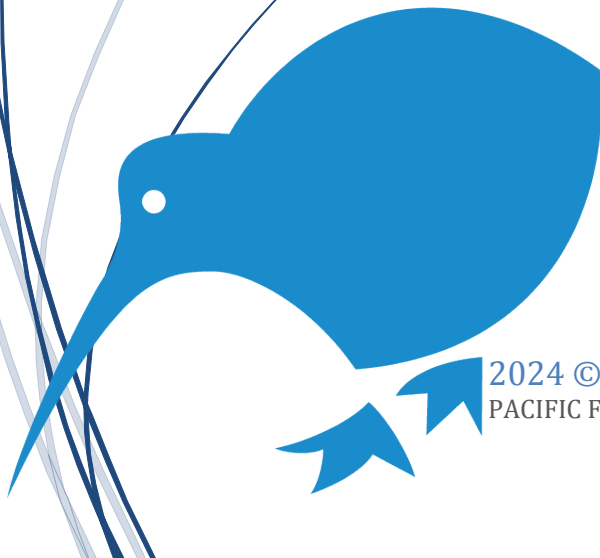


11/06/2024

# PRODUCT DISCLOSURE STATEMENT

For Margin Foreign Exchange and  
Contracts for Difference

This Product Disclosures Statement replaces the previous  
Product Disclosures Statement dated 27 June 2023



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PACIFIC FINANCIAL DERIVATIVES LIMITED

## Product Disclosure Statement

### For Margin Foreign Exchange and Contracts for Difference

This document provides important information about Margined Foreign Exchange and Contracts for Difference contracts to help you decide whether you want to enter into any of these derivatives. There is other useful information about this offer at <http://www.business.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.

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

**This Product Disclosure Statement is issued on 11 June 2024**

## 1. Key Information Summary

### What is this?

This is a Product Disclosure Statement for Margin Foreign Exchange and Contracts for Difference that cover Currencies, Metals, Commodities, Indices and Stocks contracts provided by Pacific Financial Derivatives Limited. Margin Foreign Exchange and Contracts for Difference are derivatives, which are contracts between you and Pacific Financial Derivatives Limited that may require you or Pacific Financial Derivatives Limited to make payments. The value of the contract will depend on the value of the underlying currency, metal, commodity, index or stock contract. The contract specifies the terms on which those payments must be made.

### Warning

#### Risk that you may owe money under the derivative

If the value of the underlying currency, metal, commodity, index or stock contract changes, you may suffer losses. In particular, unlike most other kinds of financial products, you may end up owing significant amounts of money. You should carefully read section 2 of this **Product Disclosure Statement** (key features of the derivatives) on how payments are calculated.

#### Your liability to make margin payments

Pacific Financial Derivatives Ltd may require you to make additional payments referred to as “margins” to contribute towards your future obligations under these derivatives. These payments may be required at short notice and can be substantial. You should carefully read section 2 of the Product Disclosure Statement (key features of the derivatives) about your obligations.

### Risks arising from issuer's creditworthiness

When you enter into derivatives with Pacific Financial Derivatives Ltd, you are exposed to a risk that Pacific Financial Derivatives Ltd cannot make payments as required. You should carefully read section 3 of the Product Disclosure Statement (risks of these derivatives) and consider Pacific Financial Derivatives Ltd's creditworthiness. If Pacific Financial Derivatives Ltd runs into financial difficulty, the margins you provide may be lost.

### About Pacific Financial Derivatives Ltd

Pacific Financial Derivatives Ltd is a derivatives issuer providing margin foreign exchange and contracts for difference services in the form of a trading platform to allow its clients access to the derivative products that are the subject of this Product Disclosure Statement.

### Which derivatives are covered by this Product Disclosure Statement?

The derivatives covered by this Product Disclosure Statement are restricted to Margin Foreign Exchange and Contracts for Difference. There is a full description of these products in the below.

#### Nature of derivatives

This Product Disclosure Statement covers Margin Foreign Exchange and Contracts for Difference (contracts). Under these contracts, one party agrees to buy a product from the other party at an agreed price for settlement on the day the contract is closed by maintaining a deposit, referred to as "margin". The parties agree to renew the contract indefinitely until one of them affirmatively closes the contract. The Principal amount is not exchanged and the deposit/margin is returned upon closure. At the time of closure the profit or loss is settled between both parties.

#### Main uses of derivatives

Derivatives such as Margin Foreign Exchange and Contracts for Difference can be used for speculation where a contract is taken to make a profit from the market movement of the underlying asset. Speculation of this nature can also mean that traders could suffer a loss if the underlying market does not move in their favour.

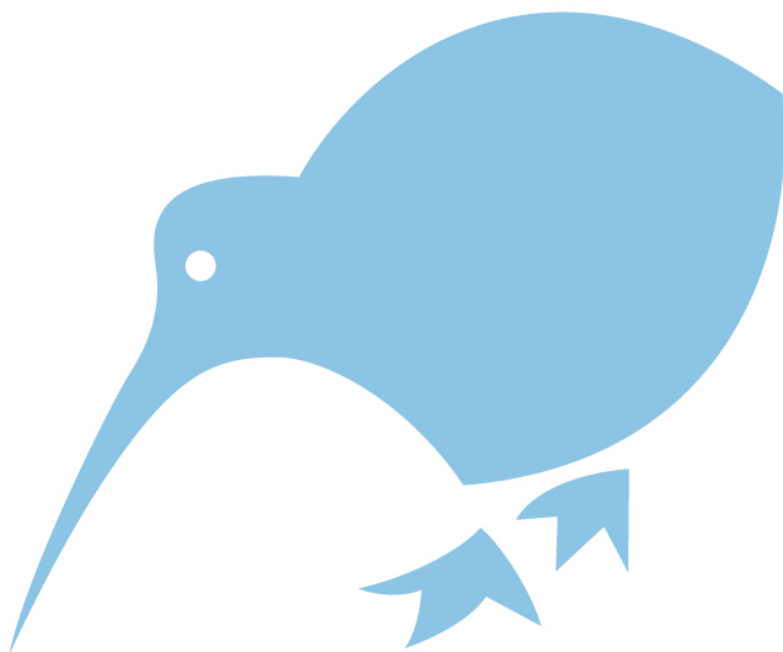
Other traders use derivative contracts to hedge their exposure to an underlying asset, which they currently hold. By doing this it locks in the price at the time the derivatives contract is entered into and allows the trader to maintain ownership of the underlying asset. An example of this would be where a trader holds physical gold and hedges to prevent further market fluctuations.

In undertaking a Margin Foreign Exchange or Contract for Difference contract you are making an investment in a financial product and hence are subject to investment risk. We recommend that you take all reasonable steps to fully understand the outcomes of utilising the products provided by us and as such you need to understand and accept the risks of investing in Margin Foreign Exchange or Contract for Difference.

The information in this Product Disclosure Statement is general only and does not take into account your personal objectives, financial situation and needs. This Product Disclosure Statement does not constitute advice to you on whether Margin Foreign Exchange or Contract for Difference products are appropriate for you.

## Table of Contents

1. Key Information Summary .....	1
2. Key Features of the Derivatives .....	4
2.1 Entering a Derivative Contract and Rights to Terminate .....	6
2.2 How are Margined Foreign Exchange Contracts Calculated .....	8
2.3 How are Contract for Difference Contracts Calculated .....	10
3. Risks of these Derivatives .....	11
3.1 Product Risks .....	11
3.2 Issuer Risks .....	11
3.3 Risks when Entering or Settling the Derivatives .....	12
4. Fees .....	13
5. How Pacific Financial Derivatives Treats Funds and Property received from You ..	15
6. About Pacific Financial Derivatives Limited .....	15
7. How to Complain .....	16
8. Where you can find more Information .....	17
9. How to Enter into a Client Agreement .....	17



## 2. Key Features of the Derivatives

Item	Summary
Who is the issuer of the derivative	Pacific Financial Derivatives Limited
What is a derivative?	<p>Pacific Financial Derivatives Ltd offers Margin Foreign Exchange and Contracts for Difference for which it is the issuer and provider. These are “Over the Counter” (“OTC”) contracts. OTC contracts are contracts that are traded between two parties without being placed on a recognized exchange like the NZX or CME.</p> <p>These derivative contracts do not require the physical exchange of currency, metal, commodity, index, stock or the underlying product. The contract will always be cash settled and your trading account is either credited or debited according to the profit or loss of the trade. Derivative contracts provide many of the benefits of trading without having to physically hold the underlying currency, metal, commodity, index, stock etc.</p>
What does the term “derivative” mean in this Product Disclosure Statement?	<p>A derivative means a contract offered by Pacific Financial Derivatives Ltd as follows:</p> <p><b><u>Margin Foreign Exchange</u></b></p> <p>Foreign exchange (FX) is essentially about exchanging one currency for another at an agreed rate. In every exchange rate quotation, there are two currencies. The exchange rate is the price of one currency (the “Base Currency”) in terms of another currency (the “Term Currency”).</p> <p>Margin foreign exchange products are a subset of foreign exchange trading that allows you an opportunity to trade foreign exchange on a leveraged basis as opposed to paying for the full value of the currency. Instead of buying the whole face value of an FX contract, you pay only a small margin (typically 1%) of the face value of the currency traded and have the benefit/cost of fluctuations of the currency. There is always a long (bought) and a short (sold) side to a trade, which means that you are speculating on the prospect of one of the currencies strengthening and one of the currencies weakening. It is the nature of this movement that gives the opportunity/risk for you.</p> <p>Margin FX contracts are principal-to-principal contracts. Pacific Financial Derivatives Ltd offers you a contract price based on relevant market and business conditions. This means both parties act as principals to the transaction and have a direct exposure to each other. It may be that Pacific Financial Derivatives Ltd hedges the position with its counterparties, but this transaction is a separate transaction between Pacific Financial Derivatives Ltd and its counterparty.</p> <p><b><u>Contracts for Difference</u></b></p> <p>A contract for difference (CFD) allows you to trade on the upward or downward price movements of a wide range of markets including indices and commodities. In the same way as margin FX, you do not buy or sell the underlying asset but are able to trade on the price movements of that asset.</p>

	<p>These products are also principal-to-principal contracts and you will be required to maintain a margin (typically 1%) of the face value of the underlying asset. The margin must be maintained to be able to hold the contract or it may face being closed.</p> <p>Pacific Financial Derivatives Limited currently offers CFDs based on the following underlying instruments:</p> <ul style="list-style-type: none"> <li>(a) Currencies;</li> <li>(b) Metals</li> <li>(c) Commodities</li> <li>(d) Indices</li> <li>(e) Stocks</li> </ul> <p>The CFD contracts offered by Pacific Financial Derivatives Ltd do change from time to time so you are advised to view our web site for our current contract offering.</p> <p>Pacific Financial Derivatives Ltd's CFD contracts do not result in the physical delivery of the underlying instrument. All of the CFD contracts are either closed out by the client or if the contract has an expiry are closed out and settled at respective rates.</p>
What are the main uses of derivatives	<p>People who trade in Margin FX and Contracts for Difference may do so for a variety of reasons. Some trade for speculation, that is, with a view to profiting from fluctuations in the price or value of the underlying contract. For example, traders may have no need to sell or purchase the underlying currency, metal, commodity, index, stock themselves, but may instead be looking to profit from market movements in the currency, metal, commodity, index, stock concerned.</p> <p>Others trade contracts to hedge their exposures to the underlying currency, metal, commodity, index stock. For example, a commodity derivative can be used as a risk management tool to enable those with physical holdings of an underlying commodity to lock in an effective sale price for the commodity concerned by taking a commodity derivative contract position at that point in time. Then, if the price of the underlying commodity the investor holds falls, the commodity derivative positions will wholly or partly offset the losses incurred on the physical holdings.</p>
What fees and charges are payable in respect of a derivative contract?	<p>Common fees and charges are any or all of the following:</p> <ul style="list-style-type: none"> <li>• Spread and Interest</li> <li>• Swap Credits and Charges</li> <li>• Bank Fees</li> </ul> <p>Refer to section 4 – Fees, for further information.</p>
Are the derivative contracts deliverable?	<p>No. All derivative contracts are closed out and cash settled. That is, the profit or loss is either credited or debited to/from your account held with Pacific Financial Derivatives Ltd.</p>
What is Margin?	<p>Your Initial Margin is the amount Pacific Financial Derivatives Ltd requires you to maintain in your account as soon as you open a new Margin FX or Contract for Difference contract.</p> <p>Your Maintenance Margin is the additional amount Pacific Financial Derivatives Ltd requires you to maintain if equity in your account falls short of the required margin.</p> <p>Equity = Balance - Margin +/- Floating Profit/Loss.</p>

	<p>If the equity falls short of the required margin, you must either deposit additional funds or alternatively close out existing open positions to reduce your required margin to a level acceptable to Pacific Financial Derivatives Ltd.</p> <p>Margins act as collateral or a security buffer and protects Pacific Financial Derivatives Ltd in the event of a default by you. Typically Pacific Financial Derivatives Ltd will require an Initial Margin calculated as a percentage of the contract value. For example, if you took a position in EUR/USD with a face value of EUR 100,000 and leverage of 100:1 or 1% it would mean that you maintain an initial margin of USD \$1,000. Points to note:</p> <ul style="list-style-type: none"> <li>a) You are always buying or selling the first currency or commodity stated in the pair. In the example of EUR/USD you are either buying or selling EUR against the USD;</li> <li>b) Your account is in USD; therefore the margin is calculated in this currency.</li> </ul>
What is leverage	<p>Leverage allows you to outlay a relatively small amount, known as the initial margin, to secure an exposure to the underlying contract without having to pay the full price. Accordingly, leverage allows you to take a greater level of risk for a smaller initial outlay, thus amplifying the risks and rewards. However, you need to fully understand that leverage also increases risks and magnifies potential losses. For example, if leverage were 100:1 or 1% it would mean that you could gain exposure to a EUR/USD 100,000 contract for an initial margin of USD 1,000. For every point movement the profit or loss will be USD \$10.00. For example, when the EUR/USD price moves from 1.1401 to 1.1402 this equates to a \$10.00 profit or loss when taking a EUR/USD 100,000 position.</p>
How do I place a derivative transaction order with Pacific Financial Derivatives Ltd?	<p>Pacific Financial Derivatives Ltd accepts Margin FX and Contracts for Difference orders via our on-line trading system.</p>
What is the term of the derivative contract?	<p>The majority of contracts offered by Pacific Financial Derivatives Ltd do not have a term i.e. end date. However, you should be aware when trading Contracts for Difference some contracts do have an expiry. In the event that contracts with a term/expiry date expiring, the contract will need to be closed and settled at the respective rates. Contracts with an expiry mirror the underlying contract that is traded on an exchange, for example the US Dollar Index has an expiry every quarter.</p>

## 2.1 Entering a Derivative Contract and Rights to Terminate

Item	Summary
How do I Open an Account?	<p>Prior to transacting in Margin Foreign Exchange or Contracts for Difference, you must read and understand Pacific Financial Derivatives Ltd's Client Services Agreement, Pacific Financial Derivatives Ltd's General Terms and Conditions, and this Product Disclosure Statement, which are all available on Pacific Financial Derivatives Ltd's website. You must complete, sign (electronically) and return the Client Information Form with stipulated supporting documents to Pacific Financial Derivatives Ltd for consideration for the account to be opened. Pacific Financial Derivatives Ltd reserves the right to refuse to open accounts for any person.</p>
How do I enter into a derivatives contract?	<p>To enter into a Margin Foreign Exchange or Contracts for Difference contract you are required to meet the margin required for the particular contract.</p>

Rights to Terminate	<p>Failure to meet Pacific Financial Derivatives Ltd's margin requirements is an event of default and Pacific Financial Derivatives Ltd has the right to immediately close your contracts.</p> <p>A margin call warning (and potential liquidation) is triggered if a client's equity falls below the required margin.</p> <p>During the margin call warning period, clients receive margin call alerts on their Trading Terminal to either top up the accounts or their position(s) will be closed at the market price when the client's equity reaches the margin call level.</p> <p>A warning indication is also displayed on the clients Trading Terminal with their balance bar turning red. Should the client not deposit additional funds or free up additional margin by closing positions, when the account reaches stop out levels, the clients' positions will automatically be closed.</p> <p>In the case of clients that have lower leverage, Pacific Financial Derivatives Ltd has fixed the Margin Call Level at 100% and if the equity falls below 50%, contracts will be closed (stopped out) in order to bring equity to a level above this liquidation level. If the equity level is still not reached the next contract will be closed, and so on until an equity level reaches in excess of 50% or more.</p> <p>In the case of clients that have higher leverage, Pacific Financial Derivatives Ltd has fixed the Margin Call Level at 150% and if equity falls below 100%, contracts will be closed (stopped out) in order to bring equity to a level above this liquidation level. If the equity level is still not reached the next contract will be closed, and so on until an equity level reaches in excess of 100% or more.</p>
Suspended or halted underlying asset.	<p>An underlying financial product may be placed in a trading halt on the relevant exchange in various circumstances. Additionally, it may be suspended or delisted in certain circumstances.</p> <p>Should our counterparty providers stop providing pricing and clearing in a certain contract or underlying asset due to a suspension or trading halt, then Pacific Financial Derivatives Ltd will be unable to process orders which have not yet been opened, and will suspend trading on open contracts until such time as pricing becomes available again.</p>
Operational Risk	<p>Operational Risk is inherent in every Margin Foreign Exchange and Contract for Difference transaction; for example, disruption to Pacific Financial Derivatives Ltd's operational processes such as communications, computers, networks or external events may lead to delays in the execution of or settlement of a transaction.</p> <p>Pacific Financial Derivatives Ltd relies on a number of technology solutions to provide you with efficient services.</p> <p>A disruption to Pacific Financial Derivatives Ltd's on-line trading system may mean you are unable to trade in a Margin Foreign Exchange and Contract for Difference contract offered by Pacific Financial Derivatives Ltd and you may suffer a loss as a result. An example of disruption could be if our on-line trading system crashes.</p>



## 2.2 How are Margined Foreign Exchange Contracts Calculated

We have used 2 examples below to explain how Foreign exchange derivatives are calculated.

If the EUR/USD currency pair is quoted at 1.14430/1.14440, then this is showing the bid/offer price. To buy EUR (offer), you would pay 1.14440 x contract size. To sell EUR (bid), you would receive 1.14430 x contract size. The difference between the two prices is 1 basis point, which in this example, is the “spread”.

Each contract’s size can be any amount equal to or greater than 1,000 of a particular trading currency. You then choose when to sell or buy in order to close your position. You close your position by taking an opposite position to what you did as detailed above, with the intention of making a profit when the currencies move in the intended direction.

The profit or loss resulting from the trade will be credited or debited to your account. Pacific Financial Derivatives Ltd has trading rules (including “Forced Liquidation/Stop Out” and an Initial Margin requirement, which is explained below to help you limit any losses. The trading rules also help reduce (but not avoid) the risk that you will lose more than your deposited funds.

### Example 1

You believe that the EUR will appreciate against the USD in the near future. You see that the prices quoted on the EUR/USD currency pair by Pacific Financial Derivatives Ltd is 1.14430 (bid) / 1.14440 (offer). The “offer” is the buy price, so you buy a contract of EUR/USD, at one lot, which is equal to 100,000. You want to sell it later at a higher price. Your base currency is US dollars

Opening the position	
Buy 100,000 at offer price:	$1 \times 100,000 \times 1.14440 = \$114,440 \text{ USD}$ (contract size)
Assume the contract is leveraged on a 1:100 ratio. That means that we require an Initial Margin from you to be deposited into our account, which is 1%	$114,440 \times 0.010 = \$1,144.40 \text{ USD}$ (Initial Margin)
Pacific Financial Derivatives Ltd earns a “spread”, which is the difference between the bid and offer prices that it sources from other clients or from its counterparty providers, and the bid and offer prices it quotes to you. In this example, the difference is 0.0001 (known as “pips”), which amounts to \$10 USD. It is built into the price when you close your position, because you will sell it back at the bid price.	$(1.14440 - 1.14430) \times 100,000 = \$10 \text{ USD}$
Rollover Interest/Swap	
When a position is held open overnight, you are paid or debited interest depending on the currency pair. In this example, you technically are borrowing the Euro, which has a higher interest rate than the USD, so you must pay interest on this position. These swap rates float daily based on overnight interest rates. In this case, you must pay \$ 1.30 per 1 lot per day.	$1 \text{ lot} \times -1.30 \text{ (EURUSD Short Swap Rate)} = \$1.30 \text{ USD}$
Closing the position	
The next day the price of EUR/USD has increased to 1.14460 (bid) / 1.14470 (offer). The trade has moved in your favour and you decide to take your profit and close the position by selling at the bid price.	$1 \times 1.14460 \times 100,000 = \$114,460 \text{ USD}$
Your gross profit is the difference between the opening position and the closing position. $114,440.00 - 114,460.00 = 20.00 \text{ USD}$ . Your net profit is the gross profit less the costs. The spread was built in to the price.	$20.00 - 1.30 = 18.70 \text{ USD}$

**Summary:** In the above example, you had to deposit \$1,144.40 USD to cover your Initial Margin requirement, and you have made a total gain of \$18.70.

(The examples above are for demonstration purposes only. They do not reflect any specific circumstances or the obligations that may arise under a derivative entered into by the investor.)

### Example 2

You believe the GBP will depreciate against the USD in the near future. You see that the prices quoted on the GBP/USD currency pair by Pacific Financial Derivatives Ltd is 1.57345 (bid) / 1.57370 (offer). The “bid” price is the sell price, so you sell a contract of GBP/USD, at one lot, which is equal to 100,000. You want to buy it later at a lower price in order to make as profit. Your base currency is USD.

Opening the position	
Sell 100,000 at bid price:	$1 \times 100,000 \times 1.57345 = \$157,345 \text{ USD}$
Assume the contract is leveraged on a 1:100 ratio. That means that we require an Initial Margin from you to be deposited into your account, which is 1.00% of the contract value.	$157,345 \times 0.010 = \$1,573.45 \text{ USD (Initial Margin)}$
Pacific Financial Derivatives Ltd earns a “spread”, which is the difference between the bid and offer prices that we source from our liquidity providers, and the bid and offer prices we quote to you. In this example, the difference is 0.00025 (known as “pips”), which amounts to \$25 USD. It is built into the price when you close your position, because you will buy it back at the offer price.	$(1.57370 - 1.57345) \times 100,000 = \$25 \text{ USD}$
Rollover Interest/Swap	
When a position is held open overnight, you are paid or debited interest depending on the currency pair. In this example, you technically are borrowing the USD, which has a lower interest rate than the GBP, so you must pay less interest on this position $1 \text{ lot} \times -3.5 \text{ (GBPUSD Short Swap Rate)} = \$3.50 \text{ USD}$ . These swap rates float daily based on overnight interest rates. In this case, you must pay 0.35 pips per 1 lot per day.	$1 \text{ lot} \times -3.5 \text{ (GBPUSD Short Swap Rate)} = \$3.50 \text{ USD}$
Closing the position	
The next day the price of GBP/USD has increased by 82.5 pips to 1.58145 (bid) / 1.58170 (offer). The trade has moved against you and Pacific Financial Derivatives Ltd forces the closing of your position to protect you from further loss.	Margin requirement = \$1,573.45 USD. Pip Value = $.0001 \times 100,000 = \$10$ . After an 82.50 pip move, Account Equity = USD 748.45. Equity / Margin Requirement $(748.45/1573.45) = 47\%$ . Account is liquidated/stopped out when this ratio drops below 50%.
Your net loss is the gross loss less the costs. The spread was built in to the price.	$1.57345 - 1.58170 = 82.50 \text{ pips}$ . $82.50 \times .0001 \times 100,000 = \$825 \text{ USD}$ . $-825.00 - 3.50 = -\$828.50 \text{ USD}$ .

**Summary:** In the above example, you deposited USD 1,573.45 to cover your Initial Margin requirement, and you have made a total loss of USD 828.50.

(The examples above are for demonstration purposes only. They do not reflect any specific circumstances or the obligations that may arise under a derivative entered into by the investor.)

### 2.3 How are Contract for Difference Contracts Calculated

Again we explain how this works by example.

You believe that the price of gold is undervalued and you decide to enter into a CFD in respect of gold in the expectation that the gold price will rise. Our online platform is showing the price of gold (XAU/USD) as being USD 1,225.200 (bid) / 1,225.500 (offer). One lot is equal to 100 ounces. You buy 1 lot.

Opening the position	
You "buy" a CFD in respect of 100 ounces of gold at the offer price:	$1 \times 1,225.50 \times 100 = \$122,550 \text{ USD}$
Assume the contract is leveraged on a 1:100 ratio. That means that we require an Initial Margin from you to be deposited into your account, which is 1% of the contract value	$122,550.00 \times 0.010 = 1225.50 \text{ USD}$
PFD earns a "spread", which is the difference between the bid and offer prices that we source from other clients or from our counterparty providers, and the bid and offer prices we quote to you. In this example, the difference is \$0.30, which amounts to \$30 USD. It is built into the price when you close your position, because you will sell it back at the bid price.	$(1,225.50 - 1,225.20) \times 100 = \$30 \text{ USD.}$
Rollover Interest/Swap	
When a position is held open overnight, you are paid or debited interest depending on the contract. In this example, you technically are borrowing Gold in terms of the USD, so you must pay interest on this position. These swap rates float daily based on overnight interest rates. In this case, you must pay 1.217 pips per 1 lot per day.	$1 \text{ lot} \times -1.217 \text{ (XAUUSD Short Swap Rate)} = \$1.217 \text{ USD}$
Closing the position	
The next day the price of Gold has increased by \$ 10 USD to 1,235.200 (bid) / 1,235.500 (offer). The trade has moved in your favour and you decide to close your position	$1 \times 1,235.20 \times 100 = \$123,520$
Your total gross gain is the buy price less the sell price.	$123,520 - 122,550 = 970.00 \text{ USD}$
Your total net gain is the gross gain less the costs. The spread was built into the price.	$970.00 - 1.217 = 968.78 \text{ USD}$

**Summary:** In the above example, you deposited USD 1,225.50 as your Initial Margin on this trade and made a profit of 968.78 USD.

(The examples above are for demonstration purposes only. They do not reflect any specific circumstances or the obligations that may arise under a derivative entered into by the investor.)

### 3. Risks of these Derivatives

#### 3.1 Product Risks

##### Market Risk

This is the risk that the markets move in a direction not anticipated. External market forces can cause markets and prices to change quickly, such forces include changing supply and demand relationships, governmental, agricultural, commercial and trade programs and policies, national and international political and economic events, and the prevailing psychological characteristics of the marketplace. As the price of your Margin Foreign Exchange and Contract for Difference contract is based on an underlying currency, metal, commodity, index or stock, these factors may affect your position and our ability to execute, settle or close out transactions on your behalf.

##### Capital Risk

You could lose the entire Margin that you deposit to establish or maintain a Margin Foreign Exchange and Contract for Difference contract.

All derivatives involve risk and there is no trading strategy that can eliminate it. The placing of contingent orders (such as a stop-loss order) may not always limit your losses to the amounts that you may want as market conditions may make it impossible to execute such orders.

In cases where you are speculating we suggest that you do not risk more capital than you can afford to lose. A good general rule is never to speculate with money, which if lost, would alter your standard of living.

##### Consequences of Failure to Make Payment

Should the price of the underlying currency, metal, commodity, index or stock on which your contract is based moves against you, your trading terminal may display a Margin Call and, at short notice, be required to deposit further funds into your account in order to maintain your contract. Should Pacific Financial Derivatives Limited's systems display a Margin Call, which may be substantial, you must deposit sufficient funds into your account immediately. In the event of you failing to make Margin payments we may reduce or close all your open contracts without further notice and you will be liable for any shortfall. All contracts are priced against the market price real time, with market movements (profit or loss) updated immediately in your on-line trading account. You must be in a position to fund such payments at all times. Margins must be paid immediately after the call. Should your account reach a level where it has insufficient equity to maintain contracts, Pacific Financial Derivatives Limited has the right to close contracts in its absolute discretion.

##### Consequences of Altering the Terms of Derivative or Terminating a Derivative

Should the terms of an underlying financial product, which your contract with Pacific Financial Derivatives Ltd is based, become altered or terminated then the corresponding alteration or termination of the contract specifications will be passed onto you. The effect of this could mean that you suffer a loss of some or all of your initial margins and could be exposed to further losses, which Pacific Financial Derivatives Ltd would seek to recover from you.

#### 3.2 Issuer Risks

Given you are dealing with Pacific Financial Derivatives Ltd as counterparty to every transaction, you will have an exposure to us in relation to each transaction. This is common to all over-the-counter contracts such as Margin Foreign Exchange or Contract for Difference Contracts.

You are subject to Pacific Financial Derivatives Ltd's credit risk. If we were to become insolvent, we may be unable to meet our obligations to you. Pacific Financial Derivatives Ltd enters into arrangements with financial institutions for the facilitation of transactions and settlements. If the financial conditions of Pacific Financial Derivatives Ltd or the parties with which we hold client assets deteriorate, then you could suffer a loss because the return of your capital and other client's capital could become difficult.

Pacific Financial Derivatives Ltd's creditworthiness has not been assessed by an approved rating agency. This means that Pacific Financial Derivatives Ltd has not received an independent opinion of its capability and willingness to repay its debts from an approved source.

Pacific Financial Derivatives Ltd manages its risk exposures by hedging some transactions with a range of counterparties, and also accepts some risk due to the natural hedging that is provided by clients taking positions opposite to other clients. We consider that those client transactions act as a natural hedge against each other. If we do not completely hedge our positions with you, and/or if one of our hedging counterparties fails to make a payment to us, the risk of us being unable to meet our obligations may be increased.

Pacific Financial Derivatives Ltd audited financial statements, can be obtained from the Disclose register at [www.disclose-register.companiesoffice.govt.nz](http://www.disclose-register.companiesoffice.govt.nz). In addition, client funds are held on trust in segregated accounts for our clients and separate to our business operating accounts. Please refer to section 5 for more information.

### 3.3 Risks when Entering or Settling the Derivatives

#### Foreign Exchange Risk

Pacific Financial Derivatives Ltd accounts are denominated in US Dollars (USD) and accordingly all Margins, profits, losses, interest and rollover fees in relation to the contract are calculated in USD.

Accordingly, your profits or losses may be affected by fluctuations in the applicable foreign exchange rate between the time the order is placed and the time the contract is closed.

Upon closing a contract and requesting a funds withdrawal, the USD balance will be converted to the currency you request (your base currency) in order to make payment to you. Any conversion will be at the exchange rate quoted by Pacific Financial Derivatives Ltd. Until the USD balance is converted to your base currency, fluctuations in the relevant foreign exchange rate will affect the amount you receive.

#### Slippage

In fast moving or illiquid markets "slippage" may occur. Slippage occurs when market prices do not follow a "smooth" or continuous trend and are typically caused by external factors such as world, political, economic and corporate related events. Should slippage occur in the underlying currency, metal, commodity, index or stock on which your Margin Foreign Exchange and Contract for Difference contract is based, you may not be able to close out your contract or open a new contract at the price at which you have placed your order.

#### Stop Loss Orders

Stop loss orders are designed to limit your loss should the market move against you and the on-line trading system is instructed to close the position if the price reaches the pre-defined level set.

Stop loss orders are not guaranteed and the execution of such orders will depend on market volatility and liquidity. So whilst stop losses generally allow you to control potential losses should the market

move against you, please be aware that stop loss orders may not always limit your losses in the way you anticipate.

In cases where stop loss orders have been placed and the market price moves immediately to a level away from your stop loss order you would suffer a loss as your stop loss order is not guaranteed.

#### **Liquidity**

Under certain conditions it may become difficult or impossible for you to close out your contract. This can occur when there is a significant change in the price of the underlying asset over a short period of time. Some international markets may have a lower trading volume than other more liquid international markets, which may increase the risk that the liquidity of a currency, metal, commodity, index or stock is decreased or removed from the market due to unforeseen economic, political, natural disasters or catastrophic events.

#### **Electronic On-line Trading System**

You shall be responsible for providing and maintaining the means by which to access the electronic on-line trading system, which may include without limitation a personal computer and internet access. While the Internet is generally reliable, technical problems or other conditions may delay or prevent access. If you are unable to access the Internet and thus, the electronic on-line trading system, it will mean you may be unable to trade in Margin Foreign Exchange and Contracts for Difference contracts offered by Pacific Financial Derivatives Ltd and you may suffer a loss as a result. Furthermore, in unforeseen and extreme market situations, such as an event like September 11 or a global catastrophe, Pacific Financial Derivatives Ltd reserves the right to suspend the operation of its electronic on-line trading system or any part or sections of it. In such an event, Pacific Financial Derivatives Ltd may, at its sole discretion (with or without notice), close out your open contracts at prices it considers fair and reasonable at such a time. Pacific Financial Derivatives Ltd may impose volume limits on client accounts at its sole discretion. Please note that such measures would only be implemented in extreme market conditions, and such discretion only reasonably exercised in the best interests of the client.

## **4. Fees**

#### **Spread & Interest**

Pacific Financial Derivatives Ltd does not charge you fees or commissions to enter into a contract. We earn our revenue from the difference (the Spread) between the price paid to buy or sell the Base Currency expressed against the Term Currency.

The Spread is incorporated into the price of the currency or metal quoted by us on the trading system and is not an additional fee or charge payable by you. The Spread will vary depending upon the size of the transaction, currencies or metals being bought and sold, the composition and prevailing market conditions.

Pacific Financial Derivatives Ltd also earns revenue from any interest received on funds held in the Trading Account or in the Trust Accounts.

#### **Swap Credits and Charges**

When you hold a position overnight (5 pm New York Time (EST)), it will be rolled to the next Working Day which will result in you paying a Swap Charge or receiving a Swap Credit. The amount of the Swap Charge or Swap Credit is determined by us, at our discretion, and depends on the Swap Rate that Pacific Financial Derivatives Limited is charged by our hedging counterparties. This Swap Rate is used as our



reference rate to determine the applicable Swap Charge or Swap Credit on all contracts held at the close of each trading day.

The Swap Rate is a varying rate which is derived from the applicable interbank rate for the Underlying Asset to which the position relates, the duration of the rollover period and the size of the position.

Swap Rates are available through the MT4 Client terminal (Trading Platform) and are calculated on an ongoing basis by us. Swap Charges and Swap Credits will be accumulated and communicated to you through the Trading Platform. Your Trading Account will be adjusted by the value of the Swap Charge or Swap Credit, whichever is applicable in the circumstance, with immediate effect during Rollover. Swap Rates take into account positions held over the weekend.

Interest is paid on the contract that is borrowed, and earned on the one that is bought. In effect, you earn or pay interest depending on the direction of your contract.

To access swap rate fees via the MT4 trading terminal, click on any symbol in the "Market Watch" and right click to access "Specification". This will provide the swap rates.

Example of Rollover calculation formula:

Contract notional value x (base currency interest rate – terms currency interest rate) / 360 days per year x current base currency rate = daily Rollover interest debit/credit

Example:

You buy 100,000 EURUSD while the EURUSD price at rollover time is 1.1000. If you decide to hold this contract to the next Trading Day, the following rollover calculation is applied:

EURUSD price at 5pm EST: 1.1000

Euro overnight interest rate: 0.17643% pa USD overnight interest rate: 0.12100% pa

Therefore:  $\$100,000 \times (0.17643\% - 0.12100\%) / 360 \times 1.1000$

Further:  $\$100,000 \times 0.05543\% / 493.20 = +\$0.1123$

(The examples above are for demonstration purposes only. They do not reflect any specific circumstances or the obligations that may arise under a derivative entered into by the investor.)

### Bank Fees

A "Telegraphic Transfer" (TT) fee of \$25 is payable by you on funds we send you. This amount is charged by our banks to affect the transfer of funds to an overseas account.

Local transfers are not charged Transfer fees.

All fees are charged in New Zealand dollars or equivalent in the foreign currency being transferred.

### When are Fees Payable

All fees are payable at time of settlement.

### Right to Alter Fees

Pacific Financial Derivatives Ltd reserves the right to alter fees from time to time. This will generally be based on passing on increases of fees we are charged from our providers. If an increase is made, we will update this Product Disclosure Statement and issue notification to you.

## 5. How Pacific Financial Derivatives Treats Funds and Property received from You

Pacific Financial Derivatives Ltd only accepts money and does not accept property, No interest is paid to you on money held in your Trading Account.

Money paid by you to Pacific Financial Derivatives Ltd for margin and fees is held in separate trust accounts for client funds. This money is not regarded as a part of the assets of Pacific Financial Derivatives Ltd and cannot be accessed by Pacific Financial Derivatives Ltd except to pay for hedging contracts with counterparties, fees and margin calls as described in the contract between us. When money is moved from the client trust account to a counterparty it is no longer afforded the protection of being held in trust.

You agree that Pacific Financial Derivatives Ltd may transfer from your Trading Account, moneys to be used for authorised hedging activities. Money may be transferred to a hedging counterparty as is reasonably required for entering into derivatives with the hedging counterparty or for settling or securing those derivatives with the hedging counterparty in accordance with the Act. You agree to such transfers and transactions under our General Terms and Conditions.

Pacific Financial Derivatives Ltd maintains a balance in the client trust account to meet its obligations such as client withdrawals etc. The remaining funds are forwarded to our counterparties and applied against your margin, fee and settlement obligations. It is important to note that holding your money in one or more segregated accounts with our counterparties may not afford you absolute protection.

Pacific Financial Derivatives Ltd enters into arrangements with third party counterparties for the facilitation of transactions and settlements, and uses money received for margin calls and settlements to such providers for this purpose. Accordingly clients are indirectly exposed to the financial risks of our counterparties and organisations with whom Pacific Financial Derivatives Ltd holds client funds. If the financial condition of Pacific Financial Derivatives Ltd or assets of our counterparties or the parties with which we hold client assets deteriorate, then clients could suffer loss because the return of the client capital could become difficult.

Client trades can only be placed when there are cleared funds in the client's account. Accordingly, no scenario is anticipated which would result in a shortfall in the client trust account, and in the event that there was, Pacific Financial Derivatives Ltd would immediately deposit its own funds to meet this shortfall.

The hedging counterparties that Pacific Financial Derivatives Ltd hedges with are:

1. CMC Markets Asia Pacific Pty Ltd - <https://www.cmcmarkets.com/en-au>
2. Forex Capital Markets Ltd - <https://www.fxcm.com/uk>
3. Advanced Markets UK Ltd - <https://advancedmarkets.com/fca/institutional>
4. GBE Brokers Ltd - <https://gbebrokers.com>
5. Global Mrket Index Ltd (GMI UK) - <https://gmimarkets.co.uk>
6. TF Global Markets (UK) Ltd - <https://www.thinkmarkets.com/uk>
7. Equiti Capital UK Limited - <https://www.equiti.com>



## 6. About Pacific Financial Derivatives Limited

Pacific Financial Derivatives Limited is a New Zealand registered company and a licensed Derivatives Issuer pursuant to the Financial Markets Conduct Act 2013. The Financial Markets Authority has regulatory oversight over Pacific Financial Derivatives Ltd. The contact details are:

Pacific Financial Derivatives Limited Level 8, 12-26 Swanson St Auckland Central 1010 New Zealand Telephone: +64-9-6320121 Email: <a href="mailto:compliance@pfd-nz.com">compliance@pfd-nz.com</a>	Financial Markets Authority P O Box 106 672 Auckland 1143 New Zealand T 0800 434 567 Website: <a href="http://www.fma.govt.nz">www.fma.govt.nz</a>
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## 7. How to Complain

What should you do if something goes wrong?

In the event that you wish to make a complaint, you should first make the complaint in writing detailing the nature of the complaint and send it to Pacific Financial Derivatives Ltd's Risk & Compliance Manager. On receipt of your complaint, Pacific Financial Derivatives Ltd will confirm to you that it has received the same and will endeavour to investigate it and respond to you within 10 days.

Our contact details are:

Office Address: Level 8, 12-26 Swanson St Auckland Central 1010 New Zealand	Telephone: +64-9-6320121  Risk & Compliance Manager: John Gifford Email: <a href="mailto:John@pfd-nz.com">John@pfd-nz.com</a> Website: <a href="http://www.pfd-nz.com">www.pfd-nz.com</a>
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## Dispute Resolution

In the first instance the Risk & Compliance Manager will try and resolve the dispute between the parties. However, if a satisfactory outcome cannot be achieved, you should refer the matter to Financial Dispute Resolution and follow the instructions set out at <http://www.fdr.org.nz/making-complaint/make-complaint>

Financial Dispute Resolution is an approved dispute resolution scheme under the Financial Service Providers (Registration and Dispute Resolution) Act 2008. Our participant details are set out at:

[http://www.fdr.org.nz/member\\_search/scheme\\_member/FM0312](http://www.fdr.org.nz/member_search/scheme_member/FM0312)

Financial Dispute Resolution will not charge you any fee to investigate or resolve your complaint.

Financial Dispute Resolution contact details:

Financial Dispute Resolution P O Box 5730 Wellington 6145 New Zealand	Telephone: +64 4 910 9952 or Freephone: 0508 337 337 Email: <a href="mailto:enquires@fdr.org.nz">enquires@fdr.org.nz</a> Website: <a href="http://www.fdr.org.nz">www.fdr.org.nz</a>
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## 8. Where you can find more Information

Further information relating to Pacific Financial Derivatives Ltd and Margin Foreign Exchange and Contracts for Difference contracts as described in this Product Disclosure Statement can be obtained on the offer register (for example, financial statements) at <http://www.business.govt.nz/disclose>. A copy of the information on the offer register is available on request to the Registrar of Financial Services Providers.

The offer register contains a link to Pacific Financial Derivatives Ltd's financial statements, together with a link to an auditor's report on those statements. Those financial statements are prepared in accordance with the Financial Markets Conduct Act 2013 for the most recently completed accounting period.

### Upon Request to Pacific Financial Derivatives Ltd

For general information about Margin Foreign Exchange and Contracts for Difference contracts, opening an account and placing orders etc., please contact a Pacific Financial Derivatives Ltd Representative by making a request by telephone or emailing us as follows:

Telephone: +64-9-6320121  
Email: [backoffice@pfd-nz.com](mailto:backoffice@pfd-nz.com)

No charge will be made for any information requested.

## 9. How to Enter into a Client Agreement

### Establish an Account

In order to transact with us you will first need to establish an Account by completing Pacific Financial Derivatives Ltd's Account application form.

By opening an Account, you agree to our Client Services Agreement, which consists of the Client Information Form, General Terms & Conditions and this Product Disclosure Statement (Agreement). These are important legal documents containing the terms and conditions which govern our relationship with you.

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

If you wish to enter into a Margin Foreign Exchange or Contract for Difference contract with Pacific Financial Derivatives Ltd you must indicate your consent to Pacific Financial Derivatives Ltd's Terms and Conditions before you can open a trading account with us.

To open an account, please complete the account opening forms located on our website:

<https://signup.pfd-nz.com/signup/logon>

Pacific Financial Derivatives Ltd's Terms and Conditions can be viewed on our website:

[https://www.pfd-nz.com/downloads/PFD\\_General\\_Terms\\_and\\_Conditions.pdf](https://www.pfd-nz.com/downloads/PFD_General_Terms_and_Conditions.pdf)