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.

[illegible]

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.

[illegible]

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.

[illegible] [illegible]

Currency pair: AUD/USD

- 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 sends a written 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. bank transfer or desposit) within one business day after the Transaction Date,
- Upon receipt of the total AUD owed to Compass under the spot transaction, Compass remit remits USD100,000 to the beneficiary 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 (also known as “margin deposit” in relation to the “initial deposit”, and “margin deposit” or “margin call” in relation to the “instalment 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. bank transfer or deposit)
- 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 and held in trust in accordance with the requirements of the Corporations Act.

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 under the Corporations Act.

Your monies 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 Corporations Act

The protection for client moneys under the Corporations Act requires us to hold your moneys on trust. Furthermore, 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 under our license, 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.

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 Complaints and Privacy Officer in writing at the address 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 to 30 days.

If you are dissatisfied with the outcome, you have the right to lodge a complaint with the Australian Financial Complaints Authority (AFCA), 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 AFCA by any of the means listed below: In writing to:

AFCA GPO Box 3

Melbourne VIC 3001

Telephone: 1800 931 678

Facsimile: +613 9613 6399

Email: info@afcaorg.au

Website: www.afca.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.