Product Disclosure Statement

March 2018

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1. Important Information and Disclaimer

1.1 Financial services and products are provided by Pepperstone Group Limited ABN 12 147 055 703 ("**Pepperstone**", "**we**", "**us**", "**our**"). This Product Disclosure Statement ("**PDS**") has been prepared to provide you with key information about Pepperstone's financial products, being margin foreign exchange contracts ("**Margin FX Contracts**") and contracts for difference ("**CFDs**"). It has not been prepared to take into consideration your current financial situation or objectives. The information contained in this PDS does not constitute any recommendation, personal advice or opinion. It is general information only.

1.2 Pepperstone holds Australian Financial Services Licence ("**AFSL**") No. 414530 and is regulated by the Australian Securities & Investments Commission ("**ASIC**"). While ASIC is a robust regulator, ASIC does not endorse specific financial products or contracts. ASIC's regulation of us applies in respect of our Australian financial services activities only. You should be mindful of the risks of trading Margin FX Contracts and CFDs and note that you can incur losses when trading. Returns are not guaranteed. Neither ASIC, the Australian Government nor any other person guarantees any monies in your Account.

1.3 Transactions involving Margin FX Contracts and CFDs are highly leveraged and involve many risks. You should read this PDS, the Terms and Conditions and the Financial Services Guide in their entirety before making any decision to enter into a financial product with us. You should not engage in transactions or enter into Contracts unless you properly understand the nature of the financial products we offer and are comfortable with the associated risks.

1.4 You may lose more than your initial investment. You may incur losses to the extent of your total exposure to us and any additional fees and charges that apply. These losses may be far greater than funds you have deposited in your Account or are required to be deposited to satisfy Margin Requirements. It is important that you understand that when you enter into a Contract you are not trading in (and do not own or have any rights to) the Underlying Instrument.

1.5 We also recommend that you seek independent advice to ensure that trading with us is appropriate for your particular financial objectives, needs and circumstances.

1.6 If we ask you for your personal information to assess your suitability to trade our financial products and we accept your application to trade, we are not giving you personal advice or any other form of advice. You must not rely on our assessment of your suitability since it is based on the information you provide to us and the assessment is only for the purposes of deciding whether to open an Account for you. You may not later claim that you are not responsible for your losses merely because we have opened an Account for you after assessing your suitability. You remain solely responsible for your own assessments of the features and risks of our financial products and seeking your own advice on whether our financial products are suitable for you.

1.7 Anti-Money Laundering Legislation

You acknowledge that we may require information from you from time to time to comply with the Anti-Money Laundering and Counter-Terrorism Financing Act 2006 (Cth) ("**AML/CTF Act**"). By submitting an Application Form, opening an Account or transacting with us, you undertake to provide us with all information and assistance that we may require to comply with the AML/CTF Act.

We may pass on information collected from you and relating to transactions as required by the AML/ CTF Act or other applicable laws and regulations and we are under no obligation to inform you that we have done so. We may undertake all such anti-money laundering and other checks in relation to you (including restricted lists, blocked persons and countries lists) which we deem necessary or appropriate, and we reserve the right to take any action in relation to those checks without any liability whatsoever to you.

You also warrant that:

(a) you are not aware and have no reason to suspect that:

(i) the moneys used to fund your Account have been or will be derived from or related to any money laundering, terrorism financing or other illegal activities, whether prohibited under Australian law, international law or convention or by agreement; or

(ii) the proceeds of your investment will be used to finance any illegal activities; and

(b) neither you nor your directors, in the case of a company, are a politically exposed person as the term is used in the Anti-Money Laundering and Counter-Terrorism Financing Rules Instrument 2007 (No. 1).

1.8 This PDS is dated 1st of March 2018.

2. Purpose and Contents of this PDS

2.1 This PDS is designed to provide you with important information regarding the Margin FX Contracts and CFDs we offer as financial products, including the following information:

(a) who we are;

(b) how you can contact us;

(c) key features/risk/benefits of Margin FX Contracts and CFDs;

(d) applicable fees and charges for Margin FX Contracts and CFDs;

(e) any (potential) conflicts of interest we may have; and

(f) our internal and external dispute resolution process.

2.2 The provision of this PDS to any person does not constitute an offer to someone to whom it would not be lawful to make such an offer. This PDS is a disclosure document prepared in accordance with Australian laws. This PDS has not been approved nor it is required to be approved by ASIC. Pepperstone operates in Australia as an Australian financial services provider. Neither this PDS nor any Pepperstone's conduct is intended to be an inducement, offer or solicitation to anyone outside of Australia.

2.3 The information in the PDS is subject to change from time to time. Changes to content that are not materially adverse will be posted on our website at: www.pepperstone.com. If you would like further information, please ask us.

2.4 Definitions relating to the expressions used in this PDS are provided in the Interpretations Section in the Terms and Conditions. The Terms and Conditions are available from: https://pepperstone.com/legal/PepperstoneTerms.pdf.

3. Contact details

Pepperstone Group Limited
Level 5, 530 Collins Street
Melbourne VIC 3000

Tel: 03 9020 0155
Email: support@pepperstone.com

4. Applications

If you wish to apply for an Account you must complete the Application Form and agree to the information held in this PDS, as well as the information contained in the Terms and Conditions and Financial Services Guide.

5. Other Jurisdictions

The offer to which this PDS relates is available only to persons receiving the PDS in Australia. The distribution of this PDS in jurisdictions outside Australia may be subject to legal restrictions. Any person who resides outside Australia and gains access to this PDS should comply with any such restrictions, as failure to do so may constitute a violation of financial services laws.

6. Products covered in this PDS

This is a PDS for Margin FX Contracts and CFDs. These are over the counter ("**OTC**") derivative Contracts.

Pepperstone's Contracts do not result in the physical delivery of the currency, Commodity or any other Underlying Instrument. All of the Margin FX Contracts and CFDs are cash adjusted or Closed-Out in accordance with the Agreements, i.e. there is no physical exchange of one currency or Underlying Instrument for another.

7. Regulatory Benchmark Disclosure

7.1 ASIC has developed seven disclosure benchmarks for OTC derivatives that help retail investors understand the risks associated with Margin FX Contracts and CFDs, assess their potential risks and decide whether any investment in Margin FX Contracts or CFDs is suitable for them. These requirements are contained in Regulatory Guide 227 ("**RG227**").

7.2 This table below sets out which benchmarks Pepperstone meets and refers to related disclosure information which describes how we meet the benchmarks.

Benchmark	Meet Benchmark?	Description
Client Qualification Addresses the issuer's policy on investors' qualification for trading.	Yes	Our client qualification policy is set out in this PDS. We maintain and apply our client qualification policy through an online Client Qualification Test. All retail clients are assessed according to this test to ensure that they have a minimum level of understanding and experience before being provided with an Account. Further information can be found in clause 18.2 of this PDS.

Opening Collateral Addresses the issuer's policy on the types of assets accepted from investors as opening collateral.	No	The benchmark suggests that a limit of $1,000 be accepted for opening payments made by credit cards. We accept credit card payments for more than $1,000 as initial funding in order to provide flexible payment options to clients. Further information can be found in clause 18.3 of this PDS.
Counterparty Risk – Hedging Addresses the issuer's practices in hedging its risk from client positions and the quality of this hedging.	Yes	We maintain and apply a written policy to manage our exposure to market risk from client Contracts. This policy sets out the factors we take into account when determining if hedging counterparties are of sufficient standing, as well as the names of our hedging counterparties. This policy is available on our website at: www.pepperstone.com, under the 'Legal Documentation' tab. Further information can be found in clause 18.4 of this PDS.
Counterparty Risk – Financial Resources Addresses whether the issuer holds sufficient liquid funds to withstand significant adverse market movements.	Yes	We maintain and apply a written policy to ensure the ongoing maintenance of adequate financial resources and compliance with the financial requirements imposed on us by our AFSL. Further information can be found in clause 18.5 of this PDS.
Client Money Addresses the issuer's policy on its use of client money.	Yes	We have a well-defined Client Money Policy. We hold and use Client Money in accordance with the Australian Client Money Rules. The Client Money Policy is set out in clause 18.6 of this PDS.

Suspended or Halted Underlying Assets Addresses the issuer's practices in relation to investor trading when trading in the underlying asset is suspended or halted.	Yes	With the exception of Margin FX Contracts where there is no suspension or halting of the Underlying Market, we do not allow new Contracts to be opened when the Underlying Market is halted or suspended. Further information can be found in clause 18.7 of this PDS.
Margin calls Addresses the issuer's practices in the event of client accounts entering into margin call.	Yes	We make Margin Calls through the Pepperstone Platform. You must monitor the Pepperstone Platform and your available Margin at all times while you have open Contracts with us. We maintain and apply a clear written policy in relation to Margin Call practices and our discretion to Close-Out Contracts. Further information can be found in clause 18.8 of this PDS.

8. Australian CFD Forum – Best Practice Standards

8.1 Pepperstone is a member of the Australian CFD & FX Forum ("**CFD & FX Forum**"), which is an industry body that is committed to enhancing the efficient operation, transparency and overall investor understanding and confidence in CFDs within Australia and in the industry as a whole.

8.2 The CFD & FX Forum has established a set of Best Practice Standards ("**Standards**") and each member is required to incorporate a statement of compliance regarding these Standards in their respective PDSs.

8.3 Pepperstone complies with the Standards, each of which is summarised in the table below. A copy of the Standards is available on our website at www.pepperstone.com or on request by emailing support@pepperstone.com.

Standards	Description
1. Compliance with Standards	Standard requires that members comply with the Standards.
2. RG227 Benchmark 1 – Client Qualification	Standard addressed RG227 Benchmark 1 and requires a written client qualification policy. See clause 18.2 of this PDS.
3. RG227 Benchmark 2 – Opening Collateral	Standard addresses RG227 Benchmark 2 and specifies that only certain collateral should be used for new Accounts and that a member's PDS should explain the member's policy in this regard. See clause 18.3 of this PDS.
4. Educational Material	Standard describes the types of educational material which can be used to increase a client's or a prospective client's understanding of CFDs and what a member should take into consideration in this regard.
5. Advertising and Promotional Material	Standard requires that a member's brand advertising or sponsorship activity may mention the member's name or the product by name for recognition purposes only, but must not convey financial information about CFDs or Margin FX Contracts. Members must also ensure that the advertising and promotional material is only published in a financial markets-based context.
6. Customer Complaints	Standard requires complaints to be handled in an efficient and effective manner.
7. RG227 Benchmark 5 – Segregation and Protection of Client Money	Standard addressed RG227 Benchmark 5 and requires full segregation of all client funds in a separate client trust account. See clause 18.6 of this PDS.
8. Customer Credit Risk	Standard requires management of client credit risk by real time monitoring, placing limits on client positions, back testing and stress-testing.
9. Risk Warnings and Risk Mitigation Tools	Standard requires members to provide standardised risk warnings which a prospective client must agree to prior to trading in CFDs and Margin FX Contracts and members must maintain a margin policy. Clients must also be provided with a range of risk mitigation tools.
10. RG227 Benchmark 6 – Suspended or halted underlying assets	Standard addresses RG227 Benchmark 6 and requires that members not allow new CFD positions to be opened where there is a trading halt over the underlying asset or trading of the underlying asset has been suspended. See clause 18.7 of this PDS.
11. RG227 Benchmark 3 – Counterparty Risk- Hedging	Standard addresses RG227 Benchmark 3 and requires members to have hedging strategies in place and maintain a policy to manage exposure to market risk from client positions. See clause 18.4 of this PDS.

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12. Financial Resources Requirements	Standard addresses RG227 Benchmark 4 and requires members to maintain a policy to maintain adequate financial resources. Members are required to maintain net tangible assets of over AUD$2 million or 10% of the average revenue calculated. See clause 18.5 of this PDS.
13. Training and Competency of Employees	Standard requires that members' employees are adequately trained and accredited in accordance with ASIC Regulatory Guide 146. Members must also maintain a policy in this regard.
14. Employee Screening	Standard requires members to undertake pre-employment screening of all prospective employees. Members must also maintain a policy in this regard.
15. Dealing with Intermediaries	Standard requires that members will perform an initial due diligence to ensure intermediary relationships are appropriate. Members must also conduct an annual review on all intermediaries.
16. Business Continuity Management	Standard requires that each member has a BCM framework to ensure it can meet its financial and service obligations to clients in the event of a disruption.

9. What is a Margin FX Contract?

9.1 Margin FX Contracts are OTC derivative contracts. Foreign exchange or FX generally refers to trading in foreign exchange Contracts (currency) in the spot (cash) markets. The price of a Margin FX Contract is based on the price of an Underlying Instrument, being the price of one currency relative to another.

9.2 Margin FX Contracts can be differentiated from other foreign exchange products in that they allow the investor an opportunity to trade foreign exchange on a margined basis as opposed to paying for the full value of the currency. In other words, Contracts are monitored on a mark-to-market basis to account for any market movements. Investors are required to lodge funds in their Account as security (Initial Margin, please refer to clause 17.2) and to cover all net debit adverse market movement (Variation Margin, please refer to clause 17.3).

9.3 When clients are making a loss to the extent that they no longer meet the Margin Requirements, they are required to "top up" their Accounts or to "Close-Out" their Contracts.

9.4 Foreign exchange is essentially about exchanging one currency for another at an agreed rate. Accordingly, in every exchange rate quotation, there are two currencies. The exchange rate is the price of one currency ("**base currency**") in terms of another currency ("**term currency**"), such as the price of the Australian dollar in terms of the US dollar.

9.5 For example, if the current exchange rate for the Australian dollar ("**AUD**") as against the US dollar ("**USD**") is AUD/USD 0.70000, this means that one Australian dollar is equal to, or can be exchanged for, 70 US cents.

10. What is a CFD?

10.1 A CFD is a leveraged financial instrument that fluctuates in value based on the price of the Underlying Instrument which could be the price of gold, a share index, a currency or of a particular Commodity. A CFD does not provide ownership or any rights to the Underlying Instrument and does not entitle you to the delivery of the Underlying Instrument at any stage. As a CFD is not being traded directly on an exchange or a regulated market, a CFD is an OTC derivative contract.

10.2 A CFD is an agreement between you and us to exchange the difference in value of an Underlying Instrument from when a Contract is opened to when it is closed. If the value of the CFD has moved in your favour, you will be paid an amount into your Account. Should the value of the CFD move against your Contract, an amount will be deducted from your Account. The amount of profit or loss will be the difference between the price when the CFD is opened and the price when it is closed, adjusted to reflect notional dividends and interest payments, where applicable.

10.3 Whilst you have open Contracts, you may also attract financing costs or Swap Charges after each rollover (00:00 server time). This financing cost or Swap Charge is based on the Underlying Instrument you are trading and is subject to change.

10.4 **Types of CFDs**

We offer CFDs to our clients on indices, options, futures contracts and such other CFDs as may be notified to you from time to time. Many CFDs will be traded in Australian dollars, however some CFDs may be denominated in other currencies.

10.5 **Index CFDs**

Index CFDs provide you with a way to speculate on the over-all performance of a basket of shares. This gives you exposure to a larger market rather than one individual equity or share.

10.6 **Expiry of Contracts**

Some CFDs have set expiry dates, upon which a Contract will be Closed-Out automatically. As at the date of this PDS, only CFDs relating to soft Commodities have set expiry dates. The most current version of this information is available via the Pepperstone website at www.pepperstone.com/en/forex-trading/soft-commodities.

Once a Contract has expired, it will be automatically “rolled” over to a new front running Contract. The difference between the two Contracts in relation to the price of the Underlying Instruments will be accounted for in the manner of a cash adjustment to your trading Account.

In the situation where your new Contract is trading at a premium / higher price, long Contracts at the time of Contract expiry will receive a negative adjustment, whereas short Contracts at the time of Contract expiry will receive a positive adjustment. Should the reverse situation occur and the new Contract is trading at a discount / lower price, long Contracts at the time of Contract expiry will receive a positive adjustment and short Contracts at the time of Contract expiry will receive a negative adjustment.

In addition, Contracts may be charged a spread at the time of rollover.

Open Contracts will be rolled over indefinitely until being Closed-Out.

Example:

If you are buying 2 lots of cocoa and the last traded bid price for the underlying futures Contract is $2,924 USD and the next front running bid price is $2,914 USD, the adjustment would be calculated as follows:

(Expired Contract Bid Price – New Front Month Bid Price) – Average Spread = (2924 – 2914) – 3 = $7 USD.

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11. What is a Contract/Position?

11.1 A Contract (also known as a position) is opened by either buying (going long) or selling (going short) a Margin FX Contract or CFD:

(a) you go “long” when you buy a Margin FX Contract or CFD in the expectation that the price of the Underlying Instrument to which the Margin FX Contract or CFD is referable will increase, which has the effect that the Margin FX Contract or CFD price will increase; and

(b) you go “short” when you sell a Margin FX Contract or CFD in the expectation that the price of the Underlying Instrument to which the Margin FX Contract or CFD is referable will fall, which has the effect that the Margin FX Contract or CFD will fall.

11.2 A Contract in respect of a Margin FX Contract or a CFD is open until it is Closed-Out, and the amount of profit or loss to you can then be calculated. You may instruct us to Close-Out your Contract, or we may exercise our right to Close-Out your Contract in accordance with this PDS and the Terms and Conditions.

11.3 If you Close-Out a Contract, you should consider cancelling any related Orders you have placed against that Contract. Failure to do so will mean that the related Orders remain at risk of execution.

12. How is the Exchange Rate Calculated?

12.1 We cannot predict future exchange rates and our quotations are not a forecast of where we believe a foreign exchange rate will be at a future date. The decision to transact at a particular exchange rate will generally be your own decision, except for in certain limited circumstances when the decision to transact at a particular exchange rate is at our discretion. For example, we may Close-Out an open Contract if you fail to meet your Margin Requirements. The price to be paid or received for a Margin FX Contract offered by us, at the time the Contract is purchased or sold, will be based on the price that we are quoted from our hedging counterparties. These prices are based on estimates of market prices and the expected level of interest rates, implied volatilities and other market conditions.

13. Calculating Profit and Loss

13.1 **Margin FX Contracts:**

The profit or loss from a Margin FX Contract is calculated by keeping the units of the base currency constant and determining the difference in the number of units of the term currency (please refer to clause 9 for more information). The amount of any profit or loss made on a Margin FX Contract will be the net of:

(a) the difference between the price at which you bought the Contract and the price at which you sold the Contract;

(b) the costs of daily financing or swaps (including any Swap Charges or Swap Benefit relating to the Contract); and

(c) any commission charges relating to the Margin FX Contract.

13.2 **CFDs:**

When you enter into a CFD, you are either entitled to an amount of money or will be required to pay an amount of money, depending on the movements in the price of the CFD with reference to the Underlying Instrument.

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

(a) the difference between the price at which you bought the CFD and the price at which you sold the CFD;

(b) the costs of daily financing or swaps (including any Swap Charges or Swap Benefit relating to the Contract);

(c) any Rollover Charges or Rollover Benefits relating to the CFD;

(d) any commission charges relating to the CFD; and

(e) any other fees or benefits relating to the CFD.

Example of Buying a Stock Index CFD:

The AUS200 index CFD is currently trading at a price of 5464 and you expect that the index will rise by 20 points during the week, so you buy one Contract of AUS200 at 5464.

Four days later the AUS200 index has risen to a price of 5484 as you expected and you Close-Out the Contract to take your profits by selling the Contract of AUS200 at 5484.

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Your profit from this trade is calculated from the following factors:

(a) the difference between the price at which you bought the Contract and the price at which you sold the Contract:

5484 – 5464 = 20 points

With the fixed value per point of one Contract being $1 AUD, this equates to 20 * 1 = $20 AUD

(b) the cost of daily financing or swaps:

Benchmark interest rate of 2.0% + 2.5% = 4.5% (The benchmark interest rate is provided by our Liquidity Providers)

Swaps Charges: [5464 * (0.045/365)] * 4 = $2.69 AUD

Profit on this transaction: 20 – 2.69 = $17.31 AUD

14. Purpose of Margin FX Contracts and CFDs

14.1 People who trade in Margin FX Contracts and CFDs may do so for a variety of reasons, such as:

(a) **Speculation**: Speculating is attempting to profit from fluctuations in the price or value of the Underlying Instrument. Margin FX Contract and CFD traders may have no need to sell or purchase the underlying currency or Underlying Instrument themselves, but may instead be looking to profit from market movements in the currency or Underlying Instrument concerned.

For example, Margin FX Contracts traders may be short-term investors who are looking to profit from intra-day and overnight market movements in the underlying currency. A trader may believe that the price of EUR/GBP doesn't accurately reflect "fair value" after an economic release, and as a result places a trade to buy EUR/GBP at a price of 0.83. The price of EUR/GBP rises in the next 2 hours to 0.831 and the trader chooses to take the profit and close the Position.

(b) **Hedging**: Some people hedge their exposures to an underlying currency or Underlying Instrument. For example, foreign exchange exposures may arise from a number of different activities such as:

(i) companies or individuals that are dependent on overseas trade are exposed to currency risk. This can be to purchase (or sell) physical Commodities (such as machinery) or even financial products (such as investing in securities listed on an international stock exchange);

(ii) an exporter who sells its product priced in foreign currency has the risk that if the value of that foreign currency falls then the revenues in the exporter's home currency will be lower;

(iii) an importer who buys goods priced in foreign currency has the risk that the foreign currency will appreciate, which makes the cost, in local currency terms, greater than expected; and

(iv) a person going on a holiday to another country has the risk that if that country's currency appreciates against their own, their trip will be more expensive.

In each of the above examples, the person or the company is exposed to currency risk.

15. Key Benefits of Trading in Margin FX Contracts and CFDs

15.1 Margin FX Contracts provide important risk management tools for those who manage foreign currency exposures, while CFDs provide risk management for exposures in Underlying Instruments. We offer our clients the ability to buy and sell foreign currency using Margin FX Contracts, and OTC derivatives of other assets using CFDs. This enables clients to protect themselves against adverse currency market swings and movements in the value of their assets. The significant benefits of using Margin FX Contracts and CFDs offered by us as a risk management tool are to protect your exchange rate, asset values and to provide cash flow certainty. These and other benefits are detailed as follows:

15.2 **Protect an Exchange Rate**

Pepperstone clients can trade in Margin FX Contracts and CFDs over the internet via the Pepperstone Platform. This facility provides clients with direct access to our system to enable them to buy and sell currency rates to protect themselves against adverse market swings. We also offer clients a way of managing volatility by using stop loss Orders, enabling clients to protect themselves against adverse market swings yet secure enhanced market rates when offered. In addition, clients may also use limit Orders which give them the opportunity to benefit from favourable upside market movements.

15.3 **Speculation**

Pepperstone clients can benefit from the Margin FX Contracts and CFDs that we offer by using them to speculate on exchange rate and Underlying Instrument price movements. You may take a view of a particular market or the markets in general and invest in our Contracts according to this belief in anticipation of making a profit.

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15.4 **Trade in Small Amounts**

The Pepperstone Platform enables you to make transactions in small amounts. You can open an Account with Pepperstone with a minimum opening balance of $200 AUD or equivalent. When trading in a Margin FX Contract or CFD that we offer, you may deposit any amount that is in line with how much you are willing to risk.

15.5 **Access to the Foreign Exchange Markets at Any Time**

When using Pepperstone you gain access to a highly advanced and multi-levelled active system which provides you with the opportunity to trade 24 hours a day, 5 days per week on global markets. This gives you a unique opportunity to react instantly to breaking news that is affecting the markets. It should be noted however, that trading in the various currency crosses may be restricted to hours where liquidity is available for any given currency cross.

15.6 **Profit Potential in Falling Markets**

Since markets are constantly moving, there are always trading opportunities, whether a currency or asset is strengthening or weakening in relation to another currency. When you trade currencies, they literally work against each other.

For example, if the EUR/USD declines, it is because the US dollar gets stronger against the Euro and vice versa. So, if you think the EUR/USD will decline (that is, if you think that the Euro will weaken versus the US dollar), you may choose to sell Euro now and then buy it back later at a lower price and take your profits. The opposite trading scenario would occur if the EUR/USD appreciates.

Similarly, you have the ability to both buy and sell CFDs and benefit from the movement of those markets in either direction, so if you believe a particular stock index will fall you may choose to sell a stock index CFD and benefit from the fall in the price of that index.

15.7 **Superior Liquidity**

The foreign exchange market is highly liquid, meaning that there are a large number of buyers and sellers to trade with. The liquidity of this market, particularly with respect to that of the major currencies, helps ensure price stability and low spreads. The liquidity comes mainly from large to small banks and financial institutions that provide liquidity to investors, companies, institutions and other market players.

15.8 **Real Time Streaming Quotes**

The Pepperstone Platform uses highly sophisticated technologies to offer you up to-the-minute quotes. You may check your Account 24 hours a day during market open and make trades based on real-time information.

16. Key Risks of Margin FX Contracts and CFDs

16.1 Pepperstone does not and will not provide you with personal financial product advice relating to Margin FX Contracts and CFDs. We will not make Margin FX Contract or CFD recommendations to you of any kind. The only advice we will give you will relate to how Margin FX Contracts and CFDs work, as well as general market information for currencies and other Underlying Instruments.

16.2 You should be aware that trading in Margin FX Contracts and CFDs involves a number of risks. It is important that you carefully consider whether trading these Contracts is appropriate for you in light of your investment objectives, financial situation and needs. The following is a description of the significant risks associated with trading Margin FX Contracts and CFDs:

16.3 **Derivatives Risks Generally**

Derivative markets can be highly volatile and the risk of loss when trading in derivatives Contracts can be substantial. You should carefully consider whether our Contracts are appropriate for you in light of your personal and financial circumstances. In deciding if you will become involved in trading OTC derivatives, you should be aware of the following matters:

(a) you could sustain a total loss of the amount that you deposit with Pepperstone to establish or maintain a Contract;

(b) if the market moves against your Contract, you will be required to immediately deposit additional funds as Margin in order to maintain your Contract i.e. to “top up” your Account;

(c) those additional funds may be substantial. If you fail to provide those additional funds, Pepperstone may Close-Out your Contracts. You will also be liable for any shortfall resulting from that Close-Out;

(d) under certain market conditions, it could become difficult or impossible for you to manage the risk of any open Contracts by entering into opposite Contracts or Closing Out existing Contracts;

(e) under certain market conditions, the prices of Contracts may not maintain their usual relationship with the market of the Underlying Instruments;

(f) the Margin FX Contracts and CFDs that we offer involve risk. The placing of contingent Orders such as a stop-loss Order could potentially limit your loss. You should be aware that a stop-loss Order will be executed at the next available market price and is not guaranteed at the exact level that you request. Accordingly, stop-loss Orders may not limit your losses to the exact amounts specified;

(g) a “spread” Contract (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) Contract. In addition, a “spread” may be larger at the time you Close-Out the Contract than it was at the time you opened it;

(h) a high degree of leverage is obtainable in trading Margin FX Contracts and CFDs because of the small Margin Requirements. The use of leverage can work against you as well as in favour of you. The impact of leverage is that even a slight fluctuation in the market could mean substantial gains when these fluctuations are in your favour, but that could also mean considerable losses if the fluctuations are to your detriment. You may sustain losses that exceed the amount of your initial investment. Clause 16.4 explains leverage risk in more detail;

(i) as a result of high volatility, low liquidity or gapping in the Underlying Market, you may receive requotes, slippage or hanging Orders. Hanging Orders are often already executed, but sitting in the terminal window until they can be confirmed;

(j) changes in taxation and other laws, government, fiscal, monetary and regulatory policies may have a material adverse effect on your dealings in Margin FX Contracts and CFDs;

(k) there are no cooling-off arrangements for Margin FX Contracts and CFDs. This means that when we arrange for the execution of a Margin FX Contract or CFD, you do not have the right to return the Contract, nor request a refund of the money paid to acquire the Contract;

(l) foreign markets will involve different risks to Australian markets. The potential for profit or loss from CFDs relating to a foreign market or denominated in a foreign currency will be affected by fluctuations in foreign exchange rates. It is possible to incur a loss if exchange rates change to your detriment, even if the price of the instrument to which the CFD relates remain unchanged; and

(m) there is no clearing house for Margin FX Contracts and CFDs, and the performance of a CFD and/or Margin FX Contract by us is not ‘guaranteed’ by an exchange or clearing house.

16.4 **Leverage Risk**

A high level of leverage is obtainable in trading Margin FX Contracts and CFDs. However, the small Margin Requirements can work against you and lead to potentially large losses. The use of leverage will also increase the chances of the need for Margin payments. The leveraged nature of Margin FX Contracts and CFDs is that even a slight fluctuation in the market could lead to a proportionately much larger movement in the value of your investment, and you must be aware that the your potential losses may be far greater than the money you deposit into your Account.

Example:

EUR/USD is trading at 1.12000 and your Account equity is €10,000 EUR. You believe that the price of EUR/USD will fall, so you sell 1 lot (100,000 EUR) of EUR/USD at 1.12000. Your leverage on this trade is therefore 10:1 relative to your Account equity.

Five days later the price of the EUR/USD has risen to 1.12500 and you choose to close your Contract at this price by selling 1 lot (100,000 EUR) of EUR/USD at 1.12500. The net movement for EUR/USD has been: (1.12500 – 1.12000) /1.12000 * 100 = 0.44%.

However, as your leverage on this trade was 10:1 the loss was much larger than 0.44% as a proportion of your Account equity. Your loss on this trade, ignoring any other fees and charges, will be 100,000 * 0.00500 = $500 USD or 500 / 1.12500 = €444.44 EUR at the time the trade is closed. As a proportion of your starting Account equity, this loss has resulted in an equity loss of 444.44 / 10,000 * 100 = 4.44% on your Account. Because the size of the trade was 10 times larger than the Account equity, the profit or loss from any price movement on EUR/USD is also amplified by 10 times.

16.5 **Market Risk**

Foreign exchange currency markets and the markets for any other Underlying Instruments are subject to many influences including, but not limited to:

(a) interest rate fluctuations;

(b) changes in asset valuations; and

(c) suspensions in trading in the Underlying Market, Underlying Instrument or reduced liquidity in the financial products.

The above may result in rapid price fluctuations and reflect unforeseen events or changes in conditions with the inevitable consequence of market volatility.
We strongly recommend that you closely monitor your Contracts with us at all times. Foreign exchange currency markets are highly volatile and are very difficult to predict. Due to such volatility, in addition to the spread that we add to all calculations and quotes, no margin Contract offered by us or any other financial services provider should be considered a safe trade.

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16.6 **System Risk**

Operational risks in relation to the Pepperstone Platform are inherent in every Margin FX Contract or CFD that we offer. For example, disruptions to our operational processes such as communications, computers, computer networks, software or external events may lead to delays in the execution and settlement of a Contract. You may be unable to trade in a particular Margin FX Contract or CFD that we offer and you may suffer a financial loss or opportunity loss as a result.

If you experience a disruption to the Pepperstone Platform, you must call our support team on +61 3 9020 0155 as soon as possible in order to open\close Contracts.

We do not accept or bear any liability whatsoever in relation to the operation of the Pepperstone Platform.

16.7 **Execution Risk - Slippage**

We aim to provide you with the best pricing available and to fill all Orders at the requested rate. However, there are times when, due to an increase in volatility or volume, orders may be subject to what is referred to as “slippage”. This most commonly occurs during fundamental news events or gapping in the markets. The volatility in the market may create conditions where orders are difficult to execute, since the price might be many pips away due to the extreme market movement or gapping. Execution is subject to available liquidity at any and all price levels. Although you may be looking to execute at a certain price, the market may have moved significantly or liquidity exhausted, in which instance your Order would be filled at the next best price or the fair market value.

16.8 **Execution Risk - Delays in Execution**

A delay in execution may occur for various reasons, such as technical issues with your internet connection to our servers, which may result in hanging Orders. A disturbance in the connection path can sometimes interrupt the signal, and disable the Pepperstone Platform, causing delays in transmission of data between your Pepperstone Platform and our servers.

16.9 **Reset Orders**

Market volatility creates conditions that make it difficult to execute Orders at the given price due to an extremely high volume of Orders and/or available liquidity. By the time Orders are able to be executed, the Bid/Offer price may be reset. For limit entry or limit orders, the Order would be rejected and reset until the Order can be filled.

16.10 **Hanging Orders**

During periods of high volume, hanging Orders may occur. This is where an Order sits in the "orders" window after it has been executed. Generally, the Order has been executed, but it is simply taking a few moments for it to be confirmed. During periods of heavy trading volume, it is possible that a queue of Orders will form. That increase in incoming Orders may sometimes create conditions where there is a delay in confirming certain Orders.

16.11 **Hedging**

The ability to hedge allows you to hold both buy and sell positions in the same Contract simultaneously. You have the ability to enter the market without choosing a particular direction. While the ability to hedge is an appealing feature, you should be aware of the factors that may affect hedged Contracts. It is important to note that even a fully hedged Account may suffer losses due to rollover costs, exchange rate fluctuations or widening spreads. Such losses may also trigger a Margin Call.

16.12 **Automated Trading Strategies**

The use of Automated Trading Strategies (Expert Advisors) on the Pepperstone Platform is high risk and may cause you significant financial loss. We have no control over the logic or code used by these systems to determine Orders to trade. We do not accept or bear any liability whatsoever in relation to the operation of the Automated Trading Strategies on the Pepperstone Platform.

16.13 **Execution Risk – Rollover**

All Contracts which remain open until 23:59 (Server time) will be subject to rollover. The Contracts will be rolled over by debiting or crediting your Account with the amount calculated in accordance with the Rollover/Interest fees. During the rollover period, trading may be disabled for 2 to 5 minutes and there may be widened spreads as liquidity reduces. You may suffer financial gain or loss as a result. We do not accept or bear any liability whatsoever in relation to the rollover period.

16.14 **Stop Loss Orders and Limit Orders Are Not Guaranteed**

The placing of a stop loss Order can potentially limit your loss, however we do not guarantee that it will do so. Similarly, a limit Order can maximise your profit but there is also no guarantee of this. This is because, for example, foreign exchange markets can be volatile and unforeseen events can occur which mean that it is possible that stop loss Orders and limit Orders may not be accepted, or may be accepted at a price different to that specified by you. You should anticipate being stopped out at or limited at a price worse than the price you set. You may suffer losses as a result.

Examples of a stop loss Order:

If you wish to speculate that the price of US30 will decrease and you only want to lose approximately $200 USD if you are incorrect in this speculation, you can open a 1 lot Contract at the price of $19,871 USD and set the stop loss Order at $20,071 USD (i.e. 19871 + 200). If the price of US30 does not decrease but continues to appreciate, and the trade is closed at $20,074 USD rather than $20,071 USD because the price of $20,071 USD is not available at the time of closing due to the rapid movement in price, the transaction in this example will then generate a loss of $203 USD.

Examples of a limit Order:

In cirucmstances where you want to speculate that the price of AUD/USD will decrease after hitting parity with the USD, instead of waiting for the market to reach this price, you place a sell limit Order at 1.00000 AUD/USD. This Order will trigger a sell trade once the price of 1.00000 is reached or higher. When the price of AUD/USD appreciates above 1.00000 and immediately changes from 0.99980 to 1.00050, the sell trade will be triggered due to the price movement and you will receive a fill price of 1.00050 instead of 1.00000.

16.15 **Right to Novate Your Account**

We may assign, transfer and novate all our rights, title and interest and otherwise deal in any manner over all or any part of the benefit of the Agreements and any of our rights, remedies, powers, duties and obligations under the Agreements to any person, without your consent. You agree that we may disclose any information or documents we consider necessary to help us exercise this right.

This means that you may end up in a contractual relationship with another contracting party that is not Pepperstone and be exposed to the financial situation of that other contracting party and not Pepperstone.

17. Margin Obligations

Margin FX Contracts and CFDs are subject to Margin obligations i.e. you must deposit funds for security/Margining purposes. You must pay all Margin payments required by us in respect of your Account.

17.1 **Types of Margin**

There are two components of the Margin Requirement which you may be required to pay in connection with Margin FX Contracts and CFDs, namely Initial Margin (as defined in clause 17.2) and Variation Margin (as defined in clause 17.3).

17.2 **Initial Margin**

When you enter or open a Margin FX Contract or CFD, and while that transaction remains open, you will be required to immediately pay us the Margin for that Contract ("**Initial Margin**"). The full value of the Initial Margin must be placed on your Account before a Contract is opened. This amount represents collateral for your exposure under the Contract and covers the risk to us. Depending on the Contract traded and the market volatility, the Initial Margin will typically be between 1% and 10% of the face value of the Contract. However, it is not uncommon for Initial Margins to be above this range. We may change the percentage requirement at any time and at our discretion. You should refer to the Initial Margin schedule on the Pepperstone Platform to confirm the actual percentage Margin Requirement for your proposed transaction at any particular time.

17.3 **Variation Margin**

For as long as a Contract is open, you are required to keep sufficient equity on your Account to meet the Margin Requirement. As the face value of your Margin will constantly change due to changing market conditions, the amount required to maintain the open Contracts will also constantly change. This is also commonly referred to as the Variation Margin. We will dynamically recalculate the amount of Margin required (being the Initial Margin and any adverse Variation Margin) at any one time, and display this amount on the Pepperstone Platform. You will be required to cover any adverse price movements in the market by making further payments to us.

We will also credit Variation Margin to you when a Contract moves in your favour. In this case, the Variation Margin is the unrealised profit or loss on your open Contracts which is equal to the dollar value movement of your Contract calculated from the exchange rate at which you entered the Contract compared against the current market value. We will provide you with notice of the Variation Margin by making a Margin Call via the Pepperstone Platform.

We note that Margin Calls are made on a net Account basis i.e. should you have several open Contracts, then Margin Calls are netted across the group of open Contracts. In other words, the unrealised profits of one Contract can be used or applied as Initial Margin or Variation Margin for another Contract.

For example: A client has taken a buy Position on AUD/USD for 1 lot. The Margin Requirement on this Contract is $1,000 AUD as the client has 100:1 leverage (100,000 / 100 = $1,000 AUD). The Position moves in the client's favour as AUD/USD appreciates which results in a floating profit of $200 AUD. This means that the Contract has a Margin Requirement of $1,000 AUD but a variation margin of –$200 AUD.

17.4 **Notifications regarding Margin Requirements**

Margin Calls will be notified to you via the Pepperstone Platform. We do not provide email or phone notifications when an Account is approaching a Margin Call.

You are required to log into the Pepperstone Platform regularly when you have open Contracts to ensure you receive notification of any Margin Calls. It is your responsibility to actively and constantly monitor and manage your Account and any open Contracts, as well as ensuring that you meet your Margin Requirements. It is also your responsibility to ensure you are aware of any changes in the Margin Requirements. We are under no obligation to contact you in the event of any change to the Margin Requirements or any actual or potential shortfalls in your Account.

17.5 **Failing to Meet a Margin Call**

IMPORTANT: If you fail to meet any Margin Call, then we may in our absolute discretion and without creating an obligation to do so, Close-Out all or some of your open Contracts and deduct the resulting realised loss from any excess funds held in your Account without notice to you. Any losses resulting from us Closing Out your Contract will be debited to your Account and may require you to provide us with additional funds.

The Close-Out process is designed to minimise client losses and allow us to be proactive, identify Accounts on which the equity does not cover the total Margin Requirements and endeavour to take action before the market moves further against any open Contracts. For this reason, you must ensure that you have sufficient cleared funds on deposit to meet your changing Margin Requirements i.e. monies in addition to meeting the Margin Requirements as a buffer against any adverse Variation Margins that arise. Please be aware that if your Account balance is not sufficient to meet your Margin Requirements and you have not met a Margin Call, some or all of your open Contracts may be Closed-Out at the risk of generating a loss which is greater than the value of your Account. Please note that this could be immediate if certain global events occur.

17.6 **How Margin Calls are to be Met**

When we make a Margin Call you must immediately deposit the amount of funds that we request into our nominated account. Any funds that we receive from you are held, used and withdrawn in accordance with the Corporations Act requirements and our Terms and Conditions. We retain any interest that may accrue on our trust account.

If your Account equity goes below the Margin (or deposit) Requirement whilst you are on Margin Call, the automated Close-Out system or our support team may, at their discretion, delete working Orders, partially Close-Out or Close-Out some or all trades to reduce the Margin Requirement until it is fully covered by the Account equity. Any open Contracts are deemed to be at risk of being Closed-Out as soon as your Account enters into a Margin Call.

18. Benchmarks for Pepperstone's Products

18.1 ASIC's RG227 aims to improve disclosure to retail clients. It sets out seven disclosure benchmarks that issuers of Margin FX Contracts and CFDs must address. Below we have set out our responses to these benchmarks in detail and provide further information which ASIC considers necessary to help you make a decision about obtaining our products.

18.2 **Benchmark 1 - Client Qualification**

Trading derivatives may not be suitable to all investors as it can involve significant risk. Investors who choose to trade derivatives with us must be aware of the risks involved. This section:

(a) sets out Pepperstone's policy in the minimum qualification criteria that prospective clients will need to demonstrate they meet before we can open a new Account;

(b) outlines the processes of client onboarding; and

(c) explains how we keep written records of our client assessments.

Minimum Qualification Criteria

We assess you against a list of qualifying criteria that addresses your understanding of and experience with the products that we offer.

We do not accept retail clients unless you meet the minimum qualification criteria and are able to satisfactorily pass our online client qualification test ("**Client Qualification Test**"), which addresses the following criteria:

(a) previous trading experience in financial products, including securities and derivatives;

(b) understanding of the concepts of leverage, margins and volatility;

(c) understanding of the nature of CFD trading, including that CFDs do not provide investors with interests or rights in the underlying asset over which a position is taken;

(d) understanding of the processes and technologies used in trading; and

(e) preparedness to monitor and manage the risks of trading.

You warrant that the information you provided to us in your Application Form (and at any time after) is true and accurate in all aspects. You acknowledge that we will rely upon the information you provide in making a judgement about whether to accept you as our client. Please note that we do not provide personal advice or other advice regarding the suitability of trading in Margin FX Contracts and CFDs and do not take into account your personal and financial circumstances and objectives.

We offer our potential clients a demo platform (practice account system), which allows potential clients to trade on a virtual basis for a period of time before proceeding to open an actual Account, and mirrors the functions of actual Accounts. However, any practice systems or equipment offered to prospective clients are offered on a non-obligatory basis.

When you start the Account opening process with us online, you will be asked the level of previous experience you have in Margin FX Contracts and CFDs.
As part of the Account opening process, you will be required to complete the Client Qualification Test referred to above.

The Client Qualification Test must be passed with a 70% or higher score to allow an Account to be opened. The test may be attempted three (3) times.

We will only deal with you if in our sole judgement, you have qualified for an Account based on the results of our Client Qualification Test. If in our sole judgement we consider that you have qualified, we will not be liable in any way to you, or have any dealings or transactions between us set aside, modified or varied, if your experience, knowledge and understanding are found to be insufficient or that we were in error in making our judgement.

Client On-boarding Process

We check minimum qualification criteria as part of our client on-boarding process through the Application Form and our Client Qualification Test. If you do not have previous experience with Margin FX Contracts and CFDs, or fail our Client Qualification Test three (3) times, one of our sales traders will contact you to discuss potential solutions to improve your understanding and knowledge of Margin FX Contracts and CFDs, and advise when you are able to re-attempt the Client Qualification Test.

Written Records

We document the assessment process and retain it in our records.

18.3 **Benchmark 2 - Opening Collateral**

We only accept cash or cash equivalents for the opening of a trading Account. No other opening collateral (such as securities or real estate) are accepted.

We do not encourage the use of borrowed funds to fund leveraged products. This practice is commonly known as "double gearing", and carries with it a very high degree of risk, particularly given the inherent volatility of the financial markets. In particular, the borrower runs the risk that they may not be able to adequately service their credit/loan repayments nor their Account, if the market moves against them. For this reason, we attempt to limit the use of credit cards to fund an Account but note that with the advent of Visa and Mastercard Debit Cards it is not possible for us to distinguish between a debit or credit card. For this reason, we have not adopted the Opening Collateral Benchmark suggested by ASIC in RG 277 as it would impede the ability of our clients to use debit cards to fund their Accounts.

We offer a range of payment methods that do not involve the use of borrowed funds such as Poli, bank transfer, Bank Wire, BPAY and Local Bank Transfer.

18.4 **Benchmark 3 - Counterparty Risk - Hedging**

We maintain strict management over our counterparty risk and use of hedging. Hedging is the practice of offsetting counterparty risk, in this case being the risk of exposure to positions generated when you enter into a Contract with us. We may hedge risk by entering into hedge trades with liquidity provider(s) ("**Liquidity Provider(s)**" or "**counterparties**"), where we hold Margin with Liquidity Providers. This creates an element of risk to clients as we are exposed to these counterparties and their potential insolvency or otherwise whilst they hold our funds. We regularly assess the financial stability of our Liquidity Providers to reduce risk where possible. We may also manage our market risk by netting client positions off against one another (in other words we will hedge a client's trade against an opposing trade from another client), as an alternative to hedging with our Liquidity Providers.

We may need to hedge for a number of reasons including:

(a) to offset the risk of client Contracts made with us;

(b) discretionary hedges to protect against market volatility; and

(c) to implement risk limits as directed by our board of directors and risk committee.

It is important to note that our hedging activities may not eliminate risk to you.

Within our risk management framework, we have assessed the market risk and counterparty risk arising from entering into Contracts with you (and our other clients) and our hedging counterparties, and applied controls to mitigate those risks. Such controls include, but not limited to:

(a) the enforcement of leverage limits based on the Account equity of the client and the instruments being traded;

(b) the enforcement of market risk limits on our net exposure and daily loss limits; and

(c) the selection and maintenance of one or more hedge counterparty relationships.

We maintain and implement a Hedging Counterparty Policy, which identifies our Liquidity Providers and sets out in detail the factors we take into account when selecting Liquidity Providers or hedging counterparties. Our Hedging Counterparty Policy is available on our website (www.pepperstone.com) under the 'Legal Documentation' tab. It may be updated from time to time as counterparties change.

18.5 **Benchmark 4 - Counterparty Risk - Financial Resources**

As an issuer of OTC derivatives we comply with the specific financial requirements imposed on our AFSL as set out in ASIC Regulatory Guide 166 and other regulatory financial obligations. The goal of these requirements is to ensure that we meet the minimum level of financial resources required by law to conduct business and meet any liabilities as and when they may arise. We monitor our exposure on a daily basis using real-time software tools and prepare detailed financial reports on a monthly basis to ensure the applicable financial requirements are met.

In the event that a financial resource obligation is not met, we will adopt an internal escalation process along with any regulatory breach reporting obligations.

We are required to have our accounts audited at least annually. The latest results of our financial audit process are available by contacting a Pepperstone representative or via our support email: support@pepperstone.com.

18.6 **Benchmark 5 - Client Money**

Trust Account

You must deposit funds with us to trade a Contract that we offer (these funds are referred to as **"Client Money"** for the purpose of this clause). We deal with these funds in accordance with the Client Money Rules set out in Part 7.8 of Division 2 of the Corporations Act (**"Australian Client Money Rules"**) and ASIC Regulatory Guide 212: Client Money Relating in OTC Derivatives. Where required, Client Money will be paid into a trust account that we maintain with an authorised deposit-taking institution ("**ADI**").

These rules regulate the way in which we must deal with Client Money. We hold Client Money separately from our own money. Your money may be co-mingled into one or more trust accounts with our other clients' money, which is also held on trust. This means that a short fall in Client Money owing to one client may impact on the funds available to other clients.

We do not use Client Money for the purpose of meeting obligations incurred when we hedge with counterparties, nor to meet any trading obligations of other clients. Any obligations that we incur in relation to these transactions are funded from our own money.

We will only make a withdrawal from Client Money to:

(a) process a withdrawal for a client;

(b) transfer Margin to a Liquidity Provider;

(c) withdraw fees charged as part of a deposit or withdrawal transaction;

(d) pay money to us which we are entitled to as a result of a client trading with us; and

(e) make a payment that is otherwise authorised by law or in compliance with the operating rules of a licensed market.

However, you should note that we are entitled, and you authorise us to withdraw, deduct, pay or apply, from your Client Money held in any trust account or invested by us, towards any Margin or amounts payable by you to us and/or any associate of ours under the Agreements, including, without limitation making a payment for or in connection with, the margining, adjusting or settling of dealings in Margin FX Contracts or CFDs entered into by you or the payment of interest, fees or charges to us, it being acknowledged and agreed by you that such amounts belong to us and may be used by us in our business from time to time.

We may invest any of your Client Money held in any trust account in the kinds of investments permitted by the Australian Client Money Rules and you irrevocably and unconditionally authorise us to undertake any such investment.

We are solely entitled to any interest or earnings derived from Client Money being deposited in a trust account or invested by us in accordance with the Australian Client Money Rules, with such interest or earnings being payable to us from the relevant trust account or investment account, as the case requires as and when we determine.

Protection Afforded by the Australian Client Money Rules

The Australian Client Money Rules provide that in the event that we cease to be licensed (including because our AFSL has been suspended or cancelled), become insolvent, or cease to carry on some or all of the activities authorised by our AFSL, Client Money held by us or any investment by us of Client Money, will be dealt with as follows:

(a) money in the trust account is held on trust for the persons entitled to it, and will be paid in the order set out in the third bullet point below;

(b) if money in the trust account is invested, the investment is likewise held on trust for each person entitled to money in the account;

(c) the money in the trust account will be paid in the following order:

(i) the first payment will be of money that has been paid into the account in error;

(ii) the next payment will be payment to each person who is entitled to be paid money from the account;

(iii) if the money in the account is not sufficient to be paid in accordance with the above paragraphs, the money in the account must be paid in proportion to the amount of each person's entitlement; and

(iv) if there is any money remaining in the account after payments made in accordance with the above paragraphs, the remaining money is payable to us.

These rules override anything to the contrary in the Australian Bankruptcy Act 1966, the Corporations Act or other law, or any provision of the Terms and Conditions.

18.7 Benchmark 6 - Suspended or Halted Underlying Instruments

We will halt trading in Contracts when there is a trading halt in the Underlying Instrument.

If an Underlying Instrument to which a CFD relates is suspended or has been halted from trading, we will suspend trading in the CFD and we may choose to increase the amount of Margin required to support that open Contract at our reasonable discretion. If the Underlying Instrument remains suspended for a period that we deem unacceptable to us in our sole discretion, we may close the open Contract at fair value as determined by us. If an Underlying Instrument to a CFD has been de-listed or ceases to be priced, we reserve the right to close all affected open Contracts at the last available price.

18.8 Benchmark 7 - Margin Calls

We operate Margin Call and Margin Stop Out systems designed to prevent clients from entering into negative balances on their Accounts. The system is automated and will monitor every client Account while the markets are open. Margin is monitored as a percentage and calculated as follows:

Equity / Margin = Margin Percentage

Each Pepperstone Platform offers a different Margin Call and Stop Out system.

MetaTrader 4

Should the Margin Percentage fall below 90% in respect of MetaTrader 4, it will automatically trigger a Margin Call. A Margin Call will be displayed to you in two ways:

(a) the platform will indicate the Margin Call by sending an internal email to your MetaTrader 4 and providing an audible announcement of the mail's arrival; and

(b) the area of MetaTrader 4 that displays your balance and equity will flash red.

Should the Margin Percentage fall below 20% MetaTrader 4 will automatically trigger a margin Stop Out. This will begin to Close-Out open Contracts until the Margin Percentage rises above 20% again.

cTrader

cTrader does not currently have a Margin Call system built into the software. It is your responsibility to monitor your Margin through cTrader.

The cTrader Stop Out system will activate at a Margin Percentage of 50% or below. At this point the platform will automatically trigger a Margin Stop Out.

19. How Pepperstone Contracts are traded

19.1 When trading the Contracts, you should be aware of the risks and benefits and review examples of how our Contracts can be traded. Clients primarily transact in our Contracts using the online Trading Platforms that we provide. Accordingly, clients are provided with direct access to our quoted prices over the internet.

20. Pepperstone Platforms

20.1 We provide access to Margin FX Contracts and CFDs trading via the platform created by MetaQuotes called MetaTrader. We recommend that prior to engaging in live trading you open a "demo" Account and conduct simulated trading. This enables you to become familiar with the attributes of this Pepperstone Platform. We have outsourced the operation of the MetaTrader platform to MetaQuotes, and in doing so have relied upon MetaQuotes to ensure the relevant systems and procedures are regularly updated and maintained. Please visit www.metaquotes.net for relevant information on how to use this Pepperstone Platform.

20.2 We also provide access to Margin FX Contracts and CFDs trading via the cTrader platform created by Spotware. Prior to using this Pepperstone Platform, you will also be able to "demo" trade in order to conduct simulated trading to increase familiarity with the platform's features and functions. We have outsourced the operation of the cTrader platform to Spotware, and in doing so have relied upon Spotware to ensure that the relevant systems and procedures are regularly updated and maintained. Please visit www.spotware.com for relevant information on how to use this Pepperstone Platform.

21. Trading Hours

21.1 The Pepperstone Platforms open on Sunday at 5.01pm New York (EST) time and close at 4:55pm New York (EST) time Friday. This means that you are able to view live prices and place live Orders during these hours. You may still access the Pepperstone Platforms and view your Account, market information, research and our other services outside of these hours. However, there will not be any live prices or trading. We will provide services to you outside of these hours at our sole discretion. Trading times of Contracts may vary within these times, please check our website (www.pepperstone.com) for further information on trading sessions for each Contract.

22. Risk Capital

22.1 In cases where you are speculating, we strongly advise you not to 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.

23. Superannuation Funds

23.1 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, the regulations made under that Act and circulars issued by past and present regulators of superannuation funds including the Insurance and Superannuation Commission, the Australian Prudential Supervisory Authority and the Australian Taxation Office. Without being an exhaustive list, the following are some of the issues that you should consider if you are the trustee of a complying superannuation fund:

(a) the prohibitions on borrowing and charging assets and whether dealing in Margin FX Contract or CFD would breach those prohibitions;

(b) the purpose of dealing in Margin FX Contracts or CFDs 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;

(c) the necessity for a trustee of a complying superannuation fund to be familiar with the risk involved in dealing in Margin FX Contracts and CFD and the need to have in place adequate procedures to manage the risks associated in dealing in those contracts; and

(d) the consequences, including adverse taxation consequences, if a superannuation fund fails to meet the requirements for it to continue to hold complying status.

24. Fees and costs

24.1 We offer several different trading Accounts that feature different fees and costs.

24.2 **Spreads**

We may charge spreads (the difference between the bid and the ask price) on your trades. In relation to our Standard accounts, our spread charges include an in-built fee of 1 pip for FX-related instruments, which means we will widen your spread by 1 pip on any Margin FX Contracts traded.
This will be charged in the quote currency of the instrument being traded, which can then be converted into the base currency of the account in order to determine your cost of trading.

Example:

A 1 pip spread mark-up in EUR/USD is worth USD$10. If you are trading on an AUD based Account, the cost for this trade would be USD$10 converted into AUD at the spot rate.

24.3 **Payment of Margin**

The Margin is the amount of capital required in your Account for you to open a Contract. The way that we calculate Margin varies based on the instrument being traded and the details of the underlying asset. We recommend that you check the specifications of your Contract to understand the amount of Margin required.

For a Margin FX Contract, you can use the following formula: (Contract Size x Volume (in lots)) / Leverage = Margin required.

Example:

You want to open a Contract for 0.1 lots (1 lot = 100,000 base currency, so 0.1 lot = 10,000 base currency) of EUR/USD with a leverage level of 1:200. Your calculation would be (100,000 x 0.1) / 200 = USD$50.

For your convenience, we have a Margin calculator available in your Secure Client Area, which you can access via the following link: https://secure.pepperstone.com/calculators.

24.4 **Contract roll fee**

Our soft commodity instruments operate on an ongoing basis and derive their prices from underlying futures contracts. For this reason, when one Contract is Closed-Out we must roll the price into a new Contract. In order to avoid profit and loss discrepancies, we will issue a balance adjustment on your Account to take into account the difference in prices between the two Contracts.

24.5 **Swap/Roll over fee**

Our Swap Rate for Margin FX Contracts is a variable rate that is dependent on the currency pair, the applicable Swap Rate in the interbank markets according to the duration of the rollover period, the size of the Contract and the Pepperstone Spread that is applied at our discretion. The interbank Swap Rate that is applied reflects the interbank market demand of the interest rate differential between the two applicable currencies. For example, if you have a long Australian Dollar / US Dollar (AUD/USD) Contract and hold it over the 5PM American EST time (Close of Business) and interest rates are higher in AUD than in USD, then you may receive a swap benefit. This is because you are long the highest yielding currency. Conversely, if you were short AUD/USD in the above scenario then you may receive a Swap Charge at the Pepperstone Swap Rate. In circumstances where the two interest rates are near parity (almost equal to each other) a Swap Charge may be imposed for both long and short open Contracts. A double negative Swap Rate implies that there is no interest advantage gained by borrowing in one currency to then invest in the other.

The Swap Rate that is applied will also be tripled for Contracts held on the Wednesday – Thursday roll over. Due to the settlement structure within the spot market, trades that are open on Wednesday will be settled on the following Monday, so there is a need to account for interest earned / charged over this period. We suggest that you check the symbol specifications in the Pepperstone Platform to see when the triple swap rate occurs as this can vary based on the asset class of your Contract.

Example:

A Contract for 1 lot of EUR/USD (long) with a EUR based Account has a swap of -8.54 (points).

8.54 points equates to 8.54 units of base currency on a 1 lot trade as 1 lot has a pip value of 10 units of base currency.

1 lot = 100,000 units of base currency, Swap rate = -8.54, Number of nights = 1/ Swap fee = (10 x -8.54 x 1) / 10 = $-8.54.

24.6 **Administration fees (Swap Free/Islamic Accounts only)**

Swap Free Accounts feature spreads from 1 pip with the only direct cost of opening the trade being the difference between the buy and sell price (the spread). Each Pepperstone Platform operates differently in respect of administration charges for Swap Free Accounts.

MetaTrader 4

Swap Free / Islamic Accounts on the Metatrader 4 platform will have an administration charge deducted every 2 days that the Contract has been open. The charge will vary based on the currency pair that is being held over this time, taking into account the frequency that this currency pair is traded and its prevailing interest rate differential. In order to view the administration charges for each product, please visit the Islamic Account page on our website (www.pepperstone.com).

Example:

If you are buying a Contract for 100,000 EURUSD in a USD based trading Account and the administration charge for EURUSD is -4, you will be charged $4 USD every 2 days while the Contract is open.

cTrader

Swap Free / Islamic Accounts on the cTrader platform will have an administration charge deducted on a daily basis. A 2 day grace period applies from when the Contract is opened (including the day that the Contract is opened), during which the administration charge will not be deducted. The charge will vary based on the currency pair that is being held over this time, taking into account the frequency that this currency pair is traded and its prevailing interest rate differential. The rates at which administration charges will be applied for Contracts held past the 2 day grace period is available under the 'Symbol Information' tab within cTrader.

Example:

If you are buying 100,000 EURUSD in a USD based trading Account and the administration charge for EURUSD is -2, you will be charged $2 USD daily, following the initial 2 day grace period, while the Contract is open.

24.7 **Commissions**

We may charge commissions on your trading Account, which will be reflected when you open a Contract. The amount of commission charged will vary based on the currency of your Account and will increase/decrease in proportion to the size of the Contract traded. Please refer to the following link for more information on our commission rates: https://pepperstone.com/en/forex-trading/razor-ecn.

Example:

The commission charge for USD is USD3.76 (7.53 per round turn). If you have a USD denominated MT4 trading Account and open a Contract of 2 lots of EURGBP, you would be charged USD15.06 to open the Contract (being USD7.53 x 2 lots).

cTrader Accounts can also charge a commission however the fee is based on the notional value of the base currency pair traded. The charge is based on 3.5 of the base currency.

www.pepperstone.com

Example:

If you are trading 100,000 of EUR/USD the commission charge will be €3.50 EUR to open the Contract and €3.50 EUR to Close-Out the Contract.

24.8 **Index Dividends**

When an individual stock which is a constituent of a cash stock index goes ex-dividend, this will have a weighted effect on that cash index, known as the "index dividend". We will credit long Contracts and debit short Contracts held in these markets with a cash adjustment at rollover.

The rate applied as an "index dividend" is calculated at our absolute discretion, but will reflect Underlying Market conditions.

Futures indices are not affected as anticipated future dividends are already priced in to the market.

Example:

ANZ has decided to issue a dividend which will have a weighted effect on the underlying cash index once ANZ trades on the ex-dividend date. The overall impact to the underlying index has been calculated by Pepperstone as being 10.5 points.

If you are buying 1 lot AUS200, you will receive $10.5 AUD as a cash deposit in your trading Account whereas you will be charged $10.5 AUD if you are selling 1 lot AUS200.

25. Conflicts of Interest

25.1 Trading with us carries unavoidable risk of conflict of interest because we are acting as principal in our transactions with you. Due to the nature of the financial products that we provide, we may at times have residual long or short Contracts as a result of aggregate client volume in one particular direction.

26. Dispute Resolution

26.1 We are required by law to comply with a complaints resolution process.

26.2 We want to know about any problems or concerns you may have with our services so that we can take steps to resolve the issue. We have internal and external dispute resolution procedures to resolve complaints from clients. A copy of these procedures may be obtained by contacting support@pepperstone.com.

26.3 Initially, all complaints will be handled and investigated internally. If you are not satisfied with the outcome, you have the ability to escalate your concerns to an external body for a resolution.

26.4 If you have a complaint about the financial services provided to you, please take the following steps:

(a) contact us using the details below to inform us about your complaint. You may do this by telephone, email or letter.

Pepperstone Group Limited
Level 5, 530 Collins St
Melbourne VIC 3000

Phone: 03 9020 0155
Email: support@pepperstone.com

(b) If you are dissatisfied with the outcome, you have the right to complain to the Financial Ombudsman Service Australia ("**FOS**"), of which we are a member. FOS is an approved external dispute resolution scheme that can deal with complaints regarding any financial services provided under our AFSL. Our membership number with FOS is 28689.

(c) Another alternative is that you may make a complaint to and obtain information about your rights from ASIC. You can also contact ASIC on 1300 300 630. This is a local call info line.

27. Privacy Policy

27.1 Depending on the type of service that you request, we may ask you to provide certain personal information, either in writing or verbally. As a financial service provider, we have an obligation under the AML/CTF Act to verify your identity and the source of any funds. This means that you will be asked to present identification documents such as a passport and driver's licence, and we will retain copies of this information. This information will be kept strictly confidential and is used for the primary purpose of providing our services to you.

27.2 Your privacy is important to us and we are committed to compliance with the Privacy Act 1988 (Cth) and the Australian Privacy Principles in the way that we handle your personal information. Pepperstone will not share your information with a third party without your consent, or unless required to do so in accordance with the law.

27.3 You can obtain a copy of our Privacy Policy from our website (www.pepperstone.com), under the "Legal Documentation" tab. You have the right to obtain a copy of any personal information that Pepperstone holds about you and update or correct such information.

Pepperstone

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