

Financial Policy



Currency House

Level 2, 23 Hunter Street
SYDNEY NSW 2000 AUSTRALIA

ABN: 84 129 217 812

AUSTRALIAN FINANCIAL SERVICES LICENCE: 323 193

Toll Free: 1800 186 364 | International : +61 2 9151 4240 | Fax: +61 2 9232 3599 | www.forexfs.com | Email: info@forexfs.com

FINANCIAL RESOURCES

1.1.1 Accounting and Record Keeping

Requirement: S998A Corporations Act

Policy Objective: To ensure that Forex Financial Services (“FFS”) have sufficient financial resources to conduct its business in compliance with the Corporations Act and to meet its Australian Financial Services Licence conditions. Adequate records also need to be kept to enable ASIC, auditors and representatives to review its compliance with the law.

The Corporations Act requirement includes

- The obligation to keep financial records that correctly record and explain the organisations transactions and financial position;
- That the records are kept in a way that enables true and fair profit and loss and balance sheets be prepared;
- That the records allow for convenient and proper auditing; and
- That the records show all relevant income, expenses, assets and liabilities (including contingent) of the organisation.

Procedure: FFS ensures

- All transactions are recorded and maintained on file/systems;
- The obligation to keep financial records that correctly record and explain FFS’s transactions and financial position is met;
- Comprehensive accounting and financial records must be maintained to enable the preparation of true and fair balance sheet and profit & loss statements etc;
- Bank reconciliations must be performed on an appropriately frequent basis;
- All financial issues or errors are to be reported to the Directors as appropriate;
- An annual budget should be prepared and approved by the Board;
- All financial statements are prepared in accordance with the applicable valuation standards, accounting standards and Corporations Act;
- Must lodge audited profit and loss statement and balance sheet within 4 months of the end of each financial year with ASIC by submitting Form FS70;
- Records for the past three months are kept on premises;
- Statutory records for the past 7 years are archived for the required time; and
- Statutory and internal deadlines are diarised by the Director.

Monitoring: Monthly

Documentation: Financial report, annual audit

Last Updated: July 2015

Last Reviewed: July 2015

Due for Review: Annually

1.1.2 Base Level Financial Requirements

Requirement: Corporations Act; Licence Condition; ASIC RG 166

Policy Objective: To ensure that FFS have sufficient financial resources to conduct our business in compliance with the Corporations Act, ASIC RG 166 and to meet our Australian Financial Services Licence conditions.

Procedure: **Procedure for budgeting/planning**

- The Director prepares a forecast of the costs for the new financial year based on the last 3 months average cost base of the prior financial year and includes any adjustment for new representatives / resources;
- The Director prepares a forecast of the revenues for the new financial year based on the last 12 months average revenue and includes any adjustments for changes in business model, changes in customer base, forecasted market conditions etc;
- The Director reviews the cost and revenue forecast and makes appropriate adjustments. The Director incorporates all changes and prepares the budget for final review and Board approval; and
- The budget targets and all related business model changes are implemented in the new financial year.

Cash Flow Reconciliation Procedure

- All FFS bank accounts are reviewed daily and balances checked against cash flow projection by the Book Keeper; and
- A cash flow reconciliation report is produced weekly by the Director and reviewed by the Board.

Payments Authorisation Procedure

- All outgoings are authorised by any Director; and
- No payments are made without ascertaining the current cash position of FFS and its cash position in relation to the AFSL financial requirements.

Document the cash flow projection

- A cash flow projection for at least the next nine months must be maintained at all times. This cash flow projection must detail expected inflows and outflows, discounted for commercial contingencies in order to evidence ability to meet financial commitments;
- This should include documented calculations and assumptions utilised in preparation of the cashflow statement;
- It should be updated quarterly to cover the next twelve full months, or if there is reason to suspect an updated projection will show that licence conditions or legal requirements cannot be met;
- The cashflow projection must always show that FFS has adequate financial resources to meet its projected liabilities;
- ASIC must be notified in writing within 3 business days if there any event that may make a material adverse change to the licensee's financial position;
- Monthly cash projection forecasts are prepared by the Director are then reviewed and discussed at monthly management meetings;
- Cash reserves are held in at-call accounts; and
- Cash balances and available funds are monitored at least weekly.

Document the cash projection adjusted for commercial contingencies

- As above, assumptions and contingencies are initially made by the Director;
- These are then reviewed by the Directors at monthly management meetings; and
- Ongoing monitoring of cash flows, assumptions and contingencies are done by the Director.

Cash Flow Analysis

- Each month a cash flow analysis is performed against the Cash Flow Projection Report;
- Material differences are highlighted and the Cash Flow Projection Report updated for the following months in need;
- Any breach or potential breach of ASIC's cash needs requirement is identified;
- Steps are taken to ensure that FFS possesses enough cash to avoid a breach situation; and
- In the unlikely event that a solvency danger presents itself, the Director takes appropriate steps to rectify the situation and existing policies and procedures are amended to avoid future re occurrence.

Monitoring: Weekly cash balance check, monthly cash flow check. Monitoring frequency increased to daily if cash balance drops suddenly or other concerns arise during regular monitoring checks.

Documentation: Annual Budget, Monthly Cash Flow Projection, Weekly Cash flow Analysis

Last Updated: July 2015

Last Reviewed: July 2015

Due for Review: Annually

1.1.3 Appointing External Auditors

Requirement: S990B Corporations Act Licence Condition

Policy Objective: ASIC requires an external auditor (ASIC registered) to be appointed at all times. FFS has appointed an external auditor.

Procedure: The approval and appointment process is as follows;

- The Director selects a minimum of one auditor following FFS's outsourcing procedure;
- The auditor must be registered on ASIC's register of external auditors;
- All staff must cooperate with the external auditors and ensure they have access to all records;
- The external auditor must be appointed through a current letter of engagement and/or through an external service provider agreement;
- FFS must fill any auditor vacancy within 14 days;
- FFS must advise ASIC of the change in auditor within 14 days;
- An application must be made to ASIC seeking consent to remove the auditor because of their resignation by submitting Form FS08. ASIC's consent is required prior to resignation;
- Notice of cessation of auditor must be provided to ASIC by submitting Form FS09.

Monitoring: Annually

Documentation: ASIC Register print out Engagement letter

Last Updated: July 2015

Last Reviewed: July 2015

Due for Review: Annually

1.1.4 Audit Opinion on Financial Requirements

Requirement: S989B Corporations Act; Licence Condition

Policy Objective: FFS must lodge an Audit Opinion and Statement of Financial Position by a registered auditor for each financial year or when requested by ASIC.

Procedure: The procedure is as follows;

- Annually, the Director is to request an audit opinion from FFS's external auditor (in the course of the normal annual financial audit) as to their opinion on FFS's compliance with the financial obligations of its licence;
- This report is to be forwarded with audited financial statements to ASIC within 4 months of year-end;
- As part of the periodic internal review, the Director shall confirm that the external auditor has continued to be an auditor registered with ASIC; and
- The auditor must provide an Audit Opinion and assist in completion and lodgement of the FS70 and FS71 notifications to ASIC within four months of the end of each financial year;
- Director must ensure that forms FS70 and 71 are properly lodged with ASIC in relation to annual audit of financial statements; and
- A copy of these documents is filed by the Director.

Monitoring: Annually

Documentation: External Audit Report, ASIC forms

Last Updated: July 2015

Last Reviewed: July 2015

Due for Review: Annually

1.1.5 Additional Financial Requirements

Requirement: Corporations Act, Licence Condition

Policy Objective: To ensure that FFS complies with any additional financial requirements which may be attracted by FFS's business functions.

Procedure:

- Where FFS is caught by additional RG 166 requirements (e.g. where it transacts with clients as principal or holds client money or property) additional financial obligations will apply;
- All client monies held by FFS are considered to be held on trust, and must be held in a separate trust account. Client monies can be intermingled with other client monies, but not with company monies. Any money in the client account which becomes FFS' (eg due to fees) must be transferred as soon as possible;
- Where client monies (or property) in excess of \$100,000 are held by FFS, the company must hold at least \$50,000 in surplus liquid funds; and
- Where FFS provides foreign exchange contracts or OTC derivatives services to clients, the company is considered the issuer of, and principal to, the contract, and will be required to maintain adjusted surplus liquid funds of \$50,000 PLUS 5% of adjusted liabilities between \$1m-\$100m PLUS 0.5% of adjusted liabilities for any amount of adjusted liabilities exceeding \$100m (to a maximum of \$100m).

Monitoring: Monthly

Documentation: Accounts, NTA, ASLF, External Audit Report

Last Updated: July 2015

Last Reviewed: July 2015

Due for Review: Annually

1.1.6 Additional Financial Requirements for OTC Derivatives providers (to retail clients)

Requirement: ASIC RG 166 Appendix 8

Policy Objective: To ensure that FFS have sufficient funds to conduct the business in compliance with the Corporations Act and to meet the Australian Financial Services Licence conditions.

ASIC RG166 requires issuers of OTC derivative contracts to retail clients, to comply with the additional financial requirements of Appendix 8.

Procedure: As an issuer of OTC derivatives to retail clients, FFS must comply at all times with the additional financial requirements which apply.

FFS must ensure the following are satisfied at all times:

- Prepare a projection of cash inflow and outflow over at least the next twelve months that shows a reasonable estimate of what would happen if FFS's ability to meet its liabilities over the projected term was adversely affected by commercial contingencies. This shall be approved by the Board, and shall include any liabilities that might be incurred during the term of the projection. FFS shall take into account all contingencies that are sufficiently likely to occur and specify how they might be managed;
- Documentation of calculations and assumptions including reasons why the stated assumptions are appropriate must be included;
- Update the cash flow projection when it ceases to cover the next twelve months, or if we have reason to suspect that an updated projection would show that we were not meeting our licence conditions;
- Show, based on the projection, that FFS will have access as needed to enough financial resources to meet its liabilities (including any additional liabilities) over the projected term of at least twelve months;
- Ensure a tailored audit is obtained annually, which includes an audit of compliance with RG 166 Appendix 8 requirements;
- Report FFS's NTA position to ASIC as part of the annual lodgement of an FS70;
- Maintain an NTA at all times of greater than \$1m or 10% of average revenue, with 50% in cash/cash equivalents, and the remainder in liquid assets. As per RG 166.287, maintenance of an NTA of at least \$500,000 or 5% of average revenue until 31 January 2014 will be considered compliant with this requirement;
- Lodge a report with ASIC within three business days of becoming aware that the NTA has decreased from an amount greater than 110% of the required NTA to a lower amount, specifying the NTA as at the current date. A report must also be lodged with ASIC on the first business day of every month until the NTA is greater than 110% of the required amount;
- Where the NTA falls below 100% of the required amount, this is a breach of the AFSL and must be addressed immediately to ensure NTA remains at a minimum of 100%. If this is not actioned within two months of the date the deficiency arose, FFS clients must be notified, using the prescribed notification contained in RG 166. The notification must be placed prominently on the home page of FFS's website, and communicated to each client via email or letter. The trading platform should also be used to provide notification to clients through electronic alerts. FFS shall also lodge a breach notification in the event that the NTA falls below 100% of the required amount;

- Whilst below the 100% NTA FFS will not enter into any transactions with clients which could give rise to further liabilities or obligations unless and until the Board has certified in writing that having conducted reasonable enquiries into FFS's financial position, there is no reason to believe that FFS may fail to meet its other licence conditions or Corporations Act obligations, including the base level financial requirements;
- In the event that FFS's NTA equals or falls below 75% of the required NTA, FFS will not under any circumstances enter into transactions with clients which could give rise to further liabilities or obligations.

Monitoring:	Monthly
Documentation:	Accounts, NTA, ASLF, External Audit Report
Last Updated:	July 2015
Last Reviewed:	July 2015
Due for Review:	Annually

Requirement: S981B Corporations Act; Licence Condition

Policy Objective: The Corporation Act details requirements for dealing with client's money which includes obligation to pay money into a separate account. FFS must ensure that it always holds client funds in a separate account and has adequate cash available at all times to conduct the business in compliance with the Corporations Act and to meet its Australian Financial Services Licence conditions.

Procedure: A segregated client account (designated a client trust account) is maintained with an ADI at all times by FFS, into which client monies are deposited and held. Where any portion of such monies are payable to FFS or as settlement for client trades, they are to be transferred from the client account to the appropriate account.

Monies which belong to FFS (as fees or otherwise) must not be held in the segregated client account, and must be transferred into FFS's account as soon as practicable, but never later than twenty-eight days after becoming FFS's.

If at any time, FFS:

- a) is required to hold money in a separate account under Div 2 of Part 7.8;
- b) hold money or other property on trust for a client or is required to do so under reg 7.8.07(2) or otherwise; or
- c) has the power to dispose of a client's property under power of attorney or otherwise,

FFS must hold at least \$50,000 in surplus liquid funds (SLF) unless the value of the money and property is less than \$100,000. This requirement will be met if FFS is complying with the requirements of Appendix 8 of RG 166 (refer policy 1.1.6).

The Director monitors cash balances daily and ensures that the cash flow projection shows that there are adequate surplus liquid funds.

The Director ensures that all client funds received are deposited in a separate account from the business' funds.

Monitoring: Monthly, Compliance reviews, Annual Audit

Documentation: Bank account Cash Flow Projection

Last Updated: July 2015

Last Reviewed: July 2015

Due for Review: Annually