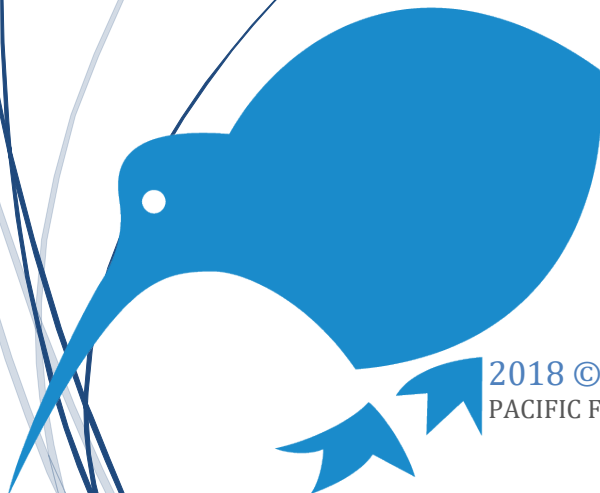


14/11/2018

PRODUCT DISCLOSURE STATEMENT

For Margin Foreign Exchange and
Contracts for Difference



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PACIFIC FINANCIAL DERIVATIVES LIMITED

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

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

Example 2

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

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

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

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

2.3 How are Contract for Difference Contracts Calculated

Again we explain how this works by example.

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

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

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

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

3. Risks of these Derivatives

3.1 Product Risks

Market Risk

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

Capital Risk

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

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

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

Consequences of Failure to Make Payment

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

Consequences of Altering the Terms of Derivative or Terminating a Derivative

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

3.2 Issuer Risks

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

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

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

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

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

3.3 Risks when Entering or Settling the Derivatives

Foreign Exchange Risk

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

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

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

Slippage

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

Stop Loss Orders

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

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

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

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

Liquidity

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

Electronic On-line Trading System

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

4. Fees

Spread & Interest

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

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

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

Swap Credits and Charges

Where a contract is held at the close of the Trading Day (5 pm New York Time (EST)), that contract will be rolled over to the next Trading Day and a Swap Credit or Charge will be made with respect to the contract. The Swap Credit or Charge is a premium or discount that represents the net interest due to you or payable by you in respect of interest received on the bought (long) side of a contract and

interest payable on the sold (short) side of a contract, in each case determined using LIBOR/LIBID interest rates or Metal Lease Rates, due to the settlement date being extended (Rolled Over).

The LIBOR/LIBID rate is the average interest rate estimated by leading banks in London that the average leading bank would be charged if borrowing from other banks. The Metal Lease Rates are the rates published by the London Bullion Market Association that contributors would be prepared to lend metals on a swap against US dollars. Pacific Financial Derivatives Ltd uses these interest and lease rates as its reference rate to determine the applicable Swap Credit or Charge on every contract held at the close of each trading day.

Whether you are credited or debited depends on two factors:

- 1) If you are holding a long or short position; and
- 2) The interest or lease rate differential between the Currency Pair or Metal you are trading.

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

Example of Rollover calculation formula:

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

Example:

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

EURUSD price at 5pm EST: 1.1000

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

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

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

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

Bank Fees

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

Local transfers are not charged Transfer fees.

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

When are Fees Payable

All fees are payable at time of settlement.

Right to Alter Fees

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

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

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

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

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

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

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

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

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

1. CFH Clearing Limited - <https://www.cfhclearing.com/>
2. Forex Capital Markets Ltd - <https://www.fxcm.com/uk/>
3. Squared Financial Services Ltd - <https://squaredfinancial.com/>
4. LMAX Limited - <https://www.lmax.com/>
5. Velocity Trade International - <http://www.velocitytrade.com/>
6. Advanced Markets LLC. - <http://advancedmarketsfx.com/>
7. JFD Brokers Ltd - <https://www.jfdbrokers.com/>
8. Global Prime Pty Ltd - <https://www.globalprime.com.au/>
9. Invast Financial Services Pty Ltd - <http://www.invast.com.au/>

6. About Pacific Financial Derivatives Limited

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

Pacific Financial Derivatives Limited Level 8, 12-26 Swanson St Auckland Central 1010 New Zealand Telephone: +64 9 632 0010 Email: compliance@pfd-nz.com	Financial Markets Authority P O Box 106 672 Auckland 1143 New Zealand T 0800 434 567 Website: www.fma.govt.nz
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7. How to Complain

What should you do if something goes wrong?

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

Our contact details are:

Office Address: Level 8, 12-26 Swanson St Auckland Central 1010 New Zealand Mailing Address: P O Box 105108 Auckland 1143 New Zealand	Telephone: +64 9 632 0010 Risk & Compliance Manager: John Gifford Email: John@pfd-nz.com Website: www.pfd-nz.com
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Dispute Resolution

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

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

http://www.fdr.org.nz/member_search/scheme_member/FM0312

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

Financial Dispute Resolution contact details:

Financial Dispute Resolution P O Box 5730 Wellington 6145 New Zealand	Telephone: +64 4 910 9952 or Freephone: 0508 337 337 Email: enquires@fdr.org.nz Website: www.fdr.org.nz
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8. Where you can find more Information

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

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

Upon Request to Pacific Financial Derivatives Ltd

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

Telephone: +64 9 632 0100
Email: info@pfd-nz.com

No charge will be made for any information requested.

9. How to Enter into a Client Agreement

Establish an Account

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

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

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

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

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

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

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

https://www.pfd-nz.com/downloads/PFD_General_Terms_and_Conditions.pdf