

PRODUCT DISCLOSURE STATEMENT

FOR AN OFFER OF FOREIGN EXCHANGE FORWARD CONTRACTS



Issued by Tor FX Pty Limited (FSP1006222) (NZBN: 9429051493561)

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This document provides important information about foreign exchange forward contracts to help you decide whether you want to enter into them. There is other useful information about this offer at www.disclose-register.companiesoffice.govt.nz.

Tor FX Pty Limited has prepared this document in accordance with the Financial Markets Conduct Act 2013.

1. Key Information Summary

What is this?

This is a product disclosure statement (**PDS**) for foreign exchange forward contracts (**FX Forwards**) provided by Tor FX Pty Limited (**TorFX, we, us** or **our**, as the context may require). FX Forwards are derivatives, which are contracts between you and TorFX that may require you or TorFX to make payments or deliver currencies. The value of the contract will depend on the price of the underlying currencies. The contract specifies the terms on which those payments or deliveries must be made.

Warning

Risk that you may owe money under the derivative

If the price of the underlying currency changes, you may suffer losses. In particular, unlike most other kinds of financial products, you may end up owing significant amounts of money. You should carefully read **Section 3 (Risks of these derivatives)** on how payments are calculated.

Your liability to make Advance Payments

We may require you to make additional Advance Payments (see **Section 2**) to contribute towards your future obligations under these FX Forwards. These payments may be required at short notice and can be substantial. You should carefully read **Section 2 (Key features of the derivatives)**, **Section 3 (Risks of these derivatives)** and **Section 4 (Fees)** about your obligations.

Risks arising from issuer's creditworthiness

When you enter into derivatives with TorFX, you are exposed to a risk that we cannot make payments or deliver currencies as required. You should carefully read **Section 3 (Risks of these derivatives)** of the PDS and consider TorFX's creditworthiness. If TorFX runs into financial difficulty, the Advance Payments you provide may be lost.

About TorFX

Tor FX Pty Limited is a foreign exchange provider, specialising in providing foreign currency dealing and money transmission services to corporate and individual clients who need to buy/sell currencies or make/receive international payments.

Which derivatives are covered by this PDS?

This PDS covers FX Forwards only. FX Forwards are an agreement to buy one currency and sell another currency at an agreed price and date (which is more than three days' away and usually within 12 months). The purpose of FX Forwards is to provide certainty and to avoid possible losses attributable to adverse exchange rate movements. Fixing the

exchange rate, however, may mean that you do not benefit from exchange rate movements in your favour.

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2. Key features of the derivatives

FX Forwards are an agreement to buy or sell (exchange) an amount in one currency for an amount in another currency at an agreed exchange rate and on a specified date (which is more than three days' away, and usually within 12 months). FX Forwards are not exchange traded and are customised to each individual transaction. When you enter into an FX Forward with TorFX, the following aspects of the FX Forward must be agreed to:

- the two currencies to be exchanged (the currency pair)
- the exchange rate
- the amount to be exchanged
- the maturity date (also known as the settlement date or the value date)

A key benefit of FX Forwards is to the ability to achieve certainty and to avoid possible losses attributable to adverse exchange rate movements in the future. An FX Forward enables future exchange risk to be avoided (although you may still face a loss if you do not settle an FX Forward on or before the maturity date or settlement date). Fixing the exchange rate, however, may mean that you do not benefit from exchange rate movements in your favour.

An FX Forward may be useful for businesses and individuals who are required to make or receive payments in another currency. Businesses that may benefit from using FX Forwards include importers, exporters and investors who seek to lock in exchange rates for a future date in order to protect their cash flows in the various currencies in which they trade. Individuals who may benefit from using FX Forwards include those individuals migrating or buying/selling property overseas.

Examples of common uses of an FX Forward include:

- importing and exporting goods where the invoice is in a foreign currency
- buying or selling properties overseas
- repatriating salary or other payments received overseas

How does an FX Forward work?

Every FX Forward has two currencies (the currency pair):

- the fixed unit of a currency (or the base currency)
- the variable units of another currency (or the terms currency)

The exchange rate is price of one currency expressed in terms of another currency. The foreign currency market is an over-the-counter (or 'OTC') market, which means that there is no official or benchmark exchange rate for foreign currencies. The exchange rates we

offer for FX Forwards are subject to change and depend on a variety of factors, including the interbank and wholesale exchange rates at the time (these are the rates at which banks and financial institutions exchange their currencies and is the base for all other exchange rates), the currency pairs requested, the amount to be exchanged, and the proposed settlement date. Please contact us (see **Section 6**) for the exchange rates we offer.

The maturity date (or settlement date) is the date on which the FX Forward is settled by delivering the required amount of the currency you are selling. This means that we must be able to sight your cleared funds in our bank account on or before the maturity date. The settlement date can be any day that is at least three days after the date on which you enter into an FX Forward with us.

You must make Advance Payments

When you enter into an FX Forward with us, we enter into a matching transaction with our own providers. If you do not settle your FX Forward (for whatever reason), we still have to settle ours. In order to cover the risk that you do not settle your FX Forward, we ask you to pay some of the settlement payment in advance (we refer to this amount as the **Advance Payment**).

The amount of any Advance Payment we request will be a fixed percentage of the value of the FX Forward and will normally be 10% of the value of the FX Forward, but it could be less in exceptional circumstances or more depending on the duration of the FX Forward. We will usually ask for an Advance Payment when you enter into an FX Forward, in which case you will be notified of the exact amount of Advance Payment required before entering into the FX Forward, and at that time you will also be given the opportunity to not enter into the FX Forward if you do not wish to pay the Advance Payment amount). If we have not asked for an Advance Payment at the outset, it does not mean that we will not ask for an Advance Payment be made later if the exchange rate of the currency you are selling under the FX Forward falls relative to the currency you are buying. Further, the fact that you have already made an Advance Payment does not mean that we will not ask for one or more additional Advance Payments if the exchange rate of the currency you are selling under the FX Forward falls relative to the currency you are buying.

You should not enter into an FX Forward if you are unable or unwilling to provide an Advance Payment of 10% of the value of the transaction with the possibility of one or more further Advance Payments may be requested at any time prior to the maturity date of the FX Forward. If we ask you to pay an Advance Payment at any time and you fail to do so, we may close out and cancel the FX Forward without prior notice.

Please see **Section 5** on how we hold and use any Advance Payment amounts.

Example of an FX Forward

We have set out below an example of how an FX Forward works. This is an example of one situation only, and it does not reflect the specific circumstances or obligations that may arise under an FX Forward entered into by you and TorFX. Certain terms used in the examples have special meanings as set out below:

- 'spot exchange rate' means the current exchange rate used to immediately buy and sell a pair of currencies;

- 'FX Forward exchange rate' means the exchange rate that applies to an FX Forward. This is calculated by reference to the spot exchange rate at the time, with an adjustment to reflect the difference in interest rates between the two currencies, and the 'time to maturity';
- 'time to maturity' means the length of time between when the FX Forward is entered into and the date on which settlement is to occur;
- 'forward points' means the total adjustment between the 'spot exchange rate' and the 'FX Forward exchange rate'.

It is 1 September and Mr Smith is purchasing a property in the UK. Mr Smith needs to pay £100,000 in Sterling (GBP), and currently has New Zealand Dollars (NZD). Mr Smith needs to have GBP available in the UK by 1 October to complete the purchase of the property.

The current spot exchange rate between NZD and GBP is 0.4800 (meaning \$1 is worth £0.48).

Mr Smith enters into an FX Forward with TorFX at an exchange rate of 0.4825 (this is the FX Forward exchange rate).

The FX Forward costs Mr Smith \$207,253.89. Mr Smith was, on 1 September, required to pay an Advance Payment of \$20,725.39 (being 10% of the value of the FX Forward).

Scenario 1

On 1 October, Mr Smith settles the FX Forward by paying the remaining \$196,891.20 owing on the FX Forward to TorFX, and TorFX pays Mr Smith £100,000.

On 1 October, the actual spot exchange rate between NZD and GBP had fallen to 0.4400. If Mr Smith had not entered into an FX Forward and instead purchased a foreign exchange spot contract on 1 October, to purchase £100,000 it would have cost him \$227,272.73. By fixing the exchange rate at 0.4825 on 1 September, Mr Smith has saved \$20,018.84 by avoiding the cost of unfavourable foreign exchange movements.

Scenario 2

If, however, in the situation above the actual spot exchange rate between NZD and GBP on 1 October had risen to 0.5000, Mr Smith could have purchased £100,000 at a cost of \$200,000.00. In this scenario, by fixing the exchange rate on 1 September at 0.4825, Mr Smith paid an additional \$7,253.89 to purchase his required £100,000, and he did not benefit from the movement in exchange rates that went in his favour.

In both scenarios, TorFX does not charge Mr Smith a transaction fee. TorFX's profit from an FX Forward is built into the exchange rate we quoted Mr Smith. See **Section 4** for more information on the fees we charge.

How to enter into an FX Forward contract with us

To enter into an FX Forward with us, you must first open an online TorFX account and agree to your client agreement. Once your online TorFX account has been fully activated (which will include identity verification checks required for us to comply with our AML/CFT obligations), you may enter into an FX Forward contract with us:

- by submitting a request through our online portal; or
- by emailing us; or
- by calling us.

Once all of the key aspects of the FX Forward are agreed (i.e., the currency pair, the exchange rate, the amount to be exchanged, the settlement date, and the amount of any Advance Payment required), and we accept your offer, we will send you a deal confirmation. It is at this point when there will be a binding FX Forward contract between you and TorFX. TorFX not obliged to accept your offer, and may, in our absolute direction, refuse to enter into an FX Forward for any reason.

TorFX allows you to exchange only those funds that have been cleared in our respective Client Accounts (see **Section 5** for more information on our Client Accounts). You need to send us the funds you wish to exchange in advance of being able to execute an FX Forward. We will advise you of where to send the funds either by email or via the website. Once your funds are received into our Client Account, we send you an email to let you know the funds are available for you to exchange.

Rights to alter or terminate an FX Forward contract

You must advise us of any errors or omissions within 24 hours of receiving the deal confirmation, otherwise the contents of the deal confirmation will be deemed accurate and conclusive evidence of the terms of the FX Forward. The deal confirmation may be amended or cancelled only with our express agreement and subject to any conditions we deem necessary.

We may close out any of your open FX Contracts (i.e., cancelling the FX Forward which would mean that we would sell your FX Forward for the market price available at the time), if any of the following occurs:

- if you fail to meet any Advance Payment request, including any other payment request as set out in our terms and conditions (including, but not limited to, taxes you may be liable for by entering into an FX Forward with us (if any));
- if you are not contactable within the required timeframe and have not made alternative arrangements to enable TorFX to obtain instructions;
- if you die or become of unsound mind (as set out in the terms and conditions);
- if you are involved in any insolvency or related event;
- if you fail in any respect to fully and promptly comply with any of your obligations under our terms and conditions;
- if it becomes unlawful for us to provide services for any reason;
- if a government or regulatory authority issues a request to do so (whether legally binding or not); or
- if we consider necessary for our own protection, at your expense.

Further, we may increase our Advance Payment requirements or close out your FX Forward if, in our reasonable opinion, exceptional market conditions exist.

Early termination at the request of the customer:

- TorFX may charge you for all the costs, expenses and losses incurred as result of entering into or closing out transactions pursuant to our terms and conditions. This includes losses we suffer as a result of unfavourable foreign exchange rate movements between the date the FX Forward is entered into and the date on which the FX Forward is closed out. These movements may result significant costs for you.

Our terms and conditions may be amended by us by giving you at least 30 days' written notice.

3. Risks of these derivatives

Product risks

Foreign exchange risk (opportunity cost): Foreign exchange risk is the risk that you may forego any benefit of a favourable improvement in the exchange rate of the currency you are selling relative to the currency you are buying between the time you enter into the FX Forward and the maturity date. By entering into an FX Forward to set a fixed rate for settlement in the future, you are obliged to deliver the agreed amount of the currency you are selling under the FX Forward even if the exchange rate improves in favour of that currency relative to the currency you are buying, prior to the settlement date.

Market risk: Market risk is the risk that the value of:

- the foreign currency you are buying moving relative to the currency you are selling as a result of a movement in the exchange rate between the two currencies before settlement date; or
- the foreign currency you are selling moving when you have entered into the FX Forward without having a sufficient amount of the currency you are selling or having the required cash flows of that currency to meet the required amount of the currency you are selling on the maturity date. You should be aware that, in these circumstances, you will be exposed to changes in the market price of the amount of the currency you are selling and have to deliver. You will suffer a loss on your FX Forward if the underlying foreign exchange rate of the currency you are selling rises relative to the currency you are buying.

Client Account risk: Client Account risk is the risk of losing the funds we hold on your behalf in our Client Accounts. TorFX holds all client deposits, including Advance Payments, in segregated Client Accounts, which are designated as trust accounts. Funds held in our Client Accounts for customers are co-mingled (i.e. we hold all clients' deposits in a single account and keep track of each client's deposits in that account, rather than opening a separate bank account for each client). Holding funds in Client Accounts in this manner does not afford you absolute protection of those funds because tracking and other errors may occur.

Advance Payment risk: Advance Payment risk is the risk that your FX Forward may be closed out and cancelled due to your failure to make an Advance Payment when required. You may be required, at any time, to pay Advance Payments into our Client Accounts. If we ask you to pay an Advance Payment at any time and you fail to do so, we may close out and cancel the FX Forward without prior notice (this includes, at our sole discretion, any other open FX Forward or other open contracts you have with us). You should not enter into an FX Forward if you are unable or unwilling to provide an Advance Payment of 10% of the value of the transaction, and meet further Advance Payments if requested at any time prior to the maturity date of the FX Forward.

Cancellation risk: If your FX Forward is closed out and cancelled for whatever reason (including by you requesting it to be closed out ahead of the maturity date, and if you default on your obligations), there is a risk that you may lose money or the opportunity the

FX forward provides as a result of the cancellation. You are liable to pay for all of our costs, expenses and losses incurred as result of entering into or closing out the FX Forward. These amounts include losses we suffer as a result of unfavourable foreign exchange rate movements between the date the FX Forward is entered into and the date on which the FX Forward is closed out. You will bear all of our losses and expenses whatsoever that may arise on account of such close out or cancellation, and we shall have the right to use any monies we hold on your behalf to offset such amounts as are owed by you to us. For such purpose, we shall be entitled to convert any currency held by us and such conversion shall be at the rate of exchange available to us. Any fee or charge which we incur as a result of such conversion shall be paid for by you. These costs, expenses and losses may result significant costs for you.

No cooling off: There is no cooling off period for an FX Forward after it has been entered into, but you can correct any errors or omissions contained in the deal confirmation we issue to you if you notify us of those errors or omissions within 24 hours of the time the deal confirmation is issued to you and we expressly agree a change subject to any conditions we deem necessary. This means that, unless you notify us of an error or omission within 24 hours of receiving the deal confirmation and we agree to a change, you cannot amend or cancel the FX Forward once it has been entered into.

Issuer risks

When entering into FX forward contracts with us as the counterparty, you are exposed to the risk that we become insolvent, and we are subsequently unable to meet our obligations to you under the FX forward contract.

Our creditworthiness has not been assessed by an approved rating agency. This means that we have not received an independent opinion of our capability and willingness to repay its debts from an approved source.

Risks when entering or settling the derivatives

Operational risk: Operational risk is the risk of loss resulting from inadequate or failed technology systems, internal processes or external events. There are significant risks associated with using and relying on a web-based, electronic trading platform. Such risks include, but are not limited to, risks related to the use of software and/or telecommunications systems such as software errors and bugs, delays in telecommunications systems, interrupted service, data supply errors, faults in, or inaccuracies and security breaches of, logical systems or internal processes, and external events. Operational risk includes the risk that our banking providers may make an error or have unscheduled delays in crediting your funds to our Client Account or transferring those funds to your nominated account for receiving payments, or an error by us keeping track of your funds in our Client Account.

4. Fees

Spread on FX Forwards

The primary way we derive a financial benefit from FX Forwards is by applying a 'spread' (a margin or difference) on the interbank or wholesale rate (which are the rates quoted to us from large banks and financial institutions) and the rate we quote you for the FX Forward.

The spread we apply is not fixed, and varies between currency to currency and from time to time, and so is determined on an individual transaction basis. We will not usually be able to tell you what the spread is, however, we will quote you the exchange rate before entering into the FX Forward.

The spread is determined when we offer you FX Forwards and depend on a variety of factors, including the relevant interbank and wholesale exchange rates at the time, the currency pairs requested, the amount to be exchanged, and the proposed settlement date. The spread is earned on settlement date when the FX Forward is settled.

Interest on Advance Payments held by TorFX

When we hold Advance Payments on your behalf in our segregated accounts (**Client Accounts**, see **Section 5**), those funds earn interest. TorFX is entitled to retain all interest earned on funds held in our Client Accounts. The rate of interest earned by TorFX on these accounts is determined by the provider of the deposit facility (i.e., the bank or approved deposit-taking institution).

No transaction fees

TorFX does not charge a direct fee to enter into FX Forwards with you (this is often called a 'transaction fee').

Third-party fees and charges

When you make payment to, or receive payment from, us, various third-party fees and charges may apply. We have set out below the various third-party fees that may be applicable, and the circumstances in which they may be applicable.

We can give you an indication as to whether we believe any third-party fees and charges may be applicable to you (see **Section 6** for our contact details). TorFX, however, ultimately has no control as to whether any third-party fees are charged.

Fees and charges to pay funds to TorFX

Your bank may charge a fee for you to deposit money from your bank account to our Client Account. For certain currencies, our bank may charge a fee for you to pay funds into our Client Account.

Correspondent bank fees and charges

For some currencies, when sending and receiving payments to and from us, intermediary banks and financial institutions may be involved in processing that payment (and those intermediary banks and financial institutions may charge a fee). We are not notified, and have no control over, when intermediary banks and financial institutions are involved. This may result in us receiving a lesser amount than you are required to pay, or you receiving a lesser amount that you had expected from us.

Fees and charges to receive funds from TorFX

Your bank or financial institution may charge a fee for you to receive money paid into your account. This may result in you receiving a lesser amount that you had expected from us.

Default fees and charges

If you default on your obligations and TorFX closes your FX Forward, as described as part of the cancellation risk in Section 3, you are liable to pay all our costs, expenses and losses incurred as result of entering into or closing out the FX Forward. This includes losses we suffer as a result of unfavourable foreign exchange rate movements between the date the FX Forward is entered into and the date on which the FX Forward is closed out. These costs, expenses and losses may result significant costs for you.

5. How TorFX treats funds and property received from you

How we hold Advance Payment amounts

When you pay Advance Payments to us (including any additional Advance Payment you may be required to pay), those funds are paid into segregated accounts (**Client Accounts**). All Client Accounts are designated as trust accounts. This means that Advance Payments held in our Client Accounts are considered separate to TorFX's own accounts (i.e., the money held in a Client Account belongs to you and not TorFX).

Our Client Accounts co-mingle all Advance Payments made by other investors (i.e. we hold all clients' Advance Payments in a single account and keep track of each client's Advance Payments in that account, rather than opening a separate trust account for each client). TorFX carries out reconciliations of our Client Accounts on a daily basis.

Advance Payments held in our Client Accounts are held as security against any default of your obligations under the FX Forward. We may use Advance Payments in accordance with our terms and conditions, including:

- in part settlement of the FX Contract on the maturity date; and
- in applying the amounts to cover any losses we suffer as a result of your default of your obligations under the FX Forward.

TorFX is entitled to retain all interest earned on funds held in our Client Accounts.

No hedging with Advance Payments

While TorFX enters into matching transactions (see **Section 2**), we do not do so using Advance Payment amounts. Further, we do not undertake any other hedging activities using Advance Payments we hold in our Client Accounts.

6. About TorFX

Tor FX Pty Limited is an Australia incorporated company and is licensed in New Zealand by the Financial Markets Authority as a derivatives issuer under the Financial Markets Conduct Act 2013. TorFX operates in New Zealand through its registered New Zealand branch (NZBN: 9429051493561). TorFX is also registered on the Financial Service Providers Register (FSP1006222).

You may contact TorFX by:

- emailing us at: Info@torfx.com.au
- calling us at: NZ: 0800 441 283
- writing to us at:

Tor FX Pty Limited
Suite 202
25 Elkhorn Avenue Surfers Paradise QLD
4217
Australia

7. How to complain

If you wish to make a complaint about our services, please contact us by:

- emailing us at: info@torfx.com.au
- calling us at: NZ 0800 441 283
- writing to us at:

TorFX Pty Ltd Suite 202
25 Elkhorn Avenue Surfers Paradise QLD
4217
Australia

Your complaint will be referred to a senior manager at TorFX, who will be in charge of investigating your complaint in accordance with our dispute resolution policy. We aim to resolve all complaints in an open, impartial, and equitable manner.

If you are not satisfied with the outcome of your complaint, or we reach a deadlock, you may refer your complaint to Financial Services Complaints Limited (*FSCL*). FSCL is an independent and external dispute resolution scheme, of which we are a member (our FSCL membership number is: FM6623).

You can contact FSCL by:

- calling FSCL at: 0800 347 257
- emailing FSCL at: complaints@fscl.org.nz
- writing to FSCL at: FSCL, PO Box 5967, Wellington 6140
- submitting a complaint form on FSCL's website at: fscl.org.nz/about-us/complaints/complaint-form

FSCL does not charge you a fee to investigate or resolve a complaint.

8. Where can you find more information

Further information on TorFX (including our financial statements) and the FX Forwards offered by us is available on the Offer Register at: www.disclose-register.companiesoffice.govt.nz. A copy of the information on the Offer Register is available on request to the Registrar of Financial Service Providers.

You can also find further information on TorFX, including copies of our client agreement and terms and conditions on our website: <https://www.torfx.co.nz/content/terms.php>. You can also request physical copies of this PDS from us, free of charge, by requesting that information from us (see **Section 6** for our contact details).

9. How to enter into client agreement

Before we provide you with any services, including entering into a FX Forward with you, you are required to enter into a client agreement. You will be given a copy of the client agreement to review and agree to after you have signed up for an online TorFX account. The client agreement incorporates our standard terms and conditions (which may be updated from time to time) and sets out the terms of our FX Forwards (amongst other things).

Each new FX Forward we enter into with you is considered a separate contract governed by the client agreement.

You may apply to open a TorFX account by contacting us (see **Section 6** for our contact details) or by going to: www.torfx.com.au/content/open-an-account.php