo Capital Markets (Australia) Pty Ltd ("**Saxo Capital Markets**") understands that OTC CFDs are complex and risky products and that it has an important role in ensuring that only investors who have a sound understanding of the features and risks of the product can open an account and begin trading in its products.

Benchmark 3 of RG 227 relates to Counterparty Risk - Hedging. This Counterparty Risk Policy - Hedging ("**Policy**") addresses Benchmark 3 of RG 227 by explaining Saxo Capital Markets' practices in hedging its risk from client positions and the quality of this hedging in relation to contracts for difference and other over-the-counter derivative products it offers to retail clients in Australia from time to time ("**SCM Products**").

## 2. Counterparty Risk – Hedging

Clients need to rely on Saxo Capital Markets taking appropriate measures to reduce the risk that it will not be able to meet any liabilities as they arise. Such measures include having in place hedging strategies with counterparties that have been assessed as being of strong financial standing.

SCM's hedging strategy is to hedge all client positions by entering into back-to-back positions with its trading counterpart, Saxo Bank A/S.

### 2.1 Determining whether Hedging Counterparties are of sufficient financial standing

Benchmark 3 of RG 227 requires Saxo Capital Markets to identify the factors it takes into account when determining if hedging counterparties are of sufficient financial standing to meet their counterparty obligations towards Saxo Capital Markets.

At the time of writing this policy, Saxo Capital Markets only has one hedging counterparty, which is Saxo Bank A/S.

Saxo Capital Markets considers Saxo Bank A/S to be of sufficient financial standing as it is a licensed bank incorporated in Denmark (licence no. 1149) and is regulated by the

Danish Financial Supervisory Authority. As a regulated entity, Saxo Bank A/S is subject to strict financial requirements, including capital adequacy requirements.

If at any time Saxo Capital Markets engages additional hedging counterparties, it will seek to ensure that hedging counterparties meet at least three of the following criteria:

- (a) are appropriately licensed and regulated by an independent body in the relevant jurisdiction;
- (b) have strong financial and compliance (including risk management) resources;
- (c) have been independently rated by a ratings house (e.g. Standard & Poor's); and
- (d) have a proven track record in relation to OTC products.

## 2.2 Saxo Capital Markets' current hedging counterparties

As noted above, at the time of writing the Policy, Saxo Capital Markets only has one hedging counterparty which is Saxo Bank A/S.

Saxo Capital Markets trading platform:	SaxoTrader
Saxo Capital Markets' Hedge Counterparty:	Saxo Bank A/S (SAXO) AFSL 277527 ARBN 109 605 610
Website of Hedge Counterparty:	<a href="http://www.saxobank.com">www.saxobank.com</a>
Further information:	<p>Saxo Bank is incorporated in Denmark as a licensed bank (license 1149) and is regulated by the Danish Financial Supervisory Authority (<b>Danish FSA</b>) - Finanstilsynet, Arhusgade 110, 2100, Kobenhavn Gl. Kongevej 74A, 1850.</p> <p>Further details regarding the Danish FSA and Saxo Bank's license may be viewed at <a href="http://www.ftnet.dk">www.ftnet.dk</a>. As a member of the European Union, Denmark has incorporated the EU Banking and Investment Directives into Danish law. Further detail on the financial statements of Saxo Bank A/S is available from its website.</p>

## 3. Saxo Capital Markets Compliance with RG 227

The table below demonstrates Saxo Capital Markets' compliance with Benchmark 3 of RG 227.

No	RG 227 Reference	Requirement	Has Saxo Capital Markets met this requirement?
1	227.51 (a)	Include the factors Saxo Capital Markets takes into account when determining if hedging counterparties are of sufficient financial standing.	Yes. See paragraph 2.1
2	227.51 (b)	Set out the names of those hedging counterparties (as they stand from time to time).	Yes. See paragraph 2.2

#### 4. Amendments to this Policy

This policy document will be reviewed, tested and periodically revised annually or otherwise, as risks, systems, business practices and regulatory requirements change.

##### *REVISION HISTORY*

<b>Date</b>	<b>Version</b>	<b>Amended/Reviewed</b>	<b>Reviewed / Approved By</b>
31 March 2012	v.1	HDY/RAR (Created)	Senior Management/RAR
27 July 2015	v.2	Reviewed Nil Changes	RAR - Compliance