Currencies Direct

Financial Markets

Product disclosure statement

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Incorporated in England No. 05289789 Currencies Direct Financial Markets Limited, One Canada Square, Canary Wharf, London, E14 5AA UK

Currencies Direct Financial Markets Ltd is authorised and regulated by the Financial Conduct Authority for the conduct of designated investment business. FRN: 495699.

IMPORTANT SUMMARY

Currencies Direct Financial Markets Ltd (CDFM)[1] has produced this product disclosure statement (PDS) in pursuance of its regulatory obligations. It is designed to provide an overview of our foreign exchange Option products (Options), and contains important information regarding their risks, costs, and benefits. Its purpose is to help you decide whether these Options are appropriate for you and your needs. You may also use this PDS to compare our Options against other foreign exchange products you may be considering.

Options are versatile derivative financial instruments that may provide appropriate hedging tools if you have an exposure to exchange rate risk by way of your commercial activities. However, Options are not appropriate for everyone. They can be complex and can carry a high degree of risk to capital. Before proceeding with any transaction involving Options you should take all reasonable steps to understand the extent of your exposure to risk, as well as the nature of the contract you are entering into. Do not expose yourself to unacceptable risk.

This PDS is general in nature and does not take into account your specific needs, objectives or financial circumstances. Any strategy or scenario it references, including examples using price data or market analysis, are strictly for illustrative purposes only. It is important to note that exchange rates, prices, values, and parameters, applicable to the Options described herein are determined on a transaction-by-transaction basis.

This PDS is not provided as an endorsement, recommendation, advice or solicitation to buy or sell Options. You should also be aware that the information it contains might not necessarily provide a comprehensive description of the Options it outlines. It does not and cannot disclose all factors and risks related to foreign exchange or derivative transacting. We have provided a glossary of key terminology to aid your understanding. Seek independent advice where necessary.

For the purpose of this PDS, where CDFM enters into any Option on a client's behalf, or where CDFM obtains any Option on a client's behalf, it is regarded as issuing the Option to the client.

The information contained herein is subject to change. To the extent that any change does not materially affect you, our service, or products, we may update it by posting a revised version on our website (www.currenciesdirect.com/options). We may issue a supplementary PDS containing any new information. You can request a hard copy by calling us on +44 (0)20 7847 9262 or emailing options@currenciesdirect.com.

1. CDFM is authorised and regulated by the Financial Conduct Authority (FCA) for the conduct of designated investment business. FRN: 495699. It is a subsidiary company of Currencies Direct Limited and part of the Azibo Group of companies.

UNDERSTANDING KEY CONCEPTS

Before transacting in Options you should take reasonable steps to understand certain key concepts.

These include:

- Your exposure to exchange rate risk
- An appropriate hedging/risk management strategy for your needs
- An understanding of all the tools available to assist you in mitigating your exposure to exchange rate risk
- Option dynamics
- Premium and margin requirements
- Rights of exercise and subsequent settlement requirements
- Key terms, risks and benefits contained within this PDS as well as your own independent research

THE PURPOSE OF FOREIGN EXCHANGE OPTIONS

Options are versatile financial products commonly used by commercial entities to reduce (risk reduction) exposure to Exchange rate risk (hedge). Such risk often arises as the result of being counterparty to a commercial transaction that is due to settle on a future date.

The use of Options as part of a comprehensive foreign exchange risk management strategy can provide the protection, flexibility, and opportunity required to fulfil unique risk and reward and/or cost and benefit objectives.

Options may also provide effective hedging solutions for commercial entities:

- Requiring foreign currency to purchase overseas inputs to their production
- Exchanging income earned overseas
- Seeking protection against uncertain or contingent liabilities
- Wanting defined exchange rate parameters to assist with budgeting and treasury functions
- Protecting against unfavourable currency fluctuation
- In need of flexibility to capitalise on favourable exchange rate movement in the future
- Managing credit (margin) lines
- Reducing or eliminating any premium cost (structured Options only)

This PDS only makes reference to foreign exchange Options being used for commercial hedging purposes as prescribed within this section. The above list may not be exhaustive. Options do involve risks, which are discussed later in this PDS.

VANILLA FOREIGN EXCHANGE OPTIONS

A vanilla foreign exchange Option (Option) is the simplest form of Option. It is an agreement between two parties (the buyer and the seller) to exchange an amount of one currency for another (underlying), at a pre-agreed exchange rate (strike rate), on or before a specified date in the future (expiry). Additionally, it provides full protection against adverse market movement at the protected strike rate, while providing opportunity to capture favourable market movement.

You would adopt the position of the buyer when you purchase an Option from us. An Option that gives you the right to buy - and therefore protection against a depreciation, while providing opportunity to capture an appreciation, in the underlying exchange rate - is known as a 'call' Option; whereas an Option that gives you the right to sell – and therefore protection against an appreciation, while providing opportunity to capture a depreciation in the underlying exchange rate - is known as a 'put' Option.

You may purchase our Options in either 'American' or 'European' style. American-style Options can be exercised on any tradable date up to and on expiry. European-style Options can only be exercised on a fixed expiry date and not before.

The buyer secures an Option from the seller by the payment of a non-refundable fee (premium). The price of an Option is known as the premium, which usually comprises of both intrinsic and time value.

Option pricing and valuation is discussed later in this PDS.

Rationale for transacting a vanilla Option

You may consider purchasing an Option if you had an expectation, or your forecasts suggest, that the underlying exchange rate could be more favourable in the future. An Option would provide flexibility to realise an improvement in the exchange rate, without exposing you to unfavourable market volatility and hence unacceptable exchange rate risk. You would need to take a view on the market, but would be fully protected against adverse exchange rate fluctuation at the pre-agreed strike rate. You would not be obliged to exercise your Option in any instance.

How to adopt a vanilla Option

To adopt an Option you would need to confirm the strike rate, expiry date, notional amount and currency pair you wish to transact. We would then use these details to obtain a premium(s) in accordance with your instructions. If you subsequently agree to the premium, as well as the particular terms of the Option under consideration, your purchase is completed by us through the market. This creates a legally binding Option contract between you (the buyer) and CDFM (the seller) in accordance with our terms and conditions.

Can a vanilla Option be extended or cancelled?

An Option is purchased with a specific expiry date; its term cannot be amended - only cancelled.

An Option can be cancelled by mutual agreement – between you and us – on any tradable date up to and on expiry. When acting on a cancellation instruction we may take into consideration current market rates that relate to an offsetting transaction and/or consider the cost of reversing your original Option contract. This effectively cancels out the open Option position. We would use the same methodology for determining the original premium to obtain a corresponding premium at the time of being given the cancellation instruction, add any applicable costs, and provide a quote for your consideration. Prevailing market conditions will determine whether the Option is worth more, or less, as defined by the corresponding premiums, on cancellation.

Important information related to this matter is provided later in this PDS under 'Key risks'.

When to consider exercising a vanilla Option

You should give most consideration to the prevailing spot rate, the strike rate, and the premium paid or to be paid, when deciding whether or not to exercise an Option you have purchased from us. Ultimately, you would consider exercising your Option if it was financially advantageous for you to do so at the time an exercise decision can be made[2].

There are two possible outcomes with a vanilla Option:

- First, should the prevailing spot rate trade more favourably than the protected strike rate, you can exchange your full requirement at the prevailing spot rate.
- Second, should the prevailing spot rate trade less favourably than the protected strike rate, you can exchange your full requirement at the protected strike rate. You would not be obliged to exercise your right in any instance.

You can adopt a vanilla Option whether you are buying or selling a particular currency, or whether you are hedging against, or positioning to capture, an appreciation or depreciation in the underlying exchange rate.

How a vanilla Option is exercised

You must verbally communicate an exercise instruction before a specific expiry time (cut) on the nominated expiry date, otherwise your Option may lapse unexercised. This instruction must be made to CDFM directly. Whether an exercise instruction can be taken at any other time will depend on the style of the Option under consideration[2]. Were you to invoke a right of exercise, you would become contractually obliged to settle as per the agreed terms of the Option contract and in accordance with our terms and conditions.

How a vanilla Option is settled on exercise

An Option usually transforms into a standard spot contract when exercised: the strike rate representing the contracted spot rate. Settlement usually takes place two business days after the exercise date. This means that you will make a physical delivery of one currency to us in accordance with our instructions, and we will make a physical delivery of the corresponding currency to you in accordance with your instructions. You must ensure sufficient cleared funds are available to settle in accordance with our terms and conditions.

It is important to note that the settlement of the premium is mandatory and binding in all instances (irrespective of whether the respective Option Contract is exercised, abandoned or cancelled). Should you exercise a Vanilla Option for which the premium payment was deferred to the exercise date, it would be necessary for you to settle both the notional amount, as well as the premium, on the settlement date.

Alternative outcomes if an Option is not used

If you decided not to hedge your exposure using an Option, your future transaction value would depend on the prevailing spot rate at the time you eventually transact, or any forward rate you secured instead. This could be favourable or unfavourable.

It is important to note that should you not exercise a Vanilla Option for which the premium was deferred to exercise date, it would still be necessary for you to settle the premium owed on the settlement date.

2. An American-style Option can be exercised on any tradable date up to and on expiry, while a European-style Option can only be exercised on its expiry date and not before.

The advantages of vanilla Options

Vanilla Options have several advantages:

- ✓ Full protection against unfavourable market movement
- ✓ Capture favourable market movement
- ✓ No obligation to exercise
- ✓ Tailored to your requirements
- ✓ Delay making a decision to exchange until expiry
- ✓ No margin funding required
- ✓ Straightforward settlement on exercise
- ✓ Transparent terms and lifecycle events

The risks of vanilla Options

The following is provided as a summary. Further important information on this matter is provided later in this PDS under 'Key risks'.

- × The magnitude of favourable market movement may not be enough to offset the premium paid
- × Exercise timing may be restricted by the Option style[2]
- × A premium is non-refundable and is not applied to reduce the settlement amount on exercise
- × There may be a cost to cancel an Option

Vanilla Options Provided by CDFM:

- Long call
- Long put

FX derivative products can carry a high level of risk and may not be appropriate and/or suitable for everyone. Please take all reasonable steps to understand certain key concepts before transacting in FX derivative products. Currencies Direct Financial Markets Limited is authorised and regulated by the Financial Conduct Authority for the conduct of designated investment business. FRN. 495699.

PRODUCT GUIDE – LONG CALL

A long call provides the right, but not the obligation, to buy a defined amount of one currency for another at an agreed strike rate. Additionally, it provides the ability to capture favourable market movement, while protecting you against unfavourable market movement at the protected dtrike rate.

Example:

You are required to transfer Sterling into US dollars in 180 days. Your treasury policy requires that you fix a rate to reduce your exposure to adverse market movement, but you feel that Sterling could appreciate against the dollar and would like the opportunity to capture favourable market movement should your forecasts be correct.

You are willing to pay the agreed premium and accept the following terms to adopt a **European-style long call**[3]:

This example:
*Max cost: £625,000 + premium paid
*Min cost: $1 million purchased at the prevailing spot rate + premium paid

- **Protected strike rate:** 1.60*
- **Expiry date:** 180 days
- **Notional amount:** $1 million

Possible outcomes:

Opportunity[4]: The Sterling/US dollar spot rate trades at or above 1.60

- You could exchange Sterling into $1 million at the spot rate

Protection[5]: The Sterling/US dollar spot rate trades below 1.60

- You have the right to exchange Sterling into $1 million at 1.60

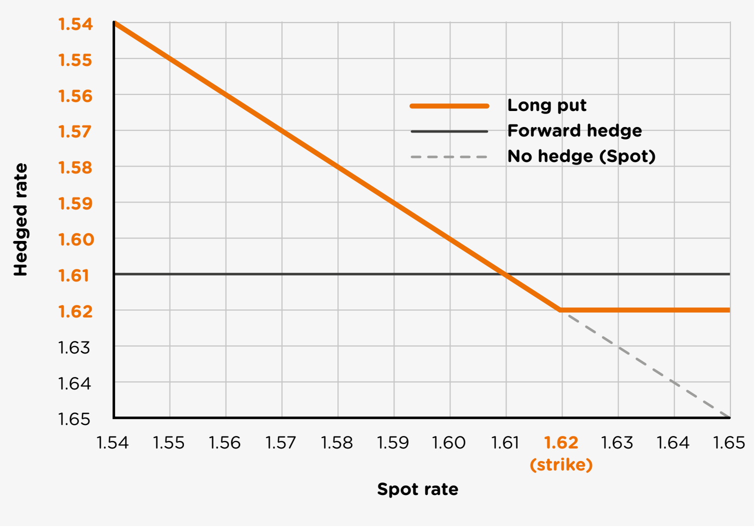
3. An American-style long call can be exercised on any tradable date up to and on expiry, while a European-style long call can only be exercised on its expiry date and not before.

4. No exercise

5. Exercise

PRODUCT GUIDE – LONG PUT

A long put provides the right, but not the obligation, to sell a defined amount of one currency for another at an agreed strike rate. Additionally, it provides the ability to capture favourable market movement, while protecting you against unfavourable market movement at the protected strike rate.



Example:

You are due to receive US dollars in 180 days and will be converting these funds into Sterling. Your treasury policy requires that you fix a rate to reduce your exposure to adverse market movement, but you also feel that Sterling could depreciate against the dollar and would like the opportunity to capture favourable market movement should your forecasts be correct.

You accept the following terms to adopt an **American-style long put**[6]:

This example:
*Max receivable: £617,284 – premium paid
*Min receivable: $1 million sold at the prevailing spot rate – premium paid

- **Protected strike rate:** 1.62*
- **Expiry date:** 180 days
- **Notional amount:** $1 million

Possible outcomes:

Opportunity[7]: The Sterling/US dollar spot rate trades at or below 1.62

- You could exchange $1 million into Sterling at the spot rate

Protection[8]: The Sterling/US dollar spot rate trades above 1.62

- You have the right to exchange $1 million into Sterling at 1.62

6. An American-style long put can be exercised on any tradable date up to and on expiry, while a European-style long put can only be exercised on its expiry date and not before.

7. No exercise

8. Exercise

STRUCTURED (ZERO COST) FOREIGN EXCHANGE OPTIONS

A structured Option (structure) has a well-defined objective in terms of risk and return and/or cost and benefit, which can be defined by reference to a specific underlying asset, such as a currency pair. The term 'structured Option' defines a group of foreign exchange derivative products that have been developed as alternative methods of hedging exchange rate risk to forward contracts and vanilla Options.

A structure itself is an agreement between two parties (the buyer and the seller) to exchange an amount of one currency into another (underlying) in accordance with terms specific to that structure (parameters). You would take the position of the buyer when you adopt a structure with us.

CDFM's structured Options

Our structures are constructed with two primary motivations in mind. First, to remove the requirement of an upfront premium. Secondly, to transform the inflexible nature of fixed exchange rates. These products are commonly referred to as 'zero cost' or 'zero premium' Options.

Our structures provide protection against unfavourable market movement at an agreed strike rate and in this respect are akin to forward contracts. However, in contrast to forward contracts which utilise fixed exchange rates with no flexibility to capture favourable market movement, our structures are designed to provide opportunity to capture some degree of favourable market movement.

How do zero cost Structured Options work?

'Zero cost' is achieved by the simultaneous buy or sale of two or more call and/or put Options positions, which are combined to create a 'structure'. These Positions can include variants such as 'barriers', 'windows' or 'triggers', which create certain rights or obligations if particular conditions are met. The premium paid for the purchase of one Option is offset by a premium received from selling a second Option contained within the structure – hence 'zero cost'[9].

How to adopt a structured Option

To adopt a structure you would need to confirm the expiry date, notional amount, and currency pair you wish to transact. We would then use these details to obtain a structure with parameters that are achievable at zero premium and/or in accordance with your instructions. If you agree to the available terms, and the particular parameters of the structure under consideration, your purchase is completed by us through the market. This creates a legally binding Option contract between you (the buyer) and CDFM (the seller) in accordance with our terms and conditions.

9. The description of each position ('leg') is provided for information purposes only. Individual positions cannot be amended, cancelled or transacted independently of the structure in any instance. A structure is transacted in its entirety and not its constituent parts in all instances.

Option deposit

The value of a structure may change as the underlying exchange rate fluctuates through the term of the Option contract. To manage this exposure we reserve the right to request margin funding be held as security against any Option contract in accordance with our terms and conditions.

Initial margin: This will be based on a percentage of the market value of your Option contract at inception and is usually required within two business days of the trade date. It may be possible to utilise any credit line made available to you by CDFM.

Margin call: This is as the result of any change in the price of an Option contract during its term. We reserve the right to ensure a certain percentage of the prevailing market value of your Option contract to be held as margin in accordance with our terms and conditions. It may be possible to utilise any credit line made available to you by CDFM.

Can a structured Option be extended or cancelled early?

A structure is purchased with a specific expiry date; its term cannot be amended – only cancelled.

A structure can be cancelled by mutual agreement – between you and us – on any tradable date up to and on expiry. When acting on a cancellation instruction we may take into consideration current market rates that relate to an offsetting transaction, and/or consider the cost of reversing the Option contract. This effectively cancels out the open structure position. We would use the same methodology for determining the original premium(s) to obtain a corresponding premium(s) at the time of being given a cancellation instruction, add any applicable costs, and provide a quote for your consideration. Prevailing market conditions will determine whether the structure is worth more, or less, as defined by the corresponding premium(s), on cancellation.

Important information related to this matter is provided later in this PDS under 'Key risks'.

When to consider exercising (or when exercised) a Structured Option

It is important to understand the unique terms of any structure you adopt; you may be required to adopt both the position of an Option buyer (i.e. buying rights of exercise from CDFM) and/or that of an Option seller (i.e. selling rights of exercise to CDFM). The mechanism for determining the final exchange rate, and in some instances the notional amount, parameters, or outcome, will depend on the structure you adopt.

When considering your rights of exercise you should give most consideration to the prevailing spot rate and the strike rate. Ultimately, you would consider exercising your right to exchange at the strike rate if it was financially advantageous for you to do so at the time an exercise decision can be made.

You may decide to exercise your structure if the strike rate is more favourable than the prevailing spot rate (prevailing spot rate is less favourable). In this instance, you could exercise your right to exchange your currency at the strike rate and benefit from protection against the unfavourable market movement.

You may decide not to exercise your structure if the prevailing spot rate is more favourable that the strike rate (strike rate is less favourable). In this instance, you could exchange your currency at the prevailing spot rate and capture the favourable market movement.

By the nature of their construction, structures may oblige you to transact, but only if certain conditions are met. These conditions are made clear, and will need to be accepted by you, before adopting any structure.

How a structured Option is exercised

You must verbally communicate an exercise instruction before a specific expiry time (cut) on the nominated expiry date, otherwise your structure may lapse unexercised. This instruction must be made to CDFM directly. Where a right of exercise is invoked – either by you, or against you - you would be contractually obliged to settle as per the agreed terms of the Option contract and in accordance with our terms and conditions.

How a structured Option is settled on exercise

A structure usually transforms in to a standard spot contract when exercised: the respective strike/barrier rate representing the contracted spot rate. Settlement usually takes place two business days after the exercise date. This means that you will make a physical delivery of one currency to us in accordance with our instructions, and we will make a physical delivery of the corresponding currency to you in accordance with your instructions. You must ensure sufficient cleared funds are available to settle in accordance with our terms and conditions.

In some instances, such as when a trigger rate is activated before expiry, the position may exercise into a forward contract with the respective strike/barrier rate representing the contracted forward rate and are processed in accordance with our terms and conditions.

Alternative outcomes if a structured Option is not used

If you decided not to Hedge your exposure using a Structure, your future transaction value would depend on the prevailing Spot rate at the time you eventually transact, or any Forward rate you secured instead. This could be favourable or unfavourable.

The advantages of structured Options

The following is provided as a summary only: advantages and risks can vary between Structures.

Structured Options have several advantages:

- ✓ Full protection against unfavourable market movement
- ✓ Capture favourable market movement
- ✓ Usually available at zero cost
- ✓ Tailored to your requirements
- ✓ Transparent exchange rates and lifecycle events to assist with budgeting and treasury functions
- ✓ Straightforward settlement on exercise/expiry
- ✓ Can form part of a comprehensive foreign exchange risk management strategy
- ✓ A number of structured Options are available with different Parameters and cost and benefit profiles

The risks of structured Options

The following is provided as a summary only. Further information important information related to this matter is provided in the proceeding product descriptions and later in this PDS under 'Key Risks'.

- × You may be obliged to transact
- × Your gains may be limited
- × You cannot exercise until the agreed expiry date and you cannot 'draw-down'
- × The protected strike rate may need to be slightly less preferable than the forward rate
- × There may be a cost to cancel a structured Option
- × Options are not subject to cooling off periods

CDFM provides the following structured Options:

- Forward extra European
- Forward extra
- Participating forward
- Range forward
- Forward extra window

PRODUCT GUIDE – FORWARD EXTRA EUROPEAN

A zero cost structured Option that provides full protection against adverse market movement at an agreed strike rate, while providing the opportunity to capture favourable market movement up to a set trigger rate.

How a forward extra European is constructed

A forward extra European combines a European-style Option with a European-style barrier, which operates as a reverse knock-in feature, to create a structured Option with specific parameters [10]. In order to establish a forward extra European at zero cost, the protected strike rate is usually less favourable, and the trigger rate more favourable, than the prevailing forward rate at inception.

There are three possible outcomes with a forward extra European, all of which are applicable on expiry:

- First, should the prevailing spot trade between the protected the strike rate and the trigger rate, you would be able to exchange your full requirement at the prevailing spot rate.
- Second, should the prevailing spot rate trade less favourably than the protected strike rate, you can exchange your full requirement at the protected strike rate.
- Finally, should the prevailing market rate trade at or exceed the trigger rate, you would be obligated to exchange your full requirement at the protected strike rate.

You can adopt a forward extra European whether you are buying or selling a particular currency, or whether you are hedging against, or positioning to capture, an appreciation or depreciation in the underlying exchange rate.

Rationale for transacting a forward extra European

You may consider adopting a forward extra European if you had an expectation, or your forecasts suggest, that the underlying exchange rate could be more favourable in the future, but may not reach or exceed the trigger rate. This structure would provide flexibility to realise an improvement in the spot rate, without being exposed to unfavourable market movement and hence unacceptable exchange rate risk. You would need to take a view on the market, but would be fully protected against adverse market movement at the agreed strike rate. You would not be obliged to transact unless the prevailing exchange rate is trading at or above the trigger rate on expiry.

Specific potential benefits of a forward extra European:

- ✓ Full protection against adverse market movement
- ✓ Capture favourable market movement
- ✓ Usually establishes a wide price range

Specific risks of a forward extra European:

- × You may be obliged to transact
- × A trigger rate may limit your gains
- × You cannot exercise early or 'draw-down'

10. The description of each position (leg) is provided for information purposes only. Individual positions cannot be amended, cancelled or transacted independently of the structure in any instance. A structure is transacted in its entirety and not its constituent parts in all instances.

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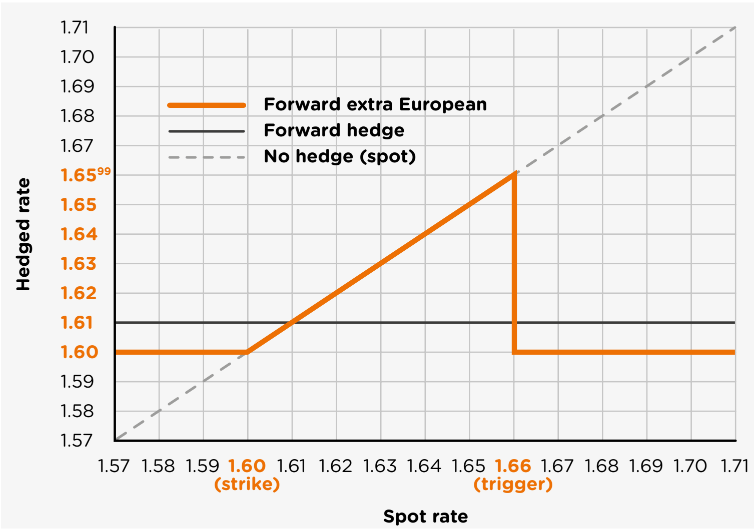
FORWARD EXTRA EUROPEAN

Example - Importer

You are required to transfer Sterling into US dollars in 180 days. Your treasury policy requires that you fix a rate to reduce your exposure to adverse market movement, but you feel that Sterling could appreciate against the dollar and would like the opportunity to capture favourable market movement should your forecasts be correct.

You accept the following terms to adopt a forward extra European at zero cost[11]:



This example:
*Max cost: £625,000
**Min cost: £602,446

- **Protected strike rate:** 1.60*
- **Expiry date:** 180 days
- **Notional amount:** $1 million
- **Trigger rate:** 1.66
- **Best-case rate:** 1.6599**

Possible outcomes on expiry:

Opportunity[12]: The Sterling/US dollar spot rate trades between 1.60 and 1.6599
- You could exchange Sterling into $1 million at the spot rate

Protection[13]: The Sterling/US dollar spot rate trades at or below 1.60
- You have the right to exchange Sterling into $1 million at 1.60

Trigger[14]: The Sterling/US dollar market rate trades at or above 1.66
- You are obliged to exchange Sterling into $1 million at 1.60

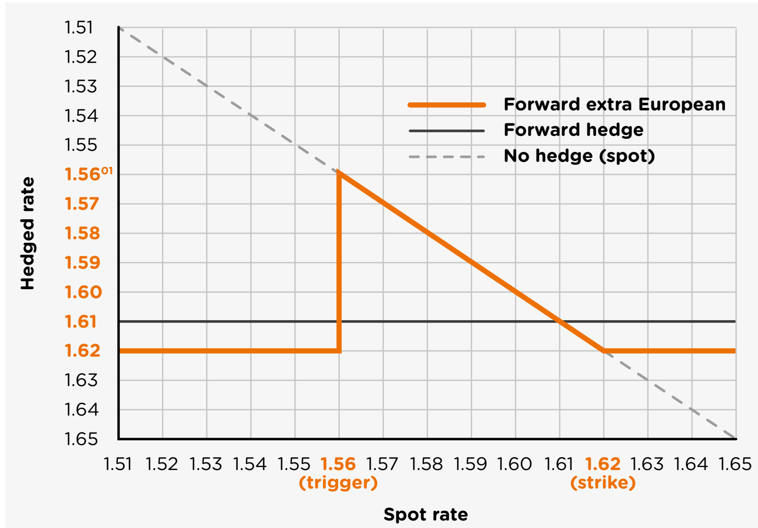
11. An Option deposit may be required
12. No exercise
13. Exercise: your right
14. Exercise: obligation

FORWARD EXTRA EUROPEAN

Example - Exporter:

You are due to receive US dollars in 180 days and will be converting these funds into Sterling. Your treasury policy requires that you fix a rate to reduce your exposure to adverse market movement, but you also feel that Sterling could depreciate against the dollar and would like the opportunity to capture favourable market movement should your forecasts be correct.

You accept the following terms to adopt a forward extra European at zero cost[15]:



This example:
* Min receivable: £617,284
** Max receivable: £640,985

- **Protected strike rate:** 1.62*
- **Expiry date:** 180 days
- **Notional amount:** $1 million
- **Trigger rate:** 1.56
- **Best-case rate:** 1.5601**

Possible outcomes on expiry:

Opportunity[16]: The Sterling/US dollar spot rate trades between 1.5601 and 1.62
- You could exchange $1 million into Sterling at the spot rate

Protection[17]: The Sterling/US dollar spot rate trades above 1.62
- You have the right to exchange $1 million into Sterling at 1.62

Trigger[18]: The Sterling/US dollar market rate trades at or below 1.56
- You are obliged to exchange $1 million into Sterling at 1.62

15. An Option deposit may be required
16. No exercise
17. Exercise: your right
18. Exercise: obligation

PRODUCT GUIDE – FORWARD EXTRA

A zero cost structured Option that provides full protection against adverse market movement at an agreed strike rate, while providing opportunity to capture favourable market movement up to a set trigger rate.

How a forward extra is constructed

A forward extra combines a European-style Option with an American-style barrier, with a reverse knock-in feature, to create a structured Option with specific parameters[19]. In order to establish a forward extra at zero cost, the protected strike rate is usually less favourable, and the trigger rate more favourable, than the prevailing forward rate at inception.

There are three possible outcomes with a forward extra

- First, should the prevailing spot rate trade between the protected the strike rate and the trigger rate on expiry - and the trigger rate has not been reached or exceeded at any time on or before expiry - you would be able to exchange your full requirement at the prevailing spot rate.
- Second, should the prevailing spot rate trade less favourably than the protected strike rate on expiry - and the trigger rate has not been reached or exceeded at any time on or before expiry - you can exchange your full requirement at the protected strike rate.
- Finally, should the prevailing market rate trade at or exceed the trigger rate at any time on or before expiry, you would be obligated to exchange your full requirement at the protected strike rate.

You can adopt a forward extra whether you are buying or selling a particular currency, or whether you are hedging against, or positioning to capture, an appreciation or depreciation in the underlying exchange rate.

Rationale for transacting a forward extra

You may consider adopting a forward extra if you had an expectation, or your forecasts suggest, that the underlying exchange rate could be more favourable in the future, but may not reach or exceed the trigger rate. This structure would provide flexibility to realise an improvement in the spot rate, without being exposed to unfavourable market movement and hence unacceptable exchange rate risk. You would need to take a view on the market, but would be fully protected against adverse market movement at the agreed strike rate. You would not be obliged to transact unless the prevailing exchange rate trades at or above the trigger rate at any time on or before expiry.

Specific potential benefits of a forward extra:

- ✓ Full protection against adverse market movement
- ✓ Capture favourable market movement
- ✓ Often establishes a wide price range

Specific risks of a forward extra:

- × You may be obliged to transact
- × A trigger rate may limit your gains
- × You cannot exercise early or 'draw-down'

19. The description of each position (leg) is provided for information purposes only. Individual positions cannot be amended, cancelled or transacted independently of the structure in any instance. A structure is transacted in its entirety and not its constituent parts in all instances.

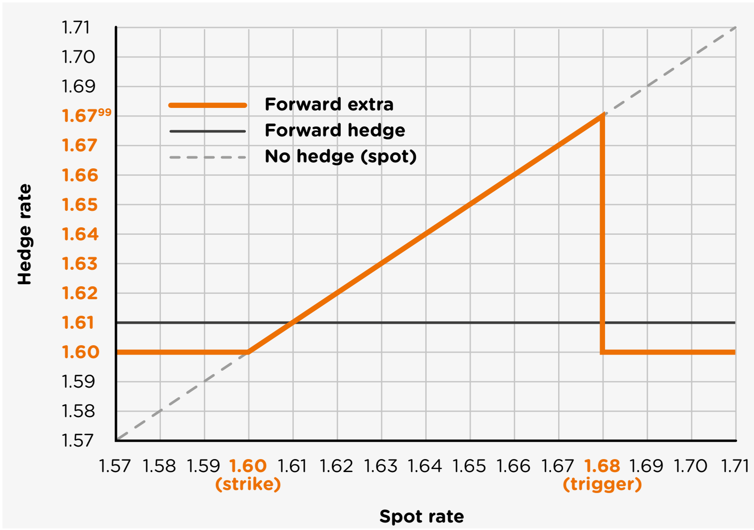
FORWARD EXTRA

Example - Importer

You are required to transfer Sterling into US dollars in 180 days. Your treasury policy requires that you fix a rate to reduce your exposure to adverse market movement, but you feel that Sterling could appreciate against the dollar and would like the opportunity to capture favourable market movement should your forecasts be correct.

You accept the following terms to adopt a forward extra at zero cost[20]:

- **Protected strike rate:** 1.60*
- **Expiry date:** 180 days
- **Notional amount:** $1 million
- **Trigger rate:** 1.68
- **Best-case rate:** 1.6799**



This example:
*Max cost: £625,000
**Min cost: £595,274

Possible outcomes on expiry:

Opportunity[21]: The Sterling/US dollar spot rate trades between 1.60 and 1.6799

- You could exchange Sterling into $1 million at the spot rate

Protection[22]: The Sterling/US dollar spot rate trades below 1.60

- You have the right to exchange Sterling into $1 million at 1.60

Trigger[23]: The Sterling/US dollar market rate trades at or above 1.68 on or before expiry

- You are obliged to exchange Sterling into $1 million at 1.60

20. An Option deposit may be required
21. No exercise
22. Exercise: your right
23. Exercise: obligation

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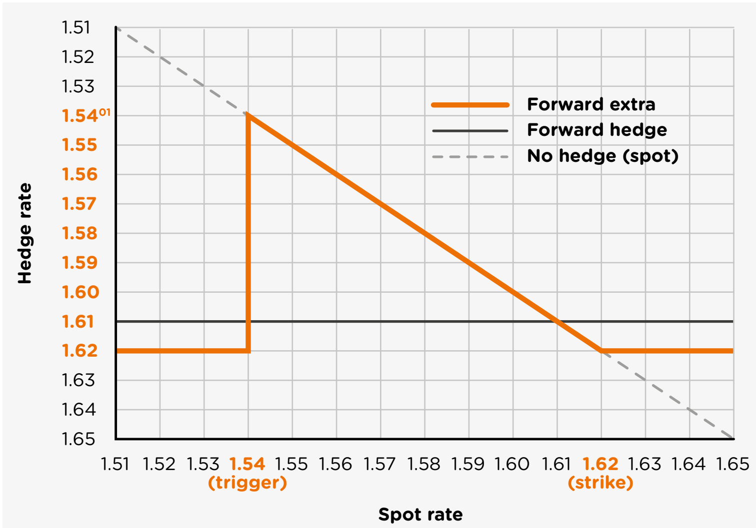
FORWARD EXTRA

Example - Exporter:

You are due to receive US dollars in 180 days and will be converting these funds into Sterling. Your treasury policy requires that you fix a rate to reduce your exposure to adverse market movement, but you also feel that Sterling could depreciate against the dollar and would like the opportunity to capture favourable market movement should your forecasts be correct.

You accept the following terms to adopt a forward extra at zero cost[24]:



This example:
*Min receivable: £617,284
**Max receivable: £649,308

- **Protected strike rate:** 1.62*
- **Expiry date:** 180 days
- **Notional amount:** $1 million
- **Trigger rate:** 1.54
- **Best-case rate:** 1.5401**

Possible outcomes on expiry:

Opportunity[25]: The Sterling/US dollar spot rate trades between 1.5401 and 1.62

- You could exchange $1 million into Sterling at the spot rate

Protection[26]: The Sterling/US dollar spot rate trades above 1.62

- You have the right to exchange $1 million into Sterling at 1.62

Trigger[27]: The Sterling/US dollar market rate trades at or below 1.54 on or before expiry

- You are obliged to exchange $1 million into Sterling at 1.62

24. An Option deposit may be required
25. No exercise
26. Exercise: your right
27. Exercise: obligation

PRODUCT GUIDE – PARTICIPATING FORWARD

A zero cost structured Option that provides full protection against adverse market movement at an agreed strike rate, while providing opportunity to capture a certain degree of participation in favourable market movement.

How a participating forward is constructed:

A participating Forward combines corresponding European-style long and short Option positions, often with the same strike rate, but different notional amounts, to create a structured Option with specific parameters[37]. In order to establish a participating forward at zero cost, the protected strike rate is usually less favourable than the prevailing forward rate at inception.

There are two possible outcomes with a participating forward, both of which are applicable on expiry.

- First, should the prevailing market rate trade at or more preferably than the protected strike rate, you would be obligated to trade a portion of your requirement – say 50% – at the protected strike rate. You can exchange the remainder of your requirement – 50% in this example - at the prevailing spot rate.
- Second, should the prevailing spot rate trade less favourably than the protected strike rate, you can exchange your full requirement at the protected strike rate.

You can adopt a participating forward whether you are buying or selling a particular currency, or whether you are hedging against, or positioning to capture, an appreciation or depreciation in the underlying exchange rate.

Rationale for transacting a participating forward

It make help to consider a participating forward as a cost-averaging structure: the final hedged rate being an average of the notional amount traded at the protected strike rate and the notional amount traded at the prevailing spot rate[38].

You may consider adopting a participating forward if you had an expectation, or your forecasts suggest, that the underlying exchange rate could be more favourable in the future This structure would provide flexibility to realise an improvement in the spot rate, without being exposed to unfavourable market movement and hence unacceptable exchange rate risk. You would need to take a view on the market, but would be fully protected against adverse market movement at the agreed strike rate. You would not be obliged to transact unless the prevailing exchange rate is the same as, or more preferable than, the protected strike rate on expiry.

Specific potential benefits of a participating forward:

- ✓ Full protection against adverse market movement
- ✓ Capture favourable market movement
- ✓ Less Margin funding may be required
- ✓ A participation feature provides opportunity to capture a preferable average rate

Specific risks of a participating forward:

- × You may be obliged to transact
- × A partial participation feature may limit your gains
- × You cannot exercise early or 'draw down'

37. The description of each position (leg) is provided for information purposes only. Individual positions cannot be amended, cancelled or transacted independently of the structure in any instance. A structure is transacted in its entirety and not its constituent parts in all instances.
38. An average of the non-participation rate at the protected strike rate and the participation rate at the captured spot rate.

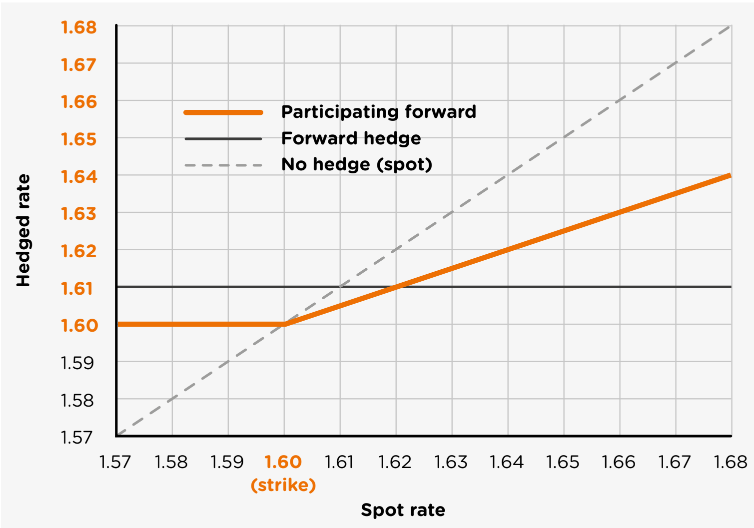
PARTICIPATING FORWARD

Example - Importer:

You are required to transfer Sterling into US dollars in 180 days. Your treasury policy requires that you fix a rate to reduce your exposure to adverse market movement, but you feel that Sterling could appreciate against the dollar and would like the opportunity to capture favourable market movement should your forecasts be correct.

You accept the following terms to adopt a participating forward at zero cost[39]:

- **Protected strike rate:** 1.60*
- **Expiry date:** 180 days
- **Notional amount:** $1 million
- **Participation rate:** 50%**
- **Non-participation rate:** 50%**



This example:
*Max cost: £625,000
**Min cost: £312,500 + $500,000 purchased at spot on expiry

Possible outcomes on expiry:

Opportunity[40]: The Sterling/US dollar market rate trades at or above 1.60

- You could exchange Sterling into $500,000 (50%) at the spot rate
- You are obliged to exchange Sterling into $500,000 (50%) at 1.60

Protection[41]: The Sterling/US dollar spot rate trades below 1.60

- You have the right to exchange Sterling into $1 million (100%) at 1.60

39. An Option deposit may be required
40. Exercise: non-participating rate
41. Exercise: your right

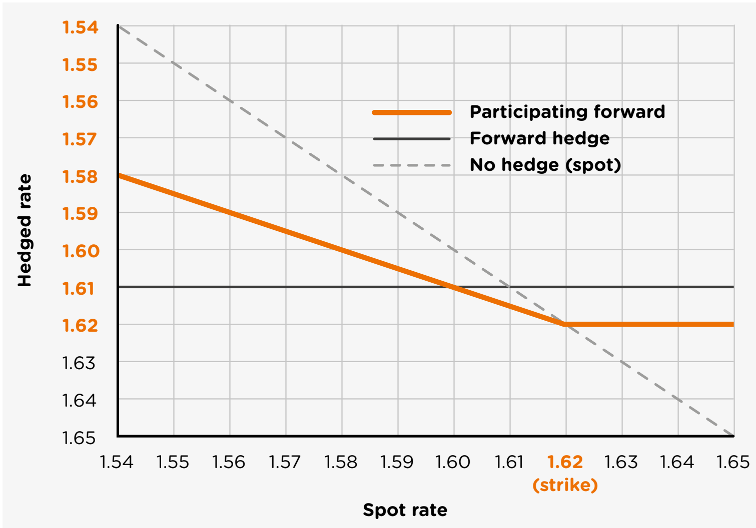
PARTICIPATING FORWARD

Example – Exporter

You are due to receive US dollars in 180 days and will be converting these funds to Sterling. Your treasury policy requires that you fix a rate to reduce your exposure to adverse market movement, but you also feel that Sterling could depreciate against the dollar and would like the opportunity to capture favourable market movement should your forecasts be correct.

You accept the following terms to adopt a participating forward at zero cost[42]:

- **Protected strike rate:** 1.62*
- **Expiry date:** 180 days
- **Notional amount:** $1 million
- **Participation rate:** 50%**
- **Non-participation rate:** 50%**



This example:
*Min receivable: £617,284
**Max receivable: £308,642 + $500,000 sold at spot on expiry

Possible Outcomes on Expiry:

Opportunity[43]: The Sterling/US dollar market rate trades at or below 1.62

- You could exchange $500,000 (50%) into Sterling at the spot rate
- You are obliged to exchange $500,000 (50%) into Sterling at 1.62

Protection[44]: The Sterling/US dollar spot rate trades above 1.62

- You have the right to exchange $1 million (100%) into Sterling at 1.62

42. An Option deposit may be required
43. Exercise: non-participating rate
44. Exercise: your right

PRODUCT GUIDE – RANGE FORWARD

A zero cost structured Option that places an upper 'cap' and a lower 'floor' on a future exchange rate. It provides full protection against adverse market movement, while providing the opportunity to capture favourable market movement up to a set barrier rate.

How a range forward is constructed:

A range forward combines a European-style Option with a European-style barrier Option, to create a structured Option with specific parameters[45]. In order to establish a range forward at zero cost, the protected strike rate is less favourable, and the barrier rate more favourable, than the prevailing forward rate at inception.

There are three possible outcomes with a range forward, all of which are applicable on expiry:

- First, should the prevailing spot rate trade between the protected Strike rate and the barrier rate, you would be able to exchange your full requirement at the prevailing spot rate.
- Second, should the prevailing spot rate trade less favourably than the protected strike rate, you can exchange your full requirement at the protected strike rate.
- Finally, should the prevailing market rate trade at or exceed the barrier rate, you would be obligated to exchange your full requirement at the barrier rate.

You can adopt a range forward whether you are buying or selling a particular currency, or whether you are hedging against, or positioning to capture, an appreciation or depreciation in the underlying exchange rate.

Rationale for transacting a range forward

You may consider adopting a range forward if you had an expectation, or your forecasts suggest, that the underlying exchange rate could be more favourable in the future. This structure would provide flexibility to realise an improvement in the spot rate up to the barrier rate, without being exposed to unfavourable market movement and hence unacceptable exchange rate risk. You would need to take a view on the market, but would be fully protected against adverse market movement at the agreed strike rate. You would not be obliged to transact unless the prevailing exchange rate is trading at or above the barrier rate on expiry.

Specific potential benefits of a range forward:

- ✓ Full protection against adverse market movement
- ✓ Capture favourable market movement
- ✓ Defined price range creates certainty

Specific risks of a range forward:

- × You may be obliged to transact
- × A barrier rate may limit your gains
- × You cannot exercise early or 'draw-down'

45. The description of each position (leg) is provided for information purposes only. Individual positions cannot be amended, cancelled or transacted independently of the structure in any instance. A structure is transacted in its entirety and not its constituent parts in all instances.

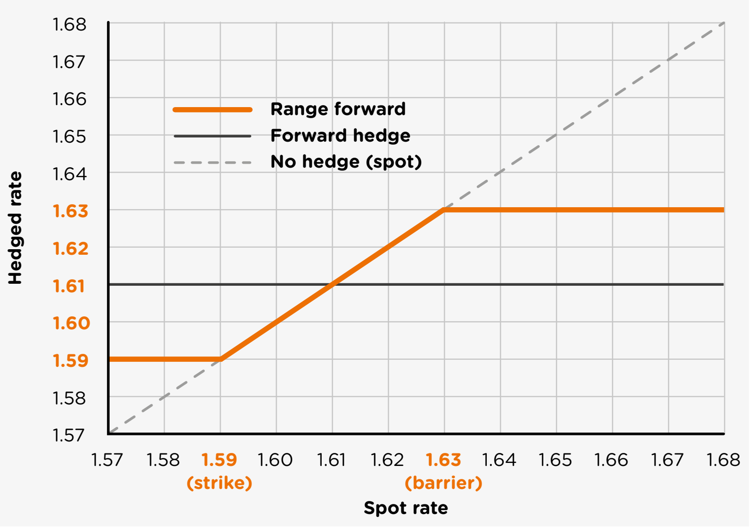
RANGE FORWARD

Example - Importer

You are required to transfer Sterling into US dollars in 180 days. Your treasury policy requires that you fix a rate to reduce your exposure to adverse market movement, but you feel that Sterling could appreciate against the dollar and would like the opportunity to capture favourable market movement should your forecasts be correct.

You accept the following terms to adopt a range forward at zero cost[46]:

- **Protected strike rate:** 1.59*
- **Expiry date:** 180 days
- **Notional amount:** $1 million
- **Barrier rate:** 1.63**



This example:
*Max cost: £628,931
**Min cost: £613,497

Possible outcomes on expiry:

Opportunity[47]: The Sterling/US dollar spot rate trades between 1.59 and 1.6299

- You could exchange Sterling into $1 million at the spot rate

Protection[48]: The Sterling/US dollar spot rate trades below 1.59

- You have the right to exchange Sterling into $1 million at 1.59

Barrier[49]: The Sterling/US dollar market rate trades at or above 1.63

- You are obliged to exchange Sterling into $1 million at 1.63

46. An Option deposit may be required
47. No exercise
48. Exercise: your right
49. Exercise: obligation

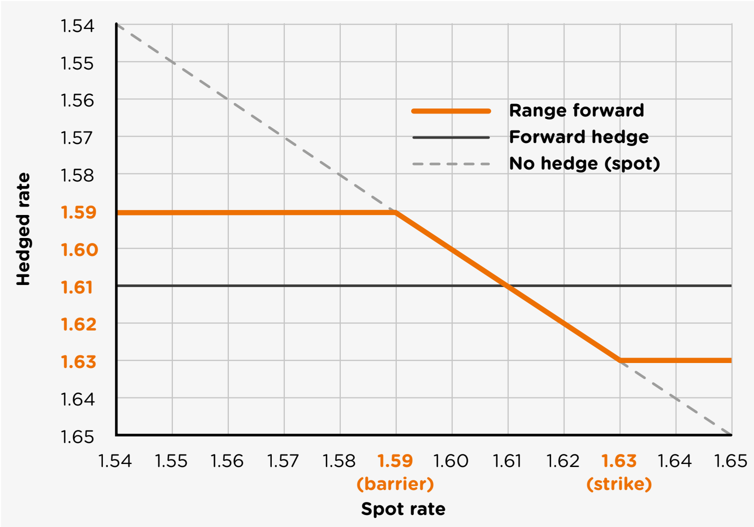
RANGE FORWARD

Example – Exporter

You are due to receive US dollars in 180 days and will be converting these funds into Sterling. Your treasury policy requires that you fix a rate to reduce your exposure to adverse market movement, but you also feel that Sterling could depreciate against the dollar and would like the opportunity to capture favourable market movement should your forecasts be correct.

You accept the following terms to adopt a range forward at zero cost[50]:

- **Protected strike rate:** 1.63*
- **Expiry date:** 180 days
- **Notional amount:** $1 million
- **Barrier rate:** 1.59**



This example:
*Min receivable: £613,497
**Max receivable: £628,931

Possible outcomes on expiry:

Opportunity[51]: The Sterling/US dollar spot rate trades between 1.5901 and 1.63

- You could exchange $1 million into Sterling at the spot rate

Protection[52]: The Sterling/US dollar spot rate trades above 1.63

- You have the right to exchange $1 million into Sterling at 1.63

Barrier[53]: The Sterling/US dollar market rate trades at or below 1.59

- You are obliged to exchange $1 million into Sterling at 1.59

50. An Option deposit may be required
51. No exercise
52. Exercise: your right
53. Exercise: obligation

PRODUCT GUIDE – FORWARD EXTRA WINDOW

A zero cost structured Option that provides full protection against adverse market movement at an agreed strike rate, while providing the opportunity to capture favourable market movement up to a set trigger rate.

How a forward extra window is constructed:

A forward extra window combines a European-style Option with a window Option. This window Option acts as an American barrier with a reverse knock-in feature, to create a structured Option with specific parameters[54].

A window Option is active within a predetermined time interval (window), which is usually the month preceding and including expiry. In order to establish a forward extra window at zero cost, the protected strike rate is usually less favourable, and the trigger rate more favourable, than the prevailing forward rate at inception.

There are three possible outcomes with a forward extra window:

- First, should the prevailing spot rate trade between the protected the strike rate and the trigger rate on expiry - and the trigger rate has not been reached or exceeded during the window period - you would be able to exchange your full requirement at the prevailing spot rate.
- Second, should the prevailing spot rate trade less favourably than the protected strike rate on expiry - and the trigger rate has not been reached or exceeded during the window period - you can exchange your full requirement at the protected strike rate.
- Finally, should the prevailing exchange rate trade at or exceed the trigger rate at any time during the window period, you would be obligated to exchange your full requirement at the protected strike rate. trade at or exceed the barrier rate, you would be obligated to exchange your full requirement at the barrier rate.

You can adopt a forward extra window whether you are buying or selling a particular currency, or whether you are hedging against, or positioning to capture, an appreciation or depreciation in the underlying exchange rate.

Rationale for transacting a forward extra window

You may consider adopting a forward extra window if you had an expectation, or your forecasts suggest, that the underlying exchange rate could be more favourable in the future, but may not reach or exceed the trigger rate during the window period. This structure would provide flexibility to realise an improvement in the spot rate, without being exposed to unfavourable market movement and hence unacceptable exchange rate risk. You would need to take a view on the market, but would be fully protected against adverse market movement at the agreed strike rate. You would not be obliged to transact unless the prevailing exchange rate trades at or above the trigger rate at any time during the window period.

Specific potential benefits of a forward extra window:

- ✓ Full protection against adverse market movement
- ✓ Capture favourable market movement
- ✓ Often establishes a wide price range

Specific risks of a forward extra window:

- × You may be obliged to transact
- × A trigger rate may limit your gains
- × You cannot Exercise early or 'draw-down'

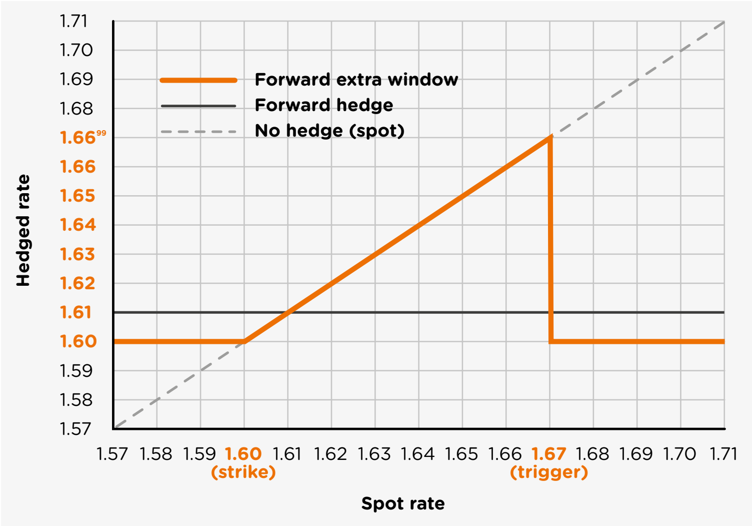
54. The description of each position (leg) is provided for information purposes only. Individual positions cannot be amended, cancelled or transacted independently of the Structure in any instance. A structure is transacted in its entirety and not its constituent parts in all instances.

FORWARD EXTRA WINDOW

Example - Importer

You are required to transfer Sterling into US dollars in 180 days. Your treasury policy requires that you fix a rate to reduce your exposure to adverse market movement, but you feel that Sterling could appreciate against the dollar and would like the opportunity to capture favourable market movement should your forecasts be correct.

You accept the following terms to adopt a forward extra window at zero cost:



This example:
Max cost: £625,000
Min cost: £598,838

- **Protected strike rate:** 1.60
- **Expiry date:** 180 days
- **Notional amount:** $1 million
- **Trigger rate:** 1.67
- **Best-case rate:** 1.6699
- **Window period:** 1 month before and including the expiry date

Possible outcomes on expiry:

Opportunity[55]: The Sterling/US dollar spot rate trades between 1.60 and 1.6699

- You could exchange Sterling into $1 million at the spot rate

Protection[56]: The Sterling/US Dollar spot rate trades below 1.60

- You have the right to exchange Sterling into $1 million at 1.60

Trigger[57]: The Sterling/US dollar market rate trades at or above 1.67 during the window period

- You are obliged to exchange Sterling into $1 million at 1.60

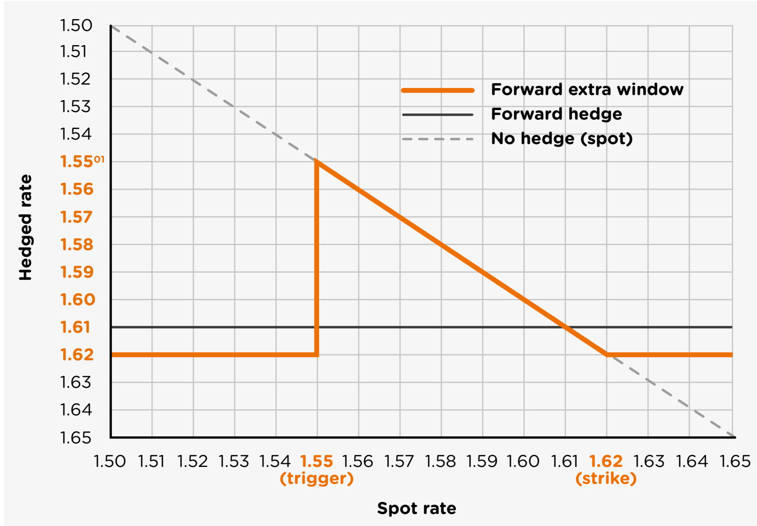
55. No exercise
56. Exercise: your right
57. Exercise: obligation

FORWARD EXTRA WINDOW

Example – Exporter

You are due to receive US dollars in 180 days and will be converting these funds into Sterling. Your treasury policy requires that you fix a rate to reduce your exposure to adverse market movement, but you also feel that Sterling could depreciate against the dollar and would like the opportunity to capture favourable market movement should your forecasts be correct.

You accept the following terms to adopt a forward extra window at zero cost:



This example:
Min receivable: £617,284
Max receivable: £645,120

- **Protected strike rate:** 1.62
- **Expiry date:** 180 days
- **Notional amount:** $1 million
- **Trigger rate:** 1.55
- **Best-case rate:** 1.5501
- **Window period:** 1 month before and including the expiry date

Possible outcomes on expiry:

Opportunity[58]: The Sterling/US dollar spot rate trades between 1.5501 and 1.62

- You could exchange $1 million into Sterling at the spot rate

Protection[59]: The Sterling/US Dollar spot rate trades above 1.62

- You have the right to exchange $1 million into Sterling at 1.62

Trigger[60]: The Sterling/US dollar market rate trades at or below 1.55 during the window period

- You are obliged to exchange $1 million into Sterling at 1.62

58. No exercise
59. Exercise: your right
60. Exercise: obligation

PRODUCT GUIDE – FORWARD EXTRA RATIO

A forward extra ratio is a zero cost option that combines guaranteed protection with opportunity to capture favourable spot rate movement, provided the market does not reach a predefined barrier rate. This product introduces a leverage ratio in order to outperform a standard forward extra.[61]

Key terms

- **Barrier rate:** The rate at which the knock-in feature is activated
- **European-style option:** An option that can be exercised on a fixed future date only
- **Knock-in feature:** A latent option that begins to function as a normal option once activated
- **Leverage ratio:** The ratio between the protected notional and the leverage notional. For example, a ratio of 1:2 implies the leverage notional is twice the protected notional
- **Leverage notional:** The amount of currency whereby conversion may be obligatory
- **Protected notional:** The amount of currency convertible by the right of exercise
- **Protected strike rate:** The rate at which guaranteed protection is provided

How a forward extra ratio is constructed[62]

A forward extra ratio combines the purchase of a European-style option with the sale of a reverse-knock-in barrier option[63]. The purchased option represents the right of protection, while the sold option effectively operates as a barrier option. The client determines the protected strike rate, while CDFM calculates the barrier rate so that the corresponding premiums are offset such that the product is delivered to the client at zero cost.
The protected strike rate represents the worst case scenario, while the best-case rate is usually defined by adding or subtracting 1-pip from the barrier rate depending on the underlying market view (long/short). The notional amount of the barrier option is determined by a leverage ratio and is a multiple of the protected notional amount[64].

Types of forward extra ratio

The barrier rate can typically be active for any duration; this gives rise to different derivations of forward extra ratio:

- **Forward extra ratio:**[65] the barrier rate is active at all times
- **Forward extra ratio European:**[66] the barrier rate is active on expiry only
- **Forward extra ratio window:**[67] the barrier rate is active during a predefined period

The particular timing applied to the barrier rate will influence the overall parameters that can be obtained. Using the above definitions as a guide, the forward extra ratio window will provide a more preferable barrier rate than the forward extra ratio European, but not as favourable as the forward extra ratio. Therefore, choosing a barrier rate that is active for a shorter duration would result in a barrier rate that is less attractive than a barrier rate that is active for the entire term of the option. A knock-in event can only occur when the barrier rate is active; should the market trade at, or more preferable than, the barrier rate when the barrier rate itself is not "active" an obligation will not arise.

61. Product description centres on a Forward extra ratio for ease of illustration. Also available as a Forward extra ratio window and a Forward extra ratio European. Except in relation to different timings on the barrier rate, all other principles are the same.
62. Maximum permitted leverage ratio of 1:2.
63. The description of each position ('leg') is provided for information purposes only. Individual positions cannot be amended, cancelled or transacted independently and a Forward extra ratio is transacted in its entirety in all instances.
64. Option deposit requirements applicable on the leverage notional amount.
65. A forward extra ratio adopts an American-style barrier (rki), which is a path dependent option that can become activated at any time during the life of the option.
66. A forward extra ratio European adopts a European-style barrier (eki), which is a path dependent option that can only become activated on the expiry date.
67. A forward extra ratio window adopts a window-style barrier (wrki), which is a path dependent option that can become activated at any time during a predefined window, such as the month preceding expiry.

In all instances, the prevailing interbank rate will be compared to the barrier rate to determine whether a "knock-in" event has occurred. Should the barrier rate be activated a "knock-in" event occurs and an obligation to trade the leverage notional at the protected strike rate arises. There is subsequently an assumption that the position effectively becomes a de facto forward contract at the protected strike rate.

Key information

A forward extra ratio secures an improved protected strike rate and/or more favourable barrier rate compared to a standard forward extra by taking some additional risk: the product adopts a leverage ratio. This is the most noticeable risk; we know the best and worst case scenario upfront, and that the potential obligation exceeds the protected right, but we do not know whether or not there will be an obligation to trade the leverage notional at the protected strike rate until any knock-in is confirmed on or before the expiry date. This could mean that we may not know what the realised rate will be until expiry. However, we do know that the maximum obligation will not exceed the leverage notional, the rights of exercise are predefined, and the realised rate will fall between the protected strike rate and the barrier rate. You would not be obliged to transact unless the barrier rate has been activated.

Rationale for transacting a forward extra ratio

The forward extra ratio is developed for hedging purposes. You would consider adopting a forward extra ratio if you had an expectation, or your market forecasts suggest, that the underlying exchange rate could be more favourable in the future yet may not exceed the barrier rate. Or, you are comfortable accepting that your gains may be capped, but some opportunity to capture a favourable spot rate movement is more preferable than a fixed exchange rate. A forward extra ratio would provide flexibility to realise an improvement in the underlying spot rate up to the barrier rate, without exposing you to unfavourable market movement and hence unacceptable exchange rate risk. Furthermore, you can comfortably accept trading at the protected strike rate in a worst-case outcome, particularly bearing in mind this level will be comparative to the corresponding forward rate. The forward extra ratio is a lightly structured option that utilises leverage; you would need to ensure sufficient cash flows are available should the obligation to transact the leverage notional arise.

There are three possible outcomes with a forward extra ratio:

- First, should the prevailing spot rate trade between the protected strike rate and the barrier rate on expiry – and the barrier rate has not been activated – you would be able to exchange your full requirement at the prevailing spot rate.
- Second, should the prevailing interbank rate trade less favourably than the protected strike rate on expiry – and the barrier rate has not been activated – you would have the right, but not the obligation, to exchange the protected notional at the protected strike rate.
- Finally, should the prevailing interbank rate trade such that the barrier rate is/was activated, you would be obligated to exchange the multiplied notional at the protected strike rate (for example, if the protected notional was $500,000 and the agreed leverage ratio was 1:2, you would be obliged to transact $1 million).

Underlying requirement

You can adopt a forward extra ratio whether you are buying or selling a particular currency, or whether you are hedging against, or positioning to capture, an appreciation or depreciation in the underlying exchange rate.

Potential benefits of a forward extra ratio

- ✓ Achieves more favourable parameters compared to a standard forward extra
- ✓ Available at zero cost
- ✓ Guaranteed protection at a defined budget rate
- ✓ No obligation unless barrier rate activated
- ✓ Participate in favourable spot rate movement
- ✓ Provides flexibility: tailored to specific needs

Potential disadvantages of a forward extra ratio

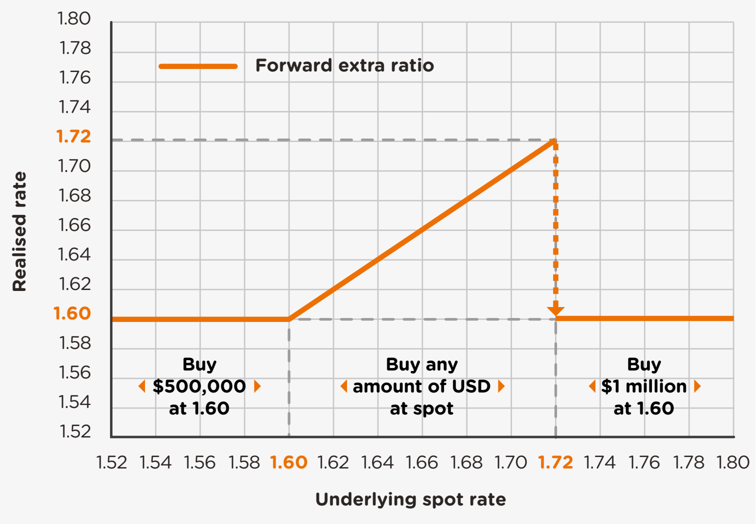
- × Activating the barrier rate will establish an obligation to trade the leveraged notional at the protected strike rate
- × Fixed tenor: early exercise, draw-down, or roll, not permitted
- × May lead to instances of being under or over hedged
- × Realised rate may be less favourable than the corresponding spot rate on expiry
- × The use of a leverage ratio can lead to additional margin requirements
- × Utilises leverage: potential obligation exceeds protected right

FORWARD EXTRA RATIO

Example – importer

A UK-based importer adopts a forward extra ratio in order to secure a maximum Sterling (GBP) cost for an expected US dollar (USD) payable, while simultaneously maintaining an exposure to favourable spot rate movement[68]:

- **Spot reference (GBP/USD):** 1.61
- **Protected strike rate:** 1.60
- **Barrier rate:** 1.72
- **Protected notional:** $500,000
- **Leverage notional:** $1million
- **Leverage ratio:** 1:2
- **Expiry date:** 270 days



Possible outcomes on expiry

The GBP/USD interbank rate has not traded at or above 1.72 during the life of the forward extra ratio:

- **Protection[69]:** If the GBP/USD interbank rate is trading below 1.60 the importer has the right, but not the obligation, to sell GBP and buy $500,000 at 1.60. Any residual amount can be traded at the prevailing GBP/USD spot rate
- **Opportunity[70]:** If the GBP/USD spot rate is trading between 1.60 and 1.7199, the importer is not obliged to trade or can trade any amount at the prevailing GBP/USD spot rate

The GBP/USD interbank rate has traded at or above 1.72 during the life of the forward extra ratio:

- **Obligation[71]:** The barrier rate has been activated and the importer is obliged to sell GBP and buy $1 million at 1.60

68. Option deposit requirements applicable on the leverage notional amount.
69. Exercise right: protective option in-the-money, barrier option out-of-the-money.
70. No exercise: both options expire out-of-the-money
71. Exercised obligation: barrier option in-the-money, protective option out-of-the-money.

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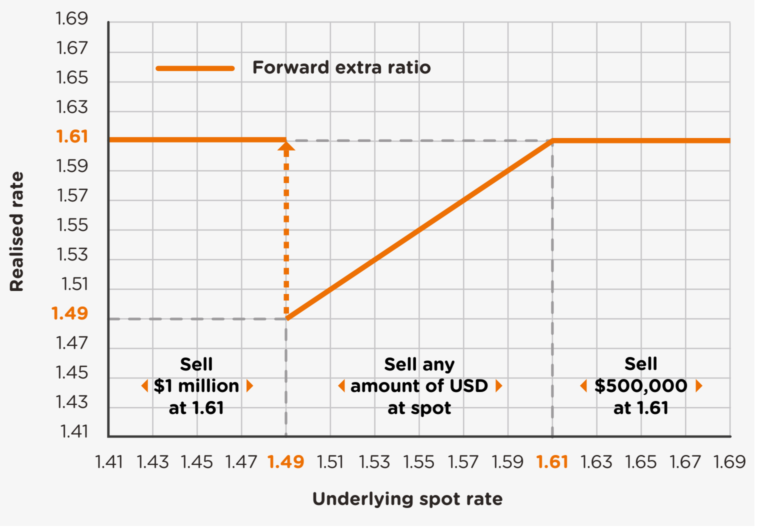
FORWARD EXTRA RATIO

Example – exporter

A UK-based exporter adopts a forward extra ratio in order to secure a minimum Sterling (GBP) value for an expected US dollar (USD) receivable, while simultaneously maintaining an exposure to favourable spot rate movement[72]:

- **Spot reference (GBP/USD):** 1.60
- **Protected strike rate:** 1.61
- **Barrier rate:** 1.49
- **Protected notional:** $500,000
- **Leverage notional:** $1 million
- **Leverage ratio:** 1:2
- **Expiry date:** 270 days



Possible outcomes on expiry:

The GBP/USD interbank rate has not traded at or below 1.49 during the life of the forward extra ratio:

- **Protection[73]:** If the GBP/USD interbank rate is trading above 1.61 the exporter has the right, but not the obligation, to sell $500,000 and buy GBP at 1.61. Any residual amount can be traded at the prevailing GBP/USD spot rate
- **Opportunity[74]:** If the GBP/USD spot rate is trading between 1.4901 and 1.61, the exporter is not obliged to trade or can trade any amount at the prevailing GBP/USD spot rate

The GBP/USD interbank rate has traded at or below 1.49 during the life of the forward extra ratio:

- **Obligation[75]:** The barrier rate has been activated and the exporter is obliged to sell $1 million and buy GBP at 1.61

72. Option deposit requirements applicable on the leverage notional amount.
73. Exercise right: protective option in-the-money, barrier option out-of-the-money.
74. No exercise: both options expire out-of-the-money
75. Exercised obligation: barrier option in-the-money, protective option out-of-the-money.

PRODUCT GUIDE – RANGE FORWARD RATIO

A range forward ratio is a zero cost option that combines guaranteed protection at a defined exchange rate with the opportunity to capture a favourable spot rate movement up to a best-case barrier rate. This product introduces a leverage ratio in order to outperform a standard range forward.

Key terms

- **Barrier rate:** The rate at which opportunity is maximised and an obligation arises
- **European-style option:** An option that can be exercised on a fixed future date only
- **Leverage ratio** The ratio between the protected notional and the leverage notional. For example, a ratio of 1:2 implies the leverage notional is twice the protected notional
- **Leverage notional:** The amount of currency whereby conversion may be obligatory
- **Protected notional:** The amount of currency convertible by the right of exercise
- **Protected strike rate:** The rate at which guaranteed protection is provided

How a range forward ratio is constructed[76]

A range forward ratio combines two European-style options – one purchased and the other sold – with different strike rates and notional amounts to create a structured option with specific parameters[77]. The purchased option represents the right of protection, while the sold option effectively operates as a barrier option. The client agrees the protected strike rate, while CDFM calculates the barrier rate so that the corresponding premiums are offset such that the product is delivered to the client at zero cost.

The barrier rate represents the best-case outcome. The protected strike rate represents the worst case scenario. The notional of the barrier option is determined by a leverage ratio and is a multiple of the protected notional[78].

Key information

A range forward ratio secures an improved protected strike rate and/or more favourable barrier rate compared to a standard range forward by taking some additional risk: it adopts a leverage ratio. This is the most noticeable risk; we know the best and worst case scenario upfront, and that the potential obligation exceeds the protected right, but we do not know whether or not there will be an obligation to trade the leverage notional at the barrier rate until the fixing rate is confirmed on the expiry date. This could mean that we may not know what the realised rate will be until expiry. However, we do know that the maximum obligation will not exceed the leverage notional: The rights of exercise are predefined, and the realised rate will fall between the protected strike rate and the barrier rate. You would not be obliged to transact unless the market trades at, or more favourably than, the barrier rate on expiry.

76. Maximum permitted leverage ratio of 1:2.
77. The description of each position ('leg') is provided for information purposes only. Individual positions cannot be amended, cancelled or transacted independently and a Range forward ratio is transacted in its entirety in all instances.
78. Option deposit requirements applicable on the leverage notional amount.

Rationale for transacting a range forward ratio

The range forward ratio is developed for hedging purposes. You would consider adopting a range forward ratio if you had an expectation, or your market forecasts suggest, that the underlying exchange rate could be more favourable in the future yet may not exceed the barrier rate. Or, you are comfortable accepting that your gains may be capped, but some opportunity to capture favourable spot rate movement is more preferable than a fixed exchange rate. This product would provide flexibility to realise an improvement in the underlying spot rate up to the barrier rate, without exposing you to unfavourable market movement and hence unacceptable exchange rate risk. Furthermore, you can comfortably accept trading at the protected strike rate in a worst-case outcome, particularly bearing in mind this level will be comparative to the corresponding forward rate. The range forward ratio is a lightly structured option that utilises leverage; you would need to ensure sufficient cash flows are available should the obligation to transact the leverage notional arise.

There are three possible outcomes with a range forward ratio

- First, should the prevailing spot rate trade between the protected strike rate and the barrier rate on expiry, you would be able to exchange your full requirement at the prevailing spot rate.
- Second, should the prevailing interbank rate trade less favourably than the protected strike rate on expiry, you have the right, but not the obligation, to exchange the protected notional at the protected strike rate.
- Finally, should the prevailing interbank rate trade at or more favourably than the barrier rate on expiry, you would be obliged to exchange the leverage notional at the barrier rate (for example, if the protected notional was $500,000 and the agreed leverage ratio was 1:2, you would be obliged to transact $1 million).

Underlying requirement

You can adopt a range forward ratio whether you are buying or selling a particular currency, or whether you are hedging against, or positioning to capture, an appreciation or depreciation in the underlying exchange rate.

Potential benefits of a range forward ratio

- ✓ Achieves more favourable parameters compared to a standard range forward
- ✓ Available at zero cost
- ✓ Guaranteed protection at a defined budget rate
- ✓ Mitigates exposure to market volatility by establishing definitive price range
- ✓ No obligation to trade unless barrier rate met or exceeded on expiry
- ✓ Participate in favourable spot rate movement up to the barrier rate
- ✓ Provides flexibility: tailored to specific needs

Potential disadvantages of a range forward ratio:

- × An obligation to trade the leveraged notional at the barrier rate may arise
- × Fixed tenor: early exercise, draw-down, or roll, not permitted
- × Gains are capped at the barrier rate
- × May lead to instances of being under or over hedged
- × Realised rate may be less favourable than the corresponding spot rate on expiry
- × The use of a leverage ratio can lead to additional margin requirements
- × Utilises leverage: potential obligation exceeds protected right

Important notice

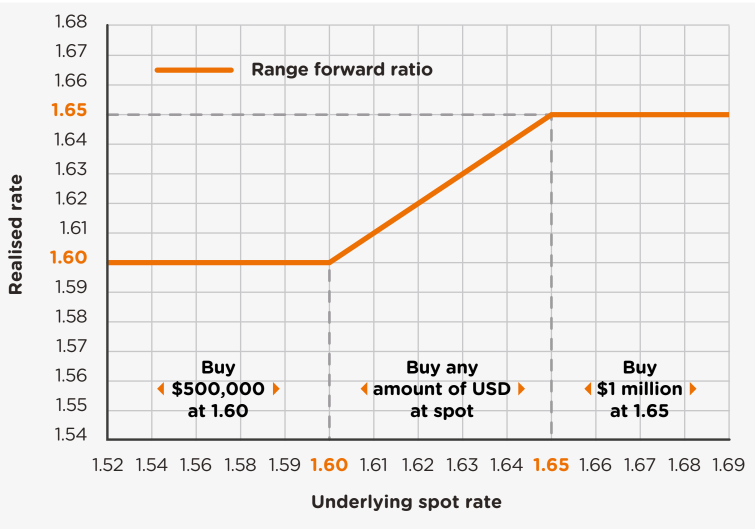
The use of a leverage ratio may cause the value of a range forward ratio to move faster and further than non-leveraged structures, such as a standard range forward. This could magnify potential or actual losses and place greater demands on option deposit requirements.

FX derivative products can carry a high level of risk and may not be appropriate and/or suitable for everyone. Please take all reasonable steps to understand certain key concepts before transacting in FX derivative products. Currencies Direct Financial Markets Limited is authorised and regulated by the Financial Conduct Authority for the conduct of designated investment business. FRN. 495699.

RANGE FORWARD RATIO

Example – importer

A UK-based importer adopts a range forward ratio in order to secure a maximum Sterling (GBP) cost for an expected US dollar (USD) payable, while simultaneously maintaining an exposure to favourable spot rate movement[79]:



- **Spot reference (GBP/USD):** 1.61
- **Protected strike rate:** 1.60
- **Barrier rate (best-case):** 1.65
- **Protected notional:** $500,000
- **Leverage notional:** $1million
- **Leverage ratio:** 1:2
- **Expiry date:** 270 days

Possible outcomes on expiry:

Protection[80]: The GBP/USD rate is trading below 1.60:

- The importer has the right, but not the obligation, to sell GBP and buy $500,000 at 1.60.
- Any residual amount can be traded at the prevailing GBP/USD spot rate

Obligation[81]: The GBP/USD rate is trading at or above 1.65:

- The importer is obliged to sell GBP and buy $1 million at 1.65

Opportunity[82]: The GBP/USD rate is trading between 1.60 and 1.6499:

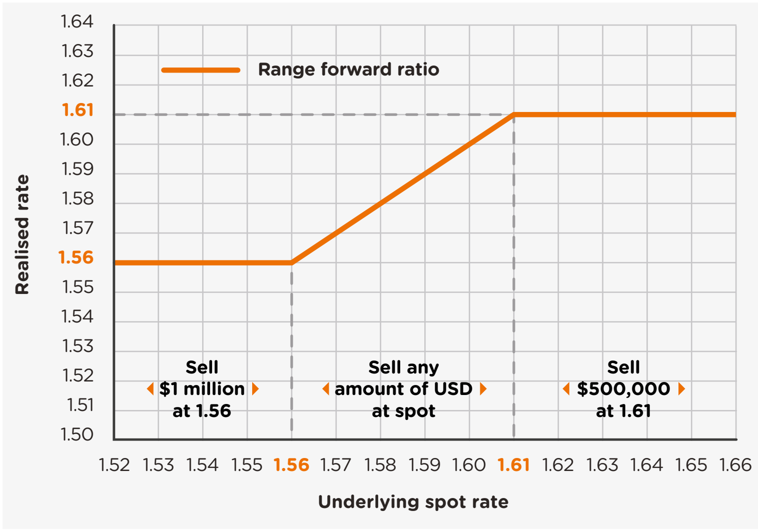
- The importer is not obliged to trade or can trade any amount at the prevailing GBP/USD spot rate

79. Option deposit requirements applicable on the leverage notional amount.
80. Exercise right: protective option in-the-money, barrier option out-of-the-money.
81. Exercised obligation: barrier option in-the-money, protective option out-of-the-money.
82. No exercise: both options expire out-of-the-money.

RANGE FORWARD RATIO

Example – exporter

A UK-based exporter adopts a range forward ratio in order to secure a minimum Sterling (GBP) value for an expected US dollar (USD) receivable, while simultaneously maintaining an exposure to favourable spot rate movement[83]:



- **Spot reference (GBP/USD):** 1.60
- **Protected strike rate:** 1.61
- **Barrier rate (best-case):** 1.56
- **Protected notional:** $500,000
- **Leverage notional:** $1 million
- **Leverage ratio:** 1:2
- **Expiry date:** 270 days

Possible outcomes on expiry

Protection[84]: The GBP/USD rate is trading above 1.61:

- The exporter has the right, but not the obligation, to sell $500,000 and buy GBP at 1.61.
- Any residual amount can be traded at the prevailing GBP/USD spot rate

Obligation[85]: The GBP/USD rate is trading at or below 1.56:

- The exporter is obliged to sell $1 million and buy GBP at 1.56

Opportunity[86]: The GBP/USD rate is trading between 1.5601 and 1.61:

- The exporter is not obliged to trade or can trade any amount at the prevailing GBP/USD spot rate

83. Option deposit requirements applicable on the leverage notional amount.
84. Exercise right: protective option in-the-money, sold option out-of-the-money.
85. Exercised obligation: sold option in-the-money, protective option out-of-the-money.
86. No exercise: both options expire out-of-the-money.

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PRODUCT GUIDE – FORWARD ENHANCED

A "forward enhanced" is a zero cost option that, by introducing a leverage ratio, combines guaranteed protection at a defined exchange rate, with outperformance of the prevailing forward rate at the point of sale.

Key terms

- **European-style option:** An option that can be exercised only on a fixed future date
- **Leverage ratio:** The ratio between the protected notional and the leverage notional. For example, a ratio of 1:2 implies the leverage notional is twice the protected notional
- **Leverage notional:** The amount of currency whereby conversion may be obligatory
- **Protected notional:** The amount of currency convertible by the right of exercise
- **Strike rate:** The rate at which guaranteed protection is provided or at which opportunity is maximised and an obligation arises

How a forward enhanced is constructed[87]

A forward enhanced combines two European-style options – one purchased and the other sold – with identical strike rates and different notional amounts to create a structured option with specific parameters[88]. The purchased option represents the right of protection, while the sold option effectively operates as a barrier option. The client agrees the strike rate, which CDFM will have calculated so that the corresponding premiums are offset so that the product is delivered to the client at zero cost.

The strike rate represents the best and worst-case outcome. The notional of the barrier option is determined by a leverage ratio and is a multiple of the protected notional[89].

Key information

A forward enhanced targets an outperformance strike rate by taking some additional risk; it adopts a leverage ratio. This is the most noticeable risk; we know the best and worst case scenario upfront, and that the potential obligation exceeds the protected right, but we do not know whether or not there will be an obligation to trade the leverage notional at the strike rate until the fixing rate is confirmed on the expiry date. However, we do know that the maximum obligation will not exceed the leverage notional and that the rights of exercise are predefined. Furthermore, we know that at the point of sale we are outperforming the prevailing forward rate as the strike rate is established at a more favourable level. You would not be obliged to transact unless the prevailing interbank rate trades at or more favourably than the strike rate on expiry.

Rationale for transacting a forward enhanced

The forward enhanced is developed for hedging purposes. You would consider adopting a forward enhanced if you were seeking to outperform the prevailing forward rate at the point of sale, without being exposed to an unfavourable market movement and hence an unacceptable exchange rate risk.

Or, you are comfortable accepting that your gains are capped, but some opportunity to capture favourable spot rate movement is more preferable than a fixed exchange rate. This product would provide flexibility to realise a slight improvement in the underlying spot rate up to the strike rate, without exposing you to unfavourable market movement and hence unacceptable exchange rate risk. Furthermore, you can comfortably accept trading at the strike rate in a worst-case outcome, particularly bearing in mind this level will be comparative to the corresponding forward rate and more favourable than the spot rate at the point of sale. The forward enhanced is a lightly structured option that utilises leverage; you would need to ensure sufficient cash flows are available should the obligation to transact the leverage notional arise.

There are two possible outcomes with a forward enhanced

- First, should the prevailing interbank rate trade at or less favourably than the strike rate on expiry, you would have the right, but not the obligation, to exchange the protected notional at the strike rate. You could convert any residual amount at the prevailing spot rate.
- Second, should the prevailing interbank rate trade at or more favourably than the strike rate on expiry, you would be obliged to exchange the leveraged notional at the strike rate (for example, if the protected notional was $500,000 and the agreed leverage ratio was 1:2, you would have to transact $1 million).

Underlying requirement

You can adopt a forward enhanced whether you are buying or selling a particular currency, or whether you are hedging against, or positioning to capture, an appreciation or depreciation in the underlying exchange rate.

Potential benefits

- ✓ Available at zero cost
- ✓ Guaranteed protection at a defined budget rate
- ✓ No obligation unless the interbank rate is at or more favourable than the strike rate on expiry
- ✓ Outperforms the prevailing forward rate at the point of sale
- ✓ Provides flexibility: tailored to specific needs

Potential disadvantages

- × An obligation to trade the leveraged notional at the strike rate may arise
- × Fixed tenor: early exercise, draw-down, or roll, not permitted
- × May lead to instances of being under or over hedged
- × Realised rate may be less favourable than the corresponding spot rate on expiry
- × The use of a leverage ratio can lead to additional margin requirements
- × Utilises leverage: potential obligation exceeds protected right

Important notice

The use of a leverage ratio may cause the value of a forward enhanced to move faster and further than non-leveraged structures, such as a range forward. This could magnify potential or actual losses and place greater demands on option deposit requirements.

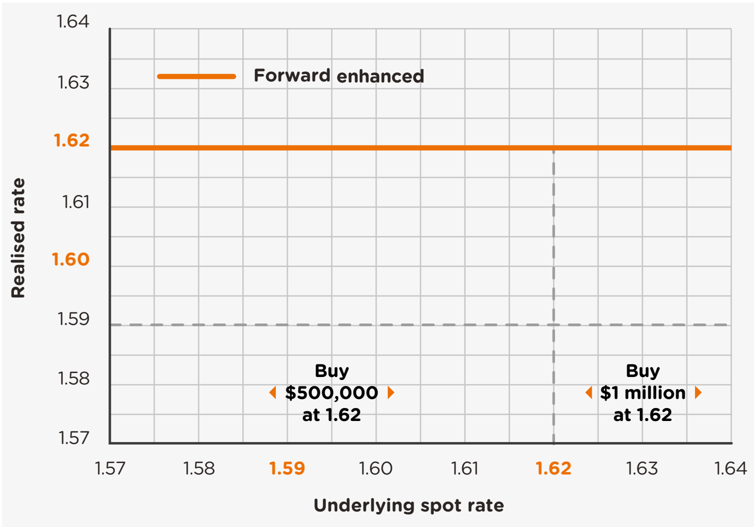
87. Maximum permitted leverage ratio of 1:2.
88. The description of each position ('leg') is provided for information purposes only. Individual positions cannot be amended, cancelled or transacted independently and an Enhanced forward is transacted in its entirety in all instances.
89. Option deposit requirements applicable on the leverage notional amount.

FORWARD ENHANCED

Example – importer

A UK-based importer adopts a forward enhanced to secure a maximum Sterling (GBP) cost for an expected US dollar (USD) payable, while simultaneously maintaining an exposure to a favourable spot rate movement[90]:

- **Spot reference (GBP/USD):** 1.61
- **Strike rate:** 1.62
- **Protected notional:** $500,000
- **Leverage notional:** $1 million
- **Leverage ratio:** 1:2
- **Expiry date:** 270 days



Possible outcomes on expiry

The GBP/USD is trading below 1.62

- **Protection[91]:** The importer has the right, but not the obligation, to sell GBP and buy $500,000 at 1.62. Any residual amount can be traded at the prevailing GBP/USD spot rate

The GBP/USD is trading at or above 1.62

- **Obligation[92]:** The importer is obliged to sell GBP and buy $1 million at 1.62

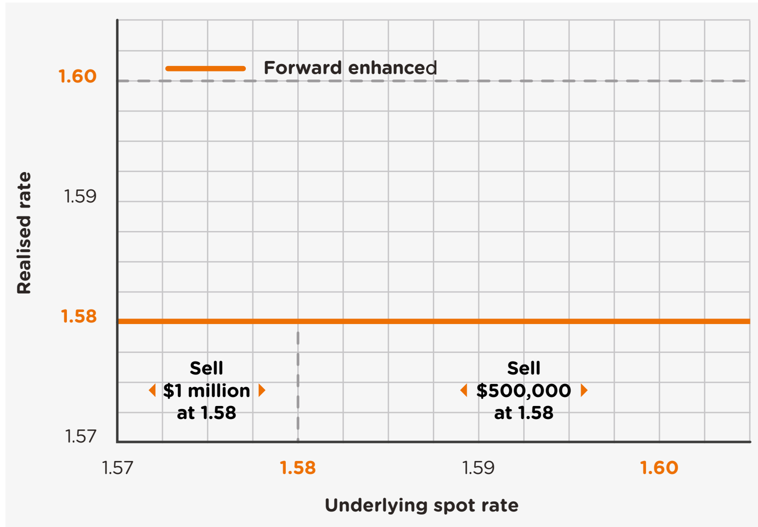
90. Option deposit requirements applicable on the leverage notional amount.
91. Exercise right: protective option in-the-money, barrier option out-of-the-money.
92. Exercised obligation: barrier option in-the-money, protective option out-of-the-money.

FORWARD ENHANCED

Example – exporter

A UK-based exporter adopts a forward enhanced in order to secure a minimum Sterling value for an expected US dollar receivable, while simultaneously maintaining an exposure to favourable spot rate movement[93]:

- **Spot reference (GBP/USD):** 1.60
- **Strike rate:** 1.58
- **Protected notional:** $500,000
- **Leverage notional:** $1 million
- **Leverage ratio:** 1:2
- **Expiry date:** 270 days



Possible outcomes on expiry

The GBP/USD is trading above 1.58

- **Protection[94]:** The exporter has the right, but not the obligation, to sell $500,000 and buy GBP at 1.58. Any residual amount can be traded at the prevailing spot rate

The GBP/USD is trading at or below 1.58

- **Obligation[95]:** The exporter is obliged to sell $1 million and buy GBP at 1.58

93. Option deposit requirements applicable on the leverage notional amount.
94. Exercise right: protective option in-the-money, barrier option out-of-the-money.
95. Exercised obligation: barrier option in-the-money, protective option out-of-the-money.

FOREIGN EXCHANGE OPTION PRICING

Most Option pricing involves advanced financial modelling and sophisticated pricing formulae, which includes calculating intrinsic and time value, and is beyond the scope of this PDS. A premium is, and applicable parameters are, determined with reference to a multitude of factors. The degree to which these factors determine a premium and/or parameter varies from transaction-to-transaction.

We would, in consultation with you, establish the specific terms and/or parameters of any Option you adopt with us. An Option's premium and corresponding parameters are ultimately determined by us who would through the market, and with the use of an Option valuation model, take into account factors specific to your particular transaction.

You can obtain current prices and parameters by contacting us directly.

These factors may include (in *italics* for Structured Option only):

- Interest rates
- The expiry date
- A measure of implied volatility
- The notional amount
- The Option(s) style
- Any particular restrictions regarding exercise or specific terms
- The prevailing forward rate
- The prevailing spot rate
- The settlement date
- The strike rate
- The time to expiry
- The underlying currency pair
- *The barrier rate*
- *The best-case rate*
- *The participation rate*
- *The trigger rate*

Certain factors – such as implied volatility, interest rates and the prevailing spot rate – are market specific and cannot be tailored. Other factors – such as the strike rate, notional amount, and expiry date – are contract specific and can usually be tailored by you to some degree.

PREMIUM PRICING AND CHARGES

A premium is commonly priced as an outright cash or pip value, or as a percentage of the total notional amount being traded. No other fees are usually levied by CDFM at the point of sale.

While our structured Options are constructed to be zero cost, in certain instances you may choose to pay or receive a premium to adopt a particular position. While we reserve the right to refuse such instructions, in instances where we do accept them you must be aware that this would have an impact on the terms, parameters and variables of any structured Option you subsequently transact in that instance. You would be obliged to deliver any premium as per the customised terms of that specific contract in accordance with our terms and conditions.

PRICING AND SETTLEMENT CURRENCIES

CDFM supports the following currencies:

- Pound Sterling (GBP)
- Euro (EUR)
- US dollar (USD)
- Australian dollar (AUD)
- Canadian dollar (CAD)
- Danish krone (DKK)
- Hong Kong dollar (HKD)
- Japanese yen (JPY)
- New Zealand dollar (NZD)
- Norwegian krona (NOK)
- Polish zloty (PLN)
- South African rand (ZAR)
- Swedish krona (SEK)
- Swiss franc (CHF)
- UAE dirham (AED

Premium and/or margin funding can be provided in the following currencies:

- Pound Sterling (GBP)
- Euro (EUR)
- US dollar (USD)

These currencies are subject to change. The above lists may not be exhaustive or immediately available to you. Funding received in any currency not accepted by us could be transferred into an acceptable currency at our discretion using prevailing exchange rates. Please contact us for further information.

When you adopt an Option with us, you will be required to transfer any monies payable to nominated accounts specified on the Option contract or separately by us. These accounts are owned by us, but are used solely as segregated client accounts and are therefore held separately from our operating accounts.

All Option deposit monies are handled in accordance with our terms and conditions.

ENTERING INTO FOREIGN EXCHANGE OPTIONS

If you decide that a foreign exchange Option provided by us delivers an appropriate hedge against exchange rate risk for your needs, your next step would be to obtain pricing and parameters in accordance with your requirements.

The actual process may differ from what follows, but usually involves:

1. You provide details of your transaction/exposure to us
2. We obtain a premium(s) and/or parameter(s) in accordance with your instructions
3. We provide an Option contract estimate
   - A non-binding document providing indicative terms of a proposed Option contract
4. Should you proceed, the commercial terms of your Option are verbally agreed over the phone and legally binding at the point of sale
5. We provide an Option contract confirmation
   - A document intended to reflect and confirm an Option contract in writing
6. Our trade confirmation process requires that you sign and return the Option contract confirmation to us within 24 hours of the trade date
   - Failure to do so does not invalidate or negate the Option contract
7. You deliver any premium and/or Option deposit to us in accordance with the agreed terms and in accordance with our terms and conditions
8. On expiry, or before expiry where available, you will be required to verbally communicate any exercise instruction to CDFM directly
9. Or, we will notify you of any obligation on your part if an Option is exercised against you
10. Settlement will take place in accordance with our terms and conditions
11. Alternatively, the Option may expire unexercised

We reserve the right to transact differently to that outlined above.

SERVICE PROPOSITION

Further to other benefits set out within specific sections of this PDS, the following may also be applicable to any Option you transact with us:

Opportunity

Our Options provide opportunity to capture favourable market movement in the future, while ensuring that your exposure to exchange rate risk is hedged in accordance with your instructions and risk management objectives. They enable your business to adopt products that transform the inflexible nature of fixed exchange rates.

Protection

Our Options protect your business from adverse exchange rate volatility; establishing a maximum cost, or minimum receipt, of a particular payable or receivable that is due to be settled on a future date.

Versatility

Our Options include simple vanilla calls and puts, as well as zero cost structured Options; versatile products with specific cost and benefit or risk and reward objectives. All of our Options enable you to hedge against loss in value and exchange rate risk. In some instances Options will substitute, and in others compliment, existing hedging tools. However, they add choice to the hedging solutions available to your business.

Tailored to your needs

Our Options put you in control – adopt strike rates, define notional amounts, and set expiry dates that better match your requirements.

Market direction

Our Options can be adopted irrespective of whether you are buying or selling a specified currency, or whether you are hedging against, or positioning to capture, an appreciation or a depreciation in the underlying exchange rate.

Real time quotes and market information

We use sophisticated technology with leading information provider(s) and execution venue(s) in order to offer timely and accurate market data, rates, prices and valuations.

Order management

The foreign exchange market is highly liquid. We maintain established dealing lines to enable us to provide competitive, expeditious and firm pricing. Subject to market forces, we are able to efficiently manage our risks and your foreign exchange requirements by expeditiously entering into transactions with our nominated execution venue(s).

Regulation

CDFM is obliged to maintain systems and controls in pursuance of its regulatory obligations. Specific information regarding our regulatory permissions, as well as the approved customer function status of our experienced dealers, can be found on the FCA's Financial Services Register **(http://www.fsa.gov.uk/register/home.do)**. We can provide assistance with regards reporting obligations required under the European Market Infrastructure Regulation (EMIR)[61.]

We should point out that Options contain risks, which are discussed later in this PDS.

61. Directive 2004/39/EC.

SIGNIFICANT RISKS

Summary

A foreign exchange Option may be appropriate for you and your needs if you have a good understanding of exchange rate risk, foreign exchange transacting and derivative hedging instruments. However, Options may not be appropriate and/or suitable for everyone. They can be complex and carry a high degree of risk to capital. You should not deal in derivative products unless you understand the extent of your exposure to risk and the nature of the contract you are entering into. You must also be satisfied that they are appropriate for you and your needs - having consideration for your level of experience, risk appetite, financial circumstances and objectives – before proceeding with any Option transaction with CDFM.

When deciding whether or not you should enter into any Option contract, you should be aware of the following risks:

Buyer/seller asymmetry

Buying an Option is inherently less risky than selling an Option. The buyer's risk is limited to the premium paid and there is no obligation to exercise in any instance (the buyer has the right of exercise at their sole discretion). The seller's risk is considerably greater as they accept a legal obligation to buy or sell the underlying currency should a right of exercise be invoked. The seller's maximum profit is represented by the premium received. When adopting a structured Option you legally accept an obligation to buy or sell the underlying if certain circumstances arise.

Transacting

The risk of error, while rare, may not be correctable without possible cost to you. It is important that you carefully check all Option contract estimates and Option contract confirmations at the earliest convenience. Options are not subject to cooling-off periods. Cancelling an Option can be complex and you may be liable to pay costs and/or charges. Any cancellation quote is usually based on the same factors as considered at the original point of sale. It may involve a mark-to-market valuation and/or an equal-but-opposite transaction to negate or offset your original position (for example, if you purchased an Option, we could sell an Option with identical terms). This effectively cancels out the open position. You may not be able to recover the original premium/margin outlay. We recommend that you transact an Option with the intention of holding until expiry.

Transactions you enter into with us are not transferable in any instance. You would not be able to sell, assign or transfer any Option or related transaction you have active with us to another person and/or party.

Financial

Upon exercise of an Option, you would be legally obligated to settle as per the contracted terms. This could be detrimental if the specific transaction you had hedged does not materialise or financing is not available to settle.

Premiums are non-refundable in any instance and irrespective of whether an Option is exercised, lapsed, or cancelled. premiums are not used to reduce any settlement amount that may be due on the balance of an Option contract.

You could sustain a total loss of margin funds deposited with CDFM should you renege on your Position or be unable to settle a margin call.

The effective rate – which would take factors such as total transaction costs and the prevailing exchange rate on expiry into account – may not represent the most favourable outcome.

Before you purchase an out-of-the-money Option, you should be aware that the probability of that Option becoming profitable may be remote.

Options are time sensitive instruments. Their value will deteriorate or change as they approach expiry and you would not be able to make any exercise decision once an Option has expired. You should take reasonable steps to ensure that the early exercise of an American-style option is in your best interest before communicating any exercise instruction.

Foreign exchange markets do not always move significantly in either direction. The underlying exchange rate can remain relatively static compared to the level at which an Option contract was entered into. The opportunity cost of buying an Option may be disadvantageous in this instance and you may lose the benefit of any premium you paid.

Underlying currencies can be volatile and price/value can shift significantly and unexpectedly within a short space of time. Changes in exchange rates and associated inputs used to determine the value of Options, including but not limited to interest rates, can have adverse effect on the price (value) or income of the Option product(s). The value of an Option will fluctuate during its term.

Leveraged Option products – where the potential obligation is of a greater value than that of the right you hold – may oblige you to buy or sell a larger amount than the amount that you have a right to buy or sell. The value of these Options may move faster and further than non-leveraged Options, which could magnify you exposure to loss and increase your margin liabilities.

Counterparty

Our provision of Options is considered over-the-counter (OTC) and they may not be listed on any recognised exchange. As the counterparty to your Option contract, you are relying on CDFM to fulfil its obligations to you. You are exposed to the risk that CDFM may not be able to perform these obligations in part or in full. These include, but are not limited to, failure or inadequacy of our internal processes, people or systems, as well as external events such as acts of terrorism, market failure or market suspension.

Your firm's default or insolvency may lead to positions being cancelled or liquidated without your consent or consultation. You may not get back any funding related to your Option contract(s) and could lose more than your initial premium payment and/or any margin funding.

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Underlying market

Events in the open market – such as significant price change, disruption or suspension – may make it difficult to hedge, maintain or cancel your exposure under your Option contract. Under certain conditions it may be difficult or impossible to liquidate a position or deliver as per any exercise or settlement instruction.

Certain market conditions, such as unexpected events, could cause extreme market volatility. Instances could occur where a particular exchange rate 'gaps' unexpectedly from one level to another. It is not possible for us to predict gaps and they could be considerable. We reserve the right to make cash adjustments should we incur any losses as a result of any Option you have active with us being affected by such volatility.

KEY TERMS

Application and authorisation

You must hold an active corporate account with Currencies Direct Ltd in order to apply for, or maintain, an active account with CDFM. You will need to successfully complete our account opening procedure, and maintain an active account with CDFM, in order to trade Options with or through us.

We will consider an appropriateness assessment in accordance with our regulatory obligations and internal procedures when in receipt of an application for a new account or request to enter into an Option contract. This will determine the success of your application or request to trade and is completed at our sole discretion.

Approved accounts may lapse after a period of inactivity at our sole discretion; usually defined by the lack of an active and/or new Option contract within a particular timeframe. A lapsed account may need to go through our account opening process again. Each application is treated independently and is based on the merits of each submission.

Approved accounts are regularly reviewed by our Compliance Department in accordance with our internal procedures, terms and conditions, and regulatory obligations.

Transacting

An Option contract estimate will be provided in response to a formal quote for an Option contract. This document will outline the specific terms and risks under consideration before formally entering into an Option contract. Its contents are indicative only and may change.

The terms of an Option contract are verbally binding at the point of sale in accordance with our terms and conditions. An Option contract confirmation will be sent shortly afterwards to confirm the key terms of the transaction. This document is intended to formally reflect the transaction you have entered into. It is important you review and raise any discrepancies related to the terms and/or your understanding as a matter of urgency.

When adopting a structured Option you legally accept an obligation to buy or sell the underlying if certain circumstances - specifically detailed before you adopt the structure - were to arise. You should always proceed with the assumption that this could occur and understand that while Options can be used to reduce exposure to exchange rate risk, they can create other risks related to derivative instruments where value can fluctuate significantly within a short space of time.

A structured Option is adopted and transacted as a whole in all circumstances. Constituent Option positions cannot be amended, modified, cancelled or transacted independently of the structure in any instance.

Any reference to any Option position may detail the 'hedged position(s)' - or a synthetic position - having regarding for the underlying position and any other relevant factor(s).

You are responsible for actively monitoring, managing, and meeting your transactions, rights, and obligations at all times and in every instance. Unless otherwise agreed, all exercise instructions must be received in time to meet the applicable 'cut off' or 'cut'. We reserve the right to communicate an exercise instruction to you after the relevant cut off.

Currency and foreign exchange Option values are determined by a multitude of factors. These include interest rates, economic indicators, supply and demand and investment flows, for examples.

Automatic exercise

We reserves the right to automatically exercise an In-the-money Option on the expiry date. Unless otherwise instructed by you directly, all other unexercised Options will lapse in their entirely on the expiry date.

Commercial hedging only

CDFM's provision of Options is limited to commercial hedging only as defined within this PDS. We do not permit speculative trading (or 'naked Options') in any circumstance and will cancel any transaction we deem to be speculative in accordance with our terms and conditions. Individual transactions as well as trade patterns are regularly reviewed by our Compliance Department in accordance with our terms, conditions and regulatory obligations.

Default or non-payment

In the event of non-payment or default, our terms and conditions afford us extensive rights to take action. It is important that you take note of all the key terms of every Option contract you enter into, including the provision of premium or margin payments, risks, Option style, and settlement conditions.

Financial

Our terms and conditions require you to make all payments to us, whether they be premium, margin, or settlement amounts, on or before the specified business day. All payments must be made in accordance with our terms and conditions.

Our Options are described as deliverable, which means the obligations of the contracted parties (the buyer and the seller) are settled by the 'delivery' of the underlying financial product.

FX derivative products can carry a high level of risk and may not be appropriate and/or suitable for everyone. Please take all reasonable steps to understand certain key concepts before transacting in FX derivative products. Currencies Direct Financial Markets Limited is authorised and regulated by the Financial Conduct Authority for the conduct of designated investment business. FRN. 495699.

Market opinion

We have taken reasonable care to ensure this document is accurate and based on information obtained from sources we believe are reliable and trustworthy. Except in the case of fraudulent misrepresentation, or information we provide that is directly contrary to our regulatory requirements, we accept no liability whatsoever from any loss – direct or indirect, contingent or consequential – that arises from the use of this document even where caused by error.

Any strategy or scenario discussed, including examples using price data, market analysis or hypothetical scenarios, are strictly for illustrative and education purposes only. For the sake of simplicity, the examples may provide or represent one of a possible number of outcomes and/or Option profiles that can be created by the referenced Option. Furthermore, these examples may not make considerations for commissions, margins, fees, tax, available market rates, parameters or other expenses.

General

The information contained within this PDS is general and has not been prepared with any specific consideration of your strategic objectives, hedging requirements or financial position. You should not proceed with an Option contract if you do not understand the Option products we provide, do not find our explanations to be comprehensive enough to enable you to make an informed decision, or do not believe foreign exchange Options are appropriate for you and/or your needs.

You should only enter an Option contract after full consideration of the economic parameters of the Option product(s), the terms of the contract, as well as all possible outcomes of the particular transaction. These include, but are not restricted to, legal, financial, debt covenant, tax, and regulatory considerations. We recommend that you adopt appropriate governance to overview your transacting of Options with us. Do not expose yourself to unacceptable risk.

We derive a financial benefit when entering into an Option contract with you. *Further details can be found in our order execution policy.*

This document does not form part of our terms and conditions or a part of any contract we may enter into with you. In no way do we act as an advisor nor provide any advice relating to your commercial interests, business strategy, financial position, regulatory obligations, tax exposure, legal situation, governance, or other relevant consideration(s). We recommend that you seek independent advice.

European Market Infrastructure Regulation (EMIR)

The European Market Infrastructure Regulation (EMIR) is an EU regulation that is designed to stabilise and enhance transparency in the over-the-counter (OTC) derivatives market, by requiring details of a derivative contract (including lifecycle and modification events related to FX Option contracts) to be reported to a registered trade repository. EMIR obliges all counterparties to a derivative contract to report their position to a registered or recognised trade repository. All counterparties must report each trade unless one party reports on behalf of the other by prior arrangement. We envisage reporting derivative contracts traded with or through CDFM on behalf of our clients unless otherwise agreed.

Our standard EMIR procedures are available on request.

In order to facilitate the reporting of their transactions, each counterparty to a derivative contract will be required to obtain and maintain a unique ID associated with their specific corporate entity known as a Legal Entity Identifier (LEI).

We can provide full assistance as required.

Distribution

This PDS is intended for distribution within the United Kingdom and European Economic Area only. Distribution outside of these regions may be restricted by local laws. It is not directed at any particular persons located outside of these regions and is not intended for distribution to, or use by, any jurisdiction or country where distribution or use could contravene local laws or regulations. You may not be the intended recipient and you may have received this overview in error.

In no way is this PDS – in whole or constituent parts - offered as an endorsement, advice, recommendation or solicitation to buy or sell Options.

Updating this PDS

The content contained herein is subject to change at our discretion. We will take reasonable steps to publish a revised PDS as soon as possible if any change materially affects this document, our Option products, or services. To the extent that any change does not materially affect you, our service, or products, we may update it by posting a revised version on our website. We may issue a supplementary PDS containing any new information. You can request a hard copy of this PDS by calling us on +44 (0)20 7847 9262.

Please contact us should you have any questions.

Complaint or comment

Nothing contained within this document has been included to exclude or restrict the duties CDFM owes to its customers under the UK regulatory system.

You should address any complaint or comment regarding this PDS to CDFM in the first instance. Our complaints procedure is available on request.

FX derivative products can carry a high level of risk and may not be appropriate and/or suitable for everyone. Please take all reasonable steps to understand certain key concepts before transacting in FX derivative products. Currencies Direct Financial Markets Limited is authorised and regulated by the Financial Conduct Authority for the conduct of designated investment business. FRN. 495699.

KEY TERMINOLOGY

The follow definitions are provided to aid understanding of this PDS only. In all instances, the definitions provided within our terms and conditions take precedence when used in reference to the provision of CDFM's Options service and/or any Option contract transacted with or through CDFM.

Barrier rate: An Option characteristic that requires the Underlying price to meet or pass a certain level (barrier) before the Option can or will be exercised. It may also act as a 'cap' (ceiling) or 'floor'. A barrier is usually hit as an Option gains in value or moves in-the-money.

Buyer: The party with the right of exercise.

Call: 'Call' or 'buy' from the market.

'CDFM'/'Our'/'Us'/'We'/: Currencies Direct Financial Markets Ltd.

Cut/Cut-off: Has the meaning defined under expiry time.

Effective rate: The exchange rate that takes into effect the full costs of a transaction.

Exchange rate: The number of units of one currency needed to buy/sell in order to acquire one unit of another currency. May also reference or the prevailing [interbank] rate, subject to applicable bid/ask spreads.

Exchange rate risk: The risk arising from a change in the price of one currency against another i.e. the potential gain or loss that arises as the result of a change in an underlying exchange rate.

Exercise/Exercised: The invoking of a right provided by a long Option position or as the result of an event, such as a 'knock-in'.

Exercise date: The date(s) on which an Option can be exercised.

Expiry date (Expiry): The final date(s) on which an exercise decision can be taken.

Expiry time (Expire): The time of day when an Option actually lapses on expiry. Can be referred to as 'cut' or 'cut-off'.

Forward contract: An agreement to exchange two designated currencies on a specific future date at a forward rate.

Forward rate: The spot rate adjusted to a future date having regard for factors such as prevailing interest rates.

Hedge/hedged: An action initiated to reduce, mitigate, or remove a particular economic exposure.

In-the-money: An Option that has 'intrinsic value' in its current state.

Intrinsic value: The inherent/actual (economic) value of an Option.

'Knock-in/knocked-in': A latent Option feature that begins to function as a normal Option once a certain rate is met or circumstance occurs.

Lifecycle event: An event that brings into existence, amends, modifies, or terminates a particular Option or Option contract.

Margin: Has the meaning defined under Option deposit.

Market rate: Has the meaning defined under exchange rate

Notional amount: The amount of currency/ies being exchanged.

Option(s)/Option product: The referenced foreign exchange Option product(s). May also refer to a vanilla Option and/or a structured Option.

Option contract: A binding contract between the buyer and the seller to buy or sell the relevant currencies in the relevant amount at the agreed exchange rate for the relevant expiry date, subject to CDFM's terms and conditions. May also refer to a derivative contract.

Option contract confirmation: A document intended to reflect and confirm an Option contract in writing.

Option contract estimate: A non-binding document providing indicative terms of a proposed Option contract.

Option deposit: One or more forward payments against the performance of your obligations under the Option contract as calculated by CDFM.

Out-of-the-money: An Option that does not have any intrinsic value in its current state. Any value is derived by time value. If exercised in its current state, the Option will not provide any 'profit'.

Over-the-counter (OTC): Financial products traded between two parties at arms-length and not listed on any authorised investment exchange. These parties can tailor the agreement to specific terms.

Parameter(s): A limit, boundary or measurable numerical factor that defines the scope and/or conditions of the referenced Option product(s).

Pip: The 5th figure of a standard foreign exchange quote. Represents 1/100th increment of a 'big figure'. For example, GBP/USD 1.6201, the final '1' is a pip. An increase in the rate by 18 pips would equal 1.6219. '2' represents a big-figure.

Position: A binding commitment to buy or sell a given amount of currency. It may also refer to an amount of currency held by you, or an exposure you have to, or a Hedge of, an amount of currency.

Premium: A non-refundable payment made by the buyer to the seller to procure an Option (its cost).

Put: 'Put' or 'sell' to the market.

Seller: The party obliged to settle if a right of exercise is invoked.

Settlement date: The date on which the delivery of currency/ies takes place after exercise.

Spot rate: The prevailing exchange rate available for settlement usually two business days from the trade date.

Strike rate: The specific exchange rate at which an Option(s) can or will be exercised.

Time value: The portion of an Option's premium that is directly attributable to the amount of time remaining until the expiration of the Option contract.

Trade date: The date on which an Option transaction is entered into.

Trigger rate: A specific exchange rate that prompts an Option to be exercised at a pre-determined strike rate if met. Usually triggers a knock-in feature.

Underlying: The specific currency pair being exchanged. May also refer to the exchange rate of the currency pair being exchanged.

Value date: The date on which settlement usually takes place.

'You'/'Your'/'Yourself': The client.

Window Option: A style of Option where the monitored Option is limited by or active within a predetermined time interval (window).

Zero Cost: An Option product structured in such a way as to reduce, mitigate or remove the requirement of an upfront Premium. See structured Option

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