



Product Disclosure Statement

Forward Exchange Contracts

Issued by

EncoreFX (NZ) Limited

16 May 2018

This Product Disclosure Statement replaces the Product Disclosure Statement – Forward Exchange Contracts issued on 24 March 2017.

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

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.

EncoreFX (NZ) Limited has prepared this document in accordance with the Financial Markets Conduct Act 2013.

1. KEY INFORMATION SUMMARY

1.1 What is this?

This is a product disclosure statement for Forward Exchange Contracts provided by EncoreFX (NZ) Limited (**EncoreFX, we, us, our**). Forward Exchange Contracts are derivatives, which are contracts between you and EncoreFX that may require you or EncoreFX to make one or more payments to one another. The amounts that must be paid or received (or both) will depend on the value of the underlying exchange rate. The contract specifies the terms on which those payments must be made.

1.2 Warning

Risk that you may owe money under the derivative

If the value of the underlying exchange rate 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 4 of this PDS ('Fees') on how payments are calculated.

Your liability to make margin payments

EncoreFX 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 Sections 2.4.1 ('Margin Deposit') and 2.4.2 ('Additional Margin Deposit') of this PDS for further information about your obligations.

Risks arising from issuer's creditworthiness

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

1.3 About EncoreFX

EncoreFX is a specialist provider of foreign exchange and hedging services, working with clients of all sizes across multiple international markets. For more information about EncoreFX refer to Section 6 of this PDS ('About EncoreFX').

1.4 Which derivatives are covered by this PDS?

This PDS covers Forward Exchange Contracts.

A Forward Exchange Contract is an agreement between you and EncoreFX to buy or sell an agreed amount of one currency for another currency at an agreed exchange rate at a future date.

The purpose of Forward Exchange Contracts is to facilitate the management of foreign exchange risks for those with foreign currency exposure by providing exchange rate certainty for future dated foreign exchange obligations.

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2. KEY FEATURES OF THE DERIVATIVES

A glossary of the key terms used in this product disclosure statement (**PDS**) is included in Section 10 of this PDS ('Glossary').

2.1 Nature and effect of Forward Exchange Contracts

A Forward Exchange Contract is an agreement between you and EncoreFX to buy or sell one currency for another currency at an agreed exchange rate at a future date.

The purpose of Forward Exchange Contracts is to facilitate the management of foreign exchange risks for those with foreign currency exposure by providing exchange rate certainty for future dated foreign exchange obligations.

2.2 How Forward Exchange Contracts work

Forward Exchange Contracts are traded 'over-the-counter' (**OTC**), meaning that they are created and traded off market rather than on an exchange.

When entering into a Forward Exchange Contract with EncoreFX, you can tailor the terms of the contract to meet your requirements. Specifically, before entering into a Forward Exchange Contract we will agree the following with you:

- The currency and the amount of that currency that you would like to buy or sell (**Notional Amount**).
- The currency being exchanged for the Notional Amount.
- The exchange rates of the currencies that will be traded on the Settlement Date (defined below) (**Forward Exchange Rate**). Note, the Forward Exchange Rate applicable to your Forward Exchange Contract will be determined by us after having regard to the Settlement Date and the information set out below in Section 2.3 of this PDS ('Determining Forward Exchange Rates') below.
- The date in the future that the contract will mature (**Settlement Date**).

Once we have agreed the terms of the Forward Exchange Contract with you, you will receive a confirmation from us containing all relevant details relating to your Forward Exchange Contract.

On the Settlement Date you will be required to deliver the currency that you are exchanging in accordance with the terms of your Forward Exchange Contract. Upon receipt by EncoreFX of cleared funds in the currency that you are exchanging, EncoreFX will pay you, or your nominated beneficiary, the amount of the currency that you have purchased.

2.3 Determining Forward Exchange Rates

In determining the Forward Exchange Rate applicable to a Forward Exchange Contract, EncoreFX applies Forward Points to the underlying exchange rate that it receives from its counterparty. The underlying exchange rate and Forward Points are each discussed in further detail below.

2.3.1 Exchange rate / Spot Rate

An exchange rate is the rate at which one currency will be exchanged for another. For example, the exchange rate for the New Zealand Dollar (**NZD**) and the United States Dollar (**USD**) could be quoted as NZD / USD 0.7350, meaning that one NZD is equal to 73.50 US cents. The USD in this case is known as the Quote Currency, as it is being quoted as a fraction of one New Zealand dollar. **Please note, this example is for illustration purposes only and is not an indication of future exchange rates.**

An underlying exchange rate (**Spot Rate**) is quoted on the interbank market, which is a wholesale market for registered exchange dealers. This market is restricted to registered exchange dealers and banks that constantly quote to each other at wholesale exchange rates and in minimum parcel sizes.

Spot Rates fluctuate according to supply and demand. The factors that influence the supply and demand of currency include, but are not limited to, the following:

- Investment inflows / outflows.
- Market sentiment or expectations.
- Economic and political influences including geo-political influences.

- Import / export of goods and services.

Exchange rates quoted in the media generally refer to interbank exchange rates and can differ from the exchange rates quoted to you.

As Forward Exchange Contracts are traded OTC, there is no official benchmark exchange rate for foreign currencies. As a result, exchange rates will often vary when compared between providers.

2.3.2 Forward Points

Forward Points are a fraction of the Quote Currency that are added to, or subtracted from, the Spot Rate to create the Forward Exchange Rate applicable to your specific Forward Exchange Contract. For example, 50 Forward Points in a NZD / USD exchange rate quote, would equal 0.50 cents of the Quote Currency (USD). The calculation of the Forward Points is based on a number of factors including, but not limited to, the following:

- The differing interest rates prevailing in the two currencies nominated in the Forward Exchange Contract.
- The volatility and unpredictability of the exchange rates of the two currencies in the Forward Exchange Contract.
- The transaction size and EncoreFX's ability to offset the transaction in the interbank market.

For example:

An importer needs to sell NZD in four months' time in exchange for USD. At the time of entering into the Forward Exchange Contract, New Zealand interest rates are higher than United States interest rates. Under those circumstances, we assume that EncoreFX buys USD now at the Spot Rate, paying for the USD with NZD.

EncoreFX will use Forward Points to pass on the cost of the lower rate of interest that it receives on the USD. The adjustment with the Forward Points would be a negative number or a subtraction from the Spot Rate, meaning that the Forward Exchange Rate would be less favourable for the client than the current Spot Rate.

The above example is for illustration purposes only and is not an indication of future interest rates. For a further example, please refer to Section 2.9 of this PDS ('Example Forward Exchange Contract').

2.3.3 Retail Mark-Up

The Forward Exchange Rate quoted to you by EncoreFX will include a mark-up (**Retail Mark-Up**) which is applied on top of the wholesale exchange rates that we receive from the liquidity providers. The Retail Mark-Up is determined by EncoreFX using a number of factors including, but not limited to, the following:

- The size of the transaction (smaller Notional Amounts may mean a larger Retail Mark-Up).
- The two currencies to be traded (where the two currencies are illiquid, the Retail Mark-Up may be larger).
- The time between entering into the Forward Exchange Contract and the Settlement Date (the longer the time between the dates, the larger the Retail Mark-Up may be).
- Market volatility (higher volatility may result in a larger Retail Mark-Up).
- The frequency with which you trade with EncoreFX (the more frequently you transact with EncoreFX, the smaller the Retail Mark-Up may be).
- The complexity of your requirements or derivatives offered (the more complex, the higher the Retail Mark-Up may be).

2.4 Credit requirements

Over the life of a Forward Exchange Contract, as the Spot Rate moves, the Forward Exchange Contract may be 'In the Money' (**ITM**), 'Out of the Money' (**OTM**) or 'At the Money' (**ATM**). That is, if the Forward Exchange Contract had to be cancelled at any time, it would result in a gain (ITM) or a loss (OTM) or breakeven (ATM).

To manage the market risk when a Forward Exchange Contract is entered into, EncoreFX may initially secure the Forward Exchange Contract by taking an advance partial prepayment / cash called a Margin Deposit. Alternatively, EncoreFX may apply this market risk against your trading limit.

2.4.1 Margin Deposit

The Margin Deposit represents an advance pre-payment of the Forward Exchange Contract and is taken to secure EncoreFX's potential exposure resulting from adverse OTM currency movements. Your Margin Deposit will reduce the final payment that you are required to make on the Settlement Date. The Margin Deposit that we require will be determined as a percentage of the value of the Forward Exchange Contract that you have entered and is generally about 10% of the value of the transaction. EncoreFX may determine this percentage at its discretion based on a number of factors including, the value of your outstanding Forward Exchange Contracts, your current financial position / credit rating and the prevailing market conditions.

The Margin Deposit must be paid within two business days of EncoreFX requesting that a Margin Deposit be paid. In the event that the Margin Deposit is not received within two business days of the request, EncoreFX may close out your account and terminate the contract. EncoreFX can also terminate and close out any other pending transactions with you and set off amounts owed to you (including any gains on contracts closed out (terminated) against any losses incurred and amounts then owing to EncoreFX by you). In such circumstances, you will be liable to EncoreFX for all costs associated with terminating any such contracts.

2.4.2 Additional Margin Deposit

Should a Forward Exchange Contract (or the net position of your Forward Exchange Contract portfolio) move OTM in excess of the Margin Deposit or your trading limit, EncoreFX will secure this increased market risk through an additional partial prepayment (**Additional Margin Deposit**). An Additional Margin Deposit is required from you to bring the net market risk exposure to zero. Additional Margin Deposits represent a pre-payment of the Forward Exchange Contract by you. If an Additional Margin Deposit is triggered, EncoreFX will advise you immediately. Payment of the Additional Margin Deposit must be made within two business days of the date of the request. If you fail to pay an Additional Margin Deposit, EncoreFX may, at its discretion, choose to cancel some or all of your Forward Exchange Contracts. At the same time, EncoreFX can also terminate and close out any other pending transactions with you and set off amounts owed to you (including any gains on contracts closed out (terminated) against any losses incurred and amounts then owing to EncoreFX by you). In such circumstances, you will be liable to EncoreFX for all costs associated with terminating any such contracts.

2.4.3 Forgone interest

EncoreFX does not pay interest on amounts held (including Margin Deposits and Additional Margin Deposits). As such, you will forgo the ability to earn interest where EncoreFX is holding any amounts on your behalf. The interest cost is an opportunity cost which is equal to the amount of interest that you would have otherwise earned if those amounts were held in your own bank account.

2.4.4 Trading limits

EncoreFX may choose to waive the requirement of a Margin Deposit by applying the required amount against your trading limit. The trading limit is dependent upon your credit history / rating, strength of financial statements, as well as other factors determined at EncoreFX's sole discretion. EncoreFX may review and amend your trading limit at any time.

The following two methods may be used by EncoreFX in respect of your trading limits:

- **Against individual contracts:** EncoreFX may waive the need for a Margin Deposit by applying the required deposit of each Forward Exchange Contract against your trading limit. The Forward Exchange Contract is regularly revalued over the period of the Forward Exchange Contract to determine the ITM, OTM or ATM position.
- **Against customer portfolios:** EncoreFX may allocate a trading limit against the net position of your entire portfolio of open Forward Exchange Contracts and any other open contracts that you may have with EncoreFX. EncoreFX re-values every contract in your portfolio daily, and if the net position (ITM or OTM) is within your trading limit you will not be required to pay an Additional Margin Deposit. If, however, the revaluation results in the net exposure exceeding your trading limit, an Additional Margin Deposit will be required to take your net exposure to zero.

2.5 Benefits of Forward Exchange Contracts

There are a number of benefits to using Forward Exchange Contracts. These benefits include the following:

- Forward Exchange Contracts facilitate the management of foreign exchange risks for those with foreign currency exposure by providing exchange rate certainty for future dated foreign exchange obligations.

- A Forward Exchange Contract overcomes the problems in budgeting as you can budget at a fixed rate of exchange.
- You can choose to settle the whole amount of a Forward Exchange Contract on one date, or you can take parts of the amount throughout the Term of the Forward Exchange Contract (provided the entire amount is taken by Settlement Date).

2.6 How to enter into a Forward Exchange Contract

2.6.1 Application

An application form is required to be completed and submitted to us prior to entering into a Foreign Exchange Contract. The application process is discussed in further detail in Section 9 of this PDS ('How to enter into a client agreement'). Upon our acceptance of your application, you may deliver an instruction to us to enter into a Foreign Exchange Contract. Your instruction will only take effect once we have accepted the instruction.

2.6.2 Forward Exchange Contract

Prior to entering into a Forward Exchange Contract, we will agree with you those matters set out in Section 2.2 of this PDS ('How Forward Exchange Contracts work').

An instruction to enter into a Forward Exchange Contract may be delivered over the phone or by email to EncoreFX, or in any other manner set out in the Master Terms and Conditions.

After entering into a Forward Exchange Contract, EncoreFX will send you a confirmation outlining the terms of your Forward Exchange Contract. It is important that you check the confirmation to make sure that it accurately records the terms of the transaction.

There is no cooling-off period for Forward Exchange Contracts and therefore, you will be bound immediately following our acceptance of your original instruction. In the event that there is a discrepancy between your understanding of the transaction and the confirmation sent to you, you should raise this with us immediately.

Telephone conversations with our dealing room are recorded in accordance with standard market practice. We do this in order to ensure that we have complete records of the details of all transactions. Recorded telephone conversations are retained for a limited time and are usually used when there is a dispute and for staff monitoring purposes. If you do not wish to be recorded, you will need to inform us accordingly. We will however not enter into any transaction over the telephone unless the conversation is recorded.

2.7 Term of Forward Exchange Contracts

The Term of a Forward Exchange Contract under this PDS can range between three business days to one year depending on your needs and your credit terms with EncoreFX. A Term longer than one year may be considered by EncoreFX, at its sole discretion and on a case-by-case basis.

2.8 Settlement

On the Settlement Date you are required to deliver the amounts agreed in the Forward Exchange Contract and, upon receipt of those funds, EncoreFX will deliver the amount of currency you have purchased to you or your nominated beneficiary. EncoreFX can deliver payment to you or your nominated beneficiary either by a bank transfer to a bank account or through the physical delivery of a draft in accordance with your instructions to us.

2.9 Rights to alter or terminate Forward Exchange Contracts

2.9.1 Historical Rate Rollover Extensions

At any time up to the Settlement Date, you may ask EncoreFX to extend the Term of your Forward Exchange Contract. This is referred to as a Historical Rate Rollover Extension (**HRRE**). All HRREs are subject to prior approval by EncoreFX and may be declined at EncoreFX's sole discretion. EncoreFX will only approve HRREs where there is an underlying business purpose.

If EncoreFX agrees to extend the Term of your Forward Exchange Contract, your Forward Exchange Rate will be altered. The new Forward Exchange Rate will reflect a number of factors including your previous Forward Exchange Rate, the Spot Rate and market interest rates. It may also reflect any funding implications where your Forward Exchange Contract is either ITM or OTM.

If a HRRE is agreed upon, we will send you a confirmation detailing the amendment.

2.9.2 Pre-delivery

After entering into a Forward Exchange Contract you may wish to bring the agreed Settlement Date forward on all (**pre-delivery**), or a portion (**partial pre-delivery**), of the Notional Amount of your Forward Exchange Option. Any pre-delivery or partial pre-delivery of your Forward Exchange Contract is subject to prior approval by EncoreFX and may be declined by EncoreFX at its sole discretion.

If EncoreFX agrees to a pre-delivery or partial pre-delivery of your Forward Exchange Contract, EncoreFX may carry out an exchange rate adjustment to the original Forward Exchange Rate to reflect the earlier delivery.

You should note that, while in normal trading conditions an adjustment for pre-deliveries may be marginal, in times of volatility in the foreign exchange market the adjustment may be significant.

In relation to partial pre-delivery, the balance of the face value of the Forward Exchange Contract shall remain due at the original Forward Exchange Rate on the original Settlement Date.

Please refer to Section 2.10 of this PDS ('Example Forward Exchange Contract') for an example of pre-delivery and the amounts payable in such circumstances.

2.9.3 Close-out / Cancellation

You may request to close out or cancel your Forward Exchange Contract at any time where you no longer require the currency that you have agreed to purchase on the Settlement Date.

Any close out or cancellation is subject to approval by EncoreFX and may be declined by EncoreFX at its sole discretion. Any costs that are incurred in terminating and unwinding your Forward Exchange Contract will be payable by you. You will also be liable for any OTM position in relation to your Forward Exchange Contract. EncoreFX may require supporting documentation confirming a change in your currency obligations to support your request for the close-out or cancellation.

2.9.4 Termination

EncoreFX may terminate a Forward Exchange Contract in limited circumstances. You will be liable for any losses or costs incurred as a result of any termination event. The circumstances in which a termination event may be carried out are set out in full in the Master Terms and Conditions, and include the following:

- Failure to pay any Margin Deposit or Additional Margin Deposit payments.
- If you are insolvent, appoint a receiver or administrator to your business or cease to carry on your business.
- If an event occurs that partially prevents, hinders, obstructs, delays or interferes with your ability to meet your obligations.
- If you dispute the validity of a Forward Exchange Contract.
- For any other reason set out in the Master Terms and Conditions.

2.10 Example Forward Exchange Contract

The examples set out below are for informational purposes only. They each provide an example of one situation only and do not reflect the specific circumstances or the obligations that may arise under a derivative entered into by you.

In order to assess the merits of any particular derivative, you should use the actual rates and figures available to you at the relevant time.

The examples set out below are all based on the same scenario which is described in the first example.

Set out below is an example which illustrates the possible outcomes and amounts payable under a Forward Exchange Contract.

You are a New Zealand company and you need to make a payment of USD 100,000 to an offshore supplier in 12 months. You want to sell NZD and buy USD in order to make this payment.

You give instructions to EncoreFX today that you wish to enter into a Forward Exchange Contract to fix a Forward Exchange Rate to buy USD 100,000 and sell NZD in 12 months.

Assume the following:

- The current NZD / USD spot exchange rate is 0.7650.
- EncoreFX offers you a Forward Exchange Rate of 0.7250.
- At the Settlement Date, the NZD / USD spot exchange rate is 0.7150.

After entering into the Forward Exchange Contract, on the Settlement Date you would be required to buy USD 100,000 from EncoreFX in exchange for NZD 137,931.03 ($USD\ 100,000 \div 0.7250$).

If you did not enter into the Forward Exchange Contract, on the Settlement Date, in order to meet your supplier payment obligations, you would have to buy USD 100,000 for NZD 139,860.14 ($USD\ 100,000 \div 0.7150$).

Set out below is an example of the Retail Mark-Up that we may charge you.

Assume that EncoreFX can access a wholesale NZD / USD exchange rate from its counterparty of 0.7300. EncoreFX therefore offers you a Forward Exchange Rate of 0.7290, which includes a Retail Mark-Up of 10 points (or 0.0010) on the wholesale rate. The cost to EncoreFX of acquiring USD 100,000 is therefore NZD 136,989.30 and the cost to the client is NZD 137,174.21. This results in a margin to EncoreFX of NZD 184.91 on the transaction.

Set out below is an example which illustrates pre-delivery and the amounts payable in such circumstances.

The offshore supplier that you anticipated to make payment to in 12 months' time has been able to supply your order faster than anticipated, and you have agreed to make payment in 9 months rather than the original 12 months.

In 9 months time, you would request from EncoreFX a pre-delivery of your Forward Exchange Contract. Your Forward Exchange Contract Rate will be adjusted to reflect the Forward Points for the remaining term of the Forward Exchange Contract. In this case, the remaining term is 3 months, and there are 70 Forward Points to be adjusted for this remaining term.

Your rate is adjusted from 0.7250 to 0.7320, to reflect the Forward Point adjustment. Therefore, your settlement amount becomes NZD 136,612.02 ($USD\ 100,000 \div 0.7320$).

3. RISKS OF THESE DERIVATIVES

3.1 Product risks

The specific risks associated with a Forward Exchange Contract include the following:

- Foreign exchange movements are highly unpredictable, even within a single trading day. This foreign exchange risk is further explained in Section 3.2 of this PDS ('Foreign exchange risk').
- A Margin Deposit (usually around 10%) of the total transaction may be required to enter into a Forward Exchange Contract. You may also be required on short notice to provide an additional payment (referred to as Additional Margin Deposit) if your Forward Exchange Contract goes OTM. A failure to pay a Margin Deposit or Additional Margin Deposit when required can result in the enforced liquidation of your position as well as additional losses (Sections 2.4.1 ('Margin Deposit') and 2.4.2 ('Additional Margin Deposit') of this PDS discuss Margin Deposits and Additional Margin Deposits in further detail).
- Entering into a Forward Exchange Contract locks in the Forward Exchange Rate for the Settlement Date, which precludes any potential financial benefit (or loss) resulting from subsequent exchange rate movements.
- If the underlying purpose for entering into the transaction changes, and you seek to change or cancel the Forward Exchange Contract, you may incur losses.

3.2 Foreign exchange risk

As noted above in Section 2.1 of this PDS ('Nature and effect of Forward Exchange Contracts'), once you have entered into a Forward Exchange Contract with us, you will have locked in a Forward Exchange Rate. While this will protect you from adverse exchange rate movements, at the same time you will not benefit from favourable exchange rate movements.

3.3 Issuer risk

You are dealing with us as a counterparty to every transaction so you will have a credit-related exposure to us in relation to each transaction. In all cases, you will be reliant on our ability to meet our obligations to you under the terms of each transaction. You are also subject to our credit risk. If our business becomes insolvent, we may be unable to meet our obligations to you.

We must comply with the financial requirements imposed under our derivative issuers licence issued under the Financial Markets Conduct Act 2013. Our audited financial statements are available on the offer register by request to the Registrar at www.business.govt.nz/disclose.

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

In the event of our insolvency, if you have entered into a Forward Exchange Contract with us that has not been settled, you will be an unsecured creditor with a claim against us for any amounts owing under that contract. The extent to which you may recover your proportional entitlement will be determined by applicable insolvency laws subject to any contractual arrangements that you have with EncoreFX (e.g. the set-off and netting rights of EncoreFX against client money, under our Master Terms and Conditions).

We may choose to limit our exposure to you by entering into opposite transactions as principal in the wholesale market. There is therefore also a risk that any parties with whom EncoreFX contracts to mitigate its exposure when acting as principal to the Forward Exchange Contracts (by taking related offsetting or mitigating positions) may not be able to meet their contractual obligations to EncoreFX. This means that EncoreFX could be exposed to the insolvency of these counterparties and to defaults by these counterparties. If a counterparty is insolvent or defaults on its obligations to EncoreFX, the circumstances could give rise to a risk that EncoreFX defaults on its obligations to you.

3.4 Risks when entering or settling the derivatives

3.4.1 Deposit and cross default risk

An initial Margin Deposit (usually around 10%) of the total transaction may be required to enter into a Forward Exchange Contract.

If the market moves against you and your Forward Exchange Contract becomes OTM, we may require an Additional Margin Deposit. If you fail to pay a Margin Deposit or Additional Margin Deposit, we may close out your position (and any other positions you hold with us) by entering into an equal and opposite position. You will remain liable for any negative positions which cannot be covered by the closing out of your Forward Exchange Contract.

3.4.2 Contract failure

In the case that you cannot fulfil the terms of the contract and are required to offset the contract prior to the Settlement Date, you may sustain a significant financial loss. EncoreFX will provide a quote for such services based on market conditions prevailing at the time. As markets for the Forward Exchange Contract contained in this PDS and offered by EncoreFX are OTC, there may be difficulty in realising liquidity for such product at certain times.

3.4.3 No cooling off

There is no cooling off period, meaning that, after we receive your instructions and the contract has been agreed, there is no period of time to release yourself from any obligations without penalty.

4. FEES

On the Settlement Date, you will not be required to pay additional entry fees in relation to any Forward Exchange Contract. However, other transaction fees or charges may apply where related services such as electronic payments are requested by you and made in connection with your Forward Exchange Contract.

Transaction fees for electronic payments are separate to fees related to the exchange rate conversion that will apply to converting one foreign currency to another. These conversion fees are payable at the time we process an electronic payment for you or your nominated beneficiary.

The transaction and conversion fees charged by EncoreFX are a fixed fee charged on a per transaction basis and take the following information into account:

- The amount and type of currency to be transferred (exotic currencies usually incur higher fees).

- The frequency of transactions that you conduct with EncoreFX (an existing relationship may result in reduced fees).
- Which country the funds are sent to (some countries are more expensive than others).

In addition to those transaction and conversion fees charged by EncoreFX, any correspondent, intermediary or beneficiary bank which facilitates the sending or payment of transfers or drafts may impose their own additional fees or charges which may be deducted from the amount paid to you or your beneficiary.

In some instances, EncoreFX may charge a monthly or annual fee to users on its platform. This may be a flat fee per user or a fee based on the number of transactions entered into by each user.

Whilst there are no fees charged for entering into a derivative contract, a Retail Mark-Up may apply. For more information refer to Section 2.3.3 of this PDS ('Retail Mark-Up').

For more information regarding the fees that may be applicable to you or your Forward Exchange Contract, contact EncoreFX using the details contained in Section 6 of this PDS ('About EncoreFX').

5. HOW ENCOREFX TREATS FUNDS AND PROPERTY RECEIVED FROM YOU

5.1 Treatment of client monies

The EncoreFX Trust Account and the EncoreFX Client Funds Account (both terms are defined below) are client money accounts operated in accordance with the requirements of our derivative issuers licence issued under the Financial Markets Conduct Act 2013 and the terms of our Master Terms and Conditions.

5.1.1 EncoreFX Trust Account

Any New Zealand dollar amounts that you pay to EncoreFX in relation to Margin Deposits or Additional Margin Deposits, will be paid into EncoreFX's trust account (**EncoreFX Trust Account**). The EncoreFX Trust Account is a segregated trust account held in EncoreFX's name with ANZ Bank Zealand Limited. The EncoreFX Trust Account operates in the following way:

- The only monies paid into the EncoreFX Trust Account are monies related to Margin Deposits or Additional Margin Deposits and interest on such monies. EncoreFX does not pay any of its own money into the EncoreFX Trust Account.
- Client monies held in the EncoreFX Trust Account are held on trust by EncoreFX for the benefit of clients who have paid Margin Deposits or Additional Margin Deposits to EncoreFX. In the unlikely event that EncoreFX is placed under management or put into receivership or liquidation, client monies held in the EncoreFX Trust Account will remain the property of the clients on whose behalf the funds are held unless those monies qualify for payment out of the EncoreFX Trust Account under this Section.
- Any interest earned on monies paid into the EncoreFX Trust Account is retained by EncoreFX and is not returned to clients.
- All monies held in the EncoreFX Trust Account are combined into one account; the EncoreFX Trust Account.
- Payments out of the EncoreFX Trust Account can be made only in limited circumstances, including:
 - making payments in accordance with any directions received from clients;
 - paying EncoreFX monies that it is owed and defraying proper charges (including for client OTM positions and any other circumstances outlined in the Master Terms and Conditions); and
 - making a payment that is otherwise authorised by law.

5.1.2 EncoreFX Client Funds Account

Monies paid for the execution, clearing and settlement of your Forward Exchange Contracts and any additional money that you pay to EncoreFX in connection with trading in Forward Exchange Contracts, will be paid into EncoreFX's segregated client funds account (**EncoreFX Client Funds Account**).

The EncoreFX Client Funds Account is a segregated account held in EncoreFX's name with ANZ Bank Zealand Limited. The EncoreFX Client Funds Account operates in the same manner as the EncoreFX Trust Account except that the EncoreFX Client Funds Account is not a trust account. This means that monies held in the EncoreFX Client

Funds Account will be available to pay any liability of ours, including general creditors in the unlikely event that EncoreFX is placed under management or put into receivership or liquidation.

6. ABOUT ENCOREFX

EncoreFX (NZ) Limited (FSP 461386) is the issuer of this PDS and of the derivative products described in this PDS.

EncoreFX was launched in 2016 by a team of foreign exchange professionals who share a vision for how corporate foreign exchange business should be done. The EncoreFX group was established in Canada in 2015. The company operates a branch network throughout Canada and is also incorporated in the United States and Australia. We take great pride in helping clients achieve their unique foreign exchange operational and risk management goals.

The EncoreFX Group which operates in Canada, Australia and New Zealand is built on many years of foreign exchange market experience and professional knowledge. The EncoreFX Group has helped thousands of businesses enjoy greater success through their foreign exchange operations.

EncoreFX empowers businesses to make smarter financial decisions through access to premier foreign exchange transaction and risk management solutions. We offer a full suite of FX services and hedging solutions - all tailored to each client's unique needs - giving our clients more certainty over their exchange rates.

Our approach and technical sophistication provide our clients with foreign exchange solutions typically reserved for large multi-national corporations.

Further information about EncoreFX be found at www.encorefx.co.nz or you can contact EncoreFX using the details below.

Address: EncoreFX (NZ) Ltd, Level 18, QBE Centre, 125 Queen St, Auckland, 1010
Email: encorefxnz@encorefx.com
Phone: (09) 941 4050

7. HOW TO COMPLAIN

If you have a complaint about any aspect of our services or products, please contact EncoreFX using the details below:

Address: Complaints Officer, EncoreFX (NZ) Ltd, Level 18, QBE Centre, 125 Queen St, Auckland, 1010
Email: complaintsnz@encorefx.com
Phone: 09 941 4050

We are a member of, and participate in, the Financial Services Complaints Limited (**FSCL**), Member # 6066, an independent complaints resolution organisation. If you feel your complaint has not been satisfactorily resolved, you are entitled to make a complaint directly to FSCL using the details below. All complaints to either EncoreFX or FSCL will not incur a fee for the investigation or resolution of that complaint.

Address: Financial Services Complaints Limited, PO BOX 5967, Lambton Quay, Wellington 6145
Email: complaints@fscl.org.nz
Phone: 0800 347 257

8. WHERE YOU CAN FIND MORE INFORMATION

Further information relating to EncoreFX and the derivatives EncoreFX offers is available from the offer register, including copies of our latest audited financial statements and the Master Terms and Conditions. A copy of the information on the offer register is available on request to the Registrar at www.business.govt.nz/disclose.

Copies of this PDS are available free of charge. You can download a copy of this PDS from our website at www.encorefx.co.nz or request a copy by either email encorefxnz@encorefx.co.nz or by phone (09) 940 4050.

A separate product disclosure statement is available for foreign exchange options (vanilla options and structured options). Please contact EncoreFX if you require a different product disclosure statement using the contact information contained in Section 6 of this PDS ('About EncoreFX') or you can download it from our website at www.encorefx.co.nz.

The Master Terms and Conditions are available by contacting EncoreFX using the contact information contained in Section 6 of this PDS ('About EncoreFX').

EncoreFX is committed to complying with all privacy laws and regulations. You have the right to ask us for a copy of your information. You can also correct, erase or limit our use of personal information which is incomplete,

inaccurate or out of date. Further information about EncoreFX's privacy practices can be found at www.encorefx.co.nz.

If you would like further information about the way that EncoreFX manages the handling of personal information, please contact our privacy officer at:

Address: Privacy Officer / Compliance Department, Level 18, QBE Centre, 125 Queen St, Auckland, 1010
Email: compliancenz@encorefx.com
Phone: (09) 941 4050

9. HOW TO ENTER INTO A CLIENT AGREEMENT

You can request an application form by contacting EncoreFX using the information contained in Section 6 of this PDS ('About EncoreFX').

Each Forward Exchange Contract that you enter into with us will be subject to the terms of the application form and the Master Terms and Conditions. You will be required to sign the application form and the Master Terms and Conditions before entering into a Forward Exchange Contract with us for the first time.

The Master Terms and Conditions set out the terms and conditions that are applicable to our relationship regarding to the Forward Exchange Contracts described in this PDS.

The Master Terms and Conditions are important and you should read them carefully before entering into any Forward Exchange Contracts. They cover a number of important terms including how transactions are executed, each of our respective rights and obligations, events of default and rights of termination.

In addition to signing the application form and the Master Terms and Conditions, you will also need to provide us with certain other documents which will enable us to assess the suitability of you entering into a Forward Exchange Contract with us. The other information required to be provided to us is set out in the application form and can be obtained by contacting us as outlined in Section 6 of this PDS ('About EncoreFX').

Following the completion and return of all requisite documents to us, we will conduct an assessment of your suitability to become a client of EncoreFX. Acceptance of a new client is at our sole discretion. The matters considered by us when assessing the suitability of a person to become a client of EncoreFX is set out in the Master Terms and Conditions.

Following the acceptance of an application by EncoreFX, a client may apply for a Forward Exchange Contract in accordance with the Master Terms and Conditions. Section 2.6 of this PDS ('How to enter into a Forward Exchange Contract') sets out the process for entering into a Forward Exchange Contract with us.

We recommend that you seek your own professional advice in order to fully understand the consequences of entering into a Forward Exchange Contract with us.

10. GLOSSARY

In this document, unless the context requires otherwise, the following words have the following meaning:

Additional Margin Deposit has the meaning given to it in 2.4.2 of this PDS ('Additional Margin Deposit').
At-The-Money or ATM has the meaning given to it in Section 2.4 of this PDS ('Credit requirements').
EncoreFX means EncoreFX (NZ) Limited.
EncoreFX Client Funds Account has the meaning given to it in Section 5.1.2 of this PDS ('EncoreFX Client Funds Account').
EncoreFX Trust Account has the meaning given to it in Section 5.1.1 of this PDS ('EncoreFX Trust Account').
Exchange Rate means the rate at which one currency is converted into another currency.
Forward Exchange Contract has the meaning given to it in Section 1.4 of this PDS ('Which derivatives are covered by this PDS?').
Forward Exchange Rate means the agreed fixed exchange rate under a Forward Exchange Contract as defined in Section 2.2 of this PDS ('How Forward Exchange Contracts work').

Forward Points has the meaning given to it in Section 2.3.2 of this PDS ('Forward Points').
FSCL means Financial Services Complaints Limited.
Historical Rate Rollover Extension or HRRE has the meaning given to it in Section 2.9.1 of this PDS ('Historical Rate Rollover Extensions').
In-The-Money or ITM has the meaning given to it in Section 2.4 of this PDS ('Credit requirements').
Margin Deposit has the meaning given to it in Section 2.4 of this PDS ('Credit requirements').
Master Terms and Conditions means the terms and conditions, including all documents required thereby, or included therein, that govern the relationship between EncoreFX and the counterparty entering into foreign exchange transactions with EncoreFX.
Notional Amount means the amount of underlying currency to be bought or sold.
NZD means New Zealand Dollars.
Over-The-Counter or OTC has the meaning given to it in Section 2.2 of this PDS ('How Forward Exchange Contracts work').
Out-of-The-Money or OTM has the meaning given to it in Section 2.4 of this PDS ('Credit requirements').
PDS means this Product Disclosure Statement.
Quote Currency means the second currency quoted in a currency pair.
Retail Mark-Up has the meaning given to it in Section 2.3.3 of this PDS ('Retail Mark-Up').
Settlement Date means the date at which the Notional Amount is delivered.
Spot Rate means the exchange rate applied to transactions settled within two business days.
Term means the length of time of a Forward Exchange Contract, from the date it was entered to the Settlement Date.
USD means United States Dollars.