

Product Disclosure Statement

Issuer: HiFX Limited

An offer of Derivatives

- **Forward Foreign Exchange Contract(s) (FEC(s)) and**
- **Foreign Exchange Option(s) (FX Option(s))**

Date: 12 September 2018

This is a replacement PDS, which replaces the PDS dated 18 October 2016

This document provides important information about HiFX's forward foreign exchange contracts and foreign exchange options to help you decide whether you want to enter into any of these derivatives. There is other useful information about this offer at www.companies.govt.nz/disclose.

Many derivatives are complex and high-risk financial products that are not suitable for most retail investors. If you do not fully understand a derivative described in this document and the risks associated with it, you should not enter into it. You can also seek advice from a financial adviser to help you make your decision. You should ask if that adviser has experience with these types of derivatives.

HiFX Limited has prepared this document in accordance with the Financial Markets Conduct Act 2013.



1. KEY INFORMATION SUMMARY

WHAT IS THIS?

This is a product disclosure statement for forward foreign exchange contracts (**FEC's**) and foreign exchange options (**FX Options**) provided by HiFX Limited (**HiFX**).

FECs and FX Options are derivatives, which are contracts between you and HiFX that may require you or HiFX to make a payment in an agreed currency. The amounts that must be paid or received will depend on the rate and amount of the underlying currencies. The contract specifies the terms on which those payments must be made.

WARNING

Your liability to make Margin payments

HiFX may require you to make additional payments (being Margin payments) to contribute towards your future obligations under a FEC. These payments may be required at short notice and can be substantial. You should carefully read section 2.1.1, "Payment of Initial Margin" and section 2.1.3 "Margin Call Obligations", about your obligations.

Risks arising from issuer's creditworthiness

When you enter into derivatives with HiFX, you are exposed to a risk that HiFX cannot make payments or deliver a currency as required. You should carefully read section 3 of this PDS (Risks of these derivatives) and consider HiFX's creditworthiness. If HiFX runs into financial difficulty, the Margin you provide may be lost.

ABOUT HIFX LIMITED

HiFX is a provider of various foreign exchange products including non-derivative products (such as spot foreign exchange contracts) and derivative products (such as FECs, FX Options and foreign exchange swaps (FX Swaps)) delivered via its online transactional platform, by email or over the telephone.

WHICH DERIVATIVES ARE COVERED BY THIS PDS?

This PDS covers:

- FECs and
- FX Options

A **FEC** is an agreement to exchange one currency for another up to 24 months in advance but at a fixed, agreed exchange rate based on prevailing market rates. This product is used to protect (or hedge) against adverse currency movements.

For example, you may want to secure a future amount of USDs at a fixed amount of NZDs. By committing to an agreed exchange rate now you avoid the risk of any future adverse currency movements.

Note that hedging or protecting against currency risk also means that you may not receive the benefit of future foreign exchange rate movements in your favour.

A **FX Option** is an agreement that, for an upfront non-refundable premium payment, affords you (the buyer) the right but not the obligation to a future, pre-agreed rate of exchange. When the option reaches its agreed Expiration Date you can then decide whether or not you wish to take up your rights to purchase currency at the pre-agreed rate of exchange. HiFX will exercise the FX Option on your behalf if the FX Option is "In-The-Money" at the time of expiration, unless you notify us to the contrary. This product is also used to hedge or protect against adverse currency movements.

HiFX's FECs, and FX Options (if exercised), involve the physical delivery of the underlying currencies i.e. you deliver the Sold Currency to HiFX and HiFX delivers the Bought Currency to you.

HiFX doesn't provide you these products for speculative purposes. It should be noted that it is a breach of our Terms if you use these products for speculative purposes.

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2. KEY FEATURES OF THE DERIVATIVES

2.1. KEY FEATURES OF A FEC

A FEC is a contract that allows you to exchange, at an agreed date in the future (up to 24 months), an agreed amount of one currency (the Sold Currency) for another currency (the Bought Currency) at an exchange rate that you agree now.

FECs are secured by you making an upfront payment (called an **Initial Margin**) to HiFX after agreeing the transaction. Initial Margin is calculated as a percentage of the Sold Currency value of between 0% - 20%.

The exchange rates offered by HiFX are determined by:

- the amount of the Sold Currency and Bought Currency;
- the exchange rates on offer in the foreign exchange market place for the currencies involved; and
- the date you wish to deliver your Sold Currency and receive your Bought Currency (up to 24 months in the future).

You will be obliged to make the full payment of the Sold Currency (less any Margin payments you have made) at the agreed date in the future regardless of the value of the Bought Currency at that time i.e. the Bought Currency value may have dropped significantly by the time HiFX is due to pay it to you.

The key benefits of HiFX's FECs are:

- FECs provide you peace of mind that you are protected against any future adverse currency movements;
- FECs provide certainty as to the amount of the underlying currencies that you will need to pay and that you will receive in the future;
- You determine the date (Value Date) set for when the underlying currencies you wish to sell and buy are delivered;
- FECs can be undertaken online for as little as NZD\$1,000 and up to a maximum of NZD\$750,000 (or its foreign currency equivalent). Larger FECs can be undertaken by telephoning HiFX; and

- FECs can be undertaken in all the major currencies (*GBP, USD, AUD, NZD, EUR, JPY, CAD, CHF*) as well as a number of minor currencies. Please refer to HiFX's website (www.hifx.co.nz) for the full list of currencies available.

2.1.1. Payment of Initial Margin

After you enter into a FEC, HiFX will require you to immediately pay the Initial Margin (normally an amount between 0% - 20% of the total amount of the currency you are selling) – as advised at the time you entered into the FEC – and may require subsequent Margin payments (referred to as Margin Calls – see section 2.1.3) if the exchange rates of your FEC move adversely.

Initial Margin is part payment of the Sold Currency (being the currency you agree to pay HiFX for the currency you are buying) and acts as security for your FEC.

When you pay Initial Margin to HiFX, we record the payment in your Account with HiFX and, for New Zealand Retail Clients only, we hold this amount on trust for you in a separate "Derivatives Investor Money Account" until you settle your FEC (refer to Section 5 for further information on how HiFX treats funds and property received from you).

You must be in a position to pay the Initial Margin immediately after the FEC is agreed. If the Initial Margin required is not received within 2 Business Days your contract may be terminated and Closed Out with you being responsible for (and bearing) any loss arising from the contract being Closed Out (refer section 2.4 below for further information on closing out a FEC).

HiFX does not pay interest on Margin payments.

2.1.2. FEC example

An importer in New Zealand needs to pay an offshore supplier located in the United States USD \$100,000.00 in 180 days time (10 June 2019).

Assumptions:

- The current spot exchange rate is 0.6600 (i.e. 1 NZD = 0.6600 USD on 4 Sept 2018)

- The 6 month forward exchange rate is 0.6610 (Calculated by adjusting the spot exchange rate for the interest rate differential between New Zealand and the United States of America represented in exchange rate points). Interest rates in the United States of America are higher than the interest rates in New Zealand. Therefore the 6 month forward exchange rate point adjustment is a benefit as you are buying a higher yielding currency.

Forward points = Spot rate - Forward rate

Spot rate	0.6600
Forward exchange rate	<u>0.6610</u>
Forward points	+0.0010

- In 180 days the NZD has dropped relative to USD and the spot exchange rate is 0.6100 (i.e. 1 NZD = 0.6100 USD on 10 June 2019)
- Initial Margin required by HiFX is 5% of the Sold Currency

The importer can decide to either:

a. Purchase the USD on the date the payment is due i.e. sell NZD and buy USD at the prevailing spot exchange rate in 180 days time (10 June 2019)

Payment required = NZD\$163,934.43
(USD\$100,000.00/0.6100)

or

b. Decide to lock in the exchange rate now using a FEC

In this example, you would agree the exchange rate to be charged 180 days from now (10 June 2019) to purchase USD\$100,000.00. This agreed exchange rate is called the forward exchange rate. An Initial Margin would be payable to HiFX upon entering into this FEC and you would receive a FEC Confirmation note as follows:

Deal Type	Forward
Transaction Date	4 September 2018
Contract Number	C123456
Value date	10 June 2019*
You have bought	USD\$100,000.00
You have sold	NZD\$151,285.93
Rate	0.6610
Initial Margin payable	NZD\$7,564.30**

* (being 180 days after 4 September 2018)
** (Payment required now being 5% of the Sold Currency NZD\$151,285.93)

The company would need to pay HiFX the balance of the sold currency (NZD\$143,721.63) no later than 10 June 2019.

The difference in the amount payable in this example is a NZD\$12,648.50 benefit through using a FEC (\$163,934.43 - \$151,285.93).

The above example provides an example of one situation only and does not reflect the specific circumstances or the obligations that may arise under a derivative entered into by you.

2.1.3. Margin Call Obligations

FECs are subject to ongoing Margin obligations (Margin Calls) imposed by HiFX which act as security for your FEC. You are liable to meet all Margin Calls to HiFX up to the total amount of the Sold Currency. Margin Call payments are credited to your Account with HiFX and are part payment of the Sold Currency.

Your Account balance must be more than the minimum amount of Margin cover required by HiFX for your FEC(s). If not, a Margin Call may be made at any time (normally Margin Calls are determined daily) and you are obliged to meet Margin Calls by paying the required amount by the time stipulated in the Margin Call, normally within 2 business days (but may be payable immediately). If the Margin Call required is not received within 2 Business Days some or all of your FECs may be terminated and Closed Out with you being responsible for (and bearing) any loss arising from the contract being Closed Out (refer section 2.4 below for further information on Closing Out a FEC). HiFX may, but need not, give you a grace period.

It is your responsibility to pay Margin and meet Margin Calls, up to the full amount of the Sold Currency, on time and in cleared funds, so please keep in mind the possibility of delays in the banking and payments systems.

The timing and amount of each Margin Call will depend on movements in currency prices and the factors that impact negatively on the market price of the Bought Currency involved in your FEC. There are no limits as to how often Margin

Calls may be made but typically Margin Calls are unlikely to be made more than daily.

Margin Call example

In the example above, where an importer in New Zealand has sold NZD and bought USD\$100,000.00 via a FEC at 0.6610, an Initial Margin of NZD\$7,564.30 has been paid to HiFX.

For the purposes of this example let's assume the NZD/USD forward exchange rate subsequently appreciates to 0.7200.

In this situation the importer's FEC is said to be Out-Of-The-Money by NZD\$12,397.04.

FEC cover	
USD\$100,000.00/0.6610 = NZD\$151,285.93	
Current forward rate	
USD\$100,000.00/0.7200 = NZD\$138,888.89	
Difference	NZD\$12,397.04

The NZ importer has only paid NZD\$7,564.30 Initial Margin. HiFX will therefore make a Margin Call for a further NZD\$4,832.74 (more likely to be rounded up to NZD\$5,000.00) to ensure it has sufficient moneys from the NZ importer to secure the FEC. The total Margin held (once paid) in respect of the FEC is NZD\$12,564.30 (\$7,564.30 + \$5,000.00) which is an advance payment towards the Sold Currency of NZD\$151,285.93.

The above example provides an example of one situation only and does not reflect the specific circumstances or the obligations that may arise under a derivative entered into by you.

2.1.4. Settling FECs

On the day of you entering into a FEC, HiFX will send you a Confirmation note which will set out the details of the FEC and will advise you of the amount(s) and the date(s) upon which you will need to send money to HiFX.

Any outstanding balance of the Sold Currency to be paid (once Initial Margin and any later payment of Margin, if any, has been taken into account) must be paid by you to HiFX no later than the banking cut-off time on the Business Day before the Value Date of the particular FEC.

Once your FEC reaches the Value Date (i.e. the settlement date for your FEC), and HiFX has received the balance of your Sold Currency in cleared funds and the beneficiary's name, bank account number and physical address, HiFX then instructs its bank to send the Bought Currency via international payment systems to your nominated account.

All transactions are effected electronically and HiFX retains detailed records of all settlement transactions.

2.1.5. Method of Payment

Payments by you to HiFX must be by way of electronic transfer only. HiFX does not accept payment by way of cash and/or cheques.

2.2. KEY FEATURES OF A FX OPTION

A FX Option is an agreement that, for an up-front non-refundable premium payment (which must be by way of electronic transfer only), affords the buyer the right but NOT the obligation to exchange money denominated in one currency into another currency at a pre-agreed exchange rate on a specified date.

The premium payable is determined by HiFX based upon:

- the currencies you are looking to exchange;
- the amount of the currencies involved;
- the exchange rate you wish to protect or hedge (the Strike Price); and
- the date in the future when you would like the protection to be in place i.e. the Expiration Date.

The significant benefits of a FX option are:

- You are protected against any possible future adverse currency movement up to the option's expiry; and
- You are not committed to a transaction as you have the right but NOT the obligation to exchange the agreed currency at the agreed date.
- You can participate in any possible future

favourable currency movement up to the FX Option's expiry. When the FX Option reaches the agreed Expiration Date you can then decide whether or not you wish to take up your rights on that option to purchase the agreed amount of one currency by paying the agreed amount of another currency based on the agreed rate of exchange.

HiFX will exercise the FX Option on your behalf if the FX Option is "In-The-Money" at the time of expiration, unless you notify us to the contrary. HiFX does this to ensure you do not miss out on value under "In-The-Money" FX Options.

2.2.1. Exercising Your FX Option

You may Exercise your FX Option only on the Expiration Date. This is commonly known as a "European" style option.

When the FX Option reaches its Expiration Date, you can then decide whether you wish to take up your rights on that FX Option. You would compare the actual current exchange rate on that day to the Strike Price of the FX Option which you bought. HiFX will exercise the FX Option on your behalf if the FX Option is "In-The-Money" at the time of expiration, unless you notify us to the contrary.

If you decide to exercise your rights under a FX Option, then you follow the notice procedures in the Terms. If you exercise your FX Option rights, or HiFX exercises your FX Option on your behalf, HiFX will enter into a Spot FX Transaction with you on the agreed terms. The details as to price and the amount of the currency for that Spot FX Transaction will be the same as specified in the FX Option.

2.2.2. Buying a FX Option - Example

You are migrating from New Zealand to Australia in 90 days' time when you need AUD\$100,000.00 to complete the purchase of a property. You are concerned that the NZD will depreciate against the AUD over this period.

You could purchase a FX Option that will allow you to:

- Buy AUD\$100,000.00 and sell NZ Dollars (NZD) in 90 days time
- At a pre-defined rate that you determine (Strike Price) i.e 1 NZD = 0.90 AUD
- At a cost of say NZD\$2,000.00 (Premium)

Assuming you decide to proceed and buy a FX Option you would receive a FX Option Confirmation note as follows:

Option Buyer	Mr Example
Option Seller	HiFX
Contract Date	4 Sept 2018
Put Currency & Amount*	NZD\$111,111.11
Call Currency & Amount**	AUD\$100,000.00
Strike Price	0.9000
Expiration Date	4 Dec 2018
Expiration Time	15:00 Tokyo
Settlement Date (if exercised)	6 Dec 2018
Premium Payable	NZD\$ 2,000.00

* Put is the currency you are selling

** Call is the currency you are buying

The FX Option comes at a cost to you, being the NZD\$2,000.00 non-refundable Premium you have paid. The FX Option expires at the end of the 90 day period i.e. at the Expiration Date.

Possible scenarios on maturity are:

a. If the exchange rate is less than the Strike Price you would exercise the FX Option and exchange NZD for AUD at 0.90

i.e $AUD\$100,000.00 / 0.90 = NZD\$111,111.11$

In this scenario your option is said to be "In-The-Money" and HiFX would exercise the FX Option on your behalf unless you notify us to the contrary.

or

b. If the exchange rate is more than the Strike Price e.g 0.95, then you let the FX Option lapse, and transact at the prevailing market rate of 0.95 (instead of 0.90)

i.e $AUD\$100,000.00 / 0.95 = NZD\$105,263.15$

The above example provides an example of one situation only and does not reflect the specific circumstances or the obligations that arise under an FX Option entered into by you.

2.3. ENTERING INTO A FEC OR FX OPTION

2.3.1. Entering into a FEC or FX Option

The following steps describe how you can enter into a FEC or FX Option with HiFX.

The particular terms of each FEC or FX Option are agreed between you and HiFX before you enter into a FEC or FX Option with HiFX.

In order to transact with us you will first need to establish an Account – refer to section 10. Once an Account is opened you can purchase a FEC either online, via telephone or via email. A FX Option can only be entered into via the telephone or by email.

2.3.1.1. Via HiFX's Online Platform (For FECs only)

- Log onto HiFX's online platform using the security information provided.
- Place your Order by completing:
 - the currency you are selling;
 - the currency you are buying;
 - the amount you are selling or buying; and
 - the date you wish to acquire the bought currency (Value Date).

HiFX's online platform will automatically provide you with the exchange rate HiFX can deliver to you.

- You will enter into a FEC with HiFX when HiFX accepts your Order. HiFX's acceptance of your Order will be shown on HiFX's online platform.
- A Confirmation is subsequently sent by email and is confirmation of the FEC entered into online. The Confirmation gives details of the FEC including the amount of Bought Currency, the exchange rate, the Value Date and the Initial Margin amount due in respect the FEC. It is your obligation to review the Confirmation immediately to ensure all details are accurate (including the name of your beneficiary you wish to pay) and to report any discrepancies within 24 hours. The contents of the Confirmation are deemed to have been accepted by you and cannot be disputed after 24 hours of HiFX sending the Confirmation.

- You must provide details of your onward payment instructions (including the beneficiary's name and physical address) to enable our currency payment due to you to go direct to your nominated destination. You tell us your nominated account destination by providing these details via the online platform.

2.3.1.2. Manually over the Phone

- Contact your HiFX Dealer to discuss your currency transaction (FEC or FX Option). We endeavour to digitally record telephone conversations at all times to ensure that instructions can be verified in the event of a dispute.
- Based on the quotations received, you will enter into a FEC or FX Option with HiFX when HiFX accepts your Order.
- Once you have agreed with HiFX over the phone to buy currency in the future at an agreed rate or to buy a FX Option, you have by that agreement entered into a FEC or FX Option. A Confirmation of the transaction is subsequently sent to you. The Confirmation gives details of the transaction including the amount of Bought and Sold Currency, the exchange rate (Strike Price in case of an option), the Initial Margin due and the Value Date (Expiration Date in case of a FX Option) or the amount of the premium with respect to a FX Option. It is your obligation to review the Confirmation immediately to ensure all details are accurate (including the name of the beneficiary being paid) and to report any discrepancies within 24 hours. The contents of the Confirmation are deemed to have been accepted and cannot be disputed after 24 hours of HiFX sending the Confirmation.
- You must provide us details of your onward payment instructions (including the beneficiary's name and physical address) to enable our currency payment due to you to go direct to your nominated destination.

2.3.1.3. By email request

- Send us your instruction to enter into a FEC or FX Option via email. Shortly following receipt we will enter into your requested FEC or FX

Option. The contract will be binding on you when we process your email. You acknowledge that, if you choose to book a FEC or FX Option by email, it may not be processed immediately and there may be a short delay – particularly if you send your email outside of our business hours.

- A Confirmation of the transaction is sent when your Order is accepted. The Confirmation gives details of the transaction including the amount of Bought Currency, the exchange rate, the Initial Margin due and the Value Date or the amount of the premium with respect to a FX Option. It is your obligation to review the Confirmation immediately to ensure all details are accurate (including the name of beneficiaries being paid) and to report any discrepancies within 24 hours. The contents of the Confirmation are deemed to have been accepted and cannot be disputed after 24 hours of HiFX sending the Confirmation.

- You must provide us details of your onward payment instructions (including the beneficiary's name and physical address) to enable our currency payment due to you to go direct to your nominated destination.

2.4. RIGHTS TO ALTER TERMS OR TERMINATE A FEC OR FX OPTION

2.4.1. Earlier or later delivery of the FEC

HiFX may, in its absolute discretion:

- allow delivery of a FEC earlier than the Value Date, however that will likely result in an adjustment to the exchange rate for the FEC;
- allow an extension to a date later than the Value Date, however, HiFX may either adjust the current FEC for a new exchange rate or HiFX may Close Out the existing FEC at the existing exchange rate and enter into a new FEC on agreed terms appropriate to the extension.

2.4.2. Terminating a FEC

A FEC can be terminated (i.e. Closed Out before and up to the Value Date, by you entering into an equal and opposite transaction for the currency bought and sold but with HiFX using the

prevailing exchange rates) in the following circumstances:

- as set out in the Terms; or
- by agreement between you and HiFX.

Key Close Out events under the Terms include:

- a breach of a Term by you e.g. using a FEC or FX Option for speculative purposes;
- your breach of a law e.g. anti-money laundering laws;
- your insolvency or bankruptcy; or
- your failure to comply with an obligation to HiFX e.g. failure to pay Initial Margin.

There are some other termination events set out in the Terms (which you should read carefully) which give us discretions. While we consider it is very unlikely that we will need to rely on them except in highly unusual cases, you should be aware that we have the discretion to terminate any one or more of your FECs in the circumstances set out in the Terms, including if:

- HIFX determines that the value of all of your FX Transactions represent a substantial net unrealised loss to you such that the continued transacting, or failure to terminate one or more of your FX Transactions will (or is likely to) materially prejudice you or your capacity to perform the FX Transactions. This is a safety measure for you and us in the event that we do not think you are monitoring a deteriorating position;
- HIFX determines there is a material risk of you being unable to comply with your obligations to HIFX as and when they fall due, which could be based for example on you telling us that you will not be able to pay the remaining balance of the Sold Currency but that date has not yet occurred; or
- HIFX considers termination of one or more of your FX Transactions is necessary or desirable for HiFX's own protection, for example when volatile market conditions exist.

If we terminate your FEC we may set off all or any part of any money paid by you against any amount actually or contingently due and payable by you to HiFX.

If a FEC is Closed Out because your circumstances have changed and the Close Out gives rise to a profit, you will receive the profit amount (and any Margin you paid for the FEC) and a Confirmation advising all details. If the Close Out gives rise to a loss you will be required to pay HiFX the amount of the loss. The amount of Margin you paid for the FEC (if any) will be set off against the amount owing to HiFX and a Confirmation will be issued advising all details.

You will be liable for any loss, costs, fees, charges or other expenses, including interest, incurred by HiFX in consequence of the Close Out.

2.4.3. Terminating a FX Option

Once a FX Option has been entered into, you and HiFX have no right to alter the terms of the option or to terminate it. The FX Option will terminate on the agreed Expiration Date either by you exercising the FX Option, or us exercising the FX Option on your behalf if it is "In-The-Money" at the time of expiration (unless you notify us to the contrary), or by you allowing the FX Option to lapse without it being exercised.

3. RISKS OF THESE DERIVATIVES

3.1. PRODUCT RISKS

The significant risks for an investor that arise from HiFX's derivatives are set out below.

Key Risks - FECs

Opportunity cost:

Once you have fixed your exchange rate you have locked in a rate for a future delivery date and will not be able to take advantage of subsequent favourable exchange rate movements should that occur, in relation to your committed foreign currency exposure. On the other hand, you will be protected from any adverse exchange rate movements.

Not a regulated market:

The FX Transactions offered by HiFX are not covered by the rules of a regulated exchange or market. You will be unable to transfer your contract with HiFX to another party i.e. it cannot be traded on an exchange or a market. If you want to exit your FEC, you will need to enter into a Close Out Transaction with HiFX (refer section 2.4.2 above).

You can reduce your risk by carefully reading this PDS, the Terms and taking independent advice on the legal and financial aspects relevant to you.

Failure to deliver

The consequence of a failure by you to make a payment or delivery is that your FEC may be terminated by HiFX which may result in you incurring loss (refer section 2.4.2 above).

Risk that your circumstances have changed

If the reason for you entering into the FEC ceases to exist (for example, a contract to sell a house overseas falls through) prior to the Value Date, you may want to consider Closing Out the FEC early as you are not able to cancel the transaction or transfer your obligations to anybody else. This may result in a loss to you if the exchange rate has moved unfavourably (refer section 2.4.2 above).

Key Risks - FX Options:

Premium non-refundable

Since the premium paid is non-refundable you will lose the benefit of the premium paid for a FX Option if:

- the market does not move significantly in either direction, but remains at the same (or similar) levels to the rate at which you first purchased the FX Option, and
- if your circumstances change and you no longer require the FX Option.

3.2. ISSUER RISKS

When you enter into any of HiFX's derivative products you have a counterparty risk or credit risk, on the basis HiFX is the product issuer, that HiFX will perform its obligations to you. Hence you are exposed to the risk that HiFX becomes insolvent and is unable to meet its obligations under the FEC or FX Option.

HiFX's creditworthiness has not been assessed by an approved rating agency. This means that HiFX has not received an independent opinion of its capability and willingness to repay its debts from an approved source. None of HiFX's obligations to you are guaranteed or secured by HiFX's ultimate parent company Euronet Worldwide Inc or any other related company.

The following description helps you understand the important aspects of your counterparty risk that you are exposed to with HiFX and to assess the credit worthiness of HiFX.

3.2.1. HiFX hedges its own foreign exchange exposure

Your credit risk exposure to HiFX is partially mitigated because HiFX hedges its FX Transactions (including FECs) with you and other clients, so HiFX has the funds to pay you on settlement. HiFX is in the business of providing clients with currency services, and is not a speculative dealing business.

Once you have entered into a FEC with HiFX, HiFX will manage the position with its other FX transactions it has agreed to by entering into its own FX contracts (in its own name, on its own account) with one of several established banking counterparties it chooses from (referred to here as a Hedge Counterparty). This hedging does not require an exact hedge of each individual FX transaction (because there could be at any time a lot of clients' FX transactions covering a lot of combinations of variables) so the net positions are hedged by HiFX within limits and in accordance with HiFX's risk management policies, such that, over time HiFX has limited or minimal

market exposure to later changes in the value of the FX transactions.

In order to enter into those transactions, HiFX is required to deposit money (as security) with the relevant Hedge Counterparty to maintain HiFX's hedge contracts. HiFX funds these payment obligations to its Hedge Counterparties from funds held in its STAs. Since HiFX hedges its net exposure to currency, individual hedge contracts generally do not relate only to one FX transaction.

3.2.2. Risks from HiFX's Hedge Counterparties

Your credit risk exposure to HiFX is partially mitigated because HiFX hedges with several established banking counterparties.

HiFX may use a number of Hedge Counterparties from time to time (thereby spreading the risk by not having exposure concentrated in a single counterparty).

The particular Hedge Counterparties used by HiFX may change from time to time and may not be known by HiFX in advance of your FX Transaction.

Since HiFX is liable to you as principal on your FECs, HiFX is exposed to the insolvency of its Hedge Counterparties, or other defaults which affect its Hedge Counterparties. It is possible that a Hedge Counterparty may become insolvent, which could affect HiFX's financial capacity to meet its obligations to you since HiFX is also exposed to those Hedge Counterparties performing their contracts with HiFX. To reduce this risk, HiFX undertakes risk management in its selection and monitoring of its Hedge Counterparties, all of whom are part of established, reputable and regulated banking groups with investment grade ratings from the leading international credit ratings agencies.

HiFX's Hedge Counterparties used for hedging activities are:

Bank of New Zealand www.bnz.co.nz

Deutsche Bank AG www.db.com

Barclays Bank Plc www.barclays.co.uk

Bank of America Merrill Lynch www.bofaml.com

3.2.3. Security Trust Arrangements

(a) For New Zealand Retail Clients, Margin we

receive from you is kept in a Derivatives Investor Money Account which is a statutory pooled trust account (refer section 5 below for further information on how HiFX treats funds and property received from you).

(b) HiFX has adopted additional protection for its clients by creating a security arrangement in favour of its clients that also protects settlement money which is not protected by the Derivatives Investor Money Account (refer "Additional client protection provided by HiFX for client payments" in Section 7 for further information).

3.2.4. Solvency of HiFX

Whenever you consider your credit risk exposure to HiFX, you should consider how to assess the solvency of HiFX.

HiFX's most recent annual directors' report and an audited annual financial report are available free on request by contacting HiFX or can be obtained from the following website:

www.business.govt.nz/disclose.

The solvency of HiFX should not be assessed only by reference to historical financial information about HiFX. HiFX solvency also depends on managing all of its business risks, including but not limited to its capitalisation, its cash flow, its counterparty risks, its risk management systems and actual implementation of those risk management systems.

You should take into account all of those factors and not rely only on past financial statements since that could become out of date.

HiFX, under its New Zealand derivatives issuer licence, must also meet and maintain a minimum amount of capital adequacy, surplus liquid funds and net tangible assets. These conditions are imposed upon HiFX to ensure it has adequate solvency to run its business. These calculations are audited each year.

3.3. RISKS WHEN ENTERING OR SETTLING THE DERIVATIVES

The significant risks that arise from the processes by which the derivatives are entered into or settled are set out below.

Market disruptions:

A market disruption may mean that you may be unable to deal in FX Transactions or FX Options when desired, and you may suffer a loss as a result of that. Common examples of disruptions include the "crash" of a computer-based trading system.

Operational Risk:

You are responsible for the means by which you access HiFX's online transactional platform. If you are unable to access the online transactional platform, it may mean that you are unable to undertake FX Transactions so you may suffer loss as a result of that.

HiFX may also suspend the operation of the online transactional platform or any part of it, without prior notice to you.

Although this is considered to be a low risk since it would usually only happen due to planned maintenance, upgrades or in unforeseen and extreme market situations, HiFX has discretion in determining when to do this. If the online transactional platform is suspended, you may have difficulty contacting HiFX, you may not be able to contact HiFX at all, or your Orders may not be able to be executed.

There is a moderate to high risk that HiFX will impose volume or size limits on your online FX Transactions or filters on transactions, which could prevent or delay execution of your Orders, at your risk.

You have no recourse against HiFX in relation to the availability or otherwise of the online services. Please review the Terms for any additional particulars concerning online services.

Systems Risk:

HiFX relies on a number of technological solutions to provide you with efficient foreign exchange services. In this regard HiFX relies on banks and third party international settlement system providers to assist in currency transfers between accounts. HiFX does not have control over these third party systems and is not liable to you for their failure or delay.

4. FEES

HiFX does not charge commission or a fee for you to enter into a FEC or a FX Option. HiFX earns its revenue from the spread between the price HiFX achieves on its Hedge Contracts with its Hedge Counterparties and your FEC or FX Option price. The spread you pay is built into our exchange rate or the Premium for a FX Option. This spread will vary in accordance with:

- the size of the FX transaction and FX Option (the larger the transaction size the smaller the spread)
- the currencies involved (major currencies have smaller spreads than minor currencies)
- the Value Date (the longer the period until we exchange currencies the larger the spread)
- the volatility factors with regard to FX Options (the more volatile the market the larger the spread)

The spread is determined and payable at the time you enter into a FEC or FX Option, is payable as part of the contract and is paid when you make payment for the contract.

4.1. TRANSFER FEE

No fee is charged by HiFX under its HiFX or Currency Online brands for the onward payment of your purchased currency unless the Sold Currency amount of your transaction is below NZD\$10,000.00 (or its foreign currency equivalent) called a Transfer Threshold. HiFX does not charge any fees on transactions under its XE brand. If the Sold Currency amount is below the Transfer Threshold:

- We will charge you a Transfer Fee of between NZD\$10.00 to NZD\$20.00 per transfer (or its foreign currency equivalent) if the FX Transaction is undertaken online via HiFX's electronic trading platform.
- We may charge you a Transfer Fee of between NZD\$15.00 to NZD\$25.00 per transfer (or its foreign currency equivalent) if your transaction is undertaken via telephone, or undertaken by us following instructions from you in writing to execute the FX Transaction.

HiFX will advise you of the Transfer Fee (if

applicable) at the time you enter into a FX Transaction. If a Transfer Fee is applicable, it will be added to the amount of the Sold Currency you are required to send us on the Value Date of your FX Transaction.

A summary of our fees charged can be found on our respective websites at the following links:

www.hifx.co.nz/~media/files/our_fees.ashx

<http://www.currencyonline.com/services.aspx>

Example of how the Transfer Fee applies:

- If the Sold Currency amount is NZD\$9,900.00, and the Transaction was done via the online transactional platform, the Transfer Fee is NZD\$12.00 and will be added to the amount of the Sold Currency. In this case, the total amount payable will be NZD\$9,912.00. In any event, HiFX will advise you of any Transfer Fee (if applicable) at the time of your Order.
- If the Sold Currency amount is NZD\$10,000.00 (or greater), there is no Transfer Fee since this amount is above the Transfer Threshold and does not attract a Transfer Fee.

The above example provides an example of one situation only and does not reflect the specific circumstances or the obligations that may arise under a derivative entered into by you.

We may charge additional Transfer Fees of up to NZD\$25.00 (or its foreign currency equivalent) per transfer if you request us to transfer money to more than one person or entity after settling a FX Transaction.

Where a Transfer Fee(s) is (are) payable it will be added to the total amount you are required to settle on the Value Date of your FX Transaction.

4.2. THIRD PARTY FEES

In some cases, we may not be able to send your payment directly to your beneficiary's bank and will use a correspondent bank to make the payment. This will occur for most international payments. The correspondent bank may charge a fee for making the payment to the beneficiary's bank. Those fees may be charged on the payment being made and deducted from the amount remitted to the beneficiary's bank. The beneficiary's bank may also deduct or charge a fee upon receiving a payment sent by us. These third party fees are beyond our control; we receive no benefit from them and we cannot necessarily predict when they will be charged or the amount of the fees. You therefore need to bear in mind that the amount you are sending may not always be exactly the same as the amount received into the beneficiary's account.

4.3. INTEREST

HiFX charges interest on overdue amounts on a daily basis at the rate of five percent per annum above HIFX's principal bank's base lending rate from time to time, from and including the due date until payment is received in cleared funds. This rate is available from HIFX on request.

5. HOW HIFX TREATS FUNDS AND PROPERTY RECEIVED FROM YOU

All payments we receive from you in connection with FECs and FX Options (including Margin and settlement payments after entering into a FEC) will be applied by HiFX as payment or part payment (as applicable) for your FEC or FX Option and will be added to the balance of your Account.

Each payment is paid by you to one of HiFX's own bank accounts. We call these HiFX bank accounts "Security Trust Accounts" (STAs) because we have put in place a security over these accounts that is held by a trustee in favour of our clients with whom we have outstanding obligations.

Derivatives Investor Money

New Zealand Retail Clients: Payments we receive from you for Margin (even though this is a part payment to us) or other payments we receive from you in connection with a FEC that is not a payment to us on our own account are all "Derivatives Investor Money" for the purposes of the Financial Markets Conduct Act 2013 (**Derivatives Investor Money**). We are required by law to hold Derivatives Investor Money (for New Zealand Retail Clients only) in trust for you in a trust bank account (a **Derivatives Investor Money Account**) we operate for this purpose. The following paragraphs describe how we hold and deal with Derivatives Investor Money.

Each day HiFX establishes the amount of Margin and other Derivatives Investor Money it has received from you and its other clients for any outstanding FECs or other derivatives. HiFX ensures this amount is held in trust in a pooled Derivatives Investor Money Account by promptly paying into or transferring from this account sufficient money to ensure that the Derivatives Investor Money Account holds the required amount. Derivatives Investor Money ceases to be held on trust when it is used to settle your FEC.

The moneys kept in a Derivatives Investor Money Account are segregated from HiFX's own funds and are held on trust for the relevant clients. The accounts are pooled trust accounts because the funds are pooled together for clients rather than being held in a separate bank account for each client.

HiFX does not use "Derivatives Investor Money" for hedging activities.

Clients who are not New Zealand Retail Clients: Your Margin funds are held in our STAs and you receive the benefit of the first ranking security we have granted over our STAs in favour of our clients. Please refer to Section 7 for information on these security arrangements and the circumstances in which we may use funds in a STA.

No Interest on funds held

We do not pay interest on Margin payments or any funds we otherwise hold for you. HiFX retains any interest earned from these payments and funds, including funds held in the Derivatives Investor Money Accounts.

6. ABOUT HIFX

HiFX was established in March 2001 and operates from Auckland, New Zealand. HiFX's ultimate parent company is Euronet Worldwide Inc. Euronet Worldwide Inc. has been listed on the NASDAQ (EFT) since 1997 and has a market capitalisation in excess of USD\$3 billion as at the date of this PDS. The Euronet group of companies specialises in electronic payment processing and distribution and employs over 4,300 people worldwide and services clients in 155 countries. None of HiFX's obligations to you are guaranteed or secured by Euronet Worldwide Inc. or any other related company.

HiFX specialises in providing foreign currency dealing services to both corporate and individual clients who need to buy or sell foreign currencies for a commercial purpose or take physical delivery of the currency purchased i.e. as part of their day-to-day activities, thereby needing to settle foreign invoices (payments) and convert foreign currency receipts.

HiFX provides financial services in:

- Non-derivative products (Spot FX Transactions); and
- Derivative products (FECs, FX Swaps and FX Options).

HiFX operates under the following trading names; HiFX, Currency Online and XE.

HiFX and its related companies have offices in New Zealand, Australia, UK, Spain and the USA.

HiFX holds a Derivatives Issuer Licence issued by the New Zealand Financial Market Authority.

HiFX holds an Australian Financial Services Licence (AFSL), No. 240914 under which it is authorised to provide financial product advice in respect of, deal in, and make a market for Foreign Exchange and derivative products. This licence was issued to HiFX by the Australian Securities and Investments Commission.

HiFX is a registered Financial Service Provider under the Financial Services Providers (Registration and Dispute Resolution) Act 2008 – FSP Number FSP94961.

FECs and FX Options are requested, agreed, issued and managed on the terms set out in our Terms. It is important that you read and understand our Terms.

We recommend that you contact us if you have any questions arising from this PDS or the Terms prior to entering into any FEC or FX Option with us. HiFX recommends that you consult your adviser or obtain independent advice before undertaking a FEC or FX Option.

HiFX's contact details are:

HiFX Limited

Level 4

32 Mahuhu Crescent

Auckland

New Zealand

Telephone: (Int) +64 (0) 9 306 3700

Facsimile: (Int) +64 (0) 9 306 3701

Email: info@hifx.co.nz

Websites: www.hifx.co.nz
www.currencyonline.com
www.xe.com

7. ADDITIONAL CLIENT PROTECTION PROVIDED BY HIFX FOR CLIENT PAYMENTS

Not all of HiFX's client payments received are subject to the Derivatives Investor Money provisions of the Financial Markets Conduct Act 2013 (e.g. payments for Spot FX Transactions and settlement payments) and hence need not be held in trust for you, nor do they need to be held in a separate segregated bank account.

HiFX considers client protection to be of paramount importance so as to maintain its clients' confidence and therefore has, despite not being required to by current legislation, given its clients protection by creating a first ranking security in favour of clients.

In summary:

a) Money received or paid by HiFX for FX Transactions are only paid into and out of one of a number of bank accounts which we call "Security Trust Accounts" (STAs).

b) Each STA is subject to a first ranking (subject only to claims of creditors of HiFX who have a statutory preference that cannot be excluded) security held by a trustee in favour of you and HiFX's other clients under a trust deed.

c) STAs are not trust accounts but HiFX's ability to use funds in each STA is restricted by the terms of your Account with HiFX and is always subject to the first ranking security and the trust deed.

HiFX may use funds from a STA from time to time in the ordinary course of its business but only for one or more of the following purposes:

- To withdraw Derivatives Investor Money and pay this into a Derivatives Investor Money Account;
- To meet its obligations for the settlement of transactions with its clients in accordance with the applicable terms;
- To meet its obligations owed to its Hedge Counterparties in respect of Hedge Contracts, including in respect of payments by way of absolute transfer of funds or by way of security or collateral as support for HiFX's obligations under its Hedge Contracts;

- To pay bank charges, government taxes or levies on or in respect of that STA or as reasonably allocated to that STA;

- To withdraw any interest credited to the STA;

- To pay itself or otherwise to appropriate for its own uses amounts surplus to the amounts actually or contingently needed or reasonably likely to be needed to meet all of its obligations on all foreign exchange transactions with its clients and to meet all of its obligations on all Hedge Contracts, in either case as at the time of that withdrawal, but in all cases always subject to the terms of first ranking security and the trust deed.

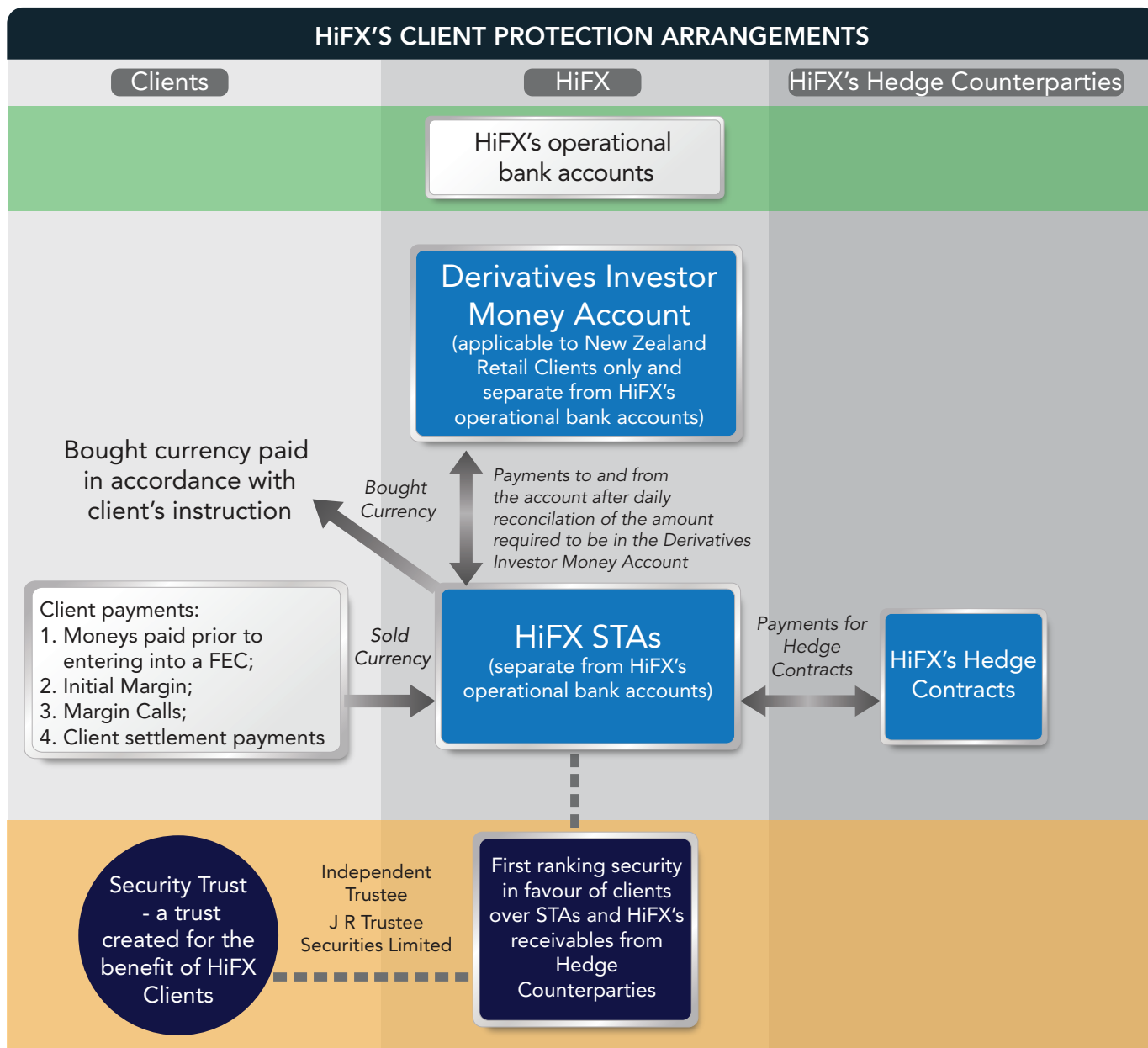
d) The Trustee (JR Trustee Securities Limited) also holds for the benefit of HiFX's clients' first ranking security over the Hedge Contracts.

Without this security arrangement, clients would be unsecured creditors of HiFX for any unpaid amounts owing to them (other than in respect of Derivatives Investor Money which is held on trust as described above). The first ranking security ensures that HiFX's clients have first priority to the funds in the STAs and the money received from HiFX's Hedge Counterparties during any insolvency of HiFX, subject only to claims of creditors of HiFX who have a statutory preference that cannot be excluded (e.g. preferential claims from governmental revenue authorities and employees).

Full terms of the security and trust arrangement are available free of charge on request, or alternatively they are available on the disclose register

www.business.govt.nz/disclose.

The client payments, FX Transaction flows and client protection arrangements are depicted as follows:



8. HOW TO COMPLAIN

HiFX wants to know about any problems you may have with the service provided to you so we can take steps to resolve the issue. If you have a complaint about the financial product or service provided to you, please take the following steps:

Lodging a complaint

You can lodge a complaint by contacting HiFX as follows:

- a. By e-mail: compliancenz@hifx.co.nz
- b. By phone: 0800 394 439 or +64 9 306 3700
- c. By fax: +64 9 306 3701
- d. By post: PO Box 7646, Wellesley Street, Auckland, New Zealand

To help us investigate and resolve your complaint effectively, please provide us with the following information with your complaint:

- a. Your full name, address and contact phone number(s);
- b. Your account number
- c. A description of your complaint;
- d. Any additional documentation or information that may support your complaint and assist us to resolve it; and
- e. How you would like us to address your complaint.

Complaint handling process

If we receive your complaint in writing we will acknowledge receipt of it immediately. HiFX will attempt to resolve your complaint within 5 days. If you are dissatisfied with how we dealt with your complaint, please let us know and we will undertake a further review of your concerns.

HiFX is a member of an independent dispute resolution scheme operated by Financial Services Complaints Limited (FSCL) and approved by the Ministry of Consumer Affairs. If HiFX is unable to adequately resolve your complaint after 40 days of the complaint having been made, you have the right to refer the complaint to FSCL either verbally, via email or in writing. This scheme will not charge a fee to you to investigate or resolve a complaint. FSCL's contact details are as follows:

Financial Services Complaints Limited

PO Box 5967

Wellington 6145

New Zealand

Email: complaints@fscl.org.nz

Telephone: 0800 347 257

Fax: (04) 472 3728

9. WHERE YOU CAN FIND MORE INFORMATION

Further information relating to HiFX, FECs and FX Options is available from the disclose register (for example, financial statements).

A copy of information on the disclose register is available on request to the Registrar. The Internet site address for the disclose register is

www.business.govt.nz/disclose.

A copy of the following information is available free of charge on written request to HiFX (email: info@hifx.co.nz):

- HiFX's most recent annual directors' report and audited annual financial report and
- The security and trust documentation referred to in section 7.

10. HOW YOU ENTER INTO A CLIENT AGREEMENT

In order to transact with us and enter into a FEC or FX Option you will first need to establish an Account by completing a HiFX, Currency Online or XE branded Account application form, provide us with the necessary identity documents (if applicable) and agree to our client agreement Terms.

The application form can be completed:

- Online via HiFX's website www.hifx.co.nz or Currency Online's website www.currencyonline.com or XE's website www.xe.com; or
- By completing a paper based form available by contacting us directly and returning the form to HiFX once completed.

At the time of applying for an Account you will be provided with this PDS and our standard Terms.

By opening an Account, you agree to our Terms. The Terms govern your FECs and/or FX Options (described by this PDS). When your application is accepted by HiFX, the Terms act as an agreement between you and us. A copy of the Terms is also available on our websites at www.hifx.co.nz, www.currencyonline.com or www.xe.com. You will be provided with an account number and security information so you can log onto HiFX, Currency Onlines or XE's online transactional platform and, amongst other things, undertake a FEC.

11. GLOSSARY OF TERMS

Account means a running account maintained by HiFX for the purpose of recording credits and debits in relation to FX Transactions (including FECs) and FX Options, Margin and other financial requirements.

Bought Currency means the amount of currency to be received by the client in return for the Sold Currency.

Business Day means a business day as defined in the Terms.

Close Out means to enter into an equal and opposite FX Transaction (but with HiFX using prevailing market rates) with the effect of terminating the original FX Transaction.

Confirmation means HiFX's electronic or other written notification sent to the client setting out the details of a FEC or FX Option, or onward payment on behalf of the client.

Currency Online means Currency Online, a trading name of HiFX Limited (New Zealand Company number 1121503).

Derivatives Investor Money and **Derivatives Investor Money Account** have the meaning set out in Section 5 of this document.

Exercise means the process whereby the client gives notice to HiFX on the Expiration Date that the FX Option's underlying FX Transaction is required and the consequent creation of the appropriate FX Transaction as provided in the Terms.

Expiration Date means the day on which you may elect to Exercise the FX Option.

FEC means a FX Transaction whose Value Date is not less than three Business Days after the transaction is agreed.

FX Option means an agreement by which the client has the right but not the obligation to enter into a FX Transaction with HiFX.

FX Transaction means any transaction between HiFX, you or another client (as applicable) to purchase and deliver currency (including Spot FX Contracts, FX Swaps and FECs).

Hedge Contract means a contract or other instrument between HiFX and a Hedge

Counterparty concluded for the purpose of hedging HiFX's exposure to foreign exchange transactions with clients.

Hedge Counterparty means any bank, related body corporate of a bank or other regulated financial corporation which is a counterparty to HiFX in its contractual dealings to hedge its exposure to foreign exchange transactions with clients.

Initial Margin means the Margin you are required to pay upfront to HiFX after entering into a FEC.

In-The-Money refers to the value of your transaction with HiFX (e.g a FEC) being worth more than had you undertaken the transaction at the current prevailing exchange rates.

Margin means the amount of the Sold Currency you are required to pay to HiFX as security for your FEC. Margin is part payment for the Bought Currency.

Margin Call means a direction by HiFX to you to pay an additional amount (not exceeding the full amount of the Sold Currency) by way of Margin.

New Zealand Retail Client means a client of HiFX that resides in New Zealand and who is not a "wholesale client" for the purposes of the Financial Markets Conduct Act 2013.

Order means the client's request for a FX Transaction or FX Option.

Out-Of-The-Money refers to the value of your transaction with HiFX (e.g a FEC) being worth less than had you undertaken the transaction at the current prevailing exchange rates.

Premium means the consideration payable to HiFX by a client for the rights provided by a FX Option.

Sold Currency means the amount of currency to be paid by the client in return for the Bought Currency.

Spot FX Transaction means a FX Transaction where the Value Date is two Business Days after the client agrees to enter into the contract.

STA has the meaning set out in Section 7 of this document.

Strike Price means the fixed price at which the client can buy (in the case of a call), or sell (in the case of a put), the underlying currency.

Terms means HiFX's standard client terms applying from time to time and which will apply to all transactions between you and HiFX.

Transfer Fee means the fee listed on HiFX's website charged by HiFX (in Sold Currency) when the amount of the Sold Currency transferred falls within the Transfer Threshold.

Transfer Threshold means the range (or ranges) listed on HiFX's website as attracting a Transfer Fee if the amount of the Sold Currency transacted falls within that range.

Value Date means the date specified by HiFX on which the FX Transaction settles.

XE means XE, a trading name of HiFX Limited (New Zealand Company number 1121503).