PRODUCT DISCLOSURE STATEMENT

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1. INTRODUCTION

This Product Disclosure Statement (PDS) has been prepared and issued by Compass Global Holdings Pty Ltd ACN 159 256 014 AFSL 426 810 (referred to herein as 'Compass, we or us').

This PDS provides you with key information about all financial products and services provided by Compass and its related entities including such financial services and products that may be provided to you under the name 'Compass Global Markets',

The information contained in this PDS does not constitute a recommendation, an advice or an opinion and does not take into account your individual objectives, financial situation, needs or circumstances. The PDS is an important document and should be read in its entirety before entering into a foreign exchange transaction with us or purchasing a financial product and/or service from us. This document does not form part of the Client Agreement; nor should it be read instead of that Agreement. We will provide a paper copy of this PDS free of charge upon request. It is available for download on our website at www.compassmarkets.com.

The information in this PDS is current as at 19 February 2014 and may be updated from time to time where that information is not materially adverse to clients. We may issue a supplementary or replacement PDS as a result of certain changes, which will be available in paper copy upon request and free of charge by contacting us.

For information regarding our full range of products and services, please read the Financial Services Guide. If you have any queries regarding this, please contact us.

Jurisdiction

The distribution of this PDS may be restricted in certain jurisdictions outside Australia. Persons into whose possession this PDS comes are required to inform them of, and to observe, such restrictions. This PDS does not constitute an offer or solicitation to anyone in any jurisdiction in which such an offer is not authorised or to any person to whom it is unlawful to make such an offer or solicitation.

If you are a non-resident of Australia dealing with us you should note:

- the law governing your dealings with us is the law of New South Wales, Australia;
- your rights against us are restricted as set out in the Client Agreement;
- moneys which you deposit with us are not loans to us, and will be regulated by the Australian Client Money Rules;
- times are AEST times, unless stated otherwise.

Warning

You should not undertake foreign exchange transactions or enter into foreign exchange contracts unless you properly understand the nature of foreign exchange products and are comfortable with the risks involved. You should obtain financial, legal, taxation and other professional advice prior to entering into a foreign exchange transaction to ensure this is appropriate for your objectives, needs and circumstances and in relation, to the impact of any foreign exchange gains or losses on your particular financial situation.

Use of Examples

The use of examples in this PDS is provided for illustrative purposes only and does not necessarily reflect current or future market prices or the prices that we will apply to trade; nor how such trades have an impact on your personal circumstances.

Anti-Money Laundering Legislation

We may contact you from time to time to comply with the Anti-Money Laundering and Counter-Terrorism Financing Act (AML/CTF Act). By opening an account and transacting with us, you undertake to provide us with all additional information and assistance that we may reasonably require to comply with the AML/CTF Act.
In conducting a transaction with us, you warrant to us that:

- you are not aware and have no reason to suspect that the moneys used to fund your transactions 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;
- the proceeds of your investment will be used to fund any of the above mentioned activities; and you are not a politically exposed person or organisation as define in the regulation rules cognate to the Anti-Money Laundering and Counter-Terrorism Financing Act.

Purpose and Contents of this Product Disclosure Statement

This PDS is designed to provide you with important information regarding our range of financial products, including the following information:

- who we are;
- how you can contact us;
- which products we are authorised to offer;
- the features/risks/benefits of these products;
- fees and charges for these products;
- any potential conflicts of interest we may have;
- our internal and external dispute resolution process.

Name and Contact Details of Issuer/Service Provider

We are the issuer of this PDS and the financial product provider.

You can contact our office by any of the means listed below:
Writing to us at our registered office:

Suite 33, 650 George Street
Sydney NSW 2000
Australia
Phone: 1300-BESTFX or +61 2 9283 9792
Fax: +61 2 9283 6658
Email: info@compassmarkets.com
Web: www.compassmarkets.com

Representations
The information contained in this PDS is general advice only and does not take into account your particular financial objectives, needs and circumstances. You should obtain your own professional advice to ensure you fully understand the nature and risks of these products and determine their suitability for your situation.
Neither this PDS nor the foreign exchange contracts issued by us are endorsed or approved by the Australian Securities and Investments Commission (ASIC).

Nature of the Services We Offer
We provide foreign exchange services to retail and wholesale clients. We are the issues of this PDS and hold an Australian Financial Services Licence number 426810, which authorises us to provide the following financial services:

- provide financial product advice regarding foreign exchange contracts and derivatives; and
- deal in foreign exchange contracts and derivatives;

We provide only general advice to our customers and as such they are not tailored to individual financial circumstances, needs and goals. When utilising general advice and information provided by us, you should take all reasonable steps as to understand the potential outcomes of specific foreign exchange products and strategies adopted by you. In that regard you must obtain independent financial, legal, taxation and/or other professional advice, before entering into a transaction or purchasing a financial product or service from us. Prior to enter into any transaction with Compass you warrant to us that you have obtained such advice. It is a matter for you to determine whether or not financial products or services offered by us is suitable to your needs.

Any statement and/or correspondence by an employee and/or representative of Compass should not be regarded as anything other than general advice. You should disregard any statement and/or correspondence made by employee and/or representative of Compass which appears to you to be in the nature of individual financial advice. You should assume that such statement and/or correspondence, if it is indeed individual financial advice, is not authorised by Compass and/or that it is issued in error.

2. PRODUCT SUMMARY

We buy and sell foreign currency on using spot, forward and currency options exchange terms at an agreed rate and for an agreed settlement date. We give general product advice regarding the specific exchange transaction or product.

A summary table of the key characteristics of our foreign exchange contracts follows. However, you should ensure you read and understand this PDS in its entirety.

In the event that you feel that you have received individual financial advice from an employee and/or representative of Compass, we request that you do not proceed with the purchase of the relevant financial product or transaction. Further we request that you forthwith inform our Chief Executive Office, Andrew Su, in writing of the relevant statement and/or correspondence given to you. If you do nevertheless proceed with a transaction notwithstanding the foregoing, then you must obtain the independent advice referred to earlier herein before proceeding. Further in proceeding with the transaction you warrant to us that such advice was received and that you did not rely upon any form of financial advice provided by an employee and/or representative of Compass, in particular the words or correspondence that you regarded as being in the nature of individual financial advice. Further, in proceeding with the transaction you shall expressly waive any claim for damages as against Compass and the relevant employee(s)/representative(s) associated with the statement, and/or correspondence that you regard as being in the form of individual financial advice.

Summary

- Who is the issuer of this PDS and the foreign exchange products? We are both the issuer his PDS and the provider of the foreign exchange
- What is a foreign exchange transaction? Foreign exchange is about exchanging one currency for another. In a foreign exchange transaction one currency can be bought or sold in exchange for another currency.
- What foreign exchange products do we provide? Foreign exchange spot contracts, foreign exchange forward contracts and foreign exchange option contracts.
- How do I enter into a foreign exchange contract? Prior to transacting in foreign exchange, you must read and understand the Financial Services Guide available on our website, this PDS, the Application, and the Client Agreement, which will be provided to you by us detailing the applicable terms and conditions. You must complete, sign and return the Application and the documents referred to in it in order to set up an account with us. We reserve the right to refuse to transact with any person.
- How do you place a foreign exchange transaction order with Compass? We accept foreign exchange transaction instructions in any of the following ways: telephone (calls may or may not be recorded), or in writing (including email , facsimile or electronically where agreed) Compass online trading system
- Market orders. We provide a facility for where you may place an order at a rate nominated by you, which may or may not be filled depending on prevailing market conditions and will include a margin determined by Compass.
- What fees and charges are payable in respect of a foreign exchange transaction or product? Whilst we endeavour to include all fees and charges in the spread quoted, in some circumstances you may incur the following fees and charges of up to AUD $30 in relation to a foreign exchange transaction or product: transaction fee / telegraphic transfer fee / cheque dishonour fee / express delivery fee. Details of all fees and costs will be disclosed to you when entering into a transaction. The exchange rate quoted has a variable buy/sell spread which includes our remuneration.
- What will be the rate of the foreign currency transaction? The exchange rate quoted has a variable buy/sell spread which includes our remuneration.
- What will be the rate/pricing for the foreign exchange product? The exchange rate is the price at which the transaction takes place and will be quoted to you and agreed by you when the transaction is entered into. For foreign exchange spot contracts, the applicable exchange rate will be that agreed when the contract is entered into, with transaction settlement in normal circumstances occurring two business days later. Cleared client funds are required on the first business day after the transaction date, with funds to be remitted for settlement on the second business day after the transaction date. Forward foreign exchange contracts can be for a fixed term or a fixed delivery date and can also include an optional designated delivery window period. To take out a forward foreign exchange contract you will need to advise us of the amount of the particular currency you wish to buy or sell, the other currency involved and the settlement date you would prefer (being a working day in the relevant jurisdiction that pertain to the transaction). Pricing of the contract will depend on a number of factors, including the settlement date chosen, the current spot exchange rates and, in each currency pair, the current forward exchange rate derived from current interest rate differentials between the currency pairs.

- Deposits and Instalments: A deposit may be required to be paid for entry into a forward foreign exchange transaction. This acts as collateral or a security buffer in the event of a default by you. Typically we will require a deposit ("deposit") calculated as a p4rcentage of the contract value. You may be requested to provide additional moneys ("Instalment") to add to the deposit, if the market moves against you. If you do not meet a Deposit or Instalment request in a timely manner or within the time frame specified, positions may be reduced or closed by us without further reference to you in accordance with the terms of the Client Agreement. This can result in a loss to you.
- What are the key benefits? Some of the key benefits for each type of foreign exchange contract offered by us are set out in section 4 & 5.
- What are the key risks? Whilst it is acknowledged that the majority of deliverable foreign exchange transactions are a necessary aspect of some businesses, you should also be aware of some potential key risks of foreign exchange contracts, particularly in respect of forward contracts that may be applicable to your circumstances, as set out in sections 4 & 5. You should obtain independent professional advice and carefully consider whether they are appropriate for you in light of your knowledge, experience and financial needs and circumstances.
- What are the tax implications of foreign exchange transactions and products? Foreign Exchange transactions and products may have tax implications. The taxation consequences can be complex and will differ for each individual's financial circumstances. We recommend that you obtain independent taxation and accounting advice in relation to the impact of foreign exchange transactions and products on your particular financial situation.
- Dispute resolution: We have an established policy for dealing with complaints and we are a member of Financial Ombudsman Service, an external dispute resolution organisation

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3. FOREIGN EXCHANGE TRANSACTIONS AND PRODUCTS

Foreign exchange transactions

Foreign exchange is about exchanging one currency for another. In a foreign exchange transaction one currency can be bought or sold in exchange for another currency. The exchange rate is the price at which this transaction takes place. For example: if the current exchange rate for the Australian dollar against the USA dollar is AUD/USD 0.8900, this means that an Australian dollar is equal to, or can be exchanged for 89 US cents.

Foreign exchange products

The principal purpose of foreign exchange products is to enable individuals and entities with foreign exchange needs to pay or receive international currencies for goods or services, convert moneys, manage their foreign currency risk and protect their funds against adverse exchange rate movements. These products enable future exchange risk to be hedged and provide a degree of certainty of foreign exchange rates and exposures.

Foreign exchange exposures

Foreign exchange exposures may arise from a number of different activities.

An exporter who sells its product in foreign currency has the risk that if the value of that foreign currency depreciates then the revenues in the exporter's home currency will be lower.

An importer who buys goods priced in foreign currency has the risk that the foreign currency will appreciate, thereby making the cost, in local currency terms, higher than expected.

Fund managers and companies who own foreign assets are exposed to falls in the currencies where they own the assets. This is because if they were to sell (repatriate) those assets at the depreciated exchange rate applicable to those assets, this would have a negative effect on the home currency value.
Other foreign exchange exposures are less obvious and relate to the exporting and importing in local currency, but where the negotiated price is being affected by exchange rate movements.

Nature of foreign exchange products

Foreign exchange contracts are not traded on a licensed financial market, or exchange, but are bilateral agreements between you and Compass, with each party responsible for assessing the credit standing and capacity of the other party before entering into the transaction.

Client application

We will provide you with the requisite application forms to establish a relationship with us. If you wish to proceed, you will need to return a signed copy of the Application, which incorporates the Client Agreement and which in turn sets out your rights and obligations. You will then be bound by the Client Agreement.

Client instructions, statements and confirmations

We accept order instructions in any of the following ways:

- telephone (calls will be recorded);
- in writing (including email or facsimile, where agreed); or
- on our on-line trading platform made available on our website.

It is your obligation to immediately confirm in writing your instruction with us that any order instructions you provide to us have, in fact, been received by us. You indemnify us for any damage arising out of any unprocessed transaction request and waive any right to damages that may arise in the event of the failure of a transaction or a delay in the processing of a transaction or if a transaction fails to proceed. You indemnify us and waive any claim against us. Essentially these transactions are at your own risk and any consequential delay suffered by you and/or your beneficiary there is to be no claim against us.

There are many reasons why a transaction may not occur at a time frame that you may require. This is because transactions involving remittance overseas rely upon counter-parties in foreign jurisdictions. As such it is your obligation to advise us, in writing, if a transaction must be transacted by a certain time. Such advice by you is important as we will then be able to inform you if your expectations can be achieved and also advise you as to the estimated completion time for your transaction. Additionally, if it appears to you that a transaction has not occurred you must take steps to inform us in writing immediately of this concern.

You indemnify us for any damage arising out of any unprocessed transaction request and waive any right to damages that may arise in the event of the failure of a transaction or a delay in the processing of a transaction or if a transaction fails to proceed. We provide no guarantee as to the time frame of your transaction unless you expressly advise otherwise in writing. Essentially any consequential damage suffered by you and/or the beneficiary of the transaction are at your own risk and you, by engaging our services, acknowledge that it is a condition of our service that you shall waive any claim against us and indemnify us as to any damage that may arise as a result of a delayed, unprocessed or failed transaction.

It is your obligation to immediately review order confirmations that we provide, to ensure their accuracy. Any order discrepancies identified must be reported to us immediately. Should you have any queries relating to your confirmations, we encourage you to contact us on 1300-BESTFX or +61292839792.

Should you wish, for any reason, to close out or alter the foreign exchange contract you have entered into, we are under no obligation to agree to such closure or alteration.

If we agree to close out or alter your contract this may be subject to payment of any expenses and/or exchange rate loss incurred.

What is a market order

You may enter into an agreement with Compass under which your Spot Contract or Forward Contract becomes binding only when a certain exchange rate nominated by you ("Nominated Rate") is reached. You may amend or cancel the instructions given by you by telephone at any time before the Nominated Rate is reached. However, once your Nominated Rate is reached and the Market Order is filled by us, you are bound to settle the transaction in accordance with the terms of the relevant Spot or Forward Contract at the Nominated Rate.

Terms of Market Orders

The key terms of Market Orders may be summarised as follows:

A Market Order is binding from the time that your instructions are received by us. You may cancel a Market Order at any time before your Nominated Rate is reached by giving us notice by telephone. However, you may not cancel a Market Order after the Nominated Rate has been reached, whether or not we have notified you that your Nominated Rate has been reached on our trading platform. When your Nominated Rate is reached, we will notify you and upon such notification, you will be legally bound by the Transaction.

Your Nominated Rate will be reached only when the exchange rate nominated in your Market Order has been filled with us. In some cases, the exchange rate may spike to the extent that your Nominated Rate has been reached, but has changed before we are able to fill your Market Order, we will not fill your Market Order in those circumstances.

As soon as you receive our notification that your Nominated Rate has been reached, you must take action to ensure that the funds are paid into our account by the Settlement Date. If we do not receive the funds in time, we may close out the transaction.

Market Orders are not available for amounts less that AUD20,000 or equivalent.

The maximum period of validity for a Market Order is unlimited.

We will notify you when your Market Order has been filled.

Risks associated with payment products and client waiver and indemnity

As to payment products, Compass shall cause and effect such transactions as are necessary to give effect to the transaction requested by you. We shall inform you as soon as possible in the event that Compass cannot give provide a payment product sought by you.

It should be noted that, due to the nature of international payments systems, the delivery of payment products may, on rare occasions, be the subject of delays outside of the control of Compass. Such delays can be caused by a number of issues some of which may include counter-parties in foreign jurisdictions and/or the intervention of foreign regulators in relation to the specific transaction or the market generally. In such circumstance Compass will do all reasonable acts and things so as to procure the completion of the delivery of the payment product. However, you shall assume any risk associated with such delay and, by seeking a payment product from Compass, shall waive any claim as against Compass for any such damage and further indemnify Compass as to any claim by a third-party who deal with you and was adversely affected by the delay.

Fees and Charges

Our fee for foreign exchange products is built into the exchange rates quoted (buy/sell spread) when you seek to transact. Because we deal as principal, the exchange rate we offer you may not be the same as the rate we obtain ourselves.

The rate offered to you may depend upon a number of factors including transaction size, term of the product, our business relationship with you, the prevailing market rates and the differing interest rates applicable to the currency pair involved in the forward exchange transaction.

Further, we reserve the right to charge the following additional fees of up to AUD$30 each:

1. transaction fee ;
2. telegraphic transfer fee;
3. dishonoured cheque fee;
4. express delivery fee.

Details of fees and costs will be disclosed to you when entering into a transaction. You may also incur additional fees and charges from banks transmitting/receiving beneficiary funds. We do not receive advance notice of, nor will we be liable for, the imposition of such fees. As these fees and charges are beyond our control it is not possible to predict whether or not they will be incurred or determine their amount.

We are also entitled to retain any interest earned on client money held in the segregated accounts we must maintain under the Corporations Act. The rate of interest is determined by the provider of each segregated account.

If you fail to make any payment required under the Client Agreement when it falls due, interest will be charged on the outstanding sum at a rate of five per cent per annum over the cash rate determined by the Reserve Bank of Australia (or of such monetary authority as may replace it) for interbank loans.

Interest accrues and is calculated daily from the date payment was due until the date the client pays in full and is compounded monthly.

4. FOREIGN EXCHANGE SPOT CONTRACTS

A spot contract enables an exchange of two currencies on agreed terms. The applicable exchange rate will be that agreed when the contract is entered into (Transaction Date), with transaction settlement occurring in normal circumstances two business days later, but earlier if nominated by you (Settlement Date) if on a Value Today – settlement on the day the foreign exchange contract is entered into – or Value Tomorrow – settlement on the day after it is entered into. Client funds are required to be remitted before settlement.

Benefits of spot contracts

The significant benefits of spot contracts are:

- they are a simple and efficient method of facilitating payments internationally;
- they can be used to provide advance payments to open account settlements and settle letters of credit.

Risks of spot contracts

In addition to the general risks associated with foreign exchange transactions referred to herein, the significant risks of spot contracts are:

- whilst efficient, spot exchange rates can be volatile and unpredictable, even during a single trading day;
- utilising the spot market to manage future foreign exchange requirements may expose you to a high risk of unfavourable movements in foreign currency values; and
- there is no cooling off period.

Example of spot transaction

- Company 1 Pty Ltd has an invoice due for immediate payment in foreign currency in the amount of USD100,000,
- Company 1 Pty Ltd purchases USD100,000 from Compass at the prevailing spot rate of 1.0450 which equals AUD95693.78 (USD100,000/1.0450)(plus transmission costs if applicable),
- Compass send a written fax, SMS or email confirmation to Company 1 Pty Ltd and Company 1 advises us of the intended beneficiary of the USD100,000,
- Company 1 Pty Ltd pays cleared AUD to Compass by its preferred settlement method (i.e. inward Telegraphic Transfer, BPay or Direct Debit) within one business day after the Transaction Date,
- Upon receipt of the total AUD owed to Compass under the spot transaction, we remit USD100,000 to the beneficiary/ies in accordance with the instructions supplied by Company 1 Pty Ltd.

5. FOREIGN EXCHANGE FORWARD CONTRACTS

A forward exchange contract enables you to buy or sell one currency against another for settlement at a future date. Many market participants need to exchange currencies at a future time other than two days in advance, in order, to manage their exposures and cash flows, they want to secure the rate of exchange now. Forward foreign exchange contracts are generally used by importers, exporters and investors who seek to have price guarantee in exchange rates for a future date in order to hedge their foreign currency cash flows.

Foreign exchange forward contracts can be for a fixed term or a fixed delivery date, and include an optional designated delivery period. Both the current spot (market) rate and the forward rate adjustment are used in determining the rate of exchange for a forward contract. The forward rate adjustment is a calculation involving the applicable interest rates and spot prices of the currencies involved. Forward exchange contracts reflect time and the difference in the interest rates between any two currencies.

The deals are flexible as to the Settlement Date, the size of the transaction and as to currencies involved. Like foreign exchange spot contracts, forward exchange contracts are bilateral contracts between two parties and hence each party is responsible for assessing the credit standing and capacity of the other party.

Entering a foreign exchange forward contract

You will need to advise us of the amount of currency that you wish to buy or sell, the other currency involved and the Settlement Date. Pricing of the contract will depend on a number of factors, including the Settlement Date and the current spot rates. The forward exchange rate is comprised of the interbank rate plus credit risk and liquidity premiums charged by us, as well as a forward premium or discount, which is derived from current interest rate differentials between the currency pairs.

Deposits and Instalments

All Forward Contracts must be settled by delivery of the full amount being transferred by the Settlement Date. This means that we must be able to sight the cleared funds in our bank account on or before the Settlement Date. When you enter into a transaction with us, we enter into a matching transaction with our own liquidity providers. If you do not settle your transaction, we still have to settle ours. In order to cover the risk that you do not settle your transaction, we may ask you to pay a Deposit.

The amount of any Deposit will be a fixed percentage of the value of the transaction and will normally be between 5% and 15% of the value of the transaction, but could be more depending on the duration of the Forward Contract. While the amount of any Deposit is at our complete discretion, as a general guide, a Deposit may be required if:

- your company has only recently commenced business with limited operating experience;
- the credit rating is not of a high or satisfactory level as assessed by us;
- the contract amount requested is considered by us to be a higher foreign exchange risk than normally acceptable;
- the Settlement Date and/or currencies involved are considered by us to be a higher than normal credit risk in the event the transaction had to be cancelled during the life of or at maturity of the contact;
- we have no history of trading with you;
- the volatility of markets warrants extra collateral from you to hold the position.

The fact that we have not asked for a Deposit does not mean that we will not ask for a further payment (Instalment) if the exchange rate trends unfavourably. Equally, the fact that you have already made an Instalment does not mean that we will not ask for one or more additional Instalments if the exchange rate continues to move unfavourably.

If we have requested payment of an Instalment at any stage of the transaction, you must pay it promptly. We would normally expect to receive the Instalment within 48 hours of the request, failing this Compass reserves the right to close out the transaction without notice and ask you to pay the full amount of any loss occasioned by us immediately.

We do not pay interest on Deposits or Instalments. IMPORTANT: You should not enter into a Forward Contract if you are unable or unwilling to provide Deposit of between 5% and 15% (or more if we so decide – see above) of the value of the transaction with the possibility of one or more further Instalments being requested at any time prior to the Settlement Date. If we ask you to pay a Deposit or Instalment at any time and you fail to do so, we may close out your Forward Contract without prior notice.

Example

The Deposit is calculated as follows:

If you entered into a forward contract to buy USD $100,000 against AUD at a rate of AUD/USD 1.0450 this would equate to AUD $95,693.78. You would need to make a deposit of AUD $9569.38 being 10% of the AUD equivalent, at the commencement of the transaction. Interest is not paid on these deposits. Whilst Deposits and Instalments are refundable to you at settlement, they are more commonly applied to the last payment on the contract at maturity.

We may choose to offer a "no deposit" forward exchange contract facility on a case-by-case basis where the client has a successful trading history satisfactory to us or where the client has met our credit criteria, such as it may be from time to time.

Pre-Delivery of the Forward Exchange Contract

You may also ask for pre-delivery of a portion or the total value of the contract prior to the expiry of the contract. This might occur where your supplier has contracted to deliver goods to you at various times over the period of the forward contract. This may result in an adjustment of the exchange rate based on the revised delivery date and the difference in interest rates between the two currencies. The remaining balances of the transaction must be completed by Settlement Date.

Extension of a Forward Exchange Contract

You may extend the Settlement Date of the forward contract only if agreed to by Compass. Compass may refuse such extension/s for any reason. For example, this may be considered if there was a delay in the receipt of goods expected from your overseas supplier beyond the original delivery date. These can be transacted in either of two ways:

- we can offset the remaining balance of the original forward contract against a newly established forward contract with a new extended Settlement Date. We will quote you a rate that takes into account the current spot exchange rate and the forward margin for the adjusted time frame. However, by offsetting the remaining balance of the original forward contract, a profit or loss to you would result depending on the current exchange rates compared to the original forward contract rates. This profit or loss would have to be settled at this time;
- we can extend the remaining balance of the forward contract by quoting you an extension margin onto your original forward contract exchange rate.

This method factors the profit or loss of the original contract into the new forward contract for the extended period (rather than settling this at the time of extension). This is known as a Historical Rate Rollover (HRR). When quoting an HRR rate, the pricing incorporates an interest charge on the above profit or loss in the new forward contract. This charge is associated with the funding or borrowing of the profit or loss for the term of the extension period. In extending the forward contract, we may require you to lodge a Deposit or an Instalment.

Closure of a Forward Exchange Contract

Although the terms of the contract that you enter into with us are legally binding, you may wish to close out your forward contracts at any time up to and including the settlement date. Based on certain factors, for example, if your underlying transaction had been cancelled and your forward foreign exchange hedge is no longer required, you may call us to close-out your contract by entering into a reversing transaction of your original forward contract at the prevailing exchange rate. We will provide you with a quote for closing-out your forward contract. This quote will incorporate some of the components used when pricing your original forward exchange contract, but will be adjusted for prevailing market rates over the remaining term of the forward exchange contract. Depending on the market rates at the time of closing-out this may result in either a gain or loss to you. There are no additional fees for the closing-out of a forward foreign exchange contract. Note. Forward Exchange Contracts are not intended for speculation of market movements and are for the reduction of fix for international trade or hedging international investments.

Benefits of Foreign Exchange Forward Contracts

The significant benefits of foreign exchange forward contracts are:

- they are a simple method of covering future currency exchange risk, eliminating the concern about unfavourable movements in exchange rates;
- you can lock in a guaranteed rate of exchange, and manage your cash flows and costs accordingly (called price certainty);
- you can choose to settle the whole amount of the contract on one date, or you can stagger settlement in instalments throughout the contract period.

Risks of Foreign Exchange Forward Contracts

In addition to the general risks associated with foreign exchange transactions referred to herein, the significant risks of foreign exchange forward contracts are:

- the principal risk with a forward foreign exchange contract is that as the exchange rate and delivery date are fixed, any opportunity for future financial benefit due to favourable market movements is lost;
- if the future exposure/obligation which has been hedged by the forward contract ceases to exist prior to delivery, then the contract may need to be closed out early. This could be at a loss if the market has moved adversely from your original entry price, or it could be profit able if the market price has moved in your favour;
- there is no cooling off period;
- a Deposit or Instalment, if required, may affect your cash flow. Closures, extensions or redeliveries of a foreign exchange forward contract may result in a financial loss to you.

Example of a Forward Contract

- Company 2 Pty Ltd has an invoice due for payment in 90 day's time in foreign currency in the amount of USD100,000
- Company 2 Pty Ltd enters into a Forward Exchange Contract with a maturity date in 90 days' time at the 90 day forward rate of 1.0325 (prevailing spot rate of 1.0450 adjusted by the prevailing forward margin of 0.0125 [minus 125 points]). The USD100,000 then converts to an equivalent of AUD96852.30.
- Company 2 Pty Ltd is required to pay a 10% deposit of AUD9685.23 to us upon entering into the Forward Exchange Contract.
- Compass send a written confirmation (fax or email) to Company 2 Pty Ltd and Company 2 advises Compass of the beneficiary/ies of the USD100,000.
- Before the settlement date, Company 2 Pty Ltd pays the equivalent AUD (less any deposit already received) to Compass by its preferred settlement method (i.e. Inward Telegraphic Transfer, BPay or Direct Debit)
- Upon receipt of the total cleared AUD equivalent owed to Compass under the Forward Exchange Contract, we remit USD100,000 to the beneficiary/ies in accordance with the instruction supplied by Company 2 Pty Ltd.

6. FOREIGN EXCHANGE CURRENCY OPTIONS CONTRACTS

A foreign exchange option with no special or unusual features is regularly referred to as a "Vanilla" option. Vanilla options give the holder the right but not the obligation to exchange a specified amount of one currency for another currency at a predetermined rate on or before a predetermined date.

Benefits of Option contracts

- Unlimited participation in favourable market movements above the strike rate;
- Total protection of budget rate for the specified amount;
- Potential to participate higher than FEC rate.

Disadvantages of using a currency option

- Premium is payable upfront;
- The protected rate (strike rate) can be lower than the current forward rate and is dependent cost premium;

When to use an option foreign exchange

Your company needs to pay a supplier USD 1,000,000 in three month's time. You believe that the spot rate will move in your favour in that period and you would like to be able to take advantage of such a move. However, you also want to protect your budget rate of 0.89 should the spot rate not move as you expect it to in the next three months.

An example of an Option Contract

You purchase a Vanilla option allowing you to buy USD 1,000,000 at a strike rate of 0.89 for expiry in three months for which you pay a premium of AUD 22,850.

There are two potential outcomes at expiry:

1. the spot rate is at or below 0.8900. You will exercise your option and buy USD 1,000,000 at the strike rate of 0.8900
2. the spot rate is above 0.8900. You will let your option expire unutillised and you will buy your USD at the prevailing spot rate.

7. GENERAL RISKS OF FOREIGN EXCHANGE CONTRACTS

Foreign exchange instruments such as spot contracts and forward contracts comprise an important risk management tool for those who manage foreign currency exposures.

Whilst there are numerous hedging and certainty benefits for those with foreign exposures to manage in the course of their business activities, foreign exchange instruments and transactions entail a number of significant risks and are not suitable for all. You should seek prior independent advice and consider carefully whether trading in foreign exchange instruments is appropriate in terms of your experience, your financial objectives, needs and circumstances.

Some of the risks involved in trading foreign exchange instruments such as spot transactions and forward exchange contracts, include the following;

Market Risk

In certain market conditions, it can become difficult or impossible to liquidate a position (this can, for example, happen when there is a significant change in prices over a short period of time).

Consistent with market conditions, the prices of our products may be volatile and fluctuate rapidly over wide ranges. Price fluctuations may occur as a result of uncontrollable events or changes in a variety of conditions such as, but not limited to, changing supply and demand relationships, governmental, agricultural, commercial and trade programs and policies, national and international political and economic events and the prevailing sentiment and volatility in the marketplace.

Settlement Risk and Counterparty Risk

When you enter into a transaction with any business, you are reliant on the ability of business to meet its contractual obligations to you. In this regard your relationship with Compass is no different. Similarly, in certain circumstances, a business may be reliant upon the customer's ability to meet his or her contractual obligations to it. In the financial industry this type risk is sometimes referred to as 'settlement risk'.

In order to reduce your exposure to us, in each transaction we enter into a hedging transaction with one of our liquidity providers and/or counterparties as soon as you enter into a transaction (this is known as back to back hedging). Therefore the risk to you in relation to an exchange rate movement is mitigated save for the unlikely event of a default on the part of the aforementioned counter-party. The counter-parties we transact with are presently large banks or widely used foreign exchange liquidity providers. As commercial and/or operational circumstances dictate we may, without notice or disclosure to you, change some or all of our liquidity providers and/or banks. Such change(s) may pertain to some or all classes of the financial products offered by us from time-to-time.

Regulatory Risk

Changes in taxation and other laws, government, fiscal, monetary and regulatory policies in Australia or overseas may have a material adverse effect on your dealings in our products. Compass is regulated by ASIC and AUSTRAC.

Operational Risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people or systems, or external events. Disruptions in our processing may lead to delays in the execution and settlement of your transaction.

In accordance with Regulatory Guide RG126 and Section 912B of the Corporations Act 2001, Compass has Professional Indemnity Insurance in place which covers the work performed by its representatives and employees.

Segregated Account

Any money that you deposit with us will be segregated, held in trust and invested in accordance with the Australian Client Money Rules.

However, we are entitled amongst other things to:

- withdraw, deduct or apply any amounts payable by you to us and/or any associate of ours under the Client Agreement from your money's held in any segregated account or invested by us including, without limitation making a payment for, or in connection with the deposits, instalments adjusting or setting of dealings in our products entered into by you or the payment of charges or interest to us, with all such amounts belonging to us under the Client Agreement;
- pay, withdraw, deduct or apply any amounts from your money's held in any segregated account or invested by us as permitted by the Australian Client Money Rules.

Your moneys may be co-mingled into one or more segregated accounts with our other customers' moneys.

We are also obliged to deposit any moneys due to you in relation to dealings in our products and we must deposit them into a segregated account. Those obligations to you under the Client Agreement are unsecured obligations, meaning that you are an unsecured creditor of us.

Protection afforded by the Australian Client Money Rules
Under the Australian Client Money Rules, we must hold your moneys on trust. Furthermore, the Australian Client Money Rules provide that in the event that we lose our relevant licenses to trade, become insolvent, merge with another licensee or cease to carry on some or all of the activities authorised by the licence holder, customer money held by us or an investment of customer money, will be dealt with as follows:

- money in the segregated account is held in trust for the persons entitled to it, and is paid in the order set out below in the third bullet point; below;
- if money in the segregated account is invested, the investment is likewise held in trust for each person entitled to money in the account;
- the money in the account is to be paid in the following order:
  1. to any person who has paid money;
  2. the next payment is payment to each person who is entitled to be paid money from the account;
  3. 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;
  4. 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.

The operation of these rules override anything to the contrary in the Bankruptcy Act 1966, in the Corporations Act 2001 or in the Client Agreement. Subject to an order of a Court of competent jurisdiction to the contrary, the rules must be followed.

Segregated accounts do not provide an absolute protection

The purpose of segregated accounts is to separate all customers' money, including your moneys, from our own funds. This practice is designed for the protection of customers like you and to assist in the proper administration and management of your funds.

Compass maintains its segregated accounts in Australia with approved deposit taking institutions, being banks and other financial institutions that are regulated by the Australian Prudential Regulation Authority. On a day-to-day basis directors, employees and representatives of Compass monitor the transactions that occur in the segregated accounts.

It is important to note, however, that the operation of segregated accounts, does not afford absolute protection against catastrophe, default or crime. Should Compass become aware of an event, default or act that serves to compromise segregated funds, we shall notify the affected customer(s) as soon as possible and we will immediately take all reasonable action available to us so as to prevent any further adverse event occurring in relation to the relevant funds of the customer(s).

In the unlikelihood of an unresolved deficit in the segregated accounts or in the event of insolvency, the adversely affected customer shall become an unsecured creditor in relation to the balance of the money's not recovered from the segregated account(s).

What is an unsecured creditor?

In the event that you become an unsecured creditor of us, you will need to lodge a proof of debt with the liquidator for the amount of moneys that are owing to you as evidenced by your account statements.

The liquidator then assesses all proofs of debts to determine which creditors are able to share in the assets of the company, and to what extend depending on the amounts owing to them and any priority they may have to be paid.

8. CLIENT AGREEMENT

In order to open an account, you are required to sign the Application, under which you agree to be bound by the Client Agreement which is an important legal document containing the terms and conditions which govern our relationship with you.

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

We note the following key terms in the Client Agreement, many of which have been summarized throughout this PDS.

- client acknowledgements regarding knowledge and suitability to trade foreign exchange products;
- client representations and warranties;
- deposit and instalment requirements for forward foreign exchange contracts and our rights in respect of them;
- client obligations regarding confirmations (including discrepancies);
- our rights following a default event;
- client indemnity in favour of us;
- fees, commissions and charges;
- restrictions on assignment of agreement;
- telephone recordings;
- governing law (New South Wales).
- termination and close out

9. DISCRETIONARY POWERS OF COMPASS

We have a number of discretionary powers which may affect your trading activities, including the right to close out your transaction/s without prior notice to you. We refer you to the Client Agreement which sets out these powers and suggest that you should read and fully understand them before entering into a transaction. You should understand that we may refuse to enter into a transaction, or close out any open transactions, without notice, in circumstances such as the following:

- if you fail to make any payment when it is due, including the payment of any Deposit or Instalment that has been requested by us;
- if you fail to provide any material information that we have requested or any information you have given us is or becomes, in our opinion, materially inaccurate or misleading;
- in the event of your death or loss of mental capacity;
- if bankruptcy or winding up proceedings are commenced against you;
- if the performance of our obligations under the Client Agreement becomes illegal;
- if a serious dispute has arisen between us; or
- if you breach an important term of this Client Agreement or of any transaction.

You should be aware that we may be obliged to freeze or block your account if information comes to our attention that leads us to believe that it is being used in connection with money laundering or terrorist financing activities or if we are directed to do so by a regulatory authority. If this occurs, we will not be liable to you for any consequential losses whatsoever and you agree to continuously indemnify us if we suffer loss as a result of action taken by a third party beneficiary arising from any such action we have taken in relation to your account.

10. TAXATION CONSIDERATIONS

Foreign exchange transactions and products may have tax implications. The taxation consequences of foreign exchange transactions and products can be complex and will differ for each individual's financial circumstances and the nature and characterization of the foreign exchange. We recommend that you obtain independent taxation and accounting advice in relation to the impact of foreign exchange transactions and products on your particular financial situation.

11. REMUNERATION, RELATED ENTITIES AND OTHER BENEFITS RECEIVED

Our employees or contractors, who provide you with general advice only or transaction execution services, may receive commissions for the provision of these services. Our employees also receive salaries, performance-related bonuses and other benefits.

12. REFERRAL BENEFITS FOR OTHER SERVICES PROVIDERS

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

13. DISCLOSURE OF ANY RELEVANT CONFLICTS OF INTEREST

Save for the relationships or associations disclosed herein, we do not have any relationship which might potentially influence us in the provision of services to you. However, we may share fees and charges with associates or other third parties or receive remunerations from them with respect to your dealings with us.

14. MAKING A COMPLAINT

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

We will investigate your complaint and provide you with our decision and the reasons on which it is based, in writing. We will seek to resolve your complaint within 14 days.

If you are dissatisfied with the outcome, you have the right to lodge a complaint with the **Financial Ombudsman Service (FOS)**, an approved external dispute resolution scheme, of which we are a member, using the contact details below. **You may also make a complaint via the ASIC Free call info line on 1300 300 630.**

You can contact FOS by any of the means listed below: In writing to:

FOS
GPO Box 3
Melbourne VIC 3001
Telephone: 1300 780 808 Facsimile: +613 9613 6399
Email: info@fos.org.au
Website: www.fos.org.au

15. OUR PRIVACY POLICY

We are committed to protecting your privacy. The information you provide to us and any other information provided by you in connection with your transactions will primarily be used for the processing of your application, our systems and processes and for complying with certain laws and regulations. We have systems and processes in place which safeguard against the unauthorised use or disclosure of your personal information. We may use this information to send you details of other services or provide you with information that we believe may be of interest to you. Please contact us if you have any concerns of if you would like to see a copy of our privacy statement it is available via the www.compassmarkets.com website

16. NO COOLING OFF PERIOD

There is no cooling off period regime that applies to any of the products described in this PDS. You are, therefore, bound by the terms of a Foreign Exchange Contract, when you enter into it, despite the fact that settlement may occur at a later date.