



**PRODUCT DISCLOSURE STATEMENT**

**COMMODITY DERIVATIVES**

**Issued 03 July 2017**

**by**

**FOREX FINANCIAL SERVICES PTY LTD**

**ABN 84 129 217 812**

**AFSL 323193**

## **IMPORTANT NOTE**

Financial Services are provided by, and this PDS has been prepared and issued by, Forex Financial Services Pty Ltd ABN 84 129 217 812 AFSL 323193 ("FFS"). Please note that the information contained in this Product Disclosure Statement ("PDS") does not constitute a recommendation, advice or opinion and does not take into account your individual objectives, financial situation, needs or circumstances. This is an important document and should be read in its entirety. Before entering into a FFS Commodity Derivative ("Commodity Derivative") transaction, you should obtain independent advice to ensure this is appropriate for your particular financial objectives, needs and circumstances.

We recommend that you also obtain independent taxation and accounting advice in relation to the impact of foreign exchange gains and losses on your particular financial situation. The taxation consequences of Commodity Derivative transactions can be complex and will differ for each individual's financial circumstances, and your tax adviser should be consulted prior to entering into a Commodity Derivative transaction.

FFS does not guarantee the investment performance of Commodity Derivatives nor the investment performance of the underlying markets or commodities. Past performance is no indication or guarantee of future performance.

All clients shall be bound by the contents of this PDS, The information in this PDS is current as at 01 June 2014, and may be updated from time to time where that information is not materially adverse to clients. Updated information shall be provided on our website [www.forexfs.com](http://www.forexfs.com). FFS may issue a supplementary or replacement PDS as a result of certain changes, which shall be available on our website or shall be distributed in electronic form as required.

This PDS does not constitute an offer or invitation in any place outside Australia where or to any person to whom it would be unlawful to make such an offer or invitation. The distribution of this PDS (electronically or otherwise) in any jurisdiction outside Australia may be restricted by law and persons who come into possession of this PDS should seek advice on and observe any such restrictions. Any failure to comply with such restrictions may constitute a violation of applicable law.

If you received this PDS electronically, we can provide a paper copy free of charge upon request. For information regarding our full range of products and services, please read our Financial Services Guide and visit our website. If you have any queries regarding this PDS, please contact FFS.

**WARNING** Commodity Derivative products are considered speculative products which are highly leveraged and carry significantly greater risks than non-g geared investments, such as shares. You should not invest in Commodity Derivatives unless you properly understand the nature of such products, and are comfortable with the attendant risks. You should obtain financial, legal, taxation and other professional advice prior to entering into a Commodity Derivative transaction to ensure this is appropriate for your objectives, needs and circumstances.

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## 1. PURPOSE AND CONTENTS OF THIS PRODUCT DISCLOSURE STATEMENT (“PDS”)

This PDS is designed to provide you with important information regarding the Commodity Derivatives we offer, including the following information:

- Who we are
- How you can contact us
- Which products we are authorised to offer or utilise
- Key features/risk/benefits of these products
- Applicable fees and charges for these products
- Any (potential) conflicts of interest we may have; and
- Our internal and external dispute resolution process.

All clients shall be bound by the contents of this PDS. The information in this PDS is subject to change from time to time. Where changes are material, we will issue a revised or supplementary PDS to all clients. This PDS does not constitute an offer or solicitation to anyone outside the authorised jurisdiction.

If you would like further information, please ask us. Further detail about our services is available on our website.

## 2. NAME & CONTACT DETAILS OF ISSUER/SERVICE PROVIDER

The Issuer/Service Provider is Forex Financial Services Pty Ltd ABN 84 129 217 812 (“FFS”).

FFS holds an AFSL Number 323193 and is authorised to provide general and/or personal financial product advice in relation to, and to deal in (i) derivatives; and (ii) foreign exchange contracts, AND to make a market in derivatives and foreign exchange contracts to retail and wholesale clients.

You can contact our office by any of the means listed below:

Writing to us at:           Forex Financial Services Pty Ltd  
Suite 201, Level 2,  
23-25 Hunter Street Sydney NSW 2000

Calling us:                   (612) 9151 4240

Sending us a fax:           (612) 9232 3599

Sending an email to:      [info@forexfs.com](mailto:info@forexfs.com)

Visiting our website:      [www.forexfs.com](http://www.forexfs.com)

### 3. TERMS & CONDITIONS

Information provided to you in our FSG and PDS is important and is binding on you. Additional legal terms governing our relationship are detailed in the Account Application Terms & Conditions. You must complete, sign and return the Application, and have your account approved by FFS. FFS reserves the right to refuse to open a Commodity Derivative account for any person.

FFS only accepts Commodity Derivative order instructions via the electronic trading platform. You are required to access the electronic trading platform on a daily basis to confirm that any order instructions have in fact been received by us, reconfirm all orders that you place with us, review order confirmations we provide, to ensure their accuracy and monitor your Margin obligations. Any order discrepancies identified must be reported to us immediately.

FFS will provide all clients, via the electronic trading platform, with access to both daily and historical account statements allowing you to check your open positions, Margin requirements and cash balances, and trading confirmations. Should you have any queries relating to your statements we encourage you to contact us.

FFS does not guarantee the performance, return of capital from, or any particular rate of return, of a Commodity Derivative product or transaction. Clients may lose more than the amount of funds in their account, and should only invest risk capital (that is, capital you can afford to lose). Please note that the historical financial performance of any Commodity Derivative or underlying instrument/market is no guarantee or indicator of future performance.

Please note that the examples provided in this PDS are provided for illustrative purposes only and do not necessarily reflect current or future market or product movements, the values that FFS will apply to a trade, or how such trades impact your personal circumstances. The figures used in the examples do not necessarily reflect your personal circumstances and do not restrict in any manner the way in which FFS may exercise its powers or discretions. Those examples do not constitute general or personal financial product advice to any person reading this PDS.

### 4. ADVICE

FFS is authorised to buy and sell Commodity Derivative contracts and to give advice in relation thereto. We will only provide you with personal advice regarding Commodity Derivative transactions if specifically requested and agreed, in which case a Statement of Advice will be issued to you.

The information contained in this PDS is general advice only, and does not take into account your particular financial objectives, needs and circumstances. In general, we only provide general advice and we neither collect, nor take into consideration, information regarding your financial circumstances and needs, and we recommend that you obtain your own professional advice to ensure you fully understand the nature and risks of these products and determine their suitability for your situation.

If we agree to provide you with personal advice which does take into account your personal financial needs, circumstances and objectives, then we will issue you with a Statement of Advice.

## 5. FFS COMMODITY DERIVATIVE SUMMARY TABLE

The following summary table is provided for ease of reference. However, please ensure that you read this PDS in its entirety.

Item	Summary	PDS Section reference
Who is the issuer of this PDS and the Commodity Derivatives?	Forex Financial Services Pty Ltd	2
What is a Commodity Derivative?	A Commodity Derivative is an Over-the-Counter Derivative entitling the holder to benefit from movements in the underlying gold and silver markets. Unlike exchange traded derivatives which trade on an exchange such as the ASX, FFS Commodity Derivatives are Over-the-Counter Derivatives and clients will need to open and close their positions directly with FFS. Closing out involves entering into equal and opposite position with us, which generates a profit or loss on the transaction, which is then settled between us. The resulting profit or loss of the trade is the net result of the difference between the opening and closing rates of each transaction, adjusted for transaction costs.	6
What fees and charges are payable in respect of a Commodity Derivative contract?	<p><u>FFS Margin</u></p> <p>FFS profit margin is built into the terms of the derivative price (which is unknown prior to the date of issue, and cannot be properly ascertained until after the trade is closed).</p> <p><u>Direct Market Access ('DMA') Commissions</u></p> <p>FFS charges a commission to clients who choose to trade via DMA.</p> <p>For precious metals, traded via DMA account, commission is charged as follows:</p> <p>XAUUSD.dma (Gold)- US\$ 7.5 per 1 lot (100 ounce) for each trade. The total commission of US\$ 15 per 1 lot trade (includes US\$ 7.5 for opening trade and US\$ 7.5 for closing trade) is applied to the client's trading account at the time a trade is opened.</p> <p>XAGUSD (Silver)- US\$ 1.0 per 1 lot (1000 ounce) for each trade. The total commission of US\$ 2.0 per 1 lot trade (includes US\$ 1.0 for opening trade and US\$ 1.0 for closing trade) is applied to the client's trading account at the time a trade is opened.</p> <p>You will also be liable for fees for related services that may be charged directly by our nominated third-party service providers depending upon the type of service you utilise. These fees include fees for failed trades, off-market transfers, other administrative fees including monthly fees for</p>	10

	access to certain information and services.	
How do I open a Commodity Derivative account?	Prior to transacting in Commodity Derivatives, you must read and understand our Financial Services Guide, this PDS and the Account Application Terms & Conditions (which will be provided to you by FFS) detailing the applicable terms and conditions. You must complete, sign and return the Account Application Terms & Conditions and have your account approved by FFS. FFS reserves the right to refuse to open a Commodity Derivative account for any person.	3, 15
How do I place a Commodity Derivative transaction order with FFS?	FFS accepts Commodity Derivative order transaction instructions electronically, via our on-line trading platform.	3, 6
What is Margin?	<p>Your Initial Margin is the amount FFS debits from your account as soon as you open a new Commodity Derivative position or place an order to open a new Commodity Derivative position. This acts as collateral or a security buffer and protects us in the event of a default by you. Typically we will require an Initial Margin calculated as a percentage of the contract value.</p> <p>The Variation Margin is the unrealised profit or loss on your open position. This is the difference between the value of the product when it was bought or sold and its current market price. Should your position move in your favour we may refund part or all of the Variation Margin to you.</p> <p>If you do not meet a Margin Call in a timely manner or within the time frame specified in the Margin Call, positions will be reduced or closed out by FFS without further reference to you in accordance with the terms of the Application Terms &amp; Conditions. A Margin Call will not be considered to have been met unless and until cleared funds have been received in the nominated account and FFS has updated the trading platform.</p>	11
Do I pay or receive any financing charges?	In the event of you holding a Commodity Derivative position overnight you may be paid or have to pay interest. Interest calculations are based on the total notional value of your open position, and are calculated at LIBOR or LIBID plus or minus a margin. Interest is calculated daily and posted to your account at the end of each day.	10
How are payments made in and out of your account?	<p>You may transfer funds to us using any of the following methods:  Bank transfer;  RTGS Bank transfer; or  Cheque.</p> <p><i>In no circumstances do we accept cash deposits.</i></p> <p>You will only be able to withdraw moneys available to you after your Margin obligations have been met. All transfers from FFS to you will be made to the bank account nominated in your Application Terms &amp; Conditions.</p>	14
What are the key risks of Commodity Derivative	Investment in Commodity Derivative products carries a high level of risk and returns are volatile. You should obtain independent professional advice and carefully consider whether they are appropriate for you in light of your	9

transactions?	knowledge, experience and financial needs and circumstances.  Some of the key general and significant risks are set out in section 9.	
What are the tax implications of Commodity Derivative trading?	Commodity Derivative transactions may have tax implications. The taxation consequences of trading in Commodity Derivative can be complex and will differ for each individual's financial circumstances. We recommend that you obtain independent taxation and accounting advice in relation to the impact of Commodity Derivative transactions on your particular financial situation.	17
FFS's powers in the event of default	FFS has extensive powers under the terms of the Application Terms & Conditions to take action in response to a range of default events. FFS may terminate your account, and close out all or any of your Commodity Derivative positions, including cancelling any outstanding orders.	15
How do I obtain further information?	You can contact our head office as per contact details in this PDS.	2

## 6. COMMODITY DERIVATIVES OFFERED BY FFS

Commodity Derivative contracts provided by FFS will be priced in USD and are available in relation to gold and silver. Standard lot sizes will be 100oz for gold and 1,000oz for silver. FFS Commodity Derivative products do not result in the physical delivery of the commodity but are cash adjusted or closed by the Client taking an offsetting opposite position. Commodity Derivative products are derivatives, not physical commodity contracts. Positions will always be closed and the client's account will be either credited or debited according to the profit or loss of the trade.

### FFS TRADING AS PRINCIPAL

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FFS will regularly state, via the electronic trading platform, the price at which it is prepared to deal with you as principal. This is known as being a 'market maker'. When dealing in Commodity Derivative contracts, as with all over-the-counter derivatives, FFS is a market maker, not a broker. Accordingly each transaction agreed and entered into with you will be entered into as principal, not as agent. Should you decide to transact with FFS then FFS will enter into a legally binding contract with you (as principal) i.e. it will be the counterparty to the transaction and each contract purchased (or sold) by you will be an individual agreement made between you and FFS.

### LONG & SHORT POSITIONS

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You can open both long and short Commodity Derivative positions with FFS. Should you open a long position, your intention would be to profit from a rise in the price of the underlying commodity, and you would suffer a loss should the price of the underlying commodity fall. Conversely, should you open a short position, your intention would be to profit from a fall in the price of the underlying commodity, and you would suffer a loss should the price of the underlying commodity rise.



In order to close an open long or short position, you would open an equivalent offsetting position. The closure of a position will generally result in a profit or loss being realised in your account. Should you wish to close only part of your open long or short position you can do so by entering into an equivalent offsetting position of a lesser amount than your current open position.

Some Commodity Derivative products do not have an expiry date. They remain open until they are closed in accordance with the terms of the Application Terms & Conditions. A Commodity Derivative position can only be closed by contacting FFS. To close a Commodity Derivative position, you must access the electronic trading platform to determine the current market price for the underlying commodity, with the view to close the position (or part of it). FFS will confirm the current market price and you will then decide whether to accept the price, and if so, you will instruct FFS to close your open position in accordance with your instructions.

When you trade margin Commodity Derivative products you are normally quoted a spot price. This means that if you take no further steps, your trade will be automatically rolled over after one Business Day unless you initiate an equal and opposite transaction to close the position. Alternatively, you may wish to swap the trade forward to a later date. This may be anywhere from a week up to several months depending on the time frame of the investment.

Although a forward trade is for a future date, the position can be closed out at any time - the closing part of the position is then swapped forward to the same future value date.

When you trade, you trade a combination of commodity and currency. For example, you will buy Gold or Silver and sell US dollars. Or sell Gold or Silver and buy US dollars or any other combination of commodities and widely traded currencies. But there is always a long (bought) and a short (sold) side to a trade, which means that you are speculating on the prospect of a commodity strengthening and the currency weakening and vice versa

When trading Gold or Silver against US dollars, the normal way to trade is buying or selling a fixed amount of a commodity, i.e. certain number of ounces. When closing the position, the opposite trade is done. The profit or loss will be apparent in the change of the amount of US dollars credited and debited for the two transactions. In other words, your profit or loss will be denominated in US dollars. As part of our service, FFS will automatically exchange your profits and losses into your Base currency.

You should note that FFS is not obliged to accept your orders. Typically this would occur should you exceed the limits imposed on your account by FFS, or where there are insufficient funds in your account to meet your Margin obligations.

The rates quoted by FFS include a spread favouring FFS. This spread is not an additional charge or fee payable by you. These spreads will differ depending on the commodities traded.

When trading FFS products you should always be aware of the risks and benefits as detailed in this PDS.

## ELECTRONIC PLATFORM

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FFS provides an electronic trading platform which enables clients to trade in our products. The terms of use applicable to utilising our electronic trading platform, are detailed in the Account Application Terms & Conditions you are required to execute prior to trading. Some of the key provisions include the following:

- FFS reserves the right, in its sole discretion, to institute or change any policies at any time relating to the use of our electronic trading platform. Any such changes will be advised to you directly via our electronic trading platform.
- Clients are granted a non-exclusive and non-transferable licence to use the electronic trading platform subject to the terms of the Application Terms & Conditions.
- Clients shall only use our electronic trading platform for its internal business or investment purposes.
- Clients shall not permit any third party to copy, use, modify, disassemble, translate or convert in connection with use of our electronic trading platform or distribute the platform to any third party.
- Our electronic trading platform may be used to transmit, receive and confirm the execution of orders, subject to market conditions and applicable rules and regulations.
- FFS consents to the Client's access and use in reliance upon the Client having adopted procedures to prevent unauthorised access to and use of the electronic trading platform, in any event, the Client agrees to any financial liability for trades executed through the electronic trading platform.
- Where a Client is granted access to the electronic trading platform, the Client acknowledges and warrants that it has received a password granting it access to the electronic trading platform; is the sole owner of the password provided; and accepts full responsibility for any transaction that may occur on an account opened, held or accessed through the use of the password provided to the Client by FFS.
- Clients agree to accept full responsibility for the use of the electronic trading platform and for any orders transmitted through the electronic trading platform. FFS must be notified immediately should a Client become aware of any unauthorised use, loss or theft of the Client's, username, password or account numbers; or inaccurate information with respect to the content of statements including, cash balances, open positions or transaction history.
- The electronic trading platform is provided on an "as-is" basis and FFS makes no express or implied representations or warranties to the Client regarding its operation or usability.
- FFS does not warrant that access to or use of the electronic trading platform will be uninterrupted or error-free, or that the service will meet any particular criteria with respect to its performance or quality nor do we make any warranty as to the timeliness, sequence, accuracy, completeness, reliability or content of any information, service or transaction provided through the use of the electronic trading platform or the results obtained from its use. FFS expressly disclaims all implied warranties, including without limitation warranties of merchantability, title, fitness for a particular purpose, non-infringement, compatibility, security or accuracy.
- Under no circumstances, including negligence, will FFS be liable for any direct, indirect, incidental, special or consequential damages including, without limitation, business interruption or loss of profits that may result from the use of, unavailability of, or inability to use the electronic trading platform.

- Clients agree that the use of the electronic trading platform is at the Client's risk and the Client assumes full responsibility for any losses resulting from the use of or materials obtained via the electronic trading platform.
- Please note that stop-outs (automatic closing of a position when Margin Calls have not been met) are implemented on our electronic trading platform at the sole discretion of FFS, and no liability for the direct or indirect consequences thereof shall be accepted by FFS in relation thereto.

## PRICING

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The price you pay for a Commodity Derivative (the Issue Price) includes our Margin. Put simply, the Margin we achieve on a particular Derivative can vary considerably. It is determined by how effectively and successfully we hedge our financial exposure created when we issue a particular Commodity Derivative.

## HOW TO BUY/SELL A COMMODITY DERIVATIVE

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An FFS Commodity Derivative can only be bought from, and sold to, FFS. Only FFS account holders with adequate cleared funds may purchase a Commodity Derivative. When a client order is placed, FFS will attempt to hedge its exposure with a third party. If FFS is unable to hedge the derivative effectively, FFS will not issue the Commodity Derivative. Similarly, when a sell order is placed, FFS will seek to unwind its hedge at an appropriate price. Under certain conditions (low liquidity, high volatility), it may be difficult or impossible for you to close out a derivative.

### 7. PURPOSE OF TRADING COMMODITY DERIVATIVES

People who trade in Commodity Derivatives may do so for a variety of reasons. Some trade for **speculation**, that is, with a view to profiting from fluctuations in the price or value of the underlying commodity. Commodity Derivative traders may have no need to sell or purchase the underlying commodity themselves, but may instead be looking to profit from market movements in the commodity concerned.

Others trade Commodity Derivative to **hedge** their exposures to the underlying commodity. For example, Commodity Derivatives can be used as a risk management tool to enable those with existing holdings of an underlying commodity to lock in an effective sale price for the commodity concerned by taking a Commodity Derivative position. Then, if the price of the underlying commodity the investor holds falls, the Commodity Derivative positions will wholly or partly offset the losses incurred on the physical holdings.

**Note:** The risk of loss in trading in derivatives and/or leveraged products can be substantial. A client should carefully consider whether trading such products is appropriate for them in light of their financial circumstances and objectives.

## 8. ASIC REGULATORY GUIDE 227 DISCLOSURE BENCHMARKS

ASIC Regulatory Guide 227 requires issuers of over-the-counter (OTC) derivatives to publish certain information addressing a range of disclosure benchmarks. There are 7 disclosure benchmarks required to be addressed. FFS's compliance with each benchmark is addressed in the following table:

Benchmark description	How does FFS meet this benchmark?
Client qualification	<p>FFS maintains and applies a written policy which sets out the minimum qualification criteria that prospective retail investors will need to demonstrate before we will open a trading account for you. FFS also maintains a written policy/procedure to ensure such criteria are properly applied, and unsuitable investors are not accepted. We also maintain records of our assessments.</p> <p>FFS does not accept retail investors unless they are able to satisfactorily answer the questionnaire included in our trading account application form which addresses the following criteria:</p> <ul style="list-style-type: none"> <li>Previous trading experience in financial products</li> <li>Understanding of, and experience with, leverage, margins and volatility</li> <li>Size and volume of previous leveraged trades</li> <li>Understanding of the key features of the product</li> <li>Understanding the trading process and relevant technology</li> <li>Ability to monitor and manage the risks of trading</li> <li>Understanding that only risk capital should be traded</li> <li>Funding source for trading, and plan for covering losses</li> </ul>
Opening Collateral	<p>FFS only permits clients to open an account and trade with cleared funds (ie transfer of cash from your banking account to your trading account).</p> <p>FFS does not accept other financial products as collateral for opening or trading an account, due to the potential for 'double leverage' in such circumstances.</p>
Counterparty risk - hedging	<p>FFS maintains and applies a written policy to manage our exposure to market risk from client positions. This includes strict risk management controls to assess and monitor our hedging counterparties (to ensure they are of sufficient financial standing, are licensed by a comparable regulator, and are of sound reputation). FFS provides its clients with a Direct Market Access (DMA) via a Prime Brokerage solution. The FFS MT4 platform is connected to multi-bank and non-bank liquidity of major global banks and financial institutions.</p> <p>Our Hedging Counterparties Policy provides more detail on the current counterparties we use and the methods we use to mitigate counterparty risk. You can find a copy of the policy at <a href="http://forexfs.com/Content/Media/Policy/Hedging_Counterparties_Policy.pdf">http://forexfs.com/Content/Media/Policy/Hedging_Counterparties_Policy.pdf</a></p>

Counterparty risk – financial resources	<p>FFS maintains and applies a written policy to ensure the ongoing maintenance of adequate financial resources. We further maintain a detailed Risk Register, in which the key risks of our business are addressed and reviewed. Please note that we have designated staff to monitor our compliance with our license conditions and ASIC RG 166 (financial) obligations, as well as review and input from our independent external legal and accounting advisers. Further, our external independent auditor conducts an audit at the conclusion of every financial year, a copy of which can be provided to you upon written request.</p> <p>Please note we do not undertake stress testing in relation to unhedged market exposures, as all transactions with clients are fully hedged.</p>
Client money	<p>FFS maintains and applies a clear policy with regard to the use of client money. Please note that money you deposit into your trading account is co-mingled with other client money in our client trust account. Such monies are only applied to client trades/settlement obligations and to pay agreed fees etc, in line with the Corporations Act requirements.</p> <p>Please note that monies deposited into your trading account to meet margins, deposits, fees, transaction settlements, or other costs shall be immediately on-forwarded (where applicable) to our liquidity providers, and applied against your margin, exchange, fee and settlement obligations. Client monies, which are held pending future transactions and payments, are retained in our segregated account in accordance with the Corporations Act. It is important to note that holding your money in one or more segregated accounts may not afford you absolute protection.</p> <p>FFS enters into arrangements with third party liquidity providers for the facilitation of transactions and settlements, and avails monies received for margin calls and settlements to such providers for this purpose. Accordingly clients are indirectly exposed to the financial risks of our counterparties and organisations with whom FFS holds client funds. If the financial condition of FFS or assets of our counterparties or the parties with which we hold client assets deteriorate, then clients could suffer loss because the return of the client capital could become difficult.</p> <p>Client trades can only be placed when there are cleared funds in the client’s account. Accordingly, no scenario is anticipated which would result in a shortfall in the client trust account, and one client’s money is not used to cover the obligations of another.</p>
Suspended or halted underlying assets	<p>An underlying financial product may be placed in a trading halt on the relevant exchange in various circumstances. Additionally, it may be suspended or delisted in certain circumstances.</p> <p>Should our liquidity providers stop providing pricing and clearing in a certain product or underlying asset due to a suspension or trading halt, then FFS will be unable to process orders which have not yet been opened, and will suspend trading on open positions until such time as pricing becomes available again.</p>
Margin calls	<p>FFS maintains and applies a written policy detailing our margining practices. This details how we monitor client accounts to ensure you receive as much notice as</p>

possible regarding margin calls, our rights regarding the levying of margin calls and closing out of positions when such calls are not met in a timely manner, and what factors we consider when exercising such close-out rights.

All contracts will be subject to Margin obligations. Accordingly, you are responsible for meeting all margin payments required by FFS. It is your sole responsibility to monitor and manage your open positions and exposures, and ensure Margin Calls are met as required.

Margin Calls will be notified via email, the trading platform, and you are required to log-in to the system on a daily basis when you have open positions to ensure you receive notification of any such Margin Calls.

Please note that if you do not check the trading platform for Margin Call notifications, and hence do not meet them in a timely manner, positions will be closed out by FFS, without further reference to you, in accordance with the executed Account Application Terms & Conditions.

FFS seek to provide you with timely and sufficient notice of margin calls, to facilitate your ability to meet them. However, please note that certain market conditions or events may trigger extreme volatility, requiring urgent funds to be applied to retain your open positions.

We reiterate that trading in OTC derivative products carries a high level of risk and returns are volatile. The risk of loss in trading can be substantial, and you can incur losses in excess of the capital you have invested. Accordingly, you should only trade with risk capital i.e. money you can afford to lose, and which is excess to your financial needs/obligations.

## 9. KEY BENEFITS OF TRADING COMMODITY DERIVATIVES

Commodity Derivative products provide an important risk management tool for those who manage commodity exposures. The significant benefits of using Commodity Derivative products as a risk management tool are to **protect your commodity price and provide cash flow certainty**. Other benefits of using these products apply equally for a client as a risk management tool or for the client who is a trader or speculator and these are described below.

### PROTECT A COMMODITY PRICE

FFS offers Commodity Derivatives in relation to the Gold and Silver markets. A FFS Commodity Derivative gives the holder the right to profit from an increase or a decrease in the Underlying Commodity (e.g. Gold).

FFS 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 loss orders if the commodity price reaches a particular level.

In addition, clients may also use limit orders which allow clients the opportunity to benefit from favourable upside market movements.

#### PROVIDE CASH FLOW CERTAINTY

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By agreeing a price now for a time in the future you will determine the exact cost of that commodity, thereby giving certainty over the flow of funds. Any profit (or loss) you make using the FFS product would be offset against the higher (or lower) price you physically have to pay for the commodity.

In addition to using Commodity Derivative products as a risk management tool, clients can benefit by using Commodity Derivative products offered by FFS to speculate on changing commodity prices. You may take a view of a particular market or the markets in general and therefore invest in our products according to this belief in anticipation of making a profit.

#### TRADE IN SMALL AMOUNTS

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The electronic trading platform enables you to make transactions in small amounts. You can start using the electronic trading platform even with an opening balance as little as AUD \$3,000. When trading in a Commodity Derivative contract offered by FFS you may deposit the sum that suits you, or the amount which is in line with the amount you are willing to risk. With FFS you are in full control of your funds.

#### PROFIT POTENTIAL IN FALLING MARKETS

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Since the market is constantly moving, there are always trading opportunities, whether a commodity is rising or falling.

#### REAL TIME STREAMING QUOTES

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The electronic trading platform uses 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 (in most circumstances) on any global market which is open for trading and make a trade based on real-time information. FFS believes it is highly important for you to be able to control your funds whenever you wish and base your deals on real-time information.

### 10. KEY RISKS OF TRADING COMMODITY DERIVATIVES

Trading in Commodity Derivative products carries a high level of risk and returns are volatile. The risk of loss in trading can be substantial, and you can lose capital invested. You should obtain independent professional advice and carefully consider whether Commodity Derivative products are appropriate for you in light of your knowledge, experience and investment objectives, financial needs and circumstances.

It is also important that you read and understand the terms and conditions of trading in the Application Terms & Conditions and this PDS before entering into any Commodity Derivative transactions.

Some of the key significant risks involved in Commodity Derivative trading include, but are not limited to, the following:

**Macro-economic Risk** – the general state of the Australian and international economies as well as changes in taxation policy, monetary policy, interest rates and statutory requirements are some of the factors which may influence the progress of commodity markets.

**Market Risk**- This is the risk that the markets move in a direction not anticipated. External market forces can cause markets and prices to change quickly, such forces include changing supply and demand relationships, governmental, agricultural, commercial and trade programs and policies, national and international political and economic events and the prevailing psychological characteristics of the marketplace. As the price of your Commodity Derivative position is based on an underlying commodity these factors may affect your position and our ability to execute, settle or close out transactions on your behalf.

**Gapping** - In fast moving or illiquid markets “gapping” may occur. Gapping occurs when market prices do not follow a “smooth” or continuous trend and are typically caused by external factors such as world, political, economic and corporate related events. Should gapping occur in the underlying commodity on which your Commodity Derivative product is based, you may not be able to close out your position or open a new position at the price at which you have placed your order.

**Variation Margins** - Should the price of the underlying commodity on which your Commodity Derivative product is based move against you, you may receive a Margin Call from us and, at short notice, be required to deposit a Variation Margin into your account in order to maintain your position. Should we make a Margin Call which may be substantial, you must deposit the amount of funds that we request into your account immediately. In the event of you failing to make Margin payments we may reduce or close all your open positions without further notice and you will be liable for any shortfall. Positions are marked-to-market on a daily basis, with payments being settled daily to account for market movements. You must be in a position to fund such requirements at all times. Initial and Variation Margin must be paid immediately after the call. The general policy of FFS is that payment of the call must be received within 24 hours of the call although in times of extreme price volatility this may mean as little as 1 hour. In rare circumstances, the markets could move against your position giving FFS no time to make a Margin Call on you to request additional funds for FFS to protect its positions.

**Leverage** – As Commodity Derivative products are highly leveraged a small price movement in the underlying commodity on which they are based can result in substantial profits or losses exceeding your Initial Margin. In addition you could be required to pay further funds representing losses and other fees on your open and closed positions. The prices of our products may be volatile and fluctuate rapidly over wide ranges. Price fluctuations may be as a result of uncontrollable events or changes in a variety of conditions as described above in Market Risk.

**Liquidity** – Under certain conditions, it may be difficult or impossible to close out a position. This can occur when there is significant change in the price of the underlying commodity over a short period of time.

**Stop Loss Orders unavailable** - Certain Commodity Derivative products can be traded in conjunction with our limit and stop loss orders which are designed to either optimise your exposure to the market or limit your loss by instructing that trades be executed at pre-determined price levels. Stop losses are instructions placed by the client with FFS to close out an open position if a market trades through a specific level. Stop loss orders are often used to attempt to limit the amount which can be lost on a position. We note that stop losses are not guaranteed and the execution of such orders will depend on



market volatility and liquidity. So whilst stop losses generally allow you to control potential losses should the market move against you, please be aware that stop loss orders may not always limit your losses the way you anticipate. The operation of these order types should be discussed with your FFS representative.

**Time Decay** - Commodity Derivatives have a finite life and over the life of the Commodity Derivative the passing of time will (in most circumstances) erode the value of a Commodity Derivative; assuming that all other factors remain constant. For example, the Underlying commodity price may not even move and Time Decay will still see the Commodity Derivative value drop.

**Powers of FFS** – Should you fail to pay any amounts due and payable, including Margin Calls, or maintenance of minimum account balances, FFS have extensive powers to close out positions and charge default interest. Under the Application Terms & Conditions you also indemnify FFS and its employees, agents and representatives against certain losses and liabilities. You should read the Application Terms & Conditions carefully to ensure you understand these powers and responsibilities.

**Electronic Trading platform risk** – You shall be responsible for providing and maintaining the means by which to access the electronic trading platform, which may include without limitation a personal computer, modem and telephone or other access line. While the internet and the World Wide Web are generally reliable, technical problems or other conditions may delay or prevent access thereto. If you are unable to access the internet and thus, the electronic trading platform, it will mean you may be unable to trade in a Commodity Derivative product offered by FFS when desired and you may suffer a loss as a result. Furthermore, in unforeseen and extreme market situations, such as an event like September 11, or a global catastrophe, FFS reserves the right to suspend the operation of the electronic trading platform or any part or sections of it. In such an event, FFS may, at its sole discretion (with or without notice), close out your open contracts at prices it considers fair and reasonable at such a time. FFS may impose volume limits on client accounts, at its sole discretion. Please note that such measures would only be implemented in extreme market conditions, and such discretion only reasonably exercised in the best interests of the client.

**Regulatory Risk** – changes in taxation and other laws, government, fiscal, monetary and regulatory policies may have a material adverse effect on your dealings in Commodity Derivative, as may any regulatory action taken against FFS.

**FFS Risk** - the risk of FFS being unable to operate its business as a result of a regulatory impediment such as FFS ceasing to hold an Australian Financial Services Licence or because ASIC impose a stop order on the PDS issued by FFS or FFS ceasing to exist.

**No cooling off**- There are no cooling-off arrangements for Commodity Derivative contracts. This means that when FFS arranges for the execution of a Commodity Derivative contract, you do not have the right to return the product, nor request a refund of the money paid to acquire the product.

Additional risks to be carefully considered are as follows:

## MARKET VOLATILITY

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Commodity markets are subject to many influences which may result in rapid fluctuations and reflect unforeseen events or changes in conditions with the inevitable consequence being market volatility.

Given the potential levels of volatility in the commodity markets, it is therefore recommended that you closely monitor your positions with FFS at all times. Commodity markets are highly volatile and are very difficult to predict. Due to such volatility, in addition to the spread that FFS adds to all calculations and quotes, **no Commodity Derivative product offered by FFS, or any other financial services provider, may be considered as a safe trade.**

However, FFS offers clients a way of managing volatility by working orders. Certain Commodity Derivative products can be traded in conjunction with our limit and stop loss orders which are designed to either optimise your exposure to the market or limit your loss by instructing that trades be executed at pre-determined price levels. Stop losses are instructions placed by the client with FFS to close out an open position if a market trades through a specific level. Stop loss orders are often used to attempt to limit the amount which can be lost on a position. **We note that stop losses are not guaranteed and the execution of such orders will depend on market volatility and liquidity.** The operation of these order types should be discussed with your FFS representative. You should refer to our Application Terms & Conditions with respect to the operation of these order types.

Under certain conditions it could become difficult or impossible for you to close a position. For example, this can happen when there is a significant change in prices over a short period. Lack of liquidity in commodity markets due to extreme volatility or uncertainty of trading in those markets may also affect the ability of FFS to open or close a position thereby reducing profits or increasing losses.

A "spread" position (i.e. the holding of a bought contract for one specified date and a sold contract for another specified date) is not necessarily less risky than a simple long (i.e. bought) or short (i.e. sold) position. Furthermore a "spread" may be larger at the time you close out the position than it was at the time you opened it.

You should be aware that if you acquire a Commodity Derivative product offered for trading or speculative purposes (that is where you do not have a commodity risk you need to protect yourself from), you will be fully exposed to movements in price.

The risk of loss will be increased where you borrow to acquire the product as the total loss which may be incurred will be the loss on the Commodity Derivative product together with the amount you borrowed.

Forex FS strives to provide clients with the best execution and competitive spreads available via direct market access. However, there may be times when market conditions (extreme volatility or volume) cause spreads to widen beyond our typical spreads - this market condition is known as a 'fast market'. Fast market conditions may be caused by various factors including, but not limited to, news releases such as US non-farm payroll numbers, order imbalances-significantly greater orders of one type (e.g., "buys") than another type (e.g., "sells"). Liquidity withdrawal is a common measure used by Liquidity Providers at or right before the moment of key data releases such as the USA NFP. In the event of a fast market, spreads will widen as the market ascertains the correct value of a currency and prices can gap -

a price gap occurs when the price of a market jumps from its last bid/offer quote to a new quote, without ever trading at prices in between those quotes. For example, XAUUSD could trade 1290.00/40 ahead of an economic data release or news event with the first quote following the event being 1190.00/90 if the data or news reflected such a shift in sentiment. In these instances, stop losses, entry orders and margin calls will be executed at the best price available after the gap given the underlying market liquidity. Customers may experience a delay in execution, re-quoted prices different to their requested trade price, or execution of orders at different levels depending on size and reflecting the underlying market liquidity. Fast market conditions can occur at any time but are most common during economic data releases or news events especially where liquidity is at a premium (for example national holidays) or after a week-end as the market reopens. Wider spreads during fast market conditions or a market gap can significantly decrease the equity on your account and can trigger a margin call or equity stop loss level (liquidation of the least profitable positions).

### COUNTERPARTY AND CREDIT RISK

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Given you are dealing with FFS 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 are subject to FFS's credit risk. If we were to become insolvent, we may be unable to meet our obligations to you. FFS enters into arrangements with third party execution and clearing providers for the facilitation of transactions and settlements, and avails monies received for margin calls and settlements to such providers for this purpose. If the financial conditions of FFS or assets of our counterparties or the parties with which we hold client assets deteriorate, then customers could suffer loss because the return of the customer capital and other customer property could become difficult.

You are reliant on FFS's ability to meet its counterparty obligations to you to settle the relevant contract. FFS may choose to limit this exposure by entering into opposite transactions as principal in the wholesale market in relation to its exposures with clients. In addition, FFS must comply with the financial requirements imposed under its AFS Licence.

### FOREIGN EXCHANGE RISK

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Your account is maintained in the currency you have nominated, that is, the Base currency. FFS Commodity Derivatives are denominated in USD and accordingly all Initial and Variation Margins, option premiums, profits, losses, rollover fees, interest rate payments/receipts and financing credits and debits in relation to that product are calculated using USD.

Accordingly, your profits or losses may be affected by fluctuations in the applicable foreign exchange rate between the time the order is placed and the time the position is closed, liquidated, offset or exercised.

Upon closing a position, the USD balance will be converted to AUD if that is the base currency of your account. Any conversion will be at the exchange rate quoted by FFS. Until the USD balance is converted to the base currency, fluctuations in the relevant foreign exchange rate will affect the unrealised profit or loss made on the position.

## MARKET INFORMATION

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FFS may make available to you through one or more of its services, a broad range of financial information that is generated internally or obtained from agents, vendors or partners (third party providers). This includes, but is not limited to, financial market data, quotes, news, analyst opinions and research reports, graphs or data (Market Information).

Market Information provided by us by email or through our website is not intended as advice. FFS does not endorse or approve the Market Information and we make it available to you only as a service for your own convenience. FFS and its third party providers do not guarantee the accuracy, timeliness, completeness or correct sequencing of the Market Information or warrant any results from your use or reliance on the Market Information.

Market Information may quickly become unreliable for various reasons including, for example, changes in market conditions or economic circumstances. Neither FFS nor the third party providers are obligated to update any information or opinions contained in any Market Information and we may discontinue offering Market Information at any time without notice.

## OPERATIONAL RISK

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Operational Risk is inherent in every Commodity Derivative transaction, for example, disruption to FFS's operational processes such as communications, computers, networks or external events may lead to delays in the execution of or settlement of a transaction.

FFS relies on a number of technology solutions to provide you with efficient services - FFS has outsourced the operation of this trading platform to a third party, and in doing so FFS relies upon this third party to ensure the systems are updated and maintained.

A disruption to the FFS electronic trading platform may mean you are unable to trade in a Commodity Derivative product offered by FFS when desired and you may suffer a loss as a result. An example of disruption includes the "crash" of our computer based trading system.

## RISK CAPITAL

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You could lose the entire Margin that you deposit to establish or maintain a Commodity Derivative position.

All derivatives involve risk and there is no trading strategy that can eliminate it. The placing of contingent orders (such as a stop-loss order) may not always limit your losses to the amounts that you may want. Market conditions may make it impossible to execute such orders

In cases where you are speculating we suggest that you do not risk more capital than you can afford to lose. A good general rule is never to speculate with money which, if lost, would alter your standard of living.

## SUPERANNUATION FUNDS

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It should be noted that complying superannuation funds are subject to numerous guidelines and restrictions in relation to their investment activities which are contained in the Superannuation Industry Supervision Act 1993, and associated regulations and regulatory guidance material.

Without being an exhaustive list, following are some of the issues that should be considered by a Trustee of a complying superannuation fund:

- Restrictions on borrowing and charging assets and whether dealing in Commodity Derivative products would breach those borrowing and charging restrictions;
- The purpose of dealing in Commodity Derivative products in the context of a complying superannuation fund's investment strategy as well as the fiduciary duties and other obligations owed by Trustees of those funds;
- The necessity for Trustees of a complying superannuation fund to be familiar with the risk involved in dealing in Commodity Derivative products and the need to have in place adequate risk management procedures to manage the risks associated in dealing in those products; and
- The consequences of including adverse taxation consequences if a superannuation fund fails to meet the requirements for it to continue to hold complying status.

### 11. FEES & CHARGES

The calculation of the price to be paid (or the payout to be received) for Commodity Derivative products offered by FFS, at the time the contract is purchased or sold, will be based on our best estimate of commodity market prices and the expected level of interest rates, implied volatilities and other market conditions during the life of the financial contract and is based on a complex arithmetic calculation.

**The calculation will include a spread in favour of FFS.** The contract prices (or the payout amounts) offered to clients hedging, trading or speculating on market prices may differ from prices available in the primary or underlying markets where contracts are traded. This is due to the spread favouring FFS in the price calculation. We act as a market maker and not a broker and make our earnings from the spreads that are embedded in the currency rates.

This spread is incorporated into the rates quoted to you and is not an additional charge or fee payable by you. Accordingly, the decision to transact at a particular rate will always be your decision. However, once you agree to a particular rate that is the total amount payable by you to FFS.

FFS does not provide a market amongst or between clients for investments or speculations. As stated above, each product purchased (or sold) by you is an individual agreement made between you and FFS as principal and is not transferable, negotiable or assignable to or with any third party.

FFS also charges a commission to clients who choose to trade via Direct Market Access (DMA) accounts.

For precious metals, traded via DMA account, commission is charged as follows:

XAUUSD.dma (Gold)- US\$ 7.5 per 1 lot (100 ounce) for each trade. The total commission of US\$ 15 per 1 lot trade (includes US\$ 7.5 for opening trade and US\$ 7.5 for closing trade) is applied to the client's trading account at the time a trade is opened.

XAGUSD.dma (Silver)- US\$ 1.0 per 1 lot (1000 ounce) for each trade. The total commission of US\$ 2.0 per 1 lot trade (includes US\$ 1.0 for opening trade and US\$ 1.0 for closing trade) is applied to the client's trading account at the time a trade is opened.

You may also be liable for fees for related services that may be charged directly by our nominated third-party service providers depending upon the type of service you utilise. These fees include fees for failed trades, off-market transfers, other administrative fees including monthly fees for access to certain information and services.

Fees must be paid to us immediately upon execution of the trade, and will be deducted from your account in accordance with the Application Terms & Conditions.

## FINANCING CHARGES

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In the event of you holding a Commodity Derivative position overnight you may be paid or have to pay interest. Interest calculations are based on the total notional value of your open position, and are calculated as set out below using either LIBOR (London Interbank Offer Rate) or LIBID (London Interbank Bid Rate) plus or minus a margin. Interest is calculated on a daily basis and debited from and credited to your account at the end of each day.

The LIBOR and LIBID rates change frequently and are the most widely used benchmark or reference rate for short term interest rates world-wide. LIBOR is calculated daily by the British Bankers Association and published on their website with a 1 week rolling delay.

The amount of interest paid/received by FFS will vary each day, depending upon factors such as the price of the underlying currency on which the transaction is based, changes to holdings within your portfolio and/or changes to LIBOR or LIBID.

No interest is paid or received if you open and close a position in the same trading day.

## 12. MARGINS

Where you enter a transaction you will be required to pay an initial margin (an initial deposit/up-front payment). An initial margin means an amount of collateral that is required from you as security to enter into a margin position. In addition, in order to maintain your position, you may be required to pay additional margin in the event of adverse market movements against your position. Such payments are not costs but are cleared funds required by FFS to cover our risk and as security for your obligations. The

amount is determined by the relevant third-party service provider, however FFS in its absolute discretion, can impose margin requirements above and beyond those set by service providers.

The current margin rates applicable to each type of transaction are provided on the electronic trading platform prior to entering into a trade.

The Margin amounts are payable into the FFS client trust account and are held, used and withdrawn in accordance with the Corporations Act requirements and our agreed terms and conditions specified in the Account Application Terms & Conditions. In particular, FFS will utilise client deposits to meet margin calls, and other payment/settlement obligations.

All contracts will be subject to Margin obligations. Accordingly, you are responsible for meeting all margin payments required by FFS. It is your sole responsibility to monitor and manage your open positions and exposures, and ensure Margin Calls are met as required. Margin Calls will be notified via the trading platform, and you are required to log-in to the system on a daily basis when you have open positions to ensure you receive notification of any such Margin Calls. Please note that if you do not check the trading platform for Margin Call notifications, and hence do not meet them in a timely manner, positions will be closed out by FFS, without further reference to you, in accordance with the executed Account Application Terms & Conditions. A Margin Call will not be considered to have been met UNLESS AND UNTIL cleared funds have been received by FFS in the nominated account AND FFS has updated the electronic trading platform (generally around 10am on the following Business Day).

Positions will be monitored by FFS on a mark to market basis to account for any market movements. If the value of the position moves against you then you will be required to “top up” the Initial Margin and, if so, you will be subject to a Margin Call i.e. to pay additional Margin or alternatively to close the position in order to reduce your Initial Margin to a level acceptable to FFS. The Variation Margin liability is incurred at the time of the occurrence of any movement in the market that results in an unrealised loss, regardless as to when the call to pay is made by FFS on you.

You must be in a position to fund such requirements at all times. Initial and Variation Margin must be paid immediately after the call. The general policy of FFS is that payment of the call must be received within 24 hours of the call although in times of extreme price volatility this may mean as little as 1 hour. In rare circumstances, the markets could move against your position giving FFS no time to make a Margin Call on you to request additional funds for FFS to protect its positions.

If you fail to meet any Margin Call i.e. if we fail to receive cleared funds, we may reduce or close all your open positions without further notice or in the rare circumstances where FFS does not have time to make a Margin Call due to exceptional market movements, then FFS may in its absolute discretion and without creating an obligation to do so, close out, without notice, all or some of your open positions (or transactions) and deduct the resulting realised loss from the Initial Margin (and other excess funds held in your account with FFS).

In either case, any losses resulting from FFS closing your position will be debited to your account and may require you to provide additional funds to FFS.

Commodity Derivative products can be highly volatile and you should ensure that you are always contactable by FFS. If you are unable to be contacted for the purpose of FFS making a Margin Call, we may close out your open positions without actually speaking to you.

Margin calls will be made on net account basis i.e. should you have several open positions, then Margin Calls are netted across the group of open transactions. In other words, the unrealised profits of one transaction can be used or applied as Initial or Variation Margins or to offset the unrealised losses of another transaction.

You will only be allowed to deal in and maintain positions on the basis of cleared funds being provided for your Margin obligations or your net balance is in credit. Margin calls can be made by FFS at any time and you are responsible for ensuring that they are met.

FFS has the right to limit the size of your open positions, whether on a net or gross basis under any appropriate circumstances as determined by FFS. FFS also has the right to refuse any request made by you to place an order to establish a position at any time at FFS's discretion without having to give you notice.

### 13. TRADING EXAMPLES

Please note the following:

A Commodity Derivative price does not move one-for-one with the Underling Commodity price. However, all other factors being equal a Commodity Derivative will not gain or lose value more quickly than the Underlying commodity The greater the degree of 'moneyness' of a Commodity Derivative (how far a Commodity Derivative is in-the-money) the closer the change in the Underlying Commodity will be reflected in the Commodity Derivative's value.

For example, a Commodity Derivative that is deep in-the-money will be much more responsive to the Underlying price moves than a similar Commodity Derivative that is deep out-of-the-money. As a Commodity Derivative moves more and more into the money this degree of responsiveness will approach one-for-one. The more a Commodity Derivative moves Out-of-the-Money the more a Commodity Derivative's change in value due to the Underlying Commodity price falls towards zero.

A Commodity Derivative that is an At-the-money Commodity Derivative will typically, all other factors being equal, respond to an Underlying commodity price move at about half, or 0.5. That is, for example, for an At-the-money gold derivative with a controlling interest of 100 ounces at \$1.00 per ounce move in the gold price will approximately result in a change in the Commodity Derivative's value of \$50.00.

This ratio of Commodity Derivative price change is said to be its Delta. A Commodity Derivative will have a Delta greater than zero and less than one. As an At-the-Money Commodity Derivative, with a delta of 0.5, moves to be more in-the-money the corresponding value of that Commodity Derivative's Delta will increase, until ultimately approaching 1, but not greater than 1. Conversely, as a Commodity Derivative moves from being At-the-money to being Out-of-the-money the Delta will fall to approach zero, but not less than zero.

It should be noted however delta is not constant. The value of Delta changes with changing market prices (relative to the Trigger Point of the Commodity Derivative) and the passing of time.



## PROFIT & LOSS

FFS Precious metals are priced in USD per troy oz (Troy ounces).

For example, when gold is trading at 1,000 per ounce, the contract has a value of \$100,000 (1,000 x 100 ounces). A trader that is long at 1,000 and sells at 1,010 will make \$1,000 (1,010 – 1,000 = \$10 profit, 10 x 100 ounces = \$1,000). Conversely, a trader who is long at 1,000 and sells at 990 will lose \$1,000.

	<b>GOLD</b>	<b>SILVER</b>
Symbol	XAUUSD	XAGUSD
1 Lot	100 Troy oz	1000 Troy oz
Minimum Value	0.01	0.01
Tick Value (Per 1 Lot)	\$1.00	\$1.00
Margin (see below)	1%	1%
Max Auto Execution	50 Lots	50 Lots

## POSITION VALUE

The value of a position can be calculated as the price multiplied by the number of troy oz.

Example of position value -

A client buys 1.3 lots of Spot Gold at 1,291.60.

The total value of that position for margin purpose will be  $(1.3 \times 100 \times 1,291.60) = \$167,908$

## MARGIN

Margin will be 1% of position

Margin is calculated at 1% or 1:100 for this example.

$\$167,908 \times 1\%$  or  $167,908/100 = \$1,679.08$

## PROFIT AND LOSS

This can be calculated by multiplying tick value, lot size and market movement (Open price-closing price x 100)

In this example, the client's position was closed at 1,299.00

Market movement =  $(1,291.60 - 1,299)$   
= 7.4 pips

$1.3 \times 100 \times 7.4 = \$962.00$

## OVERNIGHT POSITIONS

As with Forex all positions held overnight will be rolled to the new spot value date and will therefore incur an overnight swap charge or credit to the clients account.

## CHARGES

FFS earns its income from the spread which is embedded into the price (which is unknown prior to the date of issue, and cannot be properly ascertained until after the trade is closed).

## MARGIN CALL AND LIQUIDATION LEVEL

A client buys 1 lot of Spot Gold at \$1,290

**Leverage:** based on leverage of 1:100, the client will be required to place down \$ 1,290

**Margin Call:** Client will receive a margin call when the margin level reaches 150%. Margin level calculates as follows:

$ML\% = \text{Equity} / \text{Margin} * 100\%$

Based on \$5,000 account balance, and were you to open a 1 lot position, it would require \$ 1,290 margin and therefore your margin level will be:

$ML\% = 5000 / 1,290 * 100 = 387.6\%$

Should the market move approximately 3065 points against you, then your open trade will have a floating loss of \$3,065. Your new margin level will be:

$ML\% = (5,000 - 3,065) / 1290 * 100 = 150\%$ .

On this 150% level you will receive a margin call.

Should the market move further against you and your floating loss reach \$3,839 then your margin level will be:

$$ML\% = (5,000 - 3,839)/1290 * 100 = 90\%.$$

At this level your position will be liquidated automatically at the market rate.

## 14. COMMODITY MARKETS

FFS currently provides the opportunity to purchase Commodity Derivatives relating to two commodity markets. These markets are generally volatile and fluctuate significantly over short and long periods of time, presenting investors with significant long term and short term trading opportunities, in both falling and rising markets, provided the correct Commodity Derivative has been selected.

Available markets and FFS Commodity Derivatives are also detailed on our website. Below are the markets currently offered by FFS at the time of issue of this PDS- please note that additional markets may be added over time, or removed, at FFS's sole discretion, and without prior notice or re-issue of this PDS.

Every day a new range of Commodity Derivatives is offered to FFS clients. The range of Commodity Derivatives on any particular day will not necessarily be offered in relation to all of the markets listed below. Clients are always encouraged to request that a specific customised Commodity Derivative be made available.

All FFS Commodity Derivatives offered are denominated in US dollars. That is the initial cost as well as the closing value of each FFS Commodity Derivative is calculated in US dollars and then converted back into an Australian Dollar amount in each instance. Accordingly, your profits and losses may be additionally impacted by fluctuations in the USD/AUD exchange rate on those days.

### 1. Gold

Trading in Gold can offer a long term hedge against economic downturns and a short term play on price movement. Gold has many industrial uses and it is produced in mines on most continents. Due to its virtual indestructibility, all the Gold that has ever been mined still exists above ground in some form or another. The world's largest producers of Gold are South Africa (16%), the US (12%), Australia (11%), China (7.5%), Russia (6.2%) and Canada (5%).

It is estimated that over 1 billion ounces of Gold is held in reserve by the majority of Central Banks around the world including Australia's Reserve Bank. Gold is considered a hedge against inflation and economic activity. This is one reason why Gold will often move in the opposite direction from the stock market.

Gold is quoted in USD per ounce. Prices are quoted for gold on a number of global exchanges including COMEX; TOCOM; LOCO London.

### 2. Silver

As a precious metal, Silver can play an important role in balancing a portfolio as it provides a hedge against economic uncertainty and unfavourable currency movements. Silver is one of the world's most actively traded Commodities. FFS Silver Commodity Derivatives provide an easy and cost effective way to trade this dynamic market.

Silver is produced by many nations with the largest being Mexico (14.8%), Peru (12.6%), Australia

(11.2%), China (9.6%) and the USA (9.3%). Silver is used heavily in the production of photographic equipment (55% of total demand) and also in the construction of electrical contact and conductors (16%). Only a relatively small amount is used for jewellery. In 1972, Silver assumed a key role in the US monetary system when Congress based the currency on the Silver dollar, and its fixed relationship to Gold. Silver was used for the nation's coinage until its use was discontinued in 1965. Mexico is the only country today which still uses silver in the production of its currency.

Silver is quoted in US Dollars per ounce. Prices are quoted for silver on a number of global exchanges including COMEX; TOCOM; LOCO London. Components of each Commodity Derivative Structure, such as Trigger Points, Absolute Value and value at expiry will be determined by reference to a pre-determined market.

## 15. FUNDING YOUR ACCOUNT

You may transfer funds to us using any of the following methods:

- Bank transfer
- RTGS Bank transfer
- Cheque or
- Credit Card.

***In no circumstances do we accept cash deposits.***

When transferring funds to FFS you must ensure that the funds are appropriately referenced with your account number to enable us to easily identify your funds and apply them to your account promptly. All payments made to FFS must be free of any withholding tax or deduction.

FFS will only act on funds that have cleared, so we recommend that you maintain sufficient Margin in your account at all times to maintain your open positions.

FFS does not accept funds transferred from third parties, so it is your obligation to ensure that all funds transferred to us are from the bank account you have nominated in your Application. We may, in our absolute discretion, without creating an obligation to do so, return any funds transfer or cheque received from a third party back to the account from which it was transferred.

FFS will not accept any liability or responsibility for any losses that you may suffer as a result of, or arising out of, or in connection with, us returning any transfer of moneys or cheque from a third party, including any losses incurred by you because you are subsequently in default of your obligations under the Account Application Terms & Conditions.

## 16. APPLICATION TERMS & CONDITIONS

In order to open an account, you are required to sign our Application Terms & Conditions. This is an important legal document containing the terms and conditions which govern our relationship with you. It is provided to you separately by FFS.

We recommend that you consider seeking independent legal advice before entering into the Application Terms & Conditions, as the terms and conditions detailed therein are important and affect your dealings with us.

We note the following key terms in the Account Application Terms & Conditions, some of which have been summarised throughout this PDS:

- Client acknowledgements regarding knowledge and suitability of Commodity Derivatives;
- Client representations and warranties;
- Client account operating details;
- Commodity Derivative trading requirements;
- Margin requirements and FFS's rights in respect thereof;
- Client obligations regarding confirmations (discrepancies);
- Process for closing out a trade, and FFS's rights in relation to price calculation;
- Interest payable/receivable on open positions;
- Requirements regarding the appointment of authorised persons by the client;
- Default events;
- FFS rights following a default event;
- Amendment and termination rights;
- Client Indemnity in favour of FFS
- FFS's limitation of liability;
- Fees and charges;
- Restrictions on assignment of agreement;
- Telephone recordings;
- Provision of general advice;
- Governing law (NSW); and
- Electronic trading platform conditions/process.

## 17. CLIENT MONIES

All money deposited into your account by you or by person acting on your behalf, or which is received by FFS on your behalf, will be held by FFS in one or more segregated accounts it must maintain pursuant to the Corporations Act. Please note that individual client accounts are not separated from each other, but may be co-mingled into one segregated account (which is separate to FFS's monies/assets).

Please note that monies provided by you to meet margins, deposits, fees, transaction settlements, or other costs shall be immediately on-forwarded by FFS to our licensed third party clearing and execution providers, and applied against your margin, exchange, fee and settlement obligations. Client monies which are held pending future transactions and payments, are held by our licensed third party providers in our segregated account in accordance with the Corporations Act. It is important to note that holding your money in one or more segregated accounts may not afford you absolute protection.

FFS does not accept payments from or make payments to any third parties. In accordance with Australian anti-money laundering regulations, FFS reports, where necessary, any suspect transactions to AUSTRAC.

FFS is entitled to retain all interest earned on client moneys held in segregated accounts with a bank or approved deposit-taking institution. The rate of interest earned by FFS on this account is determined by the provider of the deposit facility.

## 18. TAXATION

### 18.1 Introduction

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If you trade in Commodity Derivatives, you may be subject to Australian taxation. This Section outlines general information about significant Australian income tax and GST implication of trading Commodity Derivatives.

The information contained in this Section is of a general nature only and is not intended to constitute legal or taxation advice and should not be relied upon as such. The taxation implications of your transactions will depend on your own individual circumstances and FFS recommends that you obtain independent professional taxation advice on the full range of taxation implications applicable to your own personal facts and circumstances.

Taxation laws are complex in nature and their interpretation and administration may change over the term of your transacting. We will not advise you of any changes in taxation laws should they occur. You must take full responsibility for the taxation implications arising from your own transacting, and any changes in those taxation implications during the course of your transacting.

The information provided below is for Australian resident investors only and is based on interpretation of taxation laws in Australia current as at the date of this PDS. If you are not an Australian resident, you should consult a taxation advisor in your own jurisdiction to determine the tax consequences of transacting in Commodity Derivatives.

The information in this Section is based on the assumption that you will hold Commodity Derivatives on revenue account. This means that you will be carrying on a business of trading or transacting these financial products, and/or you will enter into them for the purpose of making profits. We have not considered the taxation position if you enter into Commodity Derivatives for the purposes of Hedging risks associated with other securities or underlying assets held by you on capital account.

The availability of tax deductions or losses incurred as a result of transacting in Commodity Derivatives to offset current and future year income will depend on your personal circumstances and you will need to seek advice from your tax advisor in this regard.

### 18.2 Tax Consequences of Transacting in Commodity Derivatives

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The ATO has not issued any specific Tax Ruling or Determination in respect of Commodity Derivatives. However, Commodity Derivatives are similar in nature to contracts-for-difference in that they are both derivative financial products which provide the investor with exposure to price movements in underlying assets traded on markets, without directly investing in those underlying assets.

The taxation of contracts-for-difference is set out in ATO Tax Ruling TR 2005/15. TR2005/15 therefore may provide some guidance on the taxation treatment of Commodity Derivatives. Under TR2005/15, if you enter into a contract exposing you to future price movements in markets in the ordinary course of your business or for profit-making purposes, it is likely that any profit derived or loss incurred by you will be included in, or allowed as a deduction from, your assessable income. Tax Ruling IT2228 sets out a

similar ATO view of profits or losses from trading in futures contracts. Any profit or loss arising in respect of a Commodity Derivative should be included in your assessable income (or allowed as a deduction) at the time the profit or loss is 'realised' for tax purposes. Realisation will generally occur at the time the Commodity Derivative is closed out (on expiry or sale).

Ordinarily, Commodity Derivative transactions would be entered into for a profit making purpose. However, where a Commodity Derivative is not entered into for a profit making purpose, the ATO may consider the transaction as an unusual form of recreational gambling. Proceeds from gambling are generally not subject to tax unless you are carrying on a business of gambling. In the ATO's view, 'gambling' refers to activities involving primarily chance which have a recreational or sporting character, and not the more technical legal meaning of wagering or the more popular meaning of mere risk taking. Ultimately, the nature of the proceeds an investor derives from transacting in Commodity Derivatives will depend upon the particular circumstances of the investor.

### **18.3 Capital Gains Tax**

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Commodity Derivatives may constitute a capital gains tax (CGT) asset held by you for the purposes of applying the CGT provisions to any capital gain or capital loss realised by you. However, to the extent that a gain arising as a result of a CGT event in relation to Commodity Derivatives is included in your assessable income outside the CGT provisions (refer to Section 17.2 above) the capital gain resulting from the CGT event will be reduced. Similarly, to the extent that any loss incurred in respect of Commodity Derivatives is deductible, the deductible amount will not contribute to a capital loss for you.

### **18.4 Treatment of Transaction Fees**

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The transaction fees payable upon purchase or close out of Commodity Derivatives will be deductible if the gain or loss on the Commodity Derivative transaction is assessable or deductible. If the Commodity Derivative gain or loss is a capital gain or loss the transaction fees will form part of the cost base or incidental costs of disposal of the Commodity Derivative.

### **18.5 Expenses**

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Certain expenses incurred by you in connection with trading in Commodity Derivatives may be deductible to the extent that they are incurred for the purpose of deriving your assessable income. The deductibility of these expenses will depend on your own personal circumstances. You should obtain your own advice as to whether such expenses will be deductible to you.

### **18.6 Taxation of Financial Arrangements**

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New rules have recently been introduced which set out the method by which gains and losses from financial arrangements will be brought to account for tax purposes (referred to as the Taxation of Financial Arrangements (TOFA) rules).

The TOFA rules apply to financial arrangements held by certain investors whose assets or aggregated turnover exceeds specified thresholds. The TOFA rules also apply to investors who have made an election to apply to TOFA rules to their financial arrangements. You should obtain your own advice as to whether the TOFA rules apply to you in relation to the taxation treatment of Commodity Derivatives.

### **18.7 Goods and Services Tax**

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No GST should be payable in relation to your trading of Commodity Derivatives with FFS. This is on the basis that Commodity Derivatives are considered to be 'financial supplies' under the A New Tax System (Goods and Services Tax) Act 1999. Consequently, they are input taxed and no GST payable on their supply.

## 19. DISCLOSURE OF INTERESTS

We do not have any relationships or associations which might influence us in providing you with our services. However, FFS may share fees and charges with its associates or other third parties or receive remuneration from them with respect to your dealings with us.

In particular, FFS is a market maker, not a broker, and accordingly will always act as principal for its own benefit in respect of all Commodity Derivative transactions with you. FFS may conduct transactions to hedge its liability to you in respect of your Commodity Derivative positions by undertaking transactions in the underlying currencies. Such trading activities may impact (positively or negatively) the prices at which you may trade Commodity Derivative products.

You may have been referred to us by a service provider who may receive financial or non-financial benefits from us. These should have been disclosed to you by the service provider in question. Please note that such benefits will not impact fees or the rates you will be offered for financial products or services undertaken with FFS.

## 20. PRIVACY

Your privacy is important to us. The information you provide FFS and any other information provided by you in connection with your account will primarily be used for the processing of your account application and for complying with certain laws and regulations. We may use this information to send you details of other services or provide you with information that we believe may be of interest to you. Full details of our privacy policy are available from our website, [www.forexfs.com](http://www.forexfs.com)

## 21. DISPUTE RESOLUTION

FFS has an internal dispute resolution process in place to resolve any complaints or concerns you may have, quickly and fairly. Any complaints or concerns should be directed to the Complaints Officer (by telephone, facsimile, or letter) at the address and telephone/fax numbers provided in Section 2 of this PDS.

We will provide acknowledgement of receipt of written complaints within 5 business days, and seek to resolve and respond to complaints within 30 business days of receipt. We will investigate your complaint, and provide you with our decision, and the reasons on which it is based, in writing.

If you are dissatisfied with the outcome, you have the right to lodge a complaint with the Financial Ombudsman Service [contact details below], an approved external dispute resolution scheme, of which FFS is a member.



## Financial Ombudsman Service

Address: GPO Box 3 MELBOURNE VIC 3001  
 Telephone: 1300 780 808  
 Facsimile: 03 9613 6399  
 Website: [www.fos.org.au](http://www.fos.org.au)  
 Email: [info@fos.org.au](mailto:info@fos.org.au)

## 22. GLOSSARY

Below is a list of products/terminology used in this PDS and their meaning.

Account	Account of the client dealing in the products issued by FFS, which is established in accordance with the terms and conditions of the Application Terms & Conditions.
Account Application Terms & Conditions	The agreement provided to you by FFS, detailing the applicable terms and conditions as amended, supplemented or updated from time to time. You must read and complete, sign and return an Account Application Terms & Conditions, and have your account approved by FFS to set up an account with FFS to deal in products issued by FFS.
Absolute Value	The value of the Commodity Derivative at the End Date and the lowest level at which the Commodity Derivative could be value within its life, based on the value of the Underlying Commodity relative to the Trigger Point.
AFSL	Australian Financial Services Licence
At-the-Money	A Commodity Derivative is considered as an At-the-Money Commodity Derivative when it's Trigger Point is the same as the value that the Underlying Commodity is trading at when it is issued (or during the life of the Commodity Derivative).
Business Day	A day (other than a Saturday or Sunday or public holiday) on which trading banks in Sydney Australia are open for business.
Corporations Act	The <i>Corporations Act 2001 (Cth)</i> as amended from time to time.
Derivative	Derivative means an arrangement as defined in Section 761D of the Corporations Act and as defined in the Corporations Act prior to the commencement of the Financial Services Reform Act.
Initial Margin	An amount required to be deposited by the client with FFS to open a Commodity Derivative position.
In-the-Money	A Commodity Derivative is considered as an In-the-Money Commodity Derivative when its Trigger Point is below the value that the Underlying Commodity is trading at when it is issued (or during the life of the Commodity Derivative) in the case of a Bull Commodity Derivative and when its Trigger Point is above the value that the Underlying Commodity is trading at when it is issued (or during the life of the Commodity Derivative) in the case of a Bear Commodity Derivative.
LIBID	LIBID stands for London Interbank Bid Rate. The rate charged by one bank to another for a deposit in the wholesale money markets in London.
LIBOR	LIBOR stands for London Interbank Offer Rate. It's the rate of interest at which banks offer to lend money to one another in the wholesale money

	markets in London.
Margin	The Initial Margin or Variation Margin or both.
Margin Call	A demand for additional funds made to the client by FFS to meet any additional margin requirement.
Market Maker	<p>A Market Maker is a company that is licensed to make a market in Derivatives and that through that licence issues Over-the-Counter Derivatives products. When you deal with a Market Maker that issues OTC products you will need to open and close positions directly with the Market Maker. Market Maker transactions are principal-to-principal transactions, and the parties to the transactions in the case of <i>Name</i> OTC products will always be <i>Name</i> and the relevant client.</p> <p>As with all Over-the-Counter Derivatives, <i>Name</i> is a Market Maker, not a broker. Should you decide to transact with <i>Name</i> then <i>Name</i> will enter into a legally binding contract with you (as principal) i.e. it will be the counterparty to the transaction and each contract purchased (or sold) by you will be an individual agreement made between you and <i>Name</i>.</p>
Out-of-the-Money	A Commodity Derivative is considered as an Out-of-the-Money Commodity Derivative when its Trigger Point is above the value that the Underlying Commodity is trading at when it is issued (or during the life of the Commodity Derivative) in the case of a Bull Commodity Derivative and when its Trigger Point is below the value that the Underlying Commodity is trading at when it is issued (or during the life of the Commodity Derivative) in the case of a Bear Commodity Derivative.
Over the Counter (OTC)	Over the Counter refers to a type of Derivative product issued by a Market Maker.
Underlying Commodity	The asset or market on which the Commodity Derivative is based. All Name Commodity Derivatives are based on a cash equivalent of an Underlying Commodity. This Underlying Commodity may be a specific futures contract, a commodity price, a market index or other asset. The value of the Underlying Commodity for any particular <i>Name</i> Commodity Derivative will be published each day by <i>Name</i> . Additionally, the value of the Underlying Commodity will be readily available from financial press and quote services.
Underlying Commodity Price	The price of the Underlying Commodity on which the terms of the Commodity Derivative are based. This might be the last available price quoted on the Underlying Commodity or it may be a price that the Underlying Commodity must reach to for the particular Commodity Derivative's of Issue Price; Trigger Point and Controlling interest to be valid.
Variation Margin	The amount deposited by the client with FFS including any increase or reduction arising from settlement of a closed position.
Volatility (and/or Market Volatility)	Volatility refers to the relative rate of price movements in an Underlying Commodity. Higher Volatility will generally increase Time Value and lower Volatility will generally decrease Time Value.
<b>We, Us or FFS</b>	Forex Financial Services Pty Ltd